Derville Rowland: Financial Literacy - empowering consumers to protect their financial future

Remarks by Ms Derville Rowland, Deputy Governor of the Central Bank of Ireland, at the National Financial Literacy Strategy Stakeholder Event, Cork, 5 July 2024.

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Good morning.

Thank you to Minister Chambers and his Department for the invitation to be here today. I am delighted to take part in this important event and to support the development of Ireland's Financial Literacy Strategy.[1]

The financial decisions we make – at different points in our lives – can have a profound impact on our long term financial well-being, and as a result, our overall quality of life. Financial literacy is a core element of making the best decisions possible. And financial literacy is more than just being able to read a statement or digest lengthy risk disclosures accompanying a product or service. It is about having a broader understanding of finances, including where there are risks and how to go about understanding these in a meaningful way. The challenge we face in making good financial decisions is that, generally speaking, consumers of financial services products will always know less about those products than the industry selling them. Accordingly, any strategy in this area must seek to rebalance the scales towards consumers. While the importance of individuals acting for themselves cannot be understated, there is a major onus on the State's consumer protection framework – and a major onus on firms – to ensure consumers' interests are secured.

I will first give a little more context on how the Central Bank views this issue before detailing some of the work we are doing through this prism.

The scales of knowledge:

Protecting consumers is at the heart of what we do at the Central Bank. We know that consumers who are well-informed and understand financial products and services are better placed to make good financial decisions and to look after their interests. These consumers are less likely to be vulnerable to harm from firms that are not securing their interests, and they are less vulnerable to frauds and scams. This is why high levels of financial literacy empower consumers to make effective and informed choices to safeguard their financial well-being.

But it's not quite that linear. My background is as a barrister, and there is a legal term many here will be familiar with – *"equality of arms"*. At its simplest, it means both sides must have a fair opportunity to present their case. A sense of balance to the scales, if you will. Now, think of the single biggest financial transaction most of us as consumers will ever undertake – a mortgage. As our counterparts in the UK's Financial Conduct Authority have noted, mortgages are typically *"one-shot decisions"* which do not give consumers many opportunities to learn from experience.[2] Many house-holders will only ever have one mortgage. There isn't a great deal of opportunity to learn from experience. And a lack of knowledge – about interest rates, for example – can be very consequential.

And so the question the FCA posed through research is this:

"Experience is the most effective teacher, but how can consumers learn by experience when some of the most important financial products are bought just once or twice in a lifetime?"

And then consider the firm at the other end of the transaction – namely, the one providing the mortgage. The firm will typically consist of long-standing professionals whose collective expertise far outweighs that of the customer. As I have previously reflected, while financial education is vitally important, for most consumers it will never ensure parity of experience or knowledge with these professionals.[3] And so, in most cases, there is a fundamental misbalance of knowledge.

Now, couple this with the pace of financial innovation and the increasing complexity of products on offer – and with the advent of algorithms and artificial intelligence driving some of this innovation. Even with the commitment of most firms to high standards, how do the scales look in that context?

And so, from the perspective of the Central Bank, there are three elements to rebalancing the scales:

1. There is of course the onus on individual consumers themselves to be as fully informed as possible on the financial decision they are about to undertake.
2. But there is a major onus on financial services firms to secure their interests – to design and provide suitable products and, where advice is sought, to recommend the most suitable from their range.
3. And finally, there is a major onus on the State consumer protection framework – of which the Central Bank is a component part - to ensure that is happening, that firms are protecting consumers' interests, and that remedies are provided where there is failure to do so.

Let me take these in turn and cite some specific examples of work the Central Bank is undertaking in that context. I hope these will be helpful to consider ahead of your breakout sessions.

Review of the Consumer Protection Code

The importance of financial literacy was highlighted in the Central Bank Consumer Protection Code Review Discussion Paper published in October 2022 as part of our review of our Consumer Protection Code. Feedback to this showed strong support for a national strategy and a multi-agency approach to dealing with financial literacy. 85% of respondents to our consumer survey agreed that "Improved financial education can empower consumers to better protect their own interests when dealing with financial matters."

An important aspect of financial literacy is ensuring that consumers understand the protections available to them when using financial services and products. A key aspect of our review is enhancing accessibility of the Consumer Protection Code to support consumers in understanding the protections provided to them. For consumers, we will be making available an accessible Consumers' Guide to the Code, which will set out, in easy-to-read terms, what protections are provided for consumers and what their responsibilities are when dealing with firms.

Digital Literacy

Digitalisation has changed our daily lives, including how we get information about assessing and buying financial services and products. Finding your way in today's financial services market requires digital literacy - an ability to use digital technology, as well as financial knowledge and skills. As we know, this can be a challenge for some consumer groups.

To promote greater inclusivity and accessibility to financial services for all citizens, evolving digital solutions should be embraced. From interactive investment platforms, to personalised financial advice and educational content, digital solutions – if done well - can enhance consumer confidence, knowledge, and engagement. Ultimately these will empower individuals to take control of their financial futures.

Technology can be a valuable tool in responding to the challenge of effectively educating and informing consumers. It can be used to gather real-time information to support effective consumer engagement. But I emphasise the word "can" here – because the provider of the technology, of the information, and their motives, really matter.

Many consumers, particularly younger people, make decisions influenced more by social media and the advice of friends, family and celebrities than by recommendations from professional investment advisors. The rapidly growing phenomenon of financial influencers or "finfluencers" presents a new and significant challenge for consumers. In most cases, finfluencers are not registered investment advisors, yet they spread information that consumers may find difficult to differentiate from 'trusted' sources and may consider to be akin to investment advice.

The provision of financial services without authorisation, in many cases, constitutes a criminal offence. As part of our strategy in this area, we have been engaging with technology companies and Coimisiún na Meán regarding online scams and frauds. We believe that in order to disrupt online financial scams, many different organisations – including technology companies – have an important role to play.

More broadly, we expect financial services firms to provide consumers with clear, good quality, transparent information to ensure that those consumers are effectively informed and empowered to make sound financial decisions. This requirement is included in the update to the Consumer Protection Code which I referenced earlier. We want firms to move away from simply providing disclosures to consumers in a "tick box" manner and instead to have an approach that seeks to "effectively inform" their customers. In our Code review, we are proposing to expand our existing requirements to ensure that firms provide information to customers in a way that is clear, accurate, up to date and written in plain and accessible language, avoiding the unnecessary use of technical terms.

Consumer education should be considered part of the service that a firm provides, and we see many firms already actively putting in place good initiatives here. This can take place through their direct engagement with consumers at points of sale or advice to ensure consumers are adequately supported to make financial decisions. It can also take place more thematically as firms educate consumers on key issues, opportunities and risks affecting their financial wellbeing.

Cross-agency response

Addressing financial literacy challenges is not something that one actor in the system can deliver. It requires a multi-agency and collaborative approach across public and private sector stakeholders, with all participants playing their part.

At the Central Bank we know we have an important role in supporting financial literacy together with other key stakeholders. Positive, effective solutions require a system wide response and so we are hugely supportive of the development of the national Financial Literacy Strategy. For our part, we will continue to provide information to support consumers. This includes warnings to consumers about potential risks from certain products such as our recent consumer information campaigns dealing with crypto, Buy Now Pay Later firms and frauds and scams, equipping consumers with basic information to help guide them in navigating financial services. One of the measures we have implemented to assist consumers is the operation of our online Consumer Hub, where we have published plain language explainers and videos to inform and educate consumers.

However, I think we would all agree that the earlier financial education starts the better. The OECD recommends that financial education is taught in schools. As our Governor has previously noted, building financial education into the school curriculum would allow children to acquire valuable knowledge and skills that will help them throughout their lives - particularly as some parents may not be well-equipped to pass on these skills.[4] Early financial education also helps build financial resilience by enabling people to devise short and long-term strategies to cope with financial shocks, alongside the public policy actions to lessen the effects of the shock on households and firms. In the Central Bank, we have engaged directly with schools in various ways over a number of years in order to build knowledge of financial and economic concepts. Currently, we are piloting a programme that encourages Central Bank staff to visit their local schools, and are also exploring enhancements to our public exhibitions and visitor centre that would be beneficial to schools.

Pensions Research

If financial education must start young, it is also, of course, a life-long focus - necessary to empower consumers to manage, save and invest their money in a way that meets their needs. Pensions are an example of where financial literacy and education play a vital role. In order for consumers to effectively plan and make the best decisions they can to support their living standard and secure their interests after retirement, they need to have knowledge and access to information concerning their own pension arrangements.

Research published by the Central Bank today highlights some significant challenges that consumers encounter with pensions. Our research shows that pensions are a remote and distant income goal for many consumers. Competing financial commitments, cost-of-living pressures and a lack of understanding on how best to plan for the future will affect many consumers' ability to prioritise pension saving and retirement income.

Financial literacy and awareness of one's pensions needs are necessary for consumers to overcome these challenges. Consumers need the tools to determine what their post-retirement income will be and to understand whether this is adequate for their individual situation. If the expected pension income is not adequate, consumers need to understand the actions they can take to increase it and the supports that may be available to them.

Given the evidence of this research, I believe that there is a real opportunity for the broader financial sector and other stakeholders to work together in this space to make a difference for consumers in planning for their long-term financial wellbeing through the provision of information and initiatives to support all consumers. In this regard, the Government's introduction of auto-enrolment, the new retirement savings system for employees, from January 2025 represents a key step in addressing the issue of occupation pension coverage in Ireland. It is worth noting too, that, based on international experience, the start of auto-enrolment and the significant increase in investment that it will create, should support the growth of capital markets – which is an important objective of the European Union at present and will in turn support wider economic growth.

Across the full pensions landscape, it will remain critical that workers understand exactly what their pension products are. The Bank has engaged with the Pensions Authority and the CCPC, key pensions stakeholders, who have welcomed our research. Building on our recommendations, we have undertaken to work with the Pensions Authority to conduct a review of disclosures and other information available which can help improve understanding and engagement for consumers on their pensions. We also engaged with the CCPC and we will continue to support any future initiatives relating to pension education or literacy, including examining the role that financial services firms can play in this regard.

Conclusion

In conclusion, a well-rounded Strategy will make a world of difference to citizens in terms of being more financially confident and secure. From our perspective, it is critical to recognise that the onus here is not just on individuals alone to make more informed decisions. There is also a major onus on firms and the State's consumer protection framework to ensure consumers' interests are protected.

Needless to say - and as we have demonstrated – as a regulator, we will also act where there are failures to protect consumers' interests. Financial conduct regulation forms a core part of the wider national consumer protection framework. Our role is to set the rules for the sector as a whole, monitor compliance, and take appropriate action when misconduct occurs.

My colleagues and I are delighted to participate in today's session and engage with other stakeholders, and the Central Bank will do everything in our power to support the development and successful implementation of the strategy.

Thank you.

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[1] My thanks to Fionnuala Carolan, Ronan Smith, Brendan Beere, Nicola Faulkner, Anna Marie Finnegan, John Montgomery, Paul O'Brien, Ben Burton, Cian Connaughton and James O'Sullivan for their contribution to my remarks.

[2] webarchive.nationalarchives.gov.uk

[3] https://www.centralbank.ie/news/article/the-central-bank%27s-role-in-the-national-consumer-protection-framework-director-general-derville-rowland-30-september-2020

[4] See: https://www.centralbank.ie/news/article/blog-understanding-finance