



G20/OECD INFE

ENSURING FINANCIAL EDUCATION AND CONSUMER PROTECTION FOR ALL IN THE DIGITAL AGE

HIGHLIGHTS

This G20/OECD INFE document contains highlights from a forthcoming report on “Ensuring Financial Education and Consumer Protection for All in the Digital Age” and was prepared by the OECD International Network on Financial Education (INFE)* Technical Committee and its Expert Subgroup on the Role of Financial Education in Financial Inclusion. It has been approved for circulation to the G20 Global Partnership for Financial Inclusion (GPI) and G20 Finance Ministers and Central Bank Governors by INFE full members and the OECD Committee on Financial Markets and the Insurance and Private Pensions Committee. It is intended as a contribution to the Global Partnership for Financial Inclusion’s 2016 priority on digital financial inclusion under China’s G20 presidency.

A draft version of the full report was welcomed by OECD/INFE members at the 5th meeting of the Technical Committee in Amsterdam on 19 April 2016. A revised Policy Report will be finalised in the course of 2016. It will be complemented by dedicated policy guidance on financial literacy for DFS.

This document is transmitted to the GPI and G20 Finance Ministers and Central Bank Governors at their July 2016 meetings in Chengdu, China.

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* OECD governments officially recognised the importance of financial literacy in 2002 with the launch of a unique and comprehensive project. In 2008 the project was further enhanced through the creation of an International Network on Financial Education (INFE). The OECD/INFE has high-level membership from over 240 public institutions - including central banks, financial regulators and supervisors, ministries of finance and ministries of education - in over 110 countries. Members meet twice a year to share country and member experiences, discuss strategic priorities and develop policy responses.

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Highlights from Ensuring Financial Education and Consumer Protection for All in the Digital Age

The importance of financial education, consumer protection and financial inclusion is increasing with the changing pace of technological progress, and as the overall economy and financial markets go digital. The integration of these three elements as essential ingredients for the financial empowerment of individuals and the overall stability of the financial system has been globally recognised and endorsed by G20 leaders through a series of High-level principles: Innovative Financial Inclusion (2010); Financial Consumer Protection (2011); and National Strategies for Financial Education (2012). Collectively, these principles provide a relevant baseline for developing more targeted approaches and international guidance on digital finance. Building on its global leadership on financial education issues, the OECD and its International Network on Financial Education (INFE) are actively involved in developing policy research and guidance on the implications of Digital Financial Services (DFS) for financial education and relevant consumer protection issues.

DFS epitomise the rapid innovation and increased complexity of financial markets worldwide. There is a **global upward trend in the overall uptake of new digital technologies** and the use of mobile financial services in particular. Today, DFS are widely available to **over 60% of the world's population**,¹ more specifically in the form of **mobile money** which is more common and widespread in **developing economies**. DFS open up new **opportunities for improving overall levels of financial inclusion** by providing a first entry point into the formal financial system for the unbanked, poor and financially excluded, as well as by facilitating actual usage of financial services by those who have already embraced the arrival of the digital age.

At the same time, **DFS can expose consumers to newer threats**, including notably security risks such as digital fraud and abuses, misuse of digital footprints, digital profiling, cybercrime, data privacy issues, among others. These risks and challenges are compounded when **low financial literacy is combined with a lack of digital skills, which is particularly the case among disadvantaged groups and/or first time users** of both finance and technology. By enabling DFS users to understand and mitigate the potential risks involved in using new technologies, both **financial education and consumer protection policies play a crucial role in ensuring that DFS are more of an opportunity than a threat.**

The experiences of OECD/INFE members highlight a number of supply and demand-side barriers to the development of DFS around the world. These challenges are addressed in the OECD/INFE Policy Report, with particular emphasis on the **micro/consumer level challenges** and the emerging **financial education and consumer protection needs of newly financially included and vulnerable segments of the population**. The report is intended as a contribution to the DFS work of the OECD/INFE Technical Committee, and to the Global Partnership for Financial Inclusion (GPII)'s 2016 priority on digital financial inclusion under G20 China's presidency and the development of G20 High-level Principles for Digital Financial Inclusion.

The Policy Report benefitted from the experience of the more than 110 member economies of the OECD/INFE, with direct contributions from **38 institutions** in Africa, Asia, Europe and Latin America through a stocktaking survey and draft report on *"The implications of digital financial services for financial education and related consumer protection issues."*

¹ GSMA (2016), 2015 State of the Industry Report on Mobile Money.

Based on an overview of worldwide trends in the development of DFS and the findings from the OECD/INFE stocktaking exercise, the report identifies **policy challenges and solutions for enhancing financial consumer protection** frameworks for DFS; illustrates the **key role of financial education as a pillar in ensuring consumer protection** while showcasing **financial education initiatives for DFS**; and, highlights the use and potential of **digital tools to achieve higher levels of financial well-being**.

The following section provides a summary of the main policy insights and key messages from the report.

AN INCREASING NUMBER OF FINANCIAL PRODUCTS ARE DELIVERED THROUGH DIGITAL MEANS

A variety of DFS are currently available and used across the world for undertaking different types of financial transactions including basic cash in/out, payments, transfers, savings, credit, insurance and pensions.

Mobile banking, internet banking and mobile wallets are the most ubiquitous and widely employed digital channels in nearly all countries participating in the OECD/INFE study. **Banks and telecommunication companies are the biggest actors** leading the way in DFS delivery. The importance of creating an **adequate enabling environment for prudential and market conduct regulation and supervision** was particularly highlighted across countries.

EXISTING FINANCIAL CONSUMER PROTECTION IS NOT FULLY ADDRESSING DFS DEVELOPMENTS

Consumers around the world are facing diverse and multiple financial consumer protection challenges as they increasingly access and use DFS, with nearly three quarters of survey respondents underlining that **disclosure requirements and fraud/mis-selling** represent the most important policy concerns or priorities in their jurisdictions. Access to **complaint handling mechanisms, data privacy and security, and fund protection mechanisms** were also mentioned as relevant financial consumer protection issues.

There is not one, single way of mitigating financial consumer protection risks and challenges, especially as national circumstances vary. Yet, **most countries lack a proper financial consumer protection framework that specifically targets DFS**. It will be critical to **step up efforts to appraise the capacity of existing financial/general consumer protection frameworks** to adequately safeguard users from harm and address emerging digital challenges, with a view to adapting them when necessary.

FINANCIAL EDUCATION HAS AN IMPORTANT ROLE IN SUPPORTING SAFE USE OF DFS

While there has been some research on identifying and addressing challenges to financial consumer protection in a digital world, more could be said about the critical **role of financial education in enabling consumers to recognise, understand and cope more effectively** with the detriments and opportunities brought about by DFS. **Financial education is key to full and lasting consumer protection for all** because of its **power to act on low financial literacy, improve consumers' awareness of digital finance products, services and providers, and ultimately increase consumers' trust** in and use of DFS to their advantage. Further work to be undertaken by the OECD/INFE will be needed to explore how interventions to support financial literacy and digital capability can be blended to maximise the benefits of DFS.

Meeting the financial education and consumer protection needs of newly financially included populations in a digital era will firstly require **close co-operation and co-ordination** among governments,

regulators, policymakers, providers and all other relevant actors. It may also require **further consideration of the need to put in place balanced and effective policy frameworks** for DFS that both **safeguard consumers from potential risks** and simultaneously **empower them with the necessary knowledge, confidence and skills to make more informed financial/technology choices**.

CONSUMERS' FINANCIAL AND DIGITAL LITERACY ABOUT DFS NEEDS ADDRESSING

Technology is changing the way in which individuals engage with the financial system, for instance by **exposing them directly to problematic market practices** online or via their mobiles, **encouraging risk-seeking behaviour** (e.g. buying before knowing how to use a digital product), and **exacerbating other personal biases** such as short-termism, self-control problems, confirmatory bias, etc. Similarly, innovation has led to the increased digitalisation of life, with most consumers leaving important digital footprints behind and often being **unaware of the use and misuse made by big data collection platforms of their personal/financial information**, including the risk of digital profiling.

It will be essential to **increase overall levels of financial literacy from a young age**, in order to ensure that DFS users are equipped with the minimum or necessary knowledge to make more informed decisions when it comes to choosing the appropriate digital finance services for their needs, and to using them safely without running the risk of high debt, insolvency, fraud, or payment default.

More targeted financial education guidance on/for DFS may involve:

- expanding and deepening understanding of DFS through specific awareness campaigns or other relevant means (**knowledge**),
- supporting the effective and safe use of DFS through practical knowledge and training beyond formal (school) settings (**skills, behaviour, confidence, attitudes**),
- providing support to increase experience with and trust in DFS (including within a community setting), which may in turn help build shared knowledge and understanding of the links between financial literacy and digital capability (**confidence, attitudes, behaviour**),
- alerting consumers to the potential dangers of DFS including big data use, misuse, and digital profiling (**awareness**),
- empowering individuals with a sufficient set of (both financial and digital) skills to cope effectively with DFS risks and take full advantage of the benefits brought about by the digital age (**competencies, behaviour**),
- reaching out to and meeting the particular needs of vulnerable segments of the population, including the elderly, low-income, and new DFS users (**knowledge, core competencies, behaviour**), and
- making 'digital' a part of the solution (e.g. through **tailored financial education programmes addressing DFS specifically as a primary objective and/or topic**).

It will also be **important for policymakers to ensure that wider financial education strategies are flexible enough to address emerging DFS issues** and challenges, as well as to support existing and (most importantly) new consumers in making the best and safest use of DFS.

YET FEW FINANCIAL EDUCATION INITIATIVES FOCUS ON DFS

Globally, the majority of financial education initiatives for DFS do not target digital finance services specifically. Yet, most of these programmes are starting to touch upon key DFS topics such as the availability, safe and effective use of mobile money, mobile banking, and internet banking. **Only a small number of financial education programmes for DFS are addressing the specific needs of consumers in vulnerable situations or hard to reach groups** such as the poor, the elderly, those living in remote areas, and women.

DIGITAL TOOLS IN SUPPORT OF FINANCIAL EDUCATION

The **increasing use of technology** may present several advantages for achieving financial education outcomes. **Higher levels of financial literacy and financial well-being** may be achieved globally **by using digital tools** to:

1) Improve access to financial information and advice

- A **variety of digital tools** are available around the world to facilitate access to and comparison of financial information. **Websites and mobile/online applications** are the most widespread tools used across all countries and regions.

2) Reinforce core competencies, confidence and experiences with finance

- Technology can increase consumer trust by allowing individuals to **test financial concepts and products in real time, learn by trial and error** and **experience failure** (e.g. through interactive online/mobile games) – thus strengthening the overall financial decision-making process.

3) Enhance money management skills and control over finances

- **Digital tools and applications can be used to strengthen consumers' capacity** to manage their personal finance (e.g. through budgeting and spending meters, financial goal trackers), as well as to provide long-distance learning (e.g. through instructional videos and online courses), particularly amongst vulnerable populations.

4) Address and possibly overcome consumers' personal biases

- Digital channels can help counteract and **limit the negative impact of consumers' inherent biases** on financial decision-making, particularly by nudging consumers into specific action (e.g. through automated reminders to save or pay back a loan) and enhancing opportunities for financial behaviour changes (e.g. through virtual price/product/offer comparison and just-in time reminders at the point of sale or immediately after).

Final insights

Better digital tools and more tailored financial education programmes for DFS will be needed to provide vulnerable and hard to reach groups **with actionable and digestible guidance** to help them navigate ever more complex digital finance products and tough financial times. Yet, this does not mean that the digital delivery of financial education or sophisticated digital tools should replace other, more conventional forms of financial education provision, particularly in light of the lack of relevant impact evaluation concerning the former.

A key policy priority for all policymakers interested in the opportunities offered by the digital revolution will be to **follow closely the progress of financial education programmes for DFS and digital tools, and to undertake further research and more in-depth evaluation of their impact.**

It will also be important to provide consumers with more than just access to financial information and advice. Information is important but not sufficient. **Individuals will need to be equipped with the skills, tools and confidence to be financially and digitally capable decision-makers,** understand and use DFS to the best of their ability, and make the most out of them.

REFERENCES

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