



Financial Literacy, Financial Inclusion and Consumer Protection: The Way Forward

Speech by

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1. Introduction

Good Afternoon Ladies and Gentlemen.

I would like to thank President Godfrey Bethel, the Director of Public Relations Reginald Saunders and all the members of the Rotary Club of South-East Nassau for this kind invitation to speak today. I am often asked to share the perspectives of the Central Bank of The Bahamas on various economic and financial matters; and quite often these issues can be both complex and technical in nature. Today, I want to address a few broad themes to which Bahamians from every walk of life should be able to relate, and which affect them directly—that, is literacy in financial matters with pointed relevance to our national circumstances; and inclusion and protection in access to financial services.

At the Central Bank, we are on a mission to provide Bahamians with more information about domestic financial products. Armed with this knowledge, they will be better equipped to defend their rights as consumers of financial services. We believe that functional financial literacy provides the best form of consumer protection.

We believe that it is important for residents to have access to modern financial services, whether they reside in New Providence and Grand Bahama, or in any of the less developed or less populated Family Islands.

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I should caution that as we approach financial access, Bahamians will have to be liberated from expectations about the brick and mortar model of service delivery.

In general, consumers voice concerns in a myriad of areas, including about fees. To protect them, we must promote comprehensive structural improvements in the financial sector; and ensure that the consumers are financially literate. The Central Bank does not defend the level of fees set by banks. However, we do not believe price control on such fees will accomplish much, if such interventions ignore other structural factors that feed into the cost or competitiveness of providing certain financial services.

2. Financial Literacy

What exactly do we mean when we say “financial literacy”?

Here is what the Organisation for Economic Co-operation and Development (OECD), has had to say on this topic, which we believe applies equally in The Bahamas: *“an absolutely essential feature of financial consumers’ protection relates to their ability to understand financial products and concepts, to develop the skills and confidence to appropriately handle financial risks and opportunities, to make informed choices, to know where to go for help, and to take effective actions to improve their financial well-being. In other words, it has become necessary*

for consumers to develop a certain level of “financial literacy” to cope with today’s increasingly complex financial marketplace.”¹

Given this understanding, the Central Bank is embarking on an ambitious financial literacy in campaign The Bahamas.

Understanding the Bahamian Economy

Literacy has to begin with an understanding of how the economy works and the mechanisms, including Exchange Controls, that allow The Bahamas to maintain a currency pegged at \$1 against the United States dollar. We will seek to build an understanding of how The Bahamas earns foreign exchange from tourism, banking and other international services; of the mechanism through which the foreign exchange is channeled to business and individuals that use it to pay for imports; and of the role that Exchange Controls play in prioritizing those activities that should have access to foreign exchange. It is also important for the public to understand that some of the greater flexibility that they would like to see on aspects of Exchange Control Administration, cannot be sequenced ahead of significant improvements in the balance sheet of the Central Bank, headlined by reduction in Central Bank holdings of government debt. A revamped Central Bank Act, already being drafted, will place tighter restrictions on lending to government. Beyond this, a successful execution of plans to eliminate government deficits would also place the Central Bank balance sheet on a stronger footing.

The public also needs to appreciate the merits of putting the economy in a more competitive position to earn foreign exchange. In this case “competitiveness” is most frequently a synonym for a more productive Bahamian workforce.

Personal and Family Finances

The Central Bank’s campaign will also put emphasis on building functional literacy around personal and family finances. Our economy would benefit from increased rates of personal savings. A stronger savings culture would take significant pressure off the demand for foreign exchange for consumer imports, and it would free up more foreign exchange or investment uses and deeper exchange control liberalisation. The reality of the savings culture, though, is that most individuals hold minimal funds in the banks. The Central Bank’s ongoing surveys show that nearly 90% of deposit accounts held by residents have less than \$5,000.

The literacy campaign, will therefore underscore budgeting basics and life-long approaches to savings, investments and retirement planning.

Debt Management Competency

In addition, to sensitizing persons to the value of good savings habits, we want citizens to have a much better understanding of personal credit and debt management issues. How much household debt, for example is too much? Why does the Central Bank recommend, for example, that commercial banks should not provide credit above amounts that would push borrowing households to use more than 45%-55% of their income to service their debts? The current debt

¹ OECD. (2010). Addressing Financial Consumer Protection Deficiencies in a Post-Crisis Area.

service ratio (DSR) limit, as it is called, recognizes that households have many other expenses to cover out of their incomes, and that they have to save some for retirement.

The DSR limits also safeguards lenders. Overburdening individuals with debt increases the risk that the loans will not be repaid; and the risk that financial institutions will be left facing losses. This matters when it is the public's deposits that are ultimately being loaned out.

Importance of the Credit Bureau

This is where the credit bureau comes in. It would provide the transparency about credit history and debt levels, to allow perspective lenders to decide whether it is worth the risk to grant a loan. Borrowers considered higher risk could either be charged higher interest rates, or refused credit. Loan applicants who pose lesser risks could benefit from lower rates and easier access to credit. If financial institutions are better able to steer clear of bad lending decisions, pressures to make up for expected losses through fees or higher interest rates would subside. In this regard, it is noted that the Government has indicated that passage of the credit bureau legislation is a high priority. We therefore look forward to this outcome in the very near-term.

Knowledge of Financial Products

The literacy project will also promote awareness in product spaces that would help to develop the domestic financial services sector. This includes building confidence around greater use of electronic banking services; and about electronic money and electronic payments products.

Just last month, the Central Bank issued regulations for electronic money service providers, with a view to licensing non-bank operators in this space. A more accelerated move away from cash, as is our objective, would make it easier to provide certain services in unbanked communities and neighborhoods. Literacy has to focus on building confidence in the safety of these platforms and on instructing consumers in practices to protect themselves against cyber fraud. We want consumers to understand that using cash is not always the safest approach to take.

3. Consumer Financial Protection

Along with access, there is also a need for consumers to better understand their rights as users of financial products and services.

The Central Bank is putting in place a stronger regulatory framework for the conduct of those providing banking and payments related services. The electronic payments regulations therefore impose minimum disclosure requirements around the terms of services, the fee structure for products, and at least annual disclosures on technology risk management practices. Under the current Banks and Trust Companies Regulation Act there is a requirement for commercial banks to give prior notice of fee changes for various products and services. In addition, the Clearing Banks Association (CBA) has a code of conduct in place around disclosure standards that are to be followed for both deposit and credit facilities. The Central Bank intends to strengthen public awareness in all of these areas.

While awareness about the potential for credit and debit card fraud is increasing, it should be noted that the commercial banks are working to make the technology platform safer. All of the

CBA members are also moving to introduce more secure EMV® chip-based credit and debit cards. They are also installing newer, tamper resistant automated banking machines (ABMs) with more built-in protection against skimming devices.

On top of such safeguards, however, we are also encouraging the banking public to regularly monitor their accounts for unusual activities. This is best done by signing up for online banking services, and by limiting the number of accounts to which debit cards have automatic access—and limiting the amount of funds kept in these accounts. Understand, however, that going digital is safer than cash, because banks will reimburse customers for losses perpetrated through credit or debit card fraud.

The literacy campaign is intended to better educate consumers on certain basic financial products, and to empower them to pose more direct queries to their financial institutions when they have service level concerns. The Central Bank will also put emphasis on developing and publishing useful measures of fee comparisons for the typical customer across all commercial banks.

The Case for a Financial Ombudsman

Next, in keeping with the High-Level Principles for Financial Consumer Protection promoted by OECD countries², the Central Bank will promote stronger independent support mechanisms for customer complaints handling and redress.

The Bank will recommend, and directly support if necessary, the creation of the Office of the Financial Ombudsman (OFO). This office would be tasked with ensuring adequate avenues for consumers of all types of financial products and services, to resolve disputes through an open and transparent process. It would be independently operated, potentially with budgetary support by the regulators, the sector and Government. Further it would be mandated to handle disputes and complaints about domestic financial services.

To be most effective, such an office would require legislative terms of reference. However, the Central Bank foresees that it can serve a strong advocacy role even in advance of any legal framework. In The Bahamas we foresee the need for such an office to address consumer issues in sectors covered by the Central Bank, Insurance Commission of The Bahamas and the Security Commission of The Bahamas. As such, we will work closely with these other regulators to promote this initiative.

In the near term, in any event, recommendations will be put to the government on a more elaborated legal framework for consumer financial protection.

4. Financial Inclusion

The Central Bank also has defined goals for enhancing financial inclusion in The Bahamas. This is about providing affordable, responsible and sustainable access to regulated financial services for all who reside in our country.

² OECD. (2011). G20 High Level Principles on Financial Consumer Protection. <http://www.oecd.org/daf/fin/financial-markets/48892010.pdf>

There is a sizeable immigrant population that is completely shut off from regulated services. The means must be found to reduce the exposure of this population to criminality and other ills from amassing unbanked cash. Simplified customer due diligence (CDD) procedures for low-value e-money products will begin to ease this concern, although we will have to tackle some of the other obstacles to opening accounts at banks.

There are also others in the community without the immigration concerns, for whom the ease of opening a bank account has to improve. We are therefore in active discussions with commercial banks on how CDD process for account opening can be tuned down, when banks are able to assess low money laundering or terrorist financing risks from such clients. In both the case of undocumented persons and those who cannot satisfy CDD screening, one promotes a parallel underground, cash-only system, ripe for fraud and money-laundering. It raises the risk profile of the jurisdiction and contributes to the difficulties of maintaining international correspondent banking relationships, the lifeline of financial services sector.

The essence of inclusion is that all residents should be able to access the retail payments and basic financial services through “transaction” accounts at local financial institutions. Individuals and businesses should be able to have access to and use of at least one transactions account operated by a regulated payment service provider:

- (i) to perform most, if not all, of their payment needs;
- (ii) to safely store some value; and
- (iii) to serve as a gateway to other financial services.

Such basic accounts can be viewed as an essential financial service in their own right.³ Looking across countries, the World Bank⁴ has concluded that as the rate of inclusion in the financial sector improves, the financial system itself becomes more stable and functions better. Other economists have found that such improvements also help drive economic growth in both advanced and emerging economies and supports poverty alleviation outcomes.⁵

5. Financial Literacy Project : The Way Forward

Before closing, I would like to share an overview of how we are approaching the execution of the financial literacy project. In July, the Central Bank issued a request for proposals (RFP) to find a private firm to assist with the education and public relations activities around this project. This includes working with the Central Bank on various messaging content and format for print, broadcast and online media. The literacy campaign will take a multi-pronged approach, targeting school-aged children, young & older adults, and retirees. There are some key stakeholders with whom we plan to consult on content, who are either currently or prospectively involved in the development and dissemination of financial literacy content. They include the

³ Payment Aspects of Financial Inclusion – CPSS IFC, 2016

⁴ World Bank. 2014. Global Financial Development Report 2014 : Financial Inclusion. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/16238> License: CC BY 3.0 IGO

⁵ Honohan, Patrick. (2008). Cross-Country Variation in Household Access to Financial Services. *Journal of Banking & Finance*. 32. 2493-2500. 10.1016/j.jbankfin.2008.05.004.

Ministries of Education, Finance and Financial Services; the various local chambers of commerce; other financial sector regulators and the Clearing Banks Association (CBA).

The Central Bank is looking at an initial timeline of about 9 months to become fully entrenched in this program.

6. Conclusion

Literacy empowers consumers to be the strongest defenders of their rights. Educated consumers make better financial decisions, and they are able to exercise greater flexibility in making financial choices. They are also less easily ensnared by predatory lending and they are less vulnerable to cyber fraud. Accelerated movement in this direction is overdue in The Bahamas, and the Central Bank intends to be very visible in this process. For a myriad of reasons, a more inclusive financial sector would benefit the economy.

As we move forward with this campaign we invite and look forward to engagement from audiences like the Rotary Club.

Thank you.