

HIGHLIGHTS

G20/OECD INFE REPORT

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). In addition, in recognition of the need to take concrete action to advance digital financial inclusion, G20 High-level Principles for Digital Financial Inclusion have been developed under the Chinese G20 presidency. Collectively, these four sets of 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 (OECD/INFE) are actively involved in developing policy research and guidance on the implications of digital financial services for financial education and relevant consumer protection issues to support the implementation of this G20 agenda.



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

This booklet presents highlights from the forthcoming G20/OECD INFE Report on ensuring financial education and consumer protection for all in the digital age (herein referred to as "the forthcoming report").

Digital financial services 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, digital financial services are widely available to over 60% of the world's population (GSMA, 2016), specifically in the form of mobile money which is more common and widespread in developing economies. These services 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. They also facilitate actual usage of financial services by those who have already embraced the arrival of the digital age.

At the same time, digital financial services can expose consumers to new threats, notably security risks such as digital fraud and abuses, misuse of digital footprints, digital profiling, cybercrime and data privacy issues. 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 financial services and technology. By enabling users to understand and mitigate the potential risks involved, both financial education and consumer protection policies play a crucial role in ensuring that digital financial services are more of an opportunity than a threat.

These challenges are addressed in the forthcoming report, with particular emphasis on micro/consumer level challenges and the emerging financial education and consumer protection needs of newly financially-included and vulnerable segments of the population. This contributes to the work of the OECD/INFE, the G20 Global Partnership for Financial Inclusion, which has declared digital financial inclusion a priority under China's G20 presidency, and to the development and implementation of G20 High-level Principles for Digital Financial Inclusion.

The forthcoming report benefits from the experiences of the more than 110 member economies of the OECD/INFE, including direct contributions from 38 institutions in Africa, Asia, Europe and Latin America through a stocktaking survey.

Based on an overview of worldwide trends in the development of digital financial services and the findings from the survey, the report highlights the use and potential of digital tools to achieve higher levels of financial well-being and identifies policy challenges and solutions for enhancing financial consumer protection and education frameworks. It illustrates the key role of financial education as a pillar in ensuring that the benefits of the digital era are accessible by all, showcases relevant financial education initiatives and contains guidance on delivering financial education using digital channels.



More and more financial products are delivered through digital means

A variety of digital financial services 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 widely employed digital channels in nearly all the countries that participated in the survey. Banks and telecommunication companies are the biggest actors in this market.

Technology is also changing the way in which individuals engage with the financial system. For instance, consumers are exposed directly to problematic digital market practices that encourage risky behaviour (e.g. being able to make impulse purchases using a single click), and exacerbate personal tendencies such as short-termism, self-control problems and confirmatory bias. 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.

Existing financial consumer protection frameworks need to be reviewed

The importance of creating an adequate enabling environment for prudential and market conduct regulation and supervision was particularly highlighted across countries responding to the survey.

Consumers around the world are facing diverse and multiple financial consumer protection challenges as they increasingly access and use digital financial services. Nearly three quarters of survey respondents underline 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.

Financial consumer protection risks and challenges can be mitigated in different ways depending on national circumstances. Yet, most countries lack a proper financial consumer protection framework that specifically targets digital financial services. It is critical to step up efforts to assess the capacity of existing consumer protection frameworks to adequately safeguard users from harm in order to address emerging challenges.

The important role of financial education

While there has been some research on identifying and addressing challenges to financial consumer protection in a digital world, little has been 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 digital financial services. 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, trust in and appropriate use of digital finance products and services.

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, policy-makers, providers and all other relevant actors. It may also be promoted through balanced and effective policy frameworks 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.



Few financial education initiatives focus on digital financial services

Globally, the majority of financial education initiatives do not target digital finance services specifically. Yet, most of these programmes are starting to touch upon key topics such as the availability, safe and effective use of mobile money, mobile banking, and internet banking. Only a small number of these financial education programmes 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.

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

The financial and digital literacy of consumers need to be addressed

It is essential to increase overall levels of financial literacy from a young age, in order to ensure that people are equipped with at least necessary

knowledge to make more informed decisions when it comes to choosing the appropriate digital finance services for their needs, and to use them safely without running the risk of high debt, insolvency, fraud, or payment default.

It is particularly 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 digital financial services to the best of their ability, and make the most out of them.

More targeted financial education guidance may involve:

- ⊙ expanding and deepening understanding of digital financial services through specific awareness campaigns or other relevant means.
- ⊙ supporting the effective and safe use of digital financial services through practical knowledge and training beyond formal school settings.
- ⊙ providing support to increase experience with and trust in digital financial services, including within a community setting. This may in

turn help build shared knowledge and understanding of the links between financial literacy and digital capability.

- ⊙ alerting consumers to potential dangers, including big data use and misuse, and digital profiling.
- ⊙ empowering individuals with a sufficient set of both financial and digital skills to cope effectively with risks and take full advantage of the benefits brought about by the digital age.
- ⊙ reaching out to and meeting the particular needs of vulnerable segments of the population, including the elderly, low-income, and new users of digital financial services.
- ⊙ making “digital” a part of the solution (e.g. through tailored financial education programmes addressing digital financial services specifically as a primary objective and/or topic).

Policy makers need to ensure that wider financial education strategies are flexible enough to address emerging issues and challenges. They must also support existing and new consumers in making the best and safest use of digital financial services.



Delivering financial education through digital channels

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 or 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).

Better digital tools and more tailored financial education programmes 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.

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ABOUT “ENSURING FINANCIAL EDUCATION AND CONSUMER PROTECTION FOR ALL IN THE DIGITAL AGE: HIGHLIGHTS”

This document has been prepared by the OECD/INFE Technical Committee and its Expert Subgroup on the Role of Financial Education in Financial Inclusion. It has been approved by the OECD/INFE and the OECD bodies in charge of financial education: the Committee on Financial Markets and the Insurance and Private Pensions Committee and circulated to the G20 Global Partnership for Financial Inclusion (G20/GPFI). It is now circulated to G20 Leaders on the occasion of their Summit in Hangzhou in September 2016. It is a contribution to the G20/GPFI's 2016 priority of digital financial inclusion under China's G20 presidency and to the development of G20 High-level Principles on Digital Financial Inclusion and their implementation.

ABOUT THE OECD AND ITS INTERNATIONAL NETWORK ON FINANCIAL EDUCATION

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. 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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