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"The financial education challenge"

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Good afternoon.

It is a pleasure to be here again in Santander and to have the opportunity to close this seminar, successfully organised year after year by the Menéndez Pelayo International University and the APIE (the Spanish Association of Economics Journalists). As always, I much appreciate their kind invitation to be a part of this traditional event on the calendar.

Last year, the seminar turned on how the digital agenda affects the economy and industry. This year, it is structured around one technological development in particular, the blockchain. The interest in new technologies is thus clearly apparent.

Undoubtedly, new technologies are one of the challenges facing the economy in general, and the banking industry in particular. I have repeatedly addressed this challenge in recent interventions, in which I highlighted the fact, moreover, that at the Banco España we have recently created an Associate Directorate General for Financial Innovation and Market Infrastructures, with the aim of building up our knowledge on the challenges the provision of financial services is going to face in this setting of technological developments, and on the consequences for the financial system in general, and for banks in particular.

Without losing sight of the interest this seminar has in the challenge the new technologies pose, I would like to focus today on another major challenge that is not exclusive to the banking industry but applicable to everybody: financial education.

Allow me first to set out, non-exhaustively, some of the results drawn from the Survey of Financial Competences presented by the Banco de España and the CNMV last month. I shall then refer to how important it is to continue dedicating efforts to financial education, especially in the current context of financial innovation.

The Survey of Financial Competences

The Survey of Financial Competences, which is included in the National Statistics Plan, adapts for Spain a questionnaire devised by the International Network for Financial Education, coordinated by the OECD. The aim is to measure, in an internationally comparable way, the financial competences of the population aged 18 to 79.

The Survey measures these competences from different perspectives, and obtains information on: (i) financial literacy; and (ii) knowledge, holding, acquisition and use of financial products.

To measure financial literacy, the Survey poses questions on three basic financial concepts: i) inflation; ii) compound interest rates; and iii) risk diversification.

The aim is to assess whether the interviewee understands: (i) that money loses purchasing power when prices rise; (ii) that the changes in an amount saved in an account over five years depend not only on the annual interest rate applied to the amount saved the first year, but also on the interest accumulated thereafter; and iii) that the risk of investing in equities diminishes if a broad range of shares is acquired instead of only one type.

The replies, obtained from a broad sample of randomly selected individuals representing Spanish territory as a whole and each of its regions, and provided by INE, reveal, inter alia, the following results: (i) 58% of interviewees understand what inflation is; (ii) 46% understand the concept of compound interest; (iii) 49% understand the concept of risk diversification; and (iv) the percentage of correct replies increases with educational level and household income level.

Given that the Survey includes questions from an international project to measure financial competences, it is possible to compare these results with those obtained in other countries, in particular with OECD countries and EU countries that have information available in this connection. The comparison shows that the percentage of correct replies in Spain regarding the concepts of inflation and risk diversification is below the average, particularly in the case of risk diversification, in which the averages for the OECD and EU countries stand at 62% in both groups (compared with 49% in Spain). Regarding the concept of compound interest, however, the percentage is very close to the average observed in the OECD countries (46%) and in the EU members (44%). Nonetheless, this should serve as no consolation, since this average means that over half the interviewees do not understand a basic financial concept such as compound interest rates.

The need to reinforce the general public's financial literacy is also patent in some of the results on knowledge, holding, acquisition and use of financial products.

Firstly, as far as knowledge of financial products is concerned, the Survey asks interviewees whether they have heard of the following products: (i) savings accounts, pension schemes, investment funds, shares and fixed income (all savings vehicles); (ii) life insurance and medical insurance; (iii) means of payment such as credit cards; and (iv) debt products such as mortgages and personal loans.

It can be concluded from the results that there is less knowledge of savings products than of debt or insurance products. Shares and pension schemes are well known (around 90% have heard of them), but only 73% of interviewees have heard of savings accounts and term deposits and only 78% of fixed income, while the percentage of those who have heard of life and medical insurance, credit cards, mortgages and personal loans is, in all instances, higher than or equal to 95%.

In the case of savings vehicles, moreover, significant differences are observed on the basis of educational level (primary, secondary or university) and the level of income which, generally, are less marked in the case of debt and insurance products.

Secondly, as regards whether interviewees have or have recently acquired any of these financial products, a notable 97% have a current account, 43% have some type of savings vehicle and 41% have debt of some sort. The commonest saving product is the savings account, followed by pension schemes. Once again differences are observed on the basis of educational level and level of income, more markedly so in the case of savings vehicles than in that of debt products.

Among the international patterns identified in respect of the holding of financial products, it is worth mentioning that while in Spain holding a current account is more generalised than in the OECD and EU countries, holding savings products stands slightly below the average for these countries. It should be borne in mind, however, that the results on the comparison of the holding of savings products should be viewed with caution since the list of products considered as savings vehicles may vary from country to country.

As to the recent acquisition of financial products, the Survey shows that 38% have acquired some type of saving or insurance vehicle, a means of payment, or have incurred debt over the past two years. This percentage is lower than the average observed in the OECD countries (54%) and EU members (50%). The most frequently acquired product in Spain is the credit card, followed by personal loans.

Here, too, there are significant differences in the acquisition of savings products based on educational level and on the level of income, which are less marked in the case of debt products. Thus, in the case of interviewees with a university education, 32% acquire savings products, while in the case of those with primary schooling, only 8% acquire them. By level of income, 43% of those who live in a household with income of over €44,500 acquire savings vehicles while only 8% do so in households with income of up to €14,500.

Finally, the Survey also enables information to be had on the use of financial products: in particular, on one hand, on whether interviewees have saved over the past 12 months and, if so, using which savings vehicle; and, on the other, whether the household's spending has exceeded its income over this period and, if so, how they financed it the last time this happened.

This information shows that, as regards saving, 61% of interviewees have been saving in the past 12 months. The percentage increases in terms of educational level and level of income. One noteworthy feature is that the second most common method of saving, behind the current account, is cash, even in the highest educational and income segments. In particular, 38% of interviewees who save do so in cash. Only 14% do so via a savings account and 11% via a pension scheme.

As regards expenditure, 28% of interviewees live in households whose spending has outpaced income over the past 12 months, a percentage that is in line with the average observed in OECD and EU countries. 51% financed this shortfall resorting to savings, and 35% through informal credit (friends, employer, etc.). As in the foregoing cases, differences were observed in terms of educational level and level of income. As both levels increase, the percentage of instances in which spending has exceeded income diminishes and the percentage of cases where greater spending is financed with savings increases.

Undoubtedly, financial behaviour does not depend solely on financial literacy, but is also influenced by other circumstances; but, in light of some of the above-mentioned results, I do believe there is clearly room for improvement in the field of financial education in Spain, and that we should continue to strive in this direction.

Financial education in a context of technological innovation and developments

Giving priority attention to financial education is, moreover, particularly significant in the current context of financial innovation.

Technological developments are changing the way in which customers relate to financial institutions and how they take up financial products. And this, though it has attendant advantages, also entails risks. Greater financial culture, greater awareness of the new reality and a greater development of the general public's digital competences can help mitigate these risks.

I would like to refer, in particular, to three examples of these risks.

First, the increasingly frequent dissemination of relevant information, pre-contractual and contractual alike, via smart phones and tablets. Screen size, the apparent user-friendliness of applications and the immediacy of acceptance limit the customer's ability to know what actually is being agreed to, and they are a hindrance to specific key aspects of acquiring financial products, such as the reading of the contractual terms and conditions, and interaction to resolve questions about them.

In acquiring products digitally, customers assume greater independence in terms of information and decision-making, and they must ensure they fully understand the potential consequences of their choices. Additionally, just as they are aware – or should be – of the importance of the commitment acquired when they sign an agreement in their own hand, so too should they be aware of the commitment taken on when clicking on a touch screen where it says "I accept the terms and conditions of the agreement".

A second example of risks that are present in the current context of technological innovation and developments is the ease with which access may be had to complex financial assets and products that can hardly be understood without basic financial knowledge. A case in point here are what are popularly known as cryptoassets, whose development has much to do with the focus of this seminar, namely blockchain technology.

Among cryptoassets are what are generally known as cryptocurrencies, conceived for use as a means of payment, and those known as digital tokens, conceived for obtaining financing and which confer on the purchaser the right to receive remuneration, or to exercise certain rights.

The Bitcoin is an example of the former. The so-called ICOs (Initial Coin Offerings) are an application of the latter.

Both have been the subject of growing interest, and there are at present numerous and highly heterogeneous initiatives.

While their impact so far on global financial stability is considered to be limited, they pose a series of risks, in areas such as consumer protection and the prevention of money-laundering and the financing of terrorism, which the authorities monitor closely and on which they have issued warnings and statements. In this connection, it should be stressed that these are assets of a marked speculative nature, without the backing of supervisors and susceptible to fraud or price manipulation. They cannot be considered as money or as deposits, and they do not enjoy the protection of the regulations governing banking and investment products.

It is worrying that, in a setting in which less than half the population understands the concept of compound interest rates, there is such demand for complex assets with these characteristics.

Lastly, I wish to refer to the risk of authorising – owing to a lack of knowledge or of due care – access to personal information that would preferably have been kept private. The debate over the use of personal information in the area of payment services has heightened with the new Directive known as PSD2, which institutionalises the so-called TPP (Third Party Providers).

TPP encompass “payment initiation service providers” and “account information service providers”. The former offer an alternative to the use of cards when making electronic purchase payments. The latter provide consolidated information on the status of the various accounts the customer has with entities, thereby facilitating financial planning.

Payments account holders are entitled to authorise these third party providers to order payments on their behalf and/or to consult information associated with their accounts. Against this background, and irrespective of the usefulness of these services, it is important that customers should strive to understand the real scope of the authorisation granted, which may entail access to their account by a third party on the same footing as if it were the customers themselves accessing the account.

Faced with risks such as the foregoing, magnified by the development of new technologies, I believe that financial education has a role to play.

It may help, for example, make people aware of the change in reality that the digital arrangement of agreements entails or increase the digital competences of the public at large.

The Financial Education Plan

Mindful of the foregoing, the Banco de España and the CNMV continue working on their commitment to financial education through the Financial Education Plan.

Over the past ten years, and using two courses of action, one covering the 2008-2012 period and the other the years 2013-2017, this Plan has enabled actions such as the following to be carried out: the Financial Education Programme for schools, which seeks to improve students’ financial literacy; the consolidation of an extensive network of public and private collaborators; the institution of a “Financial Education Day” on the first Monday of October each year; and the website *finanzasparatodos (*“finance for all”)*,* which contains basic material on household finances, such as how to get to the end of the month or how to manage finances at different stages of life.

Indeed, this week has seen the publication of a new plan of action for the 2018-2021 period. It includes objectives additional to the previous ones, including most notably the identification of target segments of the population not sufficiently catered for, the use of digital tools for the development of financial education initiatives and the strengthening of the Plan’s network of collaborators, which provide a boost for and outreach to people in all social circumstances and situations. To attain these objectives, analysis and use of the results of the aforementioned Survey of Financial Competences will naturally be pivotal.

I have no doubt that, thus conceived, the Financial Education Plan will play an important role in alleviating the risks arising from digitalisation in the provision of financial services.

Thank you very much for your attention.