Bullion

Volume 36
Number 3 *Vol. 36 No 3 - Vol 37 No. 1 July 2012 - March 2013*

Article 7

3-2013

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THE ROLE OF FINANCIAL LITERACY AND CONSUMER PROTECTION IN FOSTERING FINANCIAL INCLUSION

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INTRODUCTION

The objective of this paper is to establish the link on how financial consumer protection efforts and financial literacy initiatives help bring people on board the formal financial system. As you all know, among the key mandates of the Central Bank of Nigeria (CBN) is the promotion of a sound financial system, while a stable financial system cannot be easily captured in a few words, the attributes that could be demonstrated in a system that is described as financially stable will include public confidence and trust in the institutional framework. Financial stability therefore serves to instill confidence in users of financial services. It encourages and facilitates productive economic activities and contributes to the overall well-being and progress of the society. The role of regulators, in this regard, has historically been to oversee financial stability using traditional prudential indicators as guide. These indicators consist of conventional performance measures such as the quality of assets in institutions, earnings and performance, liquidity and capitalization.

As regulators, we have a responsibility to maintain public confidence in the financial sector by addressing all factors that would undermine the sector's long-term stability, without which, it would lose its relevance as a medium of economic interaction and payments. Maintaining public confidence therefore demands ensuring that the sector keeps up with all pertinent global developments to make sure it remains relevant to the needs of the public from which it derives its mandate.

Alongside financial stability comes the topical issue in development debates across the globe, financial inclusion. For the financial system to be relevant to society, it needs to ensure that as much of the eligible target population has the opportunity to access a variety of financial services ranging from credit, savings and payments, remittances, pensions, capital markets and insurance services. Inclusion is an essential pre-condition for enhancing wealth creation and poverty reduction and ultimately broad based economic development.

The National Financial Inclusion Strategy (FIS) defines Financial Inclusion as "the process of improving access to a range of formal financial services and promoting the responsible usage of appropriate and affordable financial services to those sections of the society where the need exist". Access refers to the ease with which consumers can obtain financial services while usage refers to both the uptake of appropriate products and services as well as how the acquired services are used after initial acquisition.
Why are we as regulators, concerned with the levels of financial inclusion? Individuals and households lacking adequate access to a full range of responsibly delivered, affordable and convenient formal financial services would be severely constrained in participating fully in the economy. This will imply that the financial sector would be constrained in terms of expansion and intermediation because the disposable income in the hands of excluded persons could constitute greater savings and a wider deposit base for banks and other financial institutions. This could hold back overall economic development. Thus, financial inclusion is essential for the attainment of a stable financial system.

But a stable financial system is also a precondition for economic growth and development, hence financial inclusion especially when promoted in the broader context of economic inclusion, can raise financial conditions and improve the standards of lives of the poor and the disadvantaged. Access to affordable financial services would lead to increasing economic activities and employment opportunities for rural households with a possible multiplier effect on the economy.

NIGERIAN NATIONAL FINANCIAL INCLUSION STRATEGY

In Nigeria, the CBN in collaboration with other stakeholders launched the financial inclusion strategy in October 2012. The overall goal of the strategy is to reduce adult exclusion rate from 46.3% in 2010 to 20% in 2020, the achievement of this is expected to support the empowerment of many Nigerians,

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facilitate their involvement in economic activities and enable them contribute to national economic growth and development. The EFINA report of 2012 access to financial services survey report puts the current financial exclusion rate at 39.7%, this is a clear indication that our implementation efforts is beginning to yield results.

Our strategy defines clear objectives and sets specific targets across 5 primary products and services (payments, credits, savings, pensions and insurance) through a broad range of coordinated interventions with high priority on the following areas:

- Transformation of the KYC regulation into a simplified risk-based tiered framework that allows individuals who do not meet formal identification requirements to enter the banking system. Giant strides have been made in this regard with the new KYC regulation already released to the industry.

- Development and implementation of a Regulatory Framework for Agent Banking to enable financial institutions deliver services through agents such as post offices in locations that will otherwise be unprofitable to have brick and mortar branches.

- Development and implementation of a National Financial Literacy Framework to guide the delivery of programmes that will increase the awareness and understanding of financial products and services with the ultimate goal of increasing sustainable users. A lot of work has been done in this regard.

- Implementation of a comprehensive Consumer Protection Framework to safeguard the interest of consumers of financial products and services and sustain confidence in the financial system

- Continue to pursue the adoption of mobile payment system and other cash-lite policy efforts to reduce the cost of service provision and increase the ease of financial service transactions.

- Implementation of credit enhancement schemes/programmes to empower micro, small and medium enterprises (SMMEs)

THE RATIONALE FOR FINANCIAL CONSUMER PROTECTION

Traditionally, regulatory and supervisory frameworks have been adopted by regulatory authorities to ensure that prudential requirements translate to financial stability which in turn improves consumer confidence and trust in the financial system.

However, rapid financial market developments and innovations of financial products and instruments, increasing complexity of financial services and rapid technological changes, coupled with low levels of financial literacy meant that this traditional oversight framework must be complemented with the regulation of conduct to ensure financial stability and economic growth.

A renewed policy and regulatory focus has therefore been placed on Financial Consumer Protection to support prudential measures and ensure increased consumer confidence and trust in a well-functioning financial system.

Financial consumer protection therefore sets clear rules of conduct for financial service providers regarding their customers. It aims to ensure that consumers:

- Receive information to allow them to make informed decisions,

- Are not subject to unfair or deceptive practices and

- Have access to recourse mechanisms to resolve disputes.

Financial literacy initiatives are actually proactive consumer protection measures that are aimed at giving consumers the knowledge, skills and confidence to understand and evaluate the information they receive, with the objective of empowering them to purchase those financial products and services that best meet their needs and those of their families as well as build their ability and capacity to engage with financial service providers.

Clear rules of conduct for financial institutions, combined with improved financial literacy for consumers, will inevitably increase consumer trust in the financial system and will support the development and stability of the market.

It is in the best interest of all concerned that consumers of financial products in Nigeria are protected and included in policy initiatives. This demonstrates a clear indication that the twin pillars of consumer protection and financial literacy are essential ingredients for the National Financial Inclusion Policy.

FINANCIAL CONSUMER PROTECTION IN NIGERIA

In February 2010, the CBN Governor unveiled a four pillar reform agenda in his speech on the "Nigerian Banking Industry: What went wrong and the way forward" at the Bayero University, Kano. The National Financial Inclusion Strategy is in line with this strategic reform direction and consumer protection is an integral part of the reform agenda.

Since the creation of the consumer protection department in April 2012, we have intensified our efforts and strengthened our structures in complaints management and dispute resolution. Financial service providers were mandated to be the first point of complaint for consumers and to ensure they set up structures for complaint handling that must be accessible, affordable, fair, accountable, timely and efficient.

The regulations specified that consumer complaints should be resolved within two weeks. And it also provided a recourse avenue for all unresolved complaints. The consumer protection department is currently working with a technical expert to automate complaint management processes and integrate reporting standards to provide multiple access channels for the consumer to escalate unresolved complaints to the CBN.

Focus is being directed towards a comprehensive consumer protection framework that will specifically define policies addressing responsible business conduct by financial service providers, full disclosure and transparency, equitable and fair treatment of consumers and protection of consumer assets against fraud and misuse.

In the area of consumer education, we have developed a separate framework for financial literacy as part of the wider financial inclusion strategy and have specified the development of financial education programs to be delivered through diverse appropriate channels across different target groups.

The importance of financial education and awareness is being reemphasized in Consumer Protection by creating platforms to encourage financial literacy among all financial regulatory authorities.

Our strategy in financial literacy is to provide leadership in a multi-stakeholder approach to the delivery of financial education with the objective to improve the knowledge, skills and confidence of consumers to understand financial risks and opportunities that will enable them make informed choices and take effective actions to improve their financial wellbeing.

CONCLUSION

In conclusion, the essence of this paper seminar is to enhance our understanding of the concept of financial inclusion and my task is to attempt to x-ray the aspects in which financial literacy and financial consumer protection interplay to increase the access and usage of financial products and services.

We have outlined the importance of consumer trust and confidence for any financial system to be stable and how financial consumer protection levels the playing field between suppliers and consumers of financial services. Since financial inclusion is the process of bringing people on board the formal financial system, it is easy to conclude that financial consumer protection is the corner-stone of financial inclusion since it is aimed at improving trust and confidence in a financial system.

On the other hand, financial inclusion emphasizes access and usage of financial products and services, yet increased access do not automatically translate into efficient usage because the path between uptake of financial products and services is hampered by asymmetries of information and power between service providers and poor consumers, this imbalance grows as consumers are less financially educated and products get more sophisticated.

It is safe to conclude that financial inclusion and financial literacy are integral to each other; they are two elements of an integral strategy, financial inclusion provides access while financial literacy provides awareness and disadvantaged people need both access to and awareness of financial services.