



# TC NOTES

PRACTICAL **LEADERSHIP**  
AND **GUIDANCE** FROM  
**TORONTO CENTRE**

# FINANCIAL LITERACY AND DIGITAL FINANCIAL INCLUSION: SUPERVISORY POLICY AND PRACTICE

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# FINANCIAL LITERACY AND DIGITAL FINANCIAL INCLUSION: SUPERVISORY POLICY AND PRACTICE

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# FINANCIAL LITERACY AND DIGITAL FINANCIAL INCLUSION: SUPERVISORY POLICY AND PRACTICE

## Introduction<sup>1</sup>

The growth of digital financial services has been at the center of financial inclusion initiatives in many countries, notably in Sub Saharan Africa and Southern Asia. Financial inclusion models involving mobile and other digital financial services can support overall economic growth and the achievement of broader development goals.<sup>2</sup>

Mobile financial services continue to play a primary role in financial inclusion in developing countries by providing access to financial services for the previously unbanked segment of the population.<sup>3</sup> The widespread use of mobile phones has led to a rapidly growing mobile phone-based economy in which mobile platforms are increasingly used as an alternative to traditional banking and other financial systems.

Mobile financial services remain the most effective contributor to global financial inclusion initiatives and, particularly in developing countries, remain a key driver of economic growth by creating employment, driving business productivity and entrepreneurship, and helping to formalize the economy.<sup>4</sup> In addition, mobile and other digital platforms have become a primary channel for increased cashless transactions, including government transfers during the COVID-19 pandemic,<sup>5</sup> reinforcing the importance of all citizens - women and men - having access to financial services.

Additionally, favourable regulatory environments and good supervisory practices have enabled significant innovation in mobile transfer services in various countries, giving rise to an entire digital financial services ecosystem offering savings, insurance, local and international money transfers, payments, and credit services on mobile money platforms, to both individuals and corporate entities.

However, despite this success, many countries still face challenges in reaching large segments of their unbanked populations.<sup>6</sup> Barriers to greater financial inclusion are discussed in Toronto Centre (2019). In particular, **the lack of financial literacy has been highlighted as a primary barrier to financial inclusion**, and indeed it has been noted that

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<sup>1</sup> This Toronto Centre Note was prepared by Mercy Buku.

<sup>2</sup> For example, it has been estimated that “digital finance could benefit billions of people by spurring inclusive growth that adds \$3.7 trillion to the GDP of emerging economies within a decade” - Manyika et al (2016).

<sup>3</sup> There are currently over 290 deployments of mobile money in 95 countries globally, with over 1 billion mobile money accounts transacting US\$ 2 billion daily in 2019; 50% of which are in Sub Saharan Africa and 31% in Southern and East Asia and the Pacific. See GSM Association (2020).

<sup>4</sup> For example, a long-term impact study on a mobile money service in Kenya, M-PESA, found that mobile money has lifted as many as 194,000 households – 2% of the Kenyan population – out of poverty, and has been effective in improving the economic lives of poor women and of members of female-headed households. See Suri and Jack (2019).

<sup>5</sup> This has reflected the stringent movement restrictions imposed in many countries and regulatory incentives promoting cashless transactions. See International Monetary Fund (2020).

<sup>6</sup> In 2017, it was estimated that “about 1.7 billion adults were still unbanked and without access to safe, reliable and convenient financial services, either through an account at a financial institution or through a mobile money provider”. See World Bank Global Findex (2018a).

full financial inclusion can only be achieved when the users of financial services “not only have access to a range of financial services but are able to use them regularly as well”.<sup>7</sup>

Financial literacy has been recognized as a key driver for financial inclusion,<sup>8</sup> and has been incorporated as an integral part of the financial inclusion policy agenda of many countries. This has been explored in previous Toronto Centre Notes on Financial Literacy and Financial Inclusion.<sup>9</sup>

This Toronto Centre Note recommends measures that regulators and supervisors can put in place to address some of the barriers to financial literacy, with a particular focus on the link between digital financial inclusion and financial literacy, and thereby to enhance digital financial inclusion and financial inclusion in general.

## Benefits of digital financial literacy

*Financial literacy* has been defined as “a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being”.<sup>10</sup> Financial literacy has also been linked to *financial capability*, which is the ability of consumers to use the acquired financial literacy to make better informed decisions about managing their finances.<sup>11</sup>

*Digital financial literacy* has been referred to as “the application of digital literacy and financial literacy to enable the use of digital financial services”.<sup>12</sup> Digital financial literacy thus straddles the concepts of digital literacy and financial literacy but has its unique aspects due to the nature of the products and risks involved.

In addition to basic financial literacy, digital financial literacy is increasingly becoming an important aspect of education for the Digital Age.<sup>13</sup> The proliferation of mobile and other digital financial products, the continuing expansion of digital financial services, and the development of the ‘gig’ economy<sup>14</sup> whereby individuals will become more responsible for their own financial planning (for example managing their own retirement savings and pensions plans), together create an urgent need for consumers to have a higher level of financial understanding to make effective use of financial technology (fintech) products and services, and to avoid fraud and costly mistakes. Additionally, digital financial literacy has been increasingly seen as a key component to address women’s limited use of digital financial services.<sup>15</sup>

These developments point to the need to develop digital financial education programs to improve digital financial literacy, with a focus on the critical skills necessary for participating in the digital economy.

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<sup>7</sup> World Bank (2018b).

<sup>8</sup> Organisation for Economic Cooperation and Development (OECD) and International Network for Financial Education (INFE) (2015a).

<sup>9</sup> See Toronto Centre (2018, 2020).

<sup>10</sup> OECD/INFE (2012).

<sup>11</sup> World Bank (2013).

<sup>12</sup> Fin Equity/CGAP (2021).

<sup>13</sup> Morgan et al (2019).

<sup>14</sup> The gig economy is a free market system in which temporary positions are common and organizations contract with independent workers for short-term commitments. See Gillis (2020).

<sup>15</sup> See Women’s World Banking (2021) and Center for Financial Inclusion (2021).

Digital financial literacy is a multi-dimensional concept encompassing both digital literacy and financial literacy, with the key objectives of promoting consumer awareness and knowledge of:<sup>16</sup>

1. *Digital financial products and services (DFS)* - a basic understanding of digital financial products and services should enable a consumer to understand the basic functions of each product and service, and to make decisions on the most appropriate product or service.
2. *Digital financial risks* - it is important for consumers to be sensitive to the additional risks that may arise when using DFS, such as online fraud and cyber security risks. This is of particular relevance during the COVID-19 pandemic, which has seen a sharp increase in DFS frauds due to the increased reliance on cashless/digital payments.
3. *Digital financial risk controls* - consumers need to understand how to protect themselves from the risks arising from the use of DFS. This includes knowledge of spamming, phishing, and protecting their personal identification number (PIN) and other personal information when using digital financial services.
4. *Consumer rights and redress procedures* - consumers need to know how and where to seek redress when they fall victim to fraud or other loss, and to understand their rights regarding the disclosure of their personal data and how and where they can obtain redress against the unauthorized use of their data.

Digital financial literacy can therefore enable a consumer to gain both awareness and knowledge of the different types of financial products and services available (including those delivered through digital means) and the necessary knowledge and understanding of which features are the most important to consider when choosing financial products and services.

This in turn can endow the consumer with the requisite skills and behaviours to actively seek out information on the important features of a financial product and to choose and use appropriate financial products and services from among those available (including those delivered through digital means).

Once consumers gain an understanding of the financial products and the requisite skill set to use those products, they may no longer have a negative perception or mistrust of financial services; instead, financial literacy can instill in them the confidence to make an informed decision about using a traditional or new type of financial service, such as mobile money and digital savings and credit.

Consumer protection and financial literacy can therefore contribute to improved efficiency, transparency, competition, and access in retail financial markets by reducing information asymmetries and power imbalances between providers and users of financial services.

Higher levels of financial literacy could also – at least in principle - support many of the objectives of supervisory authorities, including:

- Consumer protection - consumers who are financially literate gain the ability to make better choices, understand the risks of using financial products and their rights in relation to these risks, and understand where to seek redress from the right channels.
- The safety and soundness of financial institutions – when consumers are financially literate and have access to relevant information, they will better understand the importance of dealing with sound financial institutions.
- Public confidence – financial literacy can support public confidence and trust in the financial system, and when consumers understand the financial system, they are

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<sup>16</sup> Morgan et al (2019).

able to actively participate in financial decisions affecting them with greater confidence.

- Fair, efficient, and transparent markets – financial literacy can enable consumers to gain the understanding, skills, and confidence to assess the risks, costs and benefits of products that are marketed to them, and to make informed decisions about what product and which provider to use.
- Ensuring secure access and market development – consumers are better able to understand risks and how financial products can help manage the risks, for example in using savings, credit and insurance products more effectively.

## Financial literacy barriers to digital financial inclusion

Empirical studies implemented to evaluate financial education programs in various countries have shown that enhancing financial literacy and the personal financial decision-making capabilities of people would enhance the outcome of financial inclusion and other poverty reduction initiatives, as financially literate people can demand and properly use beneficial financial services such as savings, microcredit and insurance.<sup>17</sup> Financially literate consumers make better financial and economic decisions, including savings, borrowing, investment and day-to-day money management.<sup>18</sup> There is therefore a direct link between financial literacy and financial inclusion. This is of particular relevance in developing countries, where the lack of financial literacy has an adverse impact on poverty reduction and welfare improvement.

The ability to understand financial products can dramatically change the financial well-being of an individual.<sup>19</sup> Much of the population of many developing countries are engaged in agriculture. These communities are especially vulnerable to income shocks resulting from weather and inflation risks and the resultant price volatility in the goods they produce. Savings and insurance can be critical in allowing households to cushion such shocks.

Equally, however, low levels of financial literacy are barriers to financial inclusion. These barriers vary by context, financial provider profiles and customer segments. They range from the demand side (the underserved population), where the barriers comprise issues such as financial scarcity, behavioral biases, limited financial literacy, and lack of trust; to the supply side, where the common barriers are policy and regulations, physical and infrastructure constraints, mis-sold or unsuitable products, and inappropriate sales practices.<sup>20</sup>

A lack of information or knowledge about a financial service or product can have an adverse impact on a potential customer's adoption or use of that service. High transaction fees, inadequate information on tariffs and the lack of regulation on transparency in pricing and the setting of tariffs, coupled with the inability to compare competing provider tariffs, may also discourage users of financial services. Low-income segments, disadvantaged groups such as the youth, women, and forcibly displaced persons with no formal education, are also more likely to be financially excluded than those at the top of the education ladder.

With specific reference to digital financial inclusion, factors such as the lack of financial numeracy skills, for example the inability to navigate a mobile money menu or to read financial text messages (including mobile money confirmation or promotional messages and bank balances), make it difficult for a consumer to access mobile financial services or make

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<sup>17</sup> Refera et al (2016).

<sup>18</sup> Capuano and Ramsey (2011).

<sup>19</sup> Subha and Priya (2014).

<sup>20</sup> See Grohmann and Menkhoff (2020) and Bank for International Settlements (2015).

financial decisions. It also exposes them to fraud risks, for example when they cannot read the balance in their mobile wallet.<sup>21</sup>

Other factors such as poverty, misconceptions about and mistrust of financial services, the lack of formal education, misplaced marketing strategies by providers which exclude certain segments of the population, a lack of transparency in pricing, and unfair market practices<sup>22</sup> may also act as barriers to financial literacy and the adoption of digital financial products and services. They may also intimidate or discourage low income or rural people from accessing digital financial services such as mobile money. Additionally, due to the lack of financial awareness, low income and rural based people with low literacy levels may perceive products such as mobile financial services as being too complicated for them to understand, reducing their usage of such products.<sup>23</sup>

## Overcoming the financial literacy barriers to financial inclusion – policy considerations

The promotion of financial literacy must begin at the policy level, with the development of financial literacy strategies in tandem with financial inclusion strategies. Any initiative focused on the removal of literacy barriers to financial inclusion should prioritize the promotion of financial literacy as a national strategy. The overall objective of any national financial inclusion strategy is only likely to be truly met when consumers can make informed choices about the type and nature of financial products and services that are best suited to their circumstances.<sup>24</sup>

At a policy level therefore, governments and other policy makers (including supervisory authorities with a financial inclusion or financial literacy mandate) need to:

1. Put in place policy measures and regulations that provide a framework for assessing and addressing financial literacy barriers in their jurisdictions. These measures should ideally be implemented in tandem with appropriate consumer protection measures, with the aim of providing consumers with relevant knowledge and awareness of financial products and services, the risks arising from the use of such products and services, and appropriate consumer protection controls, including the available channels for redress.<sup>25</sup>

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<sup>21</sup> Studies and surveys implemented in both the United States and in other countries show the level of numeracy among the population to be very low, particularly among some demographic groups, such as women, the elderly, and those with low educational attainment. See Lusardi (2012).

<sup>22</sup> Toronto Centre (2019).

<sup>23</sup> For example, studies in Mozambique, Malawi, Uganda and Nigeria show that a large proportion of the population in these countries lack awareness of basic financial products and concepts such as saving accounts, interest on savings, insurance, and loans. In Uganda, a Finscope Survey (2013) showed that an overall low level of financial literacy in the country, where the majority of adults lack basic concepts of personal finance and are unable to comprehend issues such as interest rate, discount rate, and money lending, hindered access to finance. A study in India by Jayaraman et al (2018) showed a strong relationship between numeracy and financial literacy skills. Low numeracy was associated with a 4.8% reduction in financial literacy, while a high level of numeracy was associated with a 5.6% increase.

<sup>24</sup> OECD/INFE (2015b) highlights four key policy considerations in the development of a National Financial Education Strategy: 1) Development of a diagnosis to inform the national strategy; 2) Establishment of institutional and governing arrangements for implementation of the strategy 3) Setting and achieving objectives, evaluating and funding the strategy; and 4) Ensuring effective and innovative provision of financial education.

<sup>25</sup> The role of governments in developing countries includes setting financial literacy policy and strategy and organizing and coordinating other stakeholders for efficient and effective financial education at national level. See Refera et al (2016) and Mendelson (2012/13).

2. Develop programs to promote digital financial education, including - where required and cost-effective - special programs for women and vulnerable groups, including the elderly, forcibly displaced persons, the less educated, owners of small and medium-sized enterprises (SMEs) and start-up firms. These programmes should also consider increasing numeracy skills as one of the means of improving digital financial literacy.<sup>26</sup>
3. Promote the use of digital financial services, through financial literacy, as a means of driving digital financial inclusion. This should include making consumers aware of the risks inherent in digital financial services, and appropriate protection measures. The removal of financial literacy barriers should therefore form an integral part of financial inclusion strategies in countries where digital financial services are prevalent.
4. With specific reference to digital financial literacy, governments and other policymakers should adopt a three-pronged strategy - developed alongside the promotion of digital financial inclusion – covering the development of digital financial education strategies and programs; the development and implementation of tools to measure digital financial literacy; and effective communication strategies. These three key areas are examined in greater detail below.

### Development of national financial inclusion and financial education strategies and programs (the OECD/INFE approach)

Financial literacy is key to promoting the use of digital financial services and can be enhanced through the implementation of national strategies that adopt a co-ordinated approach to digital financial inclusion and financial education.<sup>27</sup> Such an approach should include:

- Recognizing the importance of financial education – through legislation where appropriate – at the national level.
- Co-operation with relevant stakeholders and identifying a national leader or co-ordinating body/council. This could include collaborating with product providers to ensure that consumers are aware of products, risks, and their rights including complaints mechanisms and dispute resolution. Consumer education may be delivered by government departments, supervisory authorities, consumer associations, or the industry (providers of financial services) through public campaigns using the internet; print, radio, and television media; advertising; publications; and training.
- Implementation of national financial inclusion and financial education strategies, with a clear roadmap to support the achievement of specific and predetermined objectives.
- Providing guidance on individual programs to be implemented under the national strategy to contribute efficiently and appropriately to the overall strategy.
- Incorporating monitoring and evaluation processes to assess the progress of the strategy and to amend it accordingly.<sup>28</sup>

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<sup>26</sup> See Toronto Centre (2018 and 2020).

<sup>27</sup> OECD/INFE (2012).

<sup>28</sup> See the case studies below on Malawi, Zambia and Mexico. At least 20 countries in Africa and 14 countries in Asia have National Financial Inclusion Strategies, with over 50% being found in East and Southern Africa, including Malawi, Kenya, Uganda, Tanzania, Rwanda, Botswana, Zambia, Mozambique, Zimbabwe, Namibia, and Ethiopia. See Alliance for Financial Inclusion (2018). Countries that have successfully implemented National Financial Literacy Strategies include Kenya, Malawi, Latvia, Lebanon, Mexico, Peru, Poland and Romania. See World Bank (2014).

## Development and implementation of tools to measure digital financial literacy

Assessing the levels of financial literacy in the population is a key component of a successful national strategy for financial education. It enables policy makers to identify gaps and to design appropriate responses. Additionally, international comparisons increase the value of such an assessment by enabling countries to benchmark themselves against other countries. The collection of baseline data on the financial literacy level of people in different demographic and socio-economic segments is critical for the formulation and implementation of efficient and effective financial literacy policies and strategies.

Such reviews can be undertaken in the form of national surveys by government departments, supervisory authorities, central banks, and central statistics agencies.<sup>29</sup> These surveys should also include a review of digital financial literacy levels in individual countries.

### **OECD/INFE 2020 Survey on Adult Financial Literacy**

The OECD/INFE 2020 Survey on Adult Financial Literacy was carried out using a scoring methodology based on basic financial skills, behaviours, and attitudes as defined by the OECD/INFE 2018 Toolkit. Under the methodology, the maximum financial literacy score is 21, which represents a basic set of knowledge concepts and financially prudent behaviours and attitudes.

The overall financial literacy score highlighted the following findings across the surveyed 26 countries:

1. Financial literacy was generally low at an average score of 12.7, or just under 61% of the maximum financial literacy score of 21.
2. Product awareness was relatively high at 80%. However, product use was relatively low at 46% - less than half of the respondents purchased a financial product or service. Payment products were the most widely used, while insurance products were the least used.
3. Many communities were found to have limited financial resilience (no financial buffer for hard times).
4. Financial stress was common - at least 42% of individuals noted that they worried about meeting their everyday living expenses. The average financial well-being score of all the participants was below 50% of the maximum.

The results of the survey highlighted that large groups of citizens lack the necessary financial literacy and financial resilience to deal effectively with everyday financial management. This is of particular concern during the COVID-19 pandemic, which is putting considerable economic and financial pressures on individuals and testing their ability to preserve their financial well-being. Policy makers in these countries need to focus on improving financial literacy levels and adopt a best practices approach to addressing the gaps.

The data so acquired should be analyzed to identify aspects of digital financial literacy that may cause particularly significant issues, especially to the vulnerable groups in greatest

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<sup>29</sup> OECD (2019) recommended that dedicated national surveys or co-ordinated international studies be used to collect high-quality, comparable data on levels of financial literacy. Standardized surveys of general financial literacy have been developed by the OECD/INFE (2018), the World Bank (2018b) and others, as well as toolkits for measuring financial literacy (for example, the OECD/INFE Toolkit (2018) measures knowledge, behaviour and attitudes).

need of digital financial literacy. The data can also be used to analyze the financial behavior of the population or specific subgroups in relevant areas, such as accessing and using digital financial products and services for saving, borrowing, investing and insurance. Where similar patterns are identified across countries, national authorities can work together to find common methods for improving financial literacy within their respective populations.

National level surveys can however be very costly, and in this regard supervisory authorities can also incorporate data from sector surveys by private sector stakeholders, such as financial institutions and international agencies, to obtain information on financial inclusion reach and financial literacy levels. Examples are surveys commissioned by banks to assess compliance levels (for example by branches and agents), fraud trends and product uptake by their consumers. The carrying out of small-scale financial literacy surveys by banks and other stakeholders can provide valuable insights of the situation at local level.<sup>30</sup> Linking financial literacy to other related national surveys is another option to obtain basic data at minimum cost.<sup>31</sup>

Mobile money is a key financial inclusion tool, hence data from national financial literacy surveys could enable providers and supervisors to understand better the dynamics behind mobile phone users' access to mobile phone technology and leverage its full potential for financial inclusion. Data from these surveys can assist in identifying barriers to digital financial inclusion such as financial innumeracy, mistrust, consumer protection and fraud risks which can be addressed by financial education programmes.

Dis-aggregated data on mobile phone ownership by forcibly displaced persons, women, youth, and other vulnerable groups could also help to quantify the market opportunities for mobile money and identify ways in which financial education programmes can be used to reach out to these disadvantaged groups.<sup>32</sup> In particular, where such surveys target women's financial inclusion, the research should ensure the collection of gender specific or sex disaggregated data (SDD) in order to identify specific gaps and enable the implementation of policy initiatives targeted at improving women's financial inclusion.<sup>33</sup> Such research should take into account relevant criteria such as rural and urban reach, social norms, education and socio-economic empowerment.<sup>34</sup>

## Effective communication strategies

An effective communication strategy is critical to the delivery of any financial education programme. Such a strategy should be a minimum requirement for a systematic, efficient, and effective approach for engagement among all the national financial inclusion strategy stakeholders to deliver appropriate information to the target audience and the general public.

Studies have indicated that governments face various challenges in the implementation of their national financial education and inclusion strategies which stem mainly from inadequate communication strategies. Such challenges include difficulties in securing adequate participation from the multiplicity of stakeholders in the implementation of the national strategy; privacy issues concerning the obtaining of the private-sector data necessary to

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<sup>30</sup> For example, in India, Malaysia, and South Africa.

<sup>31</sup> Referral et al (2016).

<sup>32</sup> Global and country specific surveys undertaken by bodies such as the GSMA, Global Banking Alliance for Women (GBA), FinScope and Finclusion Intermedia have provided key insights into barriers that inhibit financially excluded segments of the population from taking advantage of financial inclusion opportunities.

<sup>33</sup> Supervisors often play a critical role in sourcing or collecting data to monitor the state of financial inclusion in their country. However, a Toronto Centre Study in 2021 found that supervisors often did not collect or made only limited use of SDD in their core supervisory activities; and were not always clear about how a gender-sensitive approach would help them in their supervisory activities, what SDD they would need to do so, and how they would use it. Toronto Centre (2021).

<sup>34</sup> Toronto Centre (2019).

monitor the national strategy, which make the private sector reluctant to collaborate and provide the data; and a lack of a clear understanding of the national strategy and its contribution to overall national sustainable development. Other challenges are low levels of local political support, competing needs for resource allocation, and the cost of implementing the communication strategies, resulting in inadequate allocation of resources required to implement the communication strategies.<sup>35</sup>

An effective communication strategy should encourage the participation of the private sector in promoting financial innovations to support the financial inclusion agenda, and the generation of financial inclusion data. It should also facilitate a coordinated approach in driving the financial inclusion agenda to achieve the intended goals and build awareness of the target audience and the general public on the importance of financial inclusion; provide appropriate monitoring mechanisms for the key milestones in the implementation of the strategy; and demonstrate the impact of financial inclusion on national sustainable development. Good communication strategies can also be very effective in fraud awareness campaigns, including public and internal staff sensitization.<sup>36</sup>

The communication channels used must be relevant and cost-effective to get key messages across to the target audience. Examples of common communication channels are public or social media (SMS, Texts, Facebook, WhatsApp, and others), traditional media (print and television), events, lobbying and marketing initiatives. A comparative analysis of financial education best practices covering 35 countries in both developing and developed economies in 2012<sup>37</sup> indicated that countries used various communication channels to communicate the national financial education strategy and the results of the measurement exercises. Such communication strategies included not only media campaigns (press conferences, media releases and advertisements), but also the display of national strategy material in the offices of banks and other financial providers. This helped to raise the profile of the national strategy with stakeholders and public authorities.

## **Putting policy into practice – achieving supervisory objectives**

As noted in the preceding sections, there are significant financial inclusion policy gains in having sound national financial literacy strategies targeted at strengthening the financial literacy of consumers. Supervisors should play a key role in implementing their country's national financial inclusion and financial literacy programmes. While having a good financial literacy strategy is a key consideration, implementing that strategy to achieve the twin goals of financial literacy and financial inclusion may present a daunting task for the supervisory authority.

Throughout the development and implementation of national financial education and inclusion strategies it is important for supervisory authorities to consider how and where within these strategies they can make the most effective contribution, given their resource constraints.

In line with the above measures for an effective financial inclusion strategy, specific actions that supervisors should consider taking to implement effective financial literacy programmes include:

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<sup>35</sup> Alliance for Financial Inclusion (2019).

<sup>36</sup> For example, in Kenya the campaign against social engineering texts, sim swap fraud, impersonation scams and identity theft is driven largely by financial service providers through SMS texts, print and TV media advertisements, and anti-fraud messaging.

<sup>37</sup> Grifoni and Messy (2012).

1. **Participating fully in the development and implementation of national financial education and inclusion strategies.** Supervisors need to own their part of these strategies to commit to implementing them. This includes considering the level of financial literacy when establishing regulatory and supervisory policies and using financial education as a tool for consumer protection.

### **Case Study 1: Malawi**

Malawi implemented its 4-year National Financial Inclusion Strategy and its National Financial Literacy Program Framework in 2016, and launched its Financial Sector Development Strategy in 2017. The primary objective of the Framework is to support the country's efforts in promoting financial inclusion and economic development by "ensuring that every Malawian has access to safe and affordable financial services and products. This can only be achieved if Malawians have been given clear and adequate information on core financial literacy messages". The broader outcomes of higher levels of financial literacy and financial inclusion were expected to be increased personal and household savings and investments; responsible borrowing and enhanced access to credit; strengthened financial consumer protection; and economic empowerment of various groups within the population.

The implementation of the two programs on financial literacy and financial inclusion has been spearheaded by the Reserve Bank of Malawi (RBM), in collaboration with the Ministry of Finance and other financial services supervisors. Through its consumer protection division, the RBM has sponsored baseline financial inclusion surveys to assess financial literacy levels, as well as annual financial literacy weeks which target both the youth and the elderly.

Financial capability surveys carried out by the RBM to determine the success of the two programmes showed an increase in access to formal financial services from 17% of adult Malawians in 2013 to 29% in 2019, with an increase in mobile phone ownership/access from 36% to 49%. With respect to digital financial literacy, an average of 90-95% of adult Malawians in both rural and urban areas knew about the various mobile financial services available (mobile money transfer, pay bill, and purchase of airtime), though of these men formed the larger percentage. However, there was a large gap between the knowledge of mobile phone services and the actual use of mobile phone services, which stood at an average of 45-50% and was more common in urban than in rural areas.

2. **Identifying the financial literacy barriers to financial inclusion and leveraging on ways in which financial literacy programmes can be used to address these barriers.** Supervisory authorities should however bear in mind that one size does not fit all and should use a risk-based approach to identify the consumer segments where financial literacy is needed most (typically women, youth, the low income and rural segments) and allocate resources as appropriate to ensure that their needs are prioritized accordingly.<sup>38</sup>

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<sup>38</sup> The case studies of Malawi and Mexico presented in this Note provide useful insights on the risk-based approach to financial literacy, in that both programmes relied on the use of surveys to identify the areas that needed attention, as well as to gauge the impact of the programmes once implemented.

## Case Study 2: Mexico

The Financial Education Strategy in Mexico seeks to enhance financial inclusion through financial education, implemented through strategic public and private sector partnerships. The Strategy employs various mechanisms such as formal training programmes and media publicity to advance financial education. It also uses national surveys to assess knowledge gaps that prevent access to financial services, to gauge the impact of financial education on financial inclusion penetration, and to measure financial behaviours and attitudes. Public initiatives are steered through various bodies such as the Bank of Mexico (BoM) and the National Council of Financial Inclusion, which promotes financial education to improve the financial capabilities of the population and co-ordinates the activities of the Committee on Financial Education, as well as the private sector. The BoM is a member of the National Council and has developed financial education programmes for its employees and young people, for example the Economic and Financial Education programme for Children. The BoM also participates in the Interactive Museum of Economics, which is an educational and cultural institution aimed at disseminating economics science and promoting financial education in Mexico.

Other supervisory authorities that play a role in financial education in Mexico are the Retirements Authority (CONSAR) which provides education on retirement benefits, pensions and savings, and the Institute for the Protection of Bank Savings (IPAB), which provides education on savings in the formal banking system. The Consumer Protection Body (CONDUSEF) provides guidance and financial education about financial services and promotes their responsible use through various initiatives such as a National Week of Financial Education and the introduction of relevant consumer protection laws.

A survey of Financial Inclusion in 2012 showed that overall, 44% of adult Mexicans did not use or have access to formal financial services (savings, credit, insurance, and pensions) and the majority of the low-income segment of the population preferred borrowing through informal means (for example from friends). However, the Survey of Financial Inclusion in 2015 showed that financial education has played a key role in the adoption and use of financial services. There was an increase in adults having a formal savings account from 35.5% in 2012 to 44.1% in 2015, in adults accessing credit from 19.3 million to 22 million, and in the percentage of adults having private insurance from 22% to 24.8%.

- 3. Identifying the information consumers need to make decisions and setting realistic goals for improving the financial literacy of consumers, using the risk-based approach to develop and deliver relevant programs to enhance the financial literacy of consumers.** In this regard, it is important to adapt existing resources to help prepare and deliver financial education so that it benefits the sectors that need it most; usually financially excluded women, low income, and rural segments as well as other disadvantaged groups such as the youth, elderly and forcibly displaced persons.<sup>39</sup>

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<sup>39</sup> The lack of financial literacy among migrants has been identified as a potentially important barrier to financial inclusion. Language and knowledge barriers, and the lack of support networks, make it difficult for displaced persons to access financial services and to make informed decisions about using appropriate financial products. See Gibson et al (2014).

4. **Leveraging on financial literacy programmes for consumers to provide consumer awareness and protection measures through appropriate conduct or prudential guidelines, with a view to generating consumer confidence in the use of financial products and services.**<sup>40</sup> Such guidelines should provide for transparency and disclosure requirements to enable consumers to make informed decisions. This would include full disclosure of all relevant information to consumers, including interest rates and terms for loan products, and a schedule of other allowable fees and charges so that consumers can choose between providers without fear of hidden costs. Fees for mobile transactions should be disclosed prior to transaction completion.<sup>41</sup>

### Case Study 3: Zambia

Zambia implemented the first phase of its National Strategy on Financial Education (NSFE) between 2012–2017 and is currently implementing the second phase (2019–2024). The second phase draws on lessons learnt in the first phase. Zambia’s National Financial Inclusion Strategy (2017–2022) is also under implementation.

At the time the NSFE was launched in 2012, the Bank of Zambia commissioned a Diagnostic Review of Consumer Protection and Financial Literacy in Zambia which was conducted by the World Bank (2012). This cross-sectoral review compared the existing legal and regulatory framework, institutional arrangements, and market practices to the practices obtaining in other countries which have successfully implemented financial literacy strategies and provided recommendations to enhance financial consumer protection and financial literacy in Zambia.

Pursuant to the Diagnostic Review, the Government set up a Financial Education Working Group, prepared a financial education strategy, and embarked on a comprehensive reform of financial sector laws across all sectors through the structured Financial Sector Development Plan. Financial consumer protection and education are priorities for the Bank of Zambia towards achieving financial sector development in Zambia, for stimulating sustainable access to finance by consumers, and building trust in the financial system. Other institutions that have played a role in the implementation of the financial literacy and financial inclusion strategies are the Pensions and Insurance Authority (PIA), the Security Exchange Commission (SEC), and the Competition and Consumer Protection Commission (CCPC) (see World Bank (2017)).

Following the implementation of Zambia’s NSFE, significant improvements have been made in strengthening both financial inclusion and financial capability levels in Zambia. For example, formal financial inclusion rose from 21.3 percent in 2005 to 40.2 percent in 2016. The percentage of individuals using banks increased from 14.6 to 35.6 percent, and users of e-money services increased from 12.1 percent to 14.7 percent.

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<sup>40</sup> For example, in the Mexican case study, the Government sees financial inclusion and access to formal services as key to alleviating poverty and uplifting the economic standards of the low-income population. Building confidence and trust in financial services through financial education coupled with consumer protection is a priority in encouraging the use of formal financial services. See Hernandez and Marouze (2016).

<sup>41</sup> A good example is Kenya, where to address a lack of transparency in the notification of fees and charges, the Competition Authority of Kenya in 2016 required mobile financial services providers to disclose their charges to consumers upfront through their handsets prior to transaction completion.

5. **Benchmarking against financial literacy and financial inclusion initiatives in similar jurisdictions and collaborating with other regional and international regulators on best practices obtaining in those jurisdictions.**<sup>42</sup>
6. **Continuous monitoring of the progress of financial literacy programmes against set objectives, to facilitate timely evaluation of their effectiveness and to take remedial action to address any gaps.**<sup>43</sup> This can be done through the application of appropriate monitoring and evaluation strategies, and effective data collection mechanisms<sup>44</sup>, which should include disaggregated data to enable assessment of the levels of women's financial inclusion in the particular jurisdiction.<sup>45</sup>
7. **Putting in place regulatory requirements for digital financial services providers to implement effective complaints recourse channels with trained staff conversant in handling fraud and other complaints, as well as comprehensive fraud awareness and prevention programs to sensitize consumers, staff, and agents on fraud trends and prevention measures.** These measures can include training, media campaigns, and periodic bulletins sent as email or text, systemic safeguards to prevent the compromising of PINs, and liaison with law enforcement agencies in the investigation and prosecution of frauds. Additionally, regulators should implement data protection regulations to safeguard customer data, and strict requirements for digital credit to ensure responsible finance and responsible marketing strategies to curb over-borrowing.
8. **Engaging other key stakeholders locally, for example private sector and non-profit organizations, to ensure they are kept informed about financial literacy issues.** As noted in the Mexican case study, strategic public-private partnerships are critical for the implementation of financial literacy programmes. The private sector includes financial institutions that innovate and market the services that consumers use, so there are benefits in aligning their marketing and product development strategies to national financial literacy strategies. Additionally, non-profit organizations and donor funded agencies can support financial literacy programmes through capacity building and infrastructure support.<sup>46</sup> However, supervisory authorities should ensure that they

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<sup>42</sup> For example, the Reserve Bank of Zambia's diagnostic review compared the existing practice in Zambia with best practices obtaining in other countries.

<sup>43</sup> For example, findings from a World Bank (2017) report on Zambia illustrate that much more remains to be done in both financial literacy and financial inclusion initiatives to improve the use of financial services in the rural and low income segments, to increase awareness of consumer redress measures, and to cultivate behaviours such as saving capacity, responsibility, and choosing financial products.

<sup>44</sup> For example, Malawi's financial capability survey carried out in 2018 was a follow up to a baseline survey carried out in 2013 before the Financial Inclusion and Financial Literacy Strategies were launched. The primary objective of the follow-up survey was to determine whether consumer protection and financial literacy initiatives had resulted in the desired financial behaviour and attitude changes of consumers towards formal financial services.

<sup>45</sup> The Toronto Centre Gender awareness toolkit, developed in collaboration with USAID, is intended to highlight the relevance of gender inclusion and awareness to supervisory authorities and support them in taking their next steps towards more gender-aware supervision. See Toronto Centre (2022a, b and c).

<sup>46</sup> Examples are the research studies and capacity building initiatives by organisations such as the Consultative Group for Assisting the Poor (CGAP), Innovators for Poverty Action (IPA), and the Inter-American Dialogue's Migration, Remittances and Development Program. These projects promote financial inclusion, education, and savings mobilization by transforming transactional clients, such as migrants and remittance recipients, into informed consumers who can take advantage of the financial products available to them. For example, 40% of 9000 participants who received financial counselling on money management, savings and usage of financial services and products in a Financial Literacy

maintain their position as a key implementor of their country's National Financial Inclusion and Financial Strategies, and co-ordinate or oversee the activities of the private sector in this regard.

#### **Case Study 4: South Africa**

South Africa is a good example of a multi-sector approach to financial education which encompasses the Government, supervisory authorities, professional bodies, financial institutions, private and non-governmental organizations, and multinational organizations.

The Financial Services Board and the National Credit Regulator run financial education programmes, and the National Treasury has launched a National Financial Education Framework and the Social Security and Retirement initiative. The JSE Securities Exchange organizes an annual National Youth Financial Literacy Day and an Investment Challenge. The South African Reserve Bank participates in the JSE initiative and runs a Monetary Policy Challenge for schools to promote understanding of monetary policy.

In addition, various financial literacy programs have been introduced by banks in South Africa under the oversight of the Reserve Bank of South Africa, in compliance with the Financial Sector charter requirement that financial institutions in South Africa spend 0.2% of their annual post-tax operating profits on consumer education aimed at enabling consumers to make good personal financial decisions. This has led to significant improvements in consumer financial literacy levels and financial behaviour. Examples of Financial Sector literacy programmes which are run by banks in South Africa are the Bubomi financial literacy flagship program developed by Absa Group Limited, and the Sanlam Foundation financial literacy programmes.

Impact assessment studies implemented to evaluate the impact of financial education programmes in South Africa found that financial education has a positive effect on improving saving behaviour; enhanced participants' awareness of budgeting, saving and use of credit; and increased their confidence in using formal financial products. The findings from this study support the underpinning of policies in other developing countries that focus on engaging financial service providers and other stakeholders in financial education. (Cole et al (2014), Tustin (2010), and Wentzel (2016)).

- 9. Building the financial literacy competencies of their own authorities.** Financially literate supervisors who understand the economic basis and risks of financial products and services can be more effective in implementing financial literacy programmes and the development of appropriate regulations, including consumer protection, risk management and anti-money laundering regulation. Supervisory authorities should therefore invest in training their staff to enable them to acquire the necessary skill sets to impart the relevant information to financial institutions and consumers.

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Project in Mexico carried out by the Inter-American Dialogue in 2013 said they planned on using the new savings methods they had learned and 25% went on to acquire a financial product. See Orozco et al (2014).

## Conclusion

Many financial supervisory authorities, particularly in emerging markets and developing countries, have a financial inclusion objective. This reflects the importance of financial inclusion as a means of reducing poverty, increasing economic growth, and contributing to a range of other sustainable development objectives.

Financial education and financial literacy can contribute significantly to achieving higher levels of financial inclusion, not least by helping consumers to recognize the benefits of financial products and services and helping them to take informed decisions about these products and services, and thereby to improve their overall financial position. Financial inclusion initiatives should therefore incorporate robust financial education and literacy programmes.

Supervisory authorities can play a key role in strengthening the financial literacy of consumers and must have the necessary legal basis, resource capacity, and flexibility to provide and promote financial education for all stakeholders.

Within this overall picture, digital financial inclusion – and thus digital financial education and literacy programmes – can be a particularly important contributor to financial inclusion more generally and can bring wider benefits through its impact on competition and innovation across the financial sector.

Supervisory authorities therefore need the mindset, expertise, and experience to understand and embrace Fintech and non-traditional financial products and services, and the ability to adapt to the challenges of a fast-changing financial services landscape, to contribute effectively to an inclusive financial services environment that includes all consumers.

Equally, however, supervisory authorities need to be conversant with the risks associated with new digital products such as mobile money and digital currencies and require providers to implement measures (including effective compliance programmes) to address these risks and offer responsible financial services. These measures should include sensitization and awareness programmes geared to protect consumers.

Supervisory authorities (and other policy makers) should focus on re-emphasizing basic financial literacy concepts (budgeting, planning, and saving) and utilize effective communication channels, digital tools and innovative techniques (such as behavioural insights) to provide financial education programmes tailored to their citizens' needs. They should also co-ordinate with peers from the financial education community who may have experienced similar challenges and already tested and/or implemented innovative solutions.

Given the cross-sector nature of the digital financial services eco system, intra- and inter-institutional supervisory coordination and supervisory dialogue with enforcement authorities and the private sector are crucial to the successful development and implementation of financial literacy programmes covering financial services in all sectors. Likewise, cross-border co-ordination, coupled with a swift and consistent global implementation of international standards, is critical due to the cross-border nature of digital financial services.

Financial literacy monitoring and evaluation strategies also play a critical role in assisting supervisory authorities (and other policy makers and providers) to identify financial inclusion gaps and address them. National surveys by governments and surveys by private sector stakeholders such as financial institutions and international agencies to obtain information on financial inclusion and financial literacy levels can make an important contribution here.

Benchmarking against international best practices is a beneficial tool for the promotion of financial literacy; while recognising that while international examples may be informative,

they may not always be appropriate for the unique context of each country, institution, product, or service.

Finally, supervisory authorities need to balance financial inclusion initiatives and consumer protection measures, recognising that there may be some difficult choices to be made here. Overly restrictive consumer protection measures (for example a reluctance to authorise new entrants, or paper-based account opening and disclosure requirements) could hold back the development and introduction of digital financial products and services. Equally, inadequate financial literacy and a lack of understanding of the risks in digital financial products and services could expose consumers to fraud and other risks.

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