DIGITALISATION AND FINANCIAL LITERACY:

SETTING THE STAGE

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BETTER POLICIES FOR BETTER LIVES

Addressing three questions

What financial literacy is and what the needs are globally

What financial digitalisation implies for consumers/small businesses

What financial digitalisation should thus (also) mean for policy and decision makers

WHAT IS FINANCIAL LITERACY?
WHAT ARE THE NEEDS GLOBALLY IN A CONTEXT OF LOW INTEREST RATES?

What is financial literacy and how is it measured across countries?

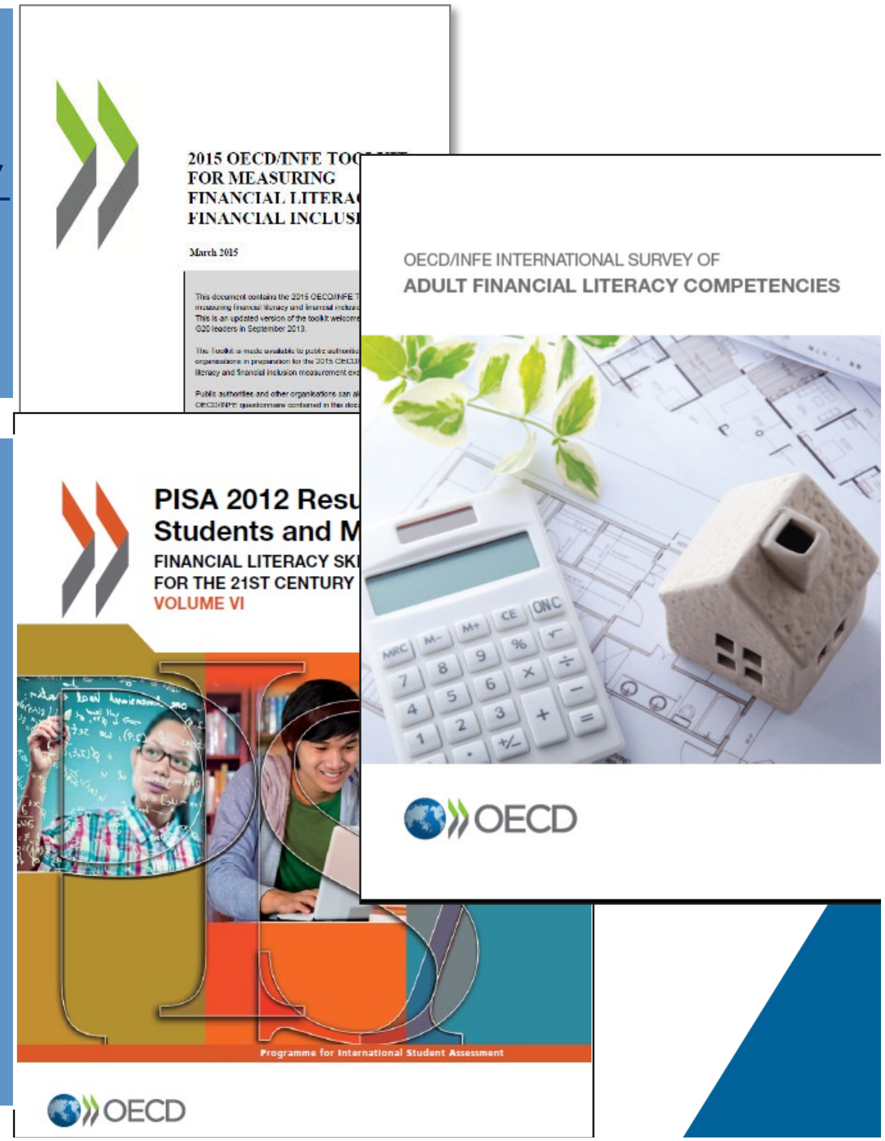
Financial Literacy, OECD, G20

A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being

Tools to measure financial literacy across countries recognised by G20 Leaders in 2013:

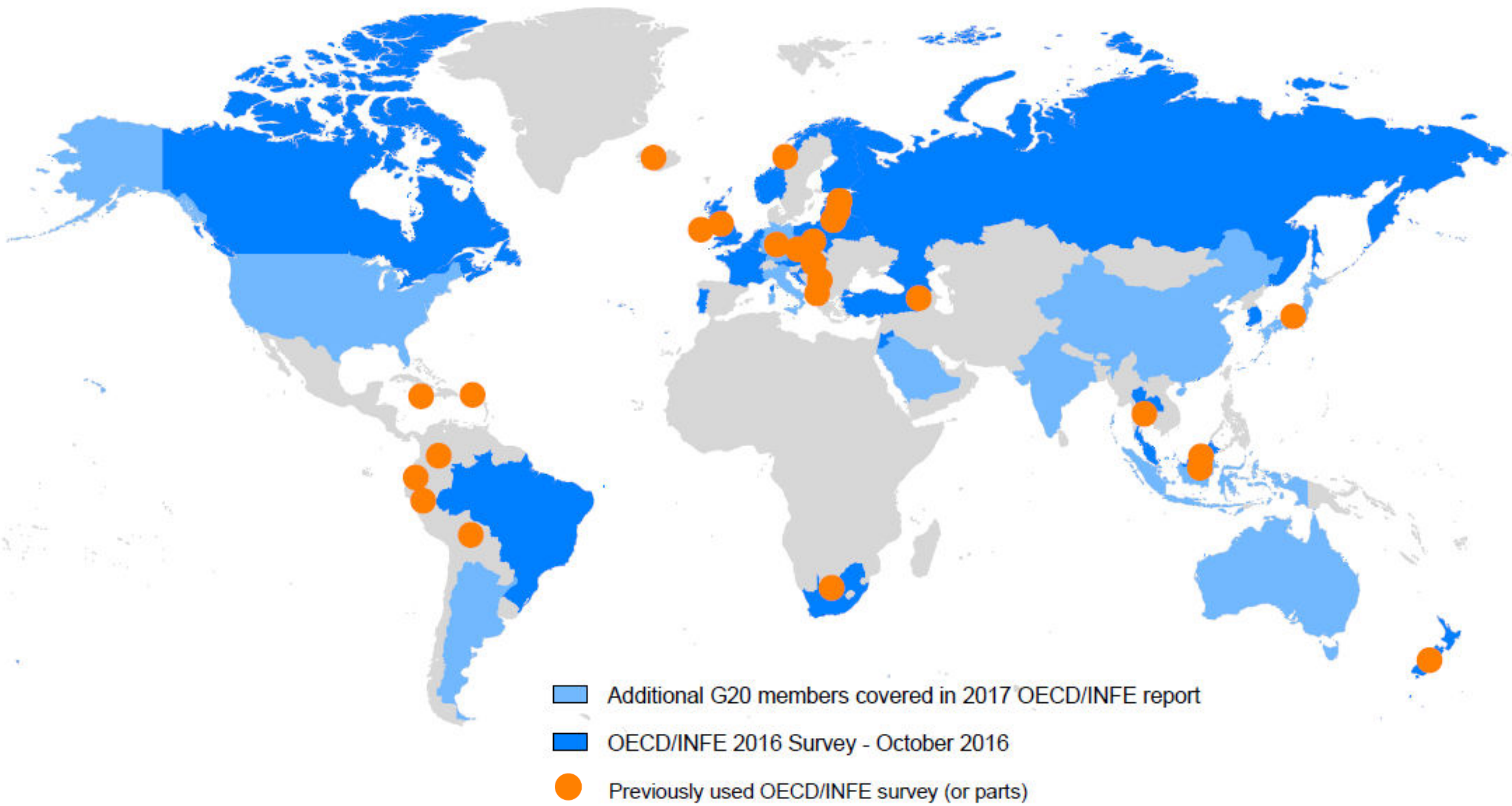
- For adults : **OECD/INFE toolkit on measuring financial literacy**
  2016 - Survey across 30 countries
  2017 - Survey among G20 countries

- For youth : PISA Financial literacy
  2014 - First report of 2012 results
  24 May 2017- Report of 2015 results



Coverage of the OECD/INFE 2016 survey on adults' financial literacy

(and forthcoming 2017 survey in G20 countries)



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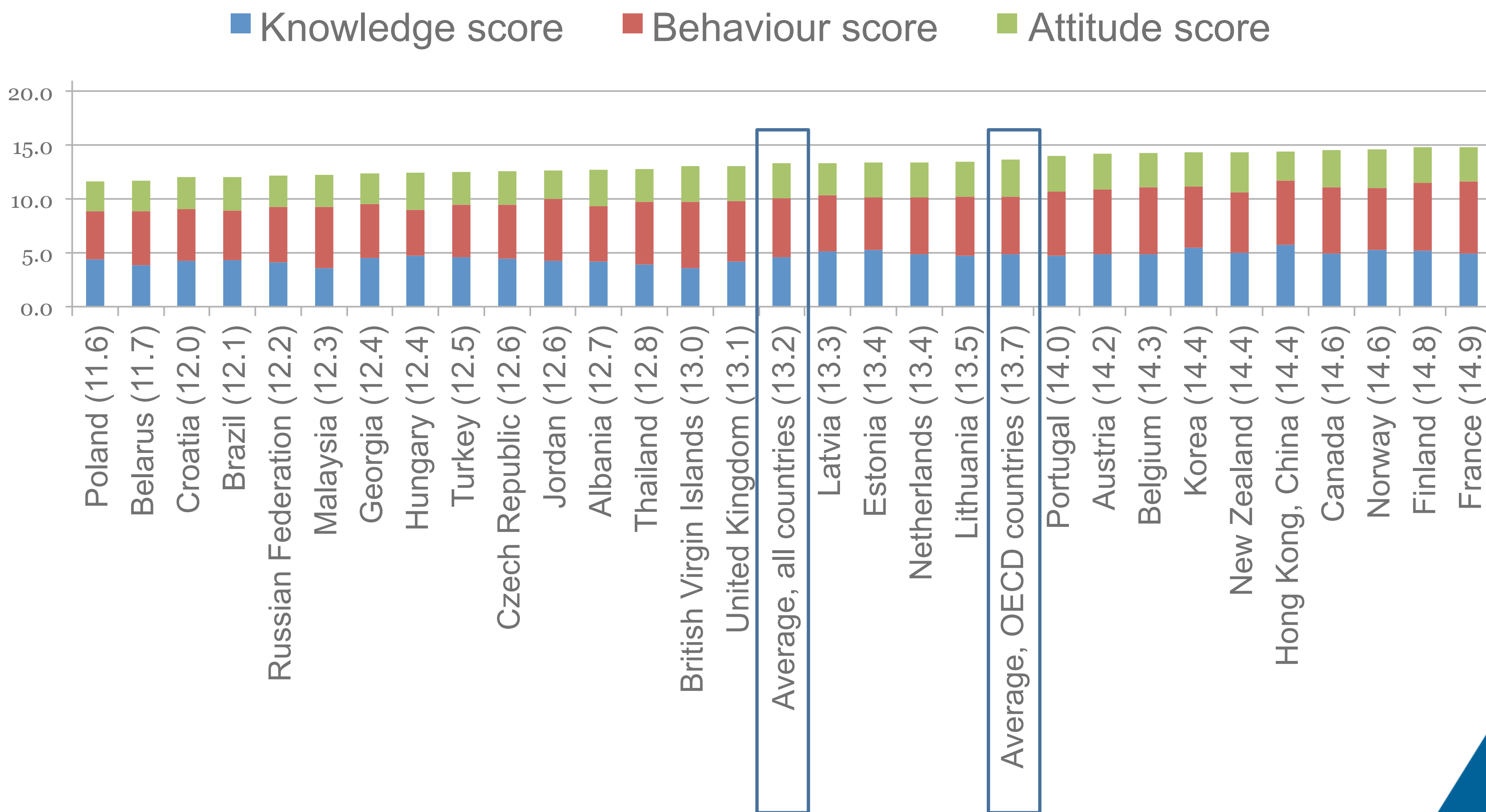
Levels of financial literacy are low globally
13.2 out of 21, on average on the minimum target score



Adults particularly struggle with basic financial knowledge and concepts

On average, only 58% could calculate **simple interest** on savings (65% OECD)

On average, only 42% of adults are aware of the additional benefits of **interest compounding** on savings (48% OECD)

Simple interest

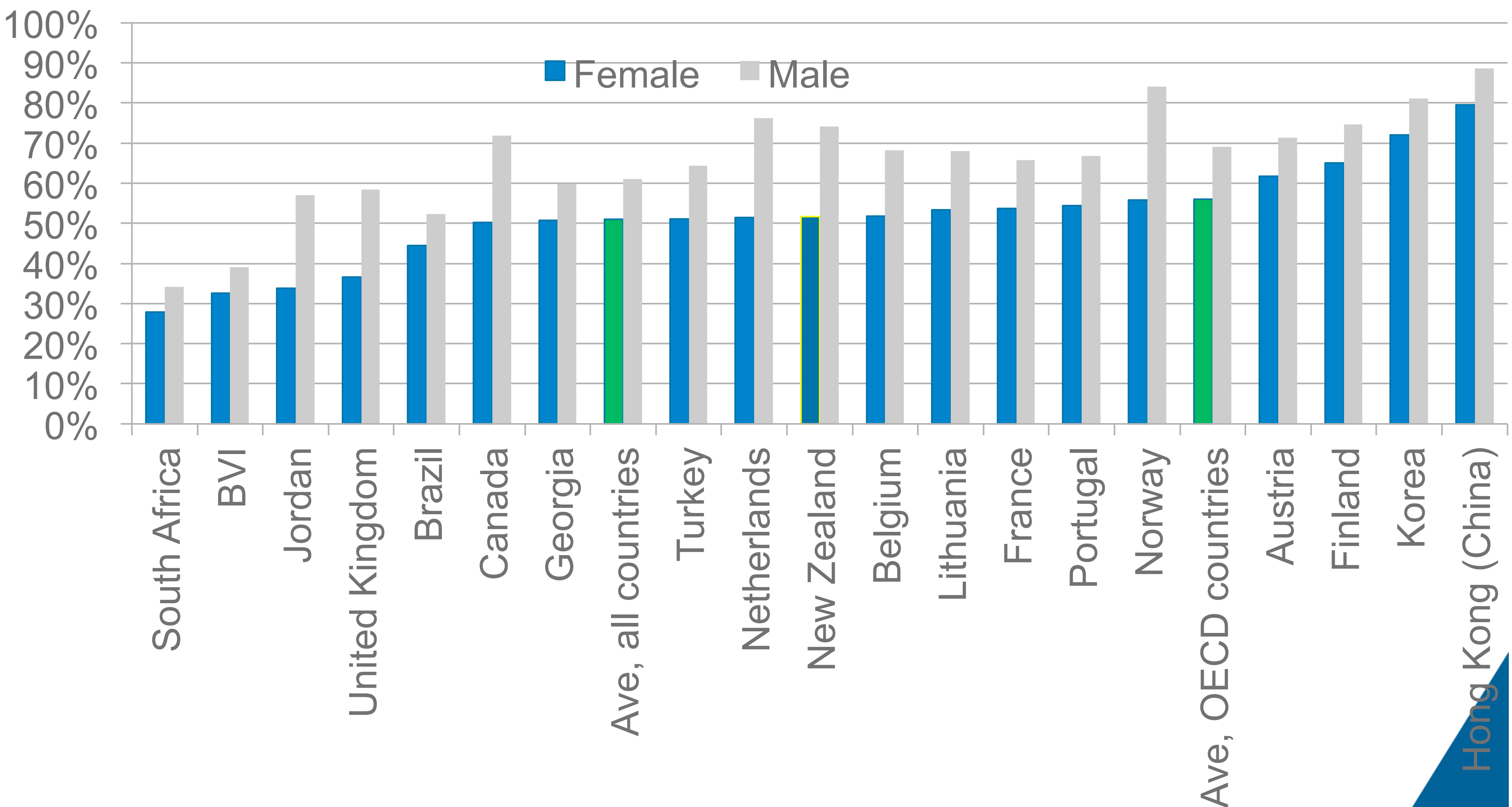
- Suppose you put $100 into a <no fee, tax free> savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money.
- How much would be in the account at the end of the first year, once the interest payment is made?

Compound interest

- ***and how much would be in the account at the end of five years** [add if necessary: remembering there are no fees or tax deductions]?* ***Would it be…***
- ***More than $110***
- ***Exactly $110***
- ***Less than $110***

And **women** struggle with financial knowledge more than men, on average, and in many countries

(percentage of women and men achieving target minimum score)



Only statistically significant differences are shown

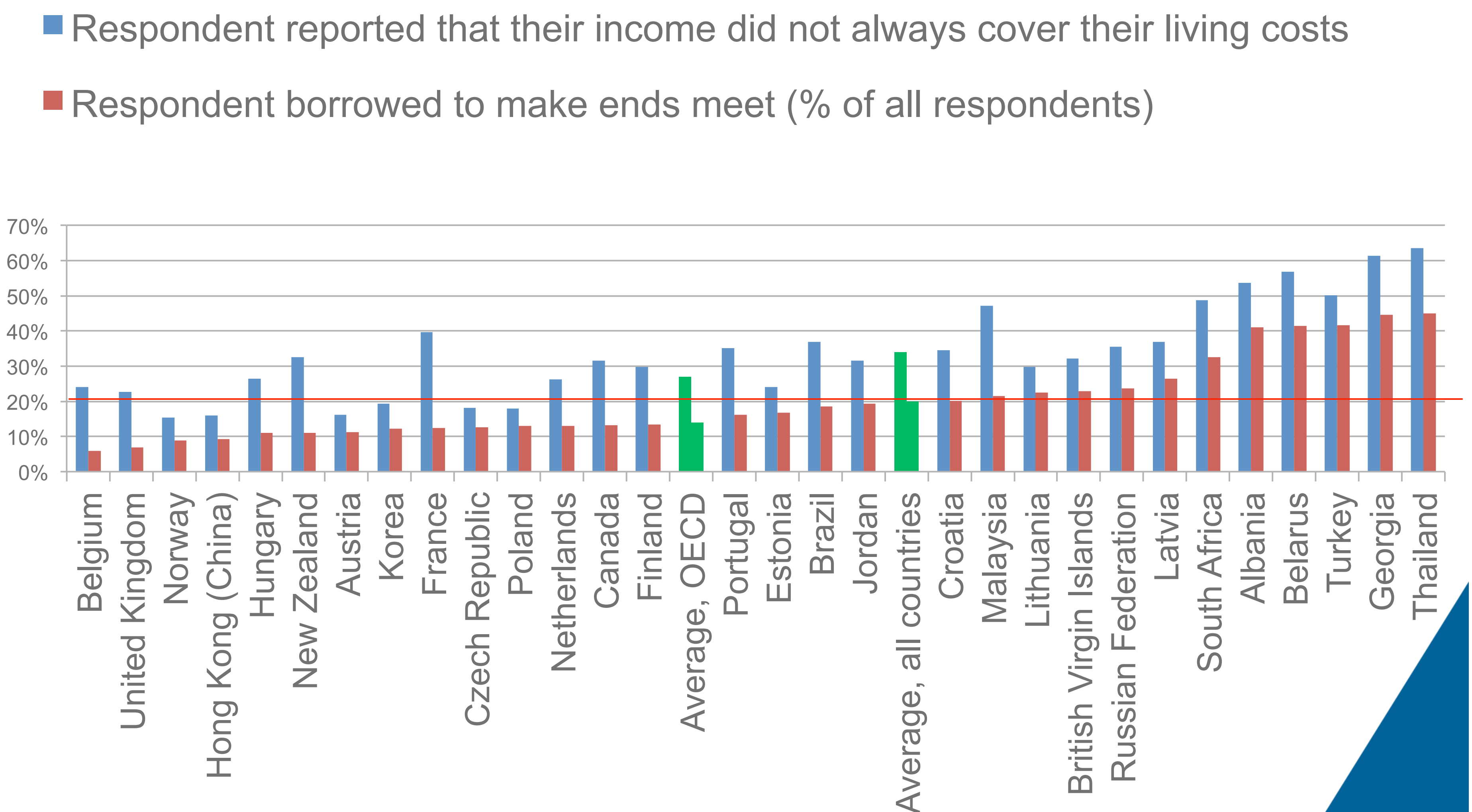
There are several beneficial **behaviours** that are (perhaps surprisingly) uncommon

The **weakest areas of financial behaviour** across these measures appear to be related to **budgeting, planning ahead, choosing products and using independent advice**

On average, only 60% of adults reported having a household budget (57% OECD); and only about 50% set long-term goals and tried to achieve them (51% OECD)

Among those who had chosen a financial product in the last two years, only 44% made an attempt to shop around on average (46% OECD), and only 19% used independent information (20% OECD)

1 in 5 borrowed to make ends meet in the last 12 months, on average



WHAT FINANCIAL DIGITALISATION IMPLIES FOR CONSUMERS AND SMALL BUSINESSES

Digital financial services (DFS) - the phenomenon :
Any financial transactions using digital technology, including electronic money, mobile financial services, online financial services and branchless banking

The promise….

- Easier and timely access
- More affordable
- Wider reach
- Seamless experience tailored to individuals' needs

…and the illustrating trends

In 3 years, global mobile connections could reach 8.9 billion (or a penetration rate of 114%) and the number of smartphones could more than double to 5.8 billion the world over (GSMA, 2016)

DFS are currently available to over 60% of the world's population

Yet, 2 billion adults are still without a bank account	..and only 58% of women (65%of men) have a bank account

DFS are not only about payment and transfers but about sophisticated financial services

including in 60% of the emerging world through mobile money services, insurance, savings and credit

DFS are offered by a variety of providers (OECD/INFE, 2016):
Banks but also credit providers, telecom, governments, post offices, but also FinTech

Financial digitalisation and individuals: .....the other side of the coin

Risks have emerged due to the spread of digital innovation..

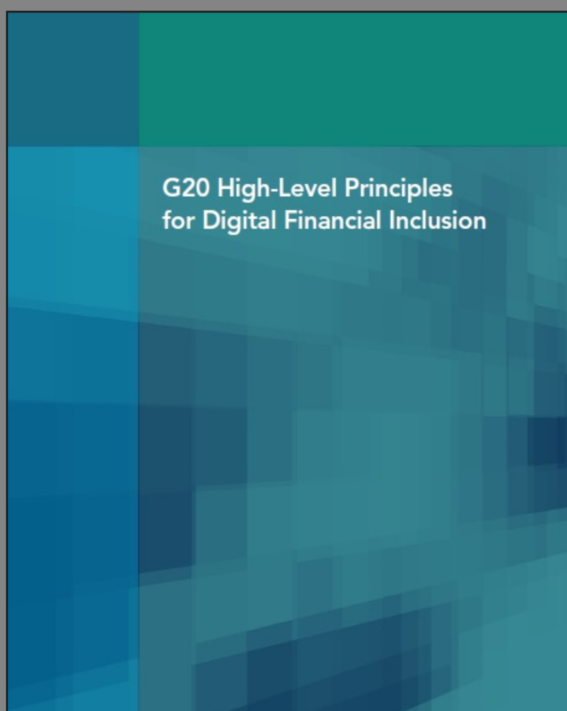
- **Market driven**:
  - New types of fraud and misselling and safety and confidentiality of data
  - Increasing use of digital profiling
  - Easier access to short-term credit (notably) and questionable market practices reinforce behavioural biases
- **Regulation and supervision driven**: Uneven protection within (inadequate disclosure and redress mechanisms) and across countries (variety of providers, cross border selling, regulatory arbitrage)
- **Consumer driven:** increased digitalisation of life coupled with remaining low digital and financial literacy

...potentially impacting consumers and small businesses

- Lack or uneven consumers/ small businesses safety and trust in DFS
- **New types of exclusion** :
  - for particular groups : elderly, women, MSMEs, low level of digital and financial literacy
  - from particular policies : insurance, credit
- **Over-indebtedness** of particular groups (potentially especially young)

WHAT DIGITALISATION SHOULD MEAN FOR POLICY AND DECISION MAKERS

The G20 High level Principles on Digital Financial Inclusion recognise the challenges for consumers/SMEs from financial protection (pple 5) and financial literacy angles (pple 6)



OECD/INFE highlights (2016) and report (2017) on financial literacy in a digital age

What is/should be the policy reactions (if any)?
(OECD/INFE, 2017)

So far, limited adaptation of FCP and FL frameworks to digitalisation trends

Partly addressed by FCP frameworks in some countries	Part of some national strategies for financial education including school initiatives

Some more scattered financial literacy initiatives developed by public authorities and private stakeholders to:

Deepen understanding and trust in digital finance through awareness initiatives	Alert consumers to the potential dangers of digital finance, including big data	Support the beneficial use of DFS through practical knowledge and training	Reach out to vulnerable segments of the population

Digital tools are/should also be part of the financial literacy solution

Smart and evaluated use of technology can support financial education outcomes

Improving access to financial information, advice and training
(e.g. through websites, online courses)

Developing competencies, confidence and experiences with finance
(e.g. through gamification)

Enhancing money management skills and control over finances
(e.g. through application, budget tools)

Addressing consumers' biases
(e.g. through self-commitment tools & alerts)

Yuk Sikapi – a mobile application for women entrepreneurs in Indonesia

Further analysis due in 2017

- OECD/INFE survey on financial literacy in G20 countries
- PISA financial literacy Launch on 24 May, Paris
- OECD/INFE report on financial literacy and financial consumer protection in a digital age

THANK YOU!

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