
THE ROLE OF FINANCIAL EDUCATION IN DEVELOPING A RISK MANAGEMENT CULTURE AND INCREASING PARTICIPATION IN INSURANCE

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Abstract: Financial education plays a fundamental role in strengthening individuals' ability to understand and manage financial risks, which directly influences their decisions regarding insurance products. Despite the insurance sector's importance in providing financial protection and stability, participation in insurance schemes remains low in many regions due to limited financial literacy, misconceptions about insurance, and weak risk awareness. This study examines the impact of financial education on the development of a proactive risk management culture and its contribution to increasing engagement with insurance products. Through a theoretical and analytical approach, the research explores how financial knowledge shapes consumer perceptions, improves decision-making, and enhances trust in insurance services. The findings highlight that higher levels of financial literacy lead to better identification, assessment, and management of risks, resulting in greater demand for insurance coverage. The study emphasizes the need for coordinated efforts between educational institutions, insurance companies, and regulatory bodies to promote financial education as a strategic tool for expanding insurance inclusion and improving overall market stability.

Keywords: Financial education, risk management culture, insurance participation, consumer behavior, financial literacy

1. INTRODUCTION

Over the past decade, financial education has become one of the most frequently discussed themes in economic, social, and policy-oriented research. Rapid changes in global financial markets, the increasing complexity of financial products, and the growing exposure of individuals to diverse economic risks have created an urgent need for stronger financial literacy. According to recent studies, individuals who possess higher financial knowledge are significantly more capable of understanding uncertainty, identifying potential threats to their financial well-being, and making informed decisions that protect their long-term stability (Lusardi & Mitchell, 2020; OECD, 2016). As a result, financial education is no longer seen merely as an optional skill but as an essential component of a resilient and proactive society.

Parallel to these developments, the insurance sector has emerged as a crucial pillar of economic protection. Insurance provides a structured mechanism through which individuals and businesses can transfer risk, minimize financial losses, and safeguard themselves from unforeseen events. Despite this critical role, participation in insurance markets remains disproportionately low in many countries, particularly in developing and transitional economies. Scholars often attribute this low engagement not only to economic constraints or limited access to insurance products but also to insufficient financial literacy among consumers. Without a clear understanding of how insurance functions, what benefits it offers, and why it is necessary, individuals are less likely to purchase insurance even when they face significant risks.

In this context, the intersection between financial education and risk management culture has become an important field of analysis. Research indicates that individuals with higher levels of financial literacy tend to exhibit stronger risk-awareness behaviors, greater capacity to assess their vulnerability to financial shocks, and a more proactive attitude toward risk mitigation (Klapper, Lusardi & Van Oudheusden, 2015). This proactive mindset directly influences their likelihood of investing in insurance products. When consumers comprehend the long-term benefits of insurance—such as income protection, wealth preservation, and stability during emergencies—they develop higher levels of trust in insurance institutions and demonstrate greater willingness to participate in the insurance market.

Another significant factor is the presence of misconceptions and mistrust, which continue to negatively affect insurance demand. Many consumers perceive insurance as an unnecessary expense or believe that insurance companies do not act fairly when processing claims. These perceptions are often rooted in limited financial knowledge, lack of transparency, and absence of early financial education. By promoting financial literacy from an early age and integrating it into school curricula, universities, and community programs, societies can create a foundation for more responsible financial behavior. Evidence from recent research demonstrates that individuals

exposed to structured financial education are more likely to understand key concepts such as risk diversification, insurance premiums, deductibles, and coverage limits—concepts that are essential for rational decision-making. Furthermore, financial education serves a broader social function by contributing to the development of a collective risk management culture. A society with a well-established risk management culture is better prepared to respond to financial instability, natural disasters, health crises, and economic downturns. Insurance becomes not simply a financial product but a strategic tool that enhances societal resilience. As individuals adopt more responsible financial habits, insurance markets also tend to grow, improving competition, product diversity, and overall sector performance. Policymakers benefit as well, since higher insurance penetration reduces the fiscal burden on governments during crises.

Given these dynamics, this study aims to explore the essential role of financial education in shaping risk management behavior and improving participation in insurance. Through theoretical and analytical perspectives, the research examines how financial knowledge influences consumer perceptions, decision-making processes, and trust in the insurance sector. Understanding these relationships is particularly relevant for regions where insurance penetration is low, public awareness is limited, and financial vulnerability is high. Ultimately, the findings highlight the need for coordinated interventions between educational institutions, insurance companies, regulatory bodies, and policymakers to promote financial education as a strategic mechanism for enhancing insurance inclusion, strengthening market stability, and building a financially resilient society.

2. LITERATURE REVIEW

Over the past decade, financial literacy has been recognized as a fundamental determinant of responsible financial behavior, particularly in contexts involving risk, uncertainty, and long-term financial planning. Numerous studies have highlighted that individuals equipped with financial knowledge are better positioned to understand financial products, interpret economic information, and make choices aligned with their long-term welfare (Lusardi & Mitchell, 2020). This body of literature consistently demonstrates that financial education promotes rational decision-making by strengthening individuals' abilities to assess risks, evaluate costs and benefits, and avoid behaviors that may expose them to financial vulnerability.

A growing segment of academic research examines the direct relationship between financial literacy and the development of a risk management culture. According to OECD (2016), individuals with strong financial competencies tend to exhibit proactive behavior in identifying, evaluating, and mitigating potential financial risks. This includes a deeper understanding of the consequences of unexpected events, such as health emergencies, natural disasters, income loss, or property damage. Scholars argue that a well-developed risk management culture is not merely a personal trait but a collective societal mindset shaped through education, institutional transparency, and access to reliable information. Studies also show that financial education contributes to greater confidence in making risk-related decisions, reducing fear associated with financial products perceived as complex or inaccessible.

Parallel to the literature on financial literacy, researchers have increasingly analyzed the structural and behavioral factors that influence participation in insurance. Insurance markets, despite their essential role in providing financial protection, often suffer from misconceptions, low trust, and limited consumer engagement. Empirical studies highlight that a significant portion of consumers refrain from purchasing insurance simply because they lack basic understanding of terms such as premiums, deductibles, claims processes, and coverage limits (Kogan et al., 2019). This knowledge gap leads to misinterpretation of insurance as an unnecessary expense rather than a risk-transfer mechanism that enhances financial resilience.

In recent years, the literature has emphasized the role of financial education in correcting misconceptions and building positive attitudes toward insurance. For example, research by Klapper, Lusardi, and Van Oudheusden (2015) indicates that individuals with higher financial literacy are substantially more likely to participate in insurance markets and to perceive insurance as a valuable form of protection. Similarly, studies focusing on emerging economies reveal that targeted financial education programs—whether through schools, community workshops, or media campaigns—can significantly increase awareness of insurance benefits, leading to higher uptake of both life and non-life insurance products.

Another major theme in the literature concerns trust. Insurance participation is strongly influenced by confidence in financial institutions, regulatory bodies, and market transparency. Low trust often stems from negative past experiences, perceived unfairness in claims handling, and lack of clarity in policy structures. Researchers argue that financial education strengthens trust by helping individuals better understand how insurance companies operate, how risks are pooled, and how regulatory frameworks protect consumer rights. This improved understanding reduces psychological barriers and enhances consumer willingness to engage with insurance services.

Finally, recent studies highlight the need for a coordinated, multi-stakeholder approach to financial education. Scholars emphasize that educational institutions, insurance companies, government agencies, and financial

regulators must collaborate to design programs tailored to different population groups. Such programs should move beyond theoretical content and include practical tools that help individuals analyze risks, compare insurance products, and make informed financial decisions. The literature consistently supports the view that financial education is not only a means of empowering individuals but also a strategic instrument for expanding insurance penetration, improving market stability, and fostering a culture of proactive risk management.

3.METHODOLOGY

This study employs a qualitative and analytical research methodology designed to examine the relationship between financial education, the development of a risk management culture, and the level of participation in insurance products. The methodological framework follows contemporary research standards widely used within social sciences and financial studies (Creswell, 2014; OECD, 2016). This approach enables a comprehensive understanding of how financial literacy influences consumer behavior, risk perception, and engagement with insurance services. By synthesizing theoretical concepts, empirical findings, and policy recommendations from the last decade of literature, the study aims to provide a structured and evidence-based analysis (Lusardi & Mitchell, 2020).

The research adopts an exploratory design due to the multifaceted nature of the subject. Financial education, risk management culture, and insurance participation are interconnected constructs influenced by economic, social, psychological, and behavioral factors. Exploratory methodology is commonly recommended when relationships between variables are complex and insufficiently studied (Stebbins, 2011). This design allows deeper investigation into these linkages without strict predefined hypotheses. Instead, the study focuses on identifying recurring patterns, emerging themes, and conceptual relationships within the reviewed literature (Creswell & Poth, 2018). This approach is especially suitable for examining financial behavior, where existing findings are often fragmented or context-specific.

To achieve the objectives of the study, a qualitative content analysis was conducted. This systematic method enables the interpretation of written material through classification, coding, and thematic structuring (Schreier, 2012). The analysis involved reviewing academic articles, institutional reports, policy documents, and publications from recognized organizations such as the OECD and the World Bank. Sources were selected based on relevance, credibility, and contribution to contemporary debates on financial literacy and insurance markets (Atkinson & Messy, 2012; Giné & Townsend, 2016). Databases including Google Scholar, JSTOR, ScienceDirect, and OECD repositories provided the primary corpus of reviewed literature. Inclusion criteria required that studies explicitly address financial education, consumer behavior, risk perception, or insurance participation. Materials older than ten years, non-academic commentaries, and documents lacking methodological rigor were excluded to maintain quality, consistency, and relevance.

The analysis process consisted of three structured steps: coding, categorization, and thematic synthesis. In the coding phase, key concepts, repeated patterns, and relevant variables were identified from the literature (Schreier, 2012). Next, these codes were grouped into broader thematic categories reflecting the core dimensions of the research: financial literacy levels, risk management practices, and insurance engagement. Finally, a thematic synthesis was performed to interpret how these themes interact and influence one another, providing a transparent and replicable analytical framework (Thomas & Harden, 2008).

Ethical considerations were also taken into account. Since the research relies solely on secondary data, no human participants were directly involved, eliminating concerns related to confidentiality, consent, or potential harm. However, adherence to academic integrity was ensured through accurate citation of sources, avoidance of plagiarism, and faithful representation of original authors' contributions (APA, 2020).

Overall, the selected methodology provides a robust and flexible framework for analyzing how financial education contributes to building a proactive risk management culture and increasing participation in insurance markets. The qualitative and exploratory approach supports the development of meaningful insights that can guide policy initiatives, educational reforms, and future research (Lusardi & Mitchell, 2020; OECD, 2020).

4. RESULTS AND DISCUSSION

The findings of this study reveal a strong and consistent relationship between financial education, the development of a risk management culture, and participation in insurance products. Through qualitative analysis of contemporary literature, several key themes emerged that collectively demonstrate the central role of financial literacy in shaping consumer behavior and influencing engagement with insurance services (Lusardi & Mitchell, 2020; OECD, 2016). The results indicate that higher levels of financial education are associated with improved risk awareness, greater trust in insurance institutions, and a more proactive approach to financial protection (Klapper et al., 2015).

A primary result of the analysis shows that financial education significantly enhances individuals' understanding of financial risks. Studies from the past decade emphasize that consumers with adequate financial literacy are better equipped to assess the probability and potential consequences of unexpected events, such as health emergencies, income instability, or property loss (Sharma & Chahal, 2020; Laudenbach et al., 2020). This increased awareness translates into a stronger perception of insurance as a necessary and beneficial financial tool, rather than an optional expense. In many of the reviewed publications, financial literacy was found to be a key predictor of insurance uptake, supporting the argument that knowledge is essential for informed decision-making in complex financial environments (Kogan et al., 2019).

The findings also demonstrate that financial education contributes to strengthening a risk management culture at both the individual and societal levels. Individuals who are financially literate tend to adopt more responsible financial behaviors, including saving, budgeting, and investing in risk-mitigation instruments such as insurance (Atkinson & Messy, 2012). These behaviors collectively contribute to a culture in which proactive risk management becomes a norm rather than an exception. The literature shows that societies with higher levels of financial literacy experience more stable insurance markets, better consumer protection outcomes, and increased resilience in the face of economic shocks (OECD, 2020; Lloyd's, 2018). Thus, the development of a risk management culture is closely tied to the spread of financial knowledge across populations.

Another significant result emerging from the research is the influence of financial education on trust and attitudes toward insurance institutions. Many consumers, especially in developing or transitional markets, exhibit skepticism toward insurance providers due to perceived unfairness, lack of transparency, or limited understanding of how insurance systems function (Perry & Morris, 2015; Tennyson, 2011). The reviewed studies indicate that financial education reduces these psychological barriers by improving comprehension of concepts such as risk pooling, claims processing, and regulatory safeguards. When individuals understand the mechanisms behind insurance, their confidence in the system increases, leading to greater willingness to purchase insurance products (Giné & Townsend, 2016).

The discussion further highlights that financial education alone cannot fully address the challenges related to low insurance penetration. Structural factors such as affordability, product accessibility, regulatory frameworks, and marketing practices also play significant roles (World Bank, 2018). However, the research consistently shows that financial education acts as the foundational element enabling consumers to navigate these structural components more effectively. Without adequate knowledge, even well-designed insurance systems may fail to reach their full potential.

Overall, the results clearly support the conclusion that financial education is a critical determinant of both risk management culture and insurance participation. Its influence extends beyond individual decision-making and contributes to broader market stability and social resilience. The discussion underscores the need for comprehensive educational strategies supported by policymakers, educational institutions, and insurance companies to maximize the positive impact of financial literacy on insurance inclusion (OECD, 2020; Lusardi & Mitchell, 2020).

5. CONCLUSIONS

This study concludes that financial education plays a foundational and transformative role in shaping individuals' financial behavior, strengthening risk management culture, and increasing participation in insurance markets (Lusardi & Mitchell, 2020). The analysis of contemporary literature demonstrates that higher levels of financial literacy significantly improve consumers' ability to understand financial risks, evaluate the benefits of insurance, and make informed decisions that enhance long-term financial stability (OECD, 2016; Laudenbach et al., 2020). As individuals become more aware of potential vulnerabilities and financial uncertainties, they are more likely to recognize insurance as an essential protective tool rather than an unnecessary cost (Sharma & Chahal, 2020).

The findings also confirm that financial education contributes to the development of a proactive risk management culture. Individuals who possess strong financial skills exhibit behaviors such as long-term planning, budgeting, saving, and utilizing financial instruments designed to mitigate risk (Atkinson & Messy, 2012). These behaviors collectively strengthen societal resilience and create an environment in which risk awareness and preparedness are widely accepted norms. A society with a well-established risk management culture is better positioned to withstand economic shocks, natural disasters, and unexpected personal or financial disruptions (OECD, 2020; Lloyd's, 2018). Furthermore, the research highlights the important role of financial education in building trust in insurance institutions. A lack of understanding often leads to misconceptions, skepticism, and low confidence in insurance providers (Tennyson, 2011). By enhancing consumers' knowledge of how insurance operates—including the principles of risk pooling, claims processing, and regulatory protections—financial education reduces psychological barriers and increases willingness to engage with insurance products. Trust, once established, becomes a crucial

factor in strengthening long-term consumer relationships within the insurance sector (Perry & Morris, 2015; Giné & Townsend, 2016).

However, the study also acknowledges that financial education alone cannot fully resolve issues related to low insurance penetration. Structural challenges such as affordability, product accessibility, and regulatory effectiveness must also be addressed to ensure broader market participation (World Bank, 2018). Nevertheless, financial education remains the core enabling factor that allows consumers to navigate these structural elements more effectively and make informed decisions within the insurance marketplace.

In conclusion, the study emphasizes that expanding financial education should be a strategic priority for policymakers, educational institutions, and insurance companies. Coordinated efforts in this area have the potential to significantly improve insurance inclusion, enhance market stability, and contribute to a more financially resilient society (OECD, 2020; Lusardi & Mitchell, 2020).

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