

Luís Máximo dos Santos: Financial inclusion and education for Central Banks of Portuguese-speaking Countries

Opening address by Mr Luís Máximo dos Santos, Vice-Governor of the Bank of Portugal, at the 3rd Meeting on Financial Inclusion and Education for Central Banks of Portuguese-speaking Countries (BCPLP) , Lisbon, 6 July 2017.

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As prepared for delivery.

1. Welcome to Portugal, to Lisbon and to Banco de Portugal. Welcome to the 3rd Meeting on Financial Inclusion and Education.

I would like to warmly greet the central banks of São Tomé and Príncipe, Timor-Leste, Brazil, the West African States, Cabo Verde, Mozambique, Angola, as well as all the distinguished members of each bank's delegation. Your presence honours us all, thank you.

It is also my pleasure to greet every one present today and to welcome for the first time the Alliance for Financial Inclusion, represented by its Executive Director.

2. These meetings were started not a moment too soon, in 2013, resumed in 2015 and today we gather to open the third. It is not only our privilege but also a pleasure to host this event.

In fact, financial inclusion and education are increasingly seen as a priority in the international agenda on account of their impact on the promotion of financial stability and economic development.

These meetings on financial inclusion and education show how important it is for central banks of Portuguese-speaking countries to share their knowledge and experience of initiatives to promote financial inclusion and education.

The wealth of experiences and best practices shared at the first two meetings led to the publication of reports on the initiatives undertaken to promote financial inclusion and education in Portuguese-speaking countries. I am certain that the past two years have brought us many developments on this subject, in the various countries, which will be presented and analysed today and tomorrow, meriting a third report to be published with the conclusions of this meeting.

Every time, these meetings delve deeper into the topic under analysis:

1. At the first meeting, in 2013, we took stock of what part central banks should play and of the best international practices to promote financial inclusion and education;
2. At the second meeting, in 2015, we debated financial education in schools, distance learning and the importance of partnerships for the success and sustainability of financial inclusion and education policies.

In this third meeting, besides taking an in-depth look into financial education in schools, a strategic pillar of education for population in general and for young people in particular, new topics will be discussed, such as the assessment of financial education initiatives and education to ensure the proper use of financial products and services through digital channels.

I would like to underline that one of the greatest assets of sharing our experiences at these meetings is the diversity of approaches. Though we pursue a common goal, to increase people's financial literacy and inclusion levels and ultimately their well-being, the path to reach that goal may – and certainly will – differ. Therefore, it is important for us all to learn about different approaches, take advantage of the diversity of experiences and adapt them to each country's

economic, financial and institutional background.

The debate on these topics is quite stimulating on account of their complexity, but there is also an especially gratifying side to it because we know how these initiatives can improve the lives of real people. These would be more than enough reasons to look forward to two excellent days working together and sharing. But there is another reason that makes it even more pleasurable: we will do so in Portuguese, a language that instantly brings us closer and reminds us that our countries are players in a global world that is also expressed and felt in the rich variations of a language shared by us all.

3. Financial inclusion is an essential component of social inclusion, since it leads to a more efficient management of personal finances, and gives people conditions to manage a family budget better, use of payment means more efficiently, make savings using adequate products and be safer when applying for a loan.

In fact, one must not forget that financial inclusion also helps fight inequality, a paramount issue in today's economies. Mario Draghi, President of the European Central Bank, underlined a few days ago when he met with students at a university in Lisbon that inequality is a highly destabilising phenomenon for all areas of society, including financial stability.

Traditionally, major barriers to financial inclusion are connected to geographical proximity factors, such as low density of credit institutions making it difficult to access the formal financial sector. These barriers lead to the existence of an informal sector that provides competing financial products and services, which though unregulated are more easily accessible. Other exclusion factors are high costs of financial services in the formal sector or the credit institutions' failure to offer products that meet the needs of consumers with low income / low levels of education.

Yet, the fact that financial services are increasingly digital brings about new opportunities for promoting financial inclusion, overcoming some of these obstacles, since digital channels make access easier and less costly. The sale of financial products and services using digital channels makes them accessible to people, even if they are not close to the service providers, as such products are generally simpler and more standardised.

However, digital channels also come with new risks. Starting with risks related to secure access and use of digital channels and the need to take adequate action to prevent fraud. Then there is the risk of a less considered purchase of financial products and services, for instance borrowing without due clarification of associated financial conditions and of the consequences of default. In addition, digital channels are not a solution to include the most vulnerable groups, such as elderly people, who generally find it more difficult to use technology.

Therefore, though digital channels open up new opportunities, we must take into account the new risks. And likewise recognise that many of the traditional challenges of promoting financial inclusion remain the same. Which also happens with the need for the financial inclusion strategy to be based on three pillars:

1. Policies to promote financial inclusion;
2. Appropriate regulation of financial products and services; and
3. Initiatives to increase people's financial education.

4. Financial education is essential for the proper financial inclusion of people that presently have no access to the financial system and, particularly, to a bank account. Financial education gives people basic knowledge and raises awareness for the need to be prudent when accessing and using bank products. One of the challenges of providing education for financial inclusion is to reach the audience that actually needs it, generally the more vulnerable population groups. One example in Portugal is the challenge posed by promoting minimum banking services, which

consist of a basic bank account and basic payment services. Institutions are required to provide such minimum banking services for a lower cost, but people in general are unaware of their existence, and even more so, those that are excluded from the financial system and who could benefit the most from it.

Naturally, financial education is not only important for those excluded from the financial system, but also for people in general, as it promotes a responsible and efficient use of financial products and services, raising awareness of advantages and risks associated with the products and services provided by credit institutions and of financial consumers' rights and obligations. Greater understanding of financial products and of the financial system empowers people to make financial decisions and choices that meet their needs better.

The promotion of financial education faces important challenges, one of them being, as I mentioned before, the challenge of reaching everyone, when our population is not homogeneous and has diverse features and needs. Therefore it is very important to define, from the start, the topics and means that best reach each population group, to choose messages that are correctly understood by the target audience and to find the right partners to work that audience. Another side we cannot ignore is the cost of financial education initiatives, which is why we need to make a gradual approach and to assess the initiatives to find out how effective they are, so as to bet on the most suitable education initiatives.

5. Banco de Portugal has committed itself to promote financial education for several years now. A few years back, at international fora, we debated the importance of central banks and financial regulators becoming involved in financial education initiatives. This is no longer an issue, as it is widely accepted that it should be so. More financial literacy helps citizens choose more suitable financial products, thus contributing to maintain financial stability and sustained economic growth.

Nine years ago, Banco de Portugal launched the Bank Customer Website, marking the beginning of a more effectively structured strategy to promote financial education. Since then, it published booklets and leaflets with information on banking products and services and set up countless financial education workshops, supported by the bank's regional branches.

In addition, teaming with the other financial supervisors, Banco de Portugal launched the National Plan for Financial Education, which since 2011 has had many initiatives that will certainly be referred to specifically throughout this meeting. Such initiatives are carried out using partnerships with public and private entities, involving schools, companies and local authorities, among other.

6. We would like these two days to ensure that everyone's interest is kindled for the fourth meeting. At Banco de Portugal, besides sharing our experience, we are all very interested to learn about recent developments in your countries in the initiatives to promote financial inclusion and education, so that we can all make the best use of the experiences to be shared here. It has always been our belief that by joint reflection and cooperation we could reach our goals more effectively.

Allow me a final word to thank all the effort put in by all the staff of Banco de Portugal who worked to make this third meeting a reality. Among them I wish to give special thanks to the Banking Conduct Supervision Department, herein represented by its Head Ms. Lúcia Leitão, which put its heart and soul into this event.