Financial Education: Challenges and Opportunities

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Abstract. This paper aims at contributing to the debate on financial education within the framework of sustainable development, provided that financial literacy and competence are key to fight financial exclusion. Despite some criticism, the need for a more inclusive financial system is widely felt and supporting arguments stem from the “2030 Agenda” adopted by the United Nations in 2015. Therefore, the starting point can be identified with the analysis of most relevant Sustainable Development Goals; the next step revolves around the market segments that must be focused on, in sight of promoting financial education, and that include the unbanked and underbanked. The subsequent search for appropriate strategies acts as a stimulus to emphasize the role of artificial intelligence and to disseminate best practices. Main findings lead to highlight challenges and opportunities to be met and taken to the benefit not only of the target market, but of society at large.

Introduction

According to the Organization for Economic Cooperation and Development (OECD), financial education is “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. In order to better shape this definition, it has been spelled out that “information involves providing consumers with facts, data, and specific knowledge to make them aware of financial opportunities, choices and consequences; instruction involves ensuring that individuals acquire the skills and ability to understand financial terms and concepts, through the provision of training and guidance; and advice involves providing consumers with counsel about generic financial issues and products so that they can make the best use of the financial information and instruction they have received” [1].

Several factors have shed light on financial education in recent years, such as financial market developments (including the global financial crisis, the availability of a wider range of financial products, and new risks from them), demographic and cultural shifts (encompassing an unprecedented longevity and increased individual responsibility), as well as economic and policy changes. No wonder that growing attention has been paid to financial inclusion, though even keener consideration should be devoted to its promotion through financial education and to the role to be still played to this end by the financial system, first of all by banks: statistics from several sources show that millions and millions of consumers can be labelled as “underbanked”, not only in fragile areas but also in industrialized countries, due to both demand and supply factors resulting in an inadequate provision of financial services to households and firms (mostly micro- and small-sized enterprises), for instance to people who have become blacklisted by major banks, are young consumers, want to avoid debt collectors, are fed-up with fees, are out of a job or had a bad customer experience; to make things worse, a significant share of the world population is said “unbanked”, which is often the case of people who do not even have their own bank accounts and tend to resort to informal, less reputable channels in order to satisfy their financial needs.
Undoubtedly, this scenario is not consistent with the Sustainable Development Goals (SDGs) that have been adopted by the United Nations (UN) in 2015 while setting the “2030 Agenda” [2]. Based on its multi-faceted principles, challenges ahead are conditioned upon the gap to be filled in terms of financial inclusion, which does not apply to usually listed market segments only: opportunities surface from evolutionary trends, such as those pertaining to migration flows and an aging population; all in all, much room remains for progress, though the ideal link between sustainability and inclusiveness has been emphasized in many international fora while addressing a wide range of cross-cultural issues, including those that deal with domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability, technology, innovation and capacity building.

Aim and Scope

This paper takes inspiration from the concepts outlined so far and aims at providing a framework for analysis that can hopefully contribute to a more inclusive financial system. Improving financial inclusion in a must, not just an option, given the moral imperative of pursuing sustainable development and inclusive growth as if they were the two sides of a coin, to the benefit not only of those who need to be better served by banks and other financial institutions, but of society at large: to make the picture even more challenging, it must be accounted for the attitude towards going cashless that has been gaining momentum, though payment behaviors significantly differ from country to country; despite some characteristics of cash that make it unique and still desirable—among others: cash payments do not require any other service providers or technical infrastructure, allow for transparent expenditure overview, and feature ease and speed of use—the advantages of cashless transactions have been granted broader endorsement in the last few years, with supporting arguments mostly tied to the positive consequences of digital disruption, that are far from being exhausted especially in finance, and to the role that artificial intelligence (shortly AI) is set to play, not to mention the growing relevance of companies involved in Financial Technology (known as FinTech).

Actually, the SDGs make up a pretty big to-do list that can be expected to foster real transformation in reducing poverty and inequality all over the world, and can provide ground for driving the global economy on track for long-term sustainability. For these goals to be achieved, financial education can be looked at as a strategic tool, which is likely to help individuals access and use appropriate, formal financial products: even though financial competence may not be directly linked to financial education, there is unquestionable evidence that low levels of financial inclusion are associated with lower levels of financial literacy, that can be defined as “knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life” [3]; as a result, it is worth fueling the interest in identifying efficient practices and scaling up current financial education programs in order to fight financial exclusion in both developing and developed countries.

Conclusions draw upon best practices that can—or better should—be replicated and factual proposals that sound promising, in an attempt at bridging the gap between theory and practice: lessons learned include success stories that refer to financial education policies and initiatives for financial inclusion, with its scope being recently widened so as to include digital financial inclusion; they complement measures and projects centered around financial consumer protection, which is also based on the provision of information on financial issues but is primarily intended to cope with legislation and regulation designed to enforce minimum standards and to require financial institutions to provide clients with appropriate information. Solutions to shared problems may even benefit from “last mile” models that are based on innovative technologies—including those that allow for digital payments—since acting cashlessly tends to be more and more often regarded as a way to make the financial industry evolve inclusively.
Most Relevant Goals

A quick look at the “2030 Agenda” is enough to grasp statements of undisputed relevance in sight of furthering financial inclusion by promoting financial education, which is closely tied to financial literacy, besides being often linked to financial competence. Remarkable implications can be traced back to the 17 SDGs, that deal with economic growth, sustainable communities, reduced inequalities, advancements in industry and infrastructure, innovation as well as multi-stakeholder partnerships aimed at mobilizing and sharing knowledge, expertise, technology and financial resources: all these goals have been associated with specific targets to be achieved in the 15 years covered by this strategic document and are supported by a set of actions that can be taken in everyday life as a contribution to a better world; specific challenges stem from Goal 4 that is designed to “ensure inclusive and equitable quality education and promote lifelong learning opportunities for all”, with special emphasis to be put on the provision of “the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles” and “appreciation of culture’s contribution to sustainable development”, as well as on the need to “build and upgrade education facilities that are child, disability and gender sensitive and provide … inclusive and effective learning environments for all”.

Further details should not be minimized. Goal 8 calls for the promotion of economic growth, which must be inclusive and sustainable, just like industrialization (Goal 9), cities and communities (Goal 11); financial inclusion is evoked whereby policies to be adopted are listed, based on the commitment to improvements towards this end, and—to better define it—the description of Goal 1 (“end poverty in all its forms everywhere”) is set to ensure equal access for everybody, “in particular the poor and the vulnerable”, to “appropriate financial services, including microfinance”.

For the SDGs to be fulfilled, everybody should get involved, in line with Goal 17 on strengthening “the means of implementation” of the strategic Agenda at issue and revitalizing “the Global Partnership for Sustainable Development”. As far as financial institutions, the need has been acknowledged to upgrade the legislation applicable to them, as well as to better regulate financial markets: for instance, the mobilization of financial assistance could reportedly allow “to strengthen developing countries’ scientific, technological and innovative capacities to move towards more sustainable patterns of consumption and production”; furthermore, it has been made clear the commitment to “strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all” (Goal 8 again).

Promoting Financial Inclusion

The key role that the financial system plays with its three pillars—namely: financial products, markets and institutions—leads to focus on financial inclusion: it “means that individuals and enterprises can access and use a range of appropriate and responsibly provided financial services offered in a well-regulated environment”, according to the UN Capital Development Fund (UNCDF) [4]; a closely linked perspective draws upon the concept of financial resilience as the declared, feasible capacity to survive financial shocks and to obtain money for unexpected expenses. In other words, “inclusive finance strives to enhance access to financial services for both individuals and micro-, small and medium-sized enterprises” [5], in order to reduce poverty, tackle inequality and foster sustainable growth.

Remarkable empirical evidence has been made available that suggests a clear relationship between improved access to finance and reduced income inequality and poverty; as such, a more inclusive financial system can be said not only pro-growth but also pro-poor, which requests to devote compounded energies to developing countries. There, more than anywhere else, access to financial services is crucial to strengthen the financial sector, as well as to improve the process of domestic resource mobilization, and higher levels of financial inclusion can spur social and economic development.
For the best results to be scored, despite some criticism [6], an increasingly shared view aims at promoting a more inclusive financial system worldwide by intensifying outreach to marginalized groups, including the poorer strata of the population (especially women), as well as by providing tailored financial services to enterprises at the bottom of the economic pyramid, first of all to the smaller-sized ones. In sight of pursuing such an ambitious goal, the set of strategic tools to be used includes the extension of savings, credit, insurance and payment services, particularly when the amount involved is relatively small; as far as the supply of these services, it comes natural to think about microfinance institutions, though their standard operating model has not met most optimistic expectations [7], but traditional financial intermediaries—with banks spearheading their list—should further get involved in the joint efforts that are needed.

**Banks and the Creation of Shared Value**

Within the financial arena, banks are well positioned to still make a significant contribution by stimulating more sustainable approaches to their own business and—in general terms—by promoting the creation of shared value. Although some authors contest the value of creating shared value [8], it could be hardly rejected that banking for maximizing returns to stockholders and furthering customer prosperity should be properly integrated with funding the growth of regional economies and financing solutions to global problems: as a consequence, it is no longer time to deliver benefits that only a small elite group is likely to take advantage from and the banking industry should more explicitly recognize the immense potential of generating business by creating societal value in several ways; they can be summarized in terms of “reconceiving products and markets”, “redefining productivity in the value chain” and “building supportive industry clusters at the company’s locations” [9].

Despite being shared value widely considered a strategic imperative for banks, leveraging its full power still requires a significant shift from the way in which these institutions are mostly run. If it is true—as it is—that they are supposed to get closer to society, the priority list should encompass unprecedented efforts to better satisfy the needs of a remarkable share of the population: according to reliable estimates [10], about 1.7 billion adults in the world remain unbanked—in other words: without an account at a financial institution or through a mobile money provider—and inequalities persist, in spite of account ownership being on the rise; financial exclusion is most acute among low-income people in emerging and developing economies, though surveys by the Federal Deposit Insurance Corporation (FDIC) reveal disappointing data collected in the United States too concerning the recourse to banking services by households, especially those with volatile income [11].

Serious worries also stem from the market segments that fall within the definition of underbanked consumers: they avail themselves of banks only on a very limited basis and tend to rely on cash rather than resorting to checks, credit cards and other products that are usually made available through the banking system; quite common cases involve poor adults who do not trust banks or cannot afford the costs associated with checking accounts, though the use of cashiers’ checks to pay bills could hardly end up with proving an efficient behavior. What fuels feelings of optimism is the growing concern among banks on how to customize their services for underbanked and unbanked households and businesses (especially micro- and small-sized enterprises) in an attempt at maximizing the share of the fully banked (besides reducing the share of the unhappily banked).

**Evidence from the Banking Industry**

In line with these thoughts, more and more initiatives focused on the financial footprint of several SDGs have been developed at both national and international level. It is worth mentioning the project denominated “Banking the Unbanked” that has been undertaken by Bank of Alexandria SAE – shortly AlexBank, the Egyptian subsidiary of Intesa Sanpaolo Group – and that allows for three integrated lines of intervention aimed at customers who would have no access to traditional banking, in order to improve their living and working conditions: micro-deposits, that include new products at attractive
rates, to encourage the culture of saving, and a dedicated debit card; expansion of micro business with a network of local supporting specialists; the creation of a mobile wallet platform for simple and safe banking transactions [12].

Furthermore, this Group has taken part in the “Loan for Hope” initiative that was launched in 2010 by the Italian Episcopal Conference in cooperation with the Italian Banking Association and that was renewed in 2015, in order to support households in temporary difficulties with “social microfinance”, while “business microfinance” is dedicated to start-up businesses, young entrepreneurs and—in more general terms—to small- and micro-sized enterprises [13]. Consideration has also been devoted to differently-abled people (such as wheelchair-bound and visually-impaired persons) who need customized barrier-free access to banks and their products, though unexploited potential remains in targeting these individuals: it sounds consoling that Italy’s Museum of Saving promoted in July 2018 a competition of ideas—in cooperation with Intesa Sanpaolo Innovation Center and Fondazione La Stampa Specchio dei Tempi—to support the development of solutions aimed at fostering economic autonomy of people with cognitive disabilities (aged 6 to 99), thus improving financial inclusion of these consumers by addressing their specific needs, with utmost attention to accessibility, language and communication modes (including interactive handbooks) [14].

Looking ahead, innovative technologies can be expected to accelerate the trend towards better serving the underbanked and targeting the unbanked, as it can be argued by focusing on digital disruptions to the financial system that imply valuable opportunities, besides undeniable threats. It is interesting that the World Food Programme (WFP), the food-assistance branch of the UN and the single largest organization providing humanitarian cash transfers, makes recourse to various forms for their settlement from traditional banknotes, bank transfers or value vouchers to more innovative digital platforms such as smart cards, mobile money and blockchain technology; the chosen modality depends on the local context—from the immediate aftermath of a natural disaster to a protracted refugee crisis—or on recurrent assistance needed during the lean season; therefore, the shift from the concept of food aid to that of food assistance in the late 2000s leads to highlight a strategic trade-off between cash transfers, that are effective where food is available in the markets but beyond people’s financial reach, and physical food deliveries, that help respond better in emergency situations where basic market infrastructure is not functioning [15].

Emerging Trends and Financial Needs

Undoubtedly, the process of financial innovation has provided fruitful support and continues to generate progress within the banking industry and the financial system as a whole: as far as the unbanked and underbanked, their access to finance has been greatly expanded as a result of incremental advances in technology; they are usually emphasized with regard to the decreasing costs associated with the supply of the financial services traditionally offered by banks and hence to the reduced prices that can be charged to their customers, though positive changes have also been brought about in the distribution channels, with end-users getting more and more familiar with online banking. FinTech can be expected to further act as a catalyst for financial inclusion, based on lessons learned in rural areas, as well as on the results that have been attained while coping with immigrants and refugees, with the technology which enables machines to simulate and augment human intelligence (i.e. AI) set to allow financial services companies to completely redefine how they work, how they create innovative products and services, and how they transform customer experiences.

In order to better satisfy emerging needs, it sounds appropriate to go beyond traditional keys of classification. Here it suffices to recommend a closer look at the implications not only of migratory flows and but also of an aging population, so as to unveil the unexploited potential of targeting consumers who have been neglected for a long time: on one hand, there are undisputable reasons to account for those who miss relevant documents, do not have a credit history or even lack a permanent address, not only in rural but also in urban communities, but need to be banked, for instance through remittances; recurrent cases surface among immigrants and refugees, who have low income (or no
money at all) and as such cannot put together the minimum balance to be allowed to open checking and savings accounts.

On the other hand, people in the later stage of their life cycle may not be able to benefit from safe and cost-effective access to financial services that can ensure quality of life and aging with dignity, as attempts at building a future without senior poverty assume: it is not just a matter of targeting the older who live at or below the poverty level and who are unlikely to use traditional financial services, such as checking, savings, money market or retirement accounts; apart from issues concerning economically vulnerable older people, innovative strategies and products should be developed to better meet the financial needs of affluent senior citizens, as shown by the growing interest in reverse mortgages as a lifetime income planning tool. To stress this point, increasing access to and participation in—appropriate, responsible and asset-building financial services for the growing market that consists of older people should cover their peak retirement savings years, when being unbanked—and even underbanked—may mean persistent poverty as a ban to a secure future.

The Role of Financial Innovation

Further advancements have been—and can be still—achieved by developing product innovation. Meaningful examples include basic bank accounts that have been made available in several countries to people who are not eligible for standard current accounts or cannot use their existing accounts due to financial difficulties, as a way to tap the unbanked: supporting arguments can be identified with the need to allow underserved market segments to get access to payment services—and eventually loans—through the banking system and to minimize the recourse to informal ways to save, such as keeping cash at home and buying illiquid assets, which may be costly, risky, or inconvenient; holders of these accounts do not necessarily belong to poorer market segments, as implied by Italy’s recent legislation (Decree 70 of May 13, 2018 by the Ministry of Economy and Finance) that was introduced to define applicable costs and standard features.

As a matter of fact, forward steps can be favored by specific legislation, despite the role that has been recognized to the lack of rules and the adoption of circumventing innovation to bypass those that are perceived as being too restrictive. A case in point has to do with the 1996 Debt Collection Improvement Act, that was enacted into a US federal law on April 26, 1996 (Public Law 104-134) and that paved the way to turning to prepaid cards to disburse payments to individuals: the benefits to the recipients without a bank account need no comments; conversely, the Treasury Department has been able to save on each payment made electronically rather than by check and ultimately has taken advantage of the migration to all-electronic disbursement of federal benefits growth.

Not to miss any of the 4 Ps in the marketing mix (namely: Product, Price, Place and Promotion), further desirable effects have been—and can be still—generated by investigating how to make consumers (in the first place, the underserved) aware of products that can satisfy their financial needs as a part of the promotional activities carried out by banks: old ways (such as billboards, word-of-mouth and print ads) have been increasingly challenged by the web's myriad of innovative methods. At the same time, efforts have been increasingly undertaken to provide individuals with the information they need for financial control, stability and simplicity at any stage of their life, in line with the emerging trend towards improving financial inclusion through financial education.

Investing in Intangible Capital

On the pathway to inclusive growth, investment in intangible capital stands as a milestone: success stories include the “Financial Education in Schools” program that is run by Italy’s Central Bank, in line with international best practices [16]; in addition, this Bank has released a series of videos—entitled “Economy and finance—it’s never too late”—to foster financial education among adults by covering a wide variety of topics, such as investment risk and yield, wealth and indebtedness, insurance companies and pension funds [17]. Institutional tasks centered around promoting financial
education—and literacy as a result—have been undertaken and performed in many other countries, as well as at a supranational level.

For instance, it is useful to scrutinize the activities carried out by the Financial Literacy and Education Commission, established in the United States under the Fair and Accurate Credit Transactions Act of 2003, and by the National Centre for Financial Education that is in charge of implementing India’s Strategy for Financial Education envisioning a “financially aware and empowered” country. National policies aimed at improving the level of the population’s financial literacy have been decisive for China, that prioritizes investment in educational resources for its youngest people, without forgetting adults, and that can be proud of the score at the highest level attained by 15-year-old students in Beijing-Shanghai-Jiangsu-Guangdong among the countries and economies assessed by OECD in 2015 [18]: subjects related to financial issues and specific programs are included in the country’s school curricula, with contents adapted by age and an easy language used by resorting to several tools (including comics, films and videogames) that also combine technology and social media; the different campaigns aimed at financial literacy are designed to reach all the regions of this large country, characterized by a great diversity of population [19].

Besides public institutions, a growing number of banks have started to leverage their biggest asset—their core business—to address some of the world’s toughest challenges and are realigning their activities to deliver shared value. Efforts to capitalize on new opportunities encompass those that pertain to the “EduCare Project” within the framework of sustainable development strategies of the BNP Paribas Group in Italy: the aim is to contribute to inclusive and quality education, as well as to promote lifelong learning, as implied by UN Goal 4; this initiative is based upon investing in BNL’s free training courses in financial education that are offered to encourage greater awareness of the various personal choices [20].

Financial Literacy as a Life Skill

Based on best practices, several variables need to be accounted for, that include age-appropriate learning objectives and main categories of financial services and products to be dealt with (such as bank accounts, investment in financial assets, retirement accounts, insurance and education savings). To give an idea of the wide range of available options, specific financial education projects should be directed to kids, based upon gamification, while lifelong learning and distance education (particularly web-based learning) can be expected to improve financial competence and wellness among adults: the role of the school system (at any level, including colleges and universities) cannot be underestimated, though further opportunities can be devised, such as those that may be taken by employers; they should invest to upgrade employee financial health so as to hopefully reduce employee financial stress, which is likely to produce negative effects and especially impact productivity.

Many people feel that they are ill-equipped to make sound financial decisions and would appreciate participating in initiatives designed to improve their financial literacy; at the same time, benefits would be reaped by those who are not aware of their need for financial education, especially if they are affected by financial fragility. Focusing on employers, they are likely to take advantage of employees becoming less stressed about their financial health, which is likely to result in increased productivity, as well as in reduced absenteeism and turnover, higher engagement and job satisfaction, fewer requests for pay increases and lower healthcare costs, not to mention the advantages of setting themselves apart in the marketplace by offering holistic financial wellness benefits.

Even helping young people in their transition to the job market can fall within the scope of promoting financial education, that may be considered as the best driver to end inequality and pursue sustainable development: no surprise, provided that financial health is vital for escaping the poverty trap and can contribute to sustainable growth, while financial literacy is increasingly recognized as a life skill for the 21st century. To better perform the underlying tasks, special attention should be paid to make financial education effective, which implies well-trained educators, tested program materials, timely instruction, relevant subject matter and evidence of impact.
Conclusions

To conclude, the SDGs give ground for ambitious projects that may reduce poverty and inequality, thus contributing to put the global economy on track for long-term sustainability: to this end, the post-2015 development Agenda should continue to be based on the pursuit of concrete priorities, such as those that can pass the test of being specific, measurable, achievable, relevant and time-bound; in the light of the need to implement new development models, promoting a more inclusive financial system should prove rewarding to fragile economies, as well as to industrialized countries, and the accumulation of intangible capital is set to make the difference. Within this framework, financial education can be expected to play an increasingly relevant role in sight of fighting financial exclusion through financial literacy, competence, capability and well-being.

Investing in education can be assumed to yield the highest return rate from a social point of view and the financial sphere of the economy makes no exception to this rule. Accordingly, there is no choice but to meet the opportunities and take the challenges ahead, including those that pertain to AI in banking and—in more general terms—in finance: to endorse an optimistic perspective, further developments are supposed to provide an enhanced experience for customers and employees while delivering real business value on every dimension, since AI is underpinned by a series of fundamental and interrelated technologies around machine learning and natural language; however, AI is not just better technology, which FinTech companies have been promoting heavily in the last few years.

By contrast, the risk of a disruptive use of technology within the financial sector is a source of serious worries in terms of cybersecurity, data privacy, money laundering and consumer protection-related issues, thus fueling the debate on how to satisfy the need for Regulatory Technology (briefly RegTech) and Supervisory Technology (or SupTech). Interacting with new technologies may prove hard especially for senior citizens, not only in developing but also in industrialized countries, that share the burden of leading the process to pursue financial education as a life skill: to this end financial institutions—banks in the first place—can play a pivotal role, as it can be argued by taking a look at the activities under way at the Center for Financial Education and Capability that has been set up by Banco Bilbao Vizcaya Argentaria S.A., recently named as the world’s best bank for financial inclusion; yet, social implications of financial education, such as those that call for neutrality and unbiased learning outcomes, lead to emphasize the need for joint efforts aimed at improving financial literacy, competence, capability and well-being, to the benefit not only of the market segments that mostly deserve consideration but of society at large.

References


