

INSIGHT

Strengthening Financial and Digital Literacy amid the Growth of Fintech



Many consumers face difficulty dealing with even traditional financial services when these are provided on a digital platform. Photo credit: ADB.

As financial technology options evolve, consumers need more information in order to protect their privacy and avoid fraud.

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Introduction

The [2017 EY FinTech Adoption Index survey](#) shows that the use of fintech services will continue to grow. In a fast-changing, unfamiliar digital environment, many financial consumers face risks of biased information and breach of personal information. To avoid this, education on financial and digital literacy should be strengthened.

Analysis

EY, a global consultancy formerly known as Ernst & Young, conducted a survey on people's use of fintech services, and showed that it would continue to increase. Its FinTech Adoption Index indicates a share of respondents' active users of online services who used two or more fintech services in the past six months. The survey was conducted in seven countries in 2015, but this year, expanded to 20 countries, covering more than 22,000 online interviews. The average fintech usage rate of the surveyed countries was 33%, a sharp rise from 15% in 2015, due to continued technological innovations, emergence of new business models, and eased regulations. Fintech services have clustered around fund transfer, payment services, insurance services, savings and investment; by age, their use was most active for those ages 25 to 34, and 35 to 44. Regarding a question on whether the user intends to use fintech services in the future, 52% replied positively.

Fintech Usage Rates by Country (Unit: %)

	China	India	UK	Brazil	Australia	Spain	Mexico	Germany	South Africa	US	Hong Kong	South Korea	Switzerland	France	Netherlands	Ireland	Singapore	Canada	Japan	Bel+Lux ⁽¹⁾	Average
2015	-	-	14	-	13	-	-	12	-	17	29	-	-	-	-	-	15	8	-	-	15
2017	69	52	42	40	37	37	36	35	35	33	32	32	30	27	27	26	23	18	14	13	33
Future Usage	77	80	53	69	43	56	71	47	71	46	52	53	44	40	36	52	56	34	23	32	52

Note: 1) Belgium and Luxembourg

2) Share of respondents who replied positively that they would use fintech services in the future.

Source: EY FinTech Adoption Index 2017

As the use of fintech services grows briskly, financial consumers face newly rising risks as they are exposed to unfamiliar digital environment. European Commission said in a report that financially strapped consumers are more apt to make rash decisions, such as impulsive borrowing, when they are exposed to biased information online and fail to fully comprehend them. This can be particularly true for students and young people under financial pressure and without much social experiences and knowledge. Consumers might fall prey to online scams and hacking, if they are careless with their online records and risks of misuse or theft of personal information. The EY survey showed that both users and non-users of fintech services had concerns over accurately understanding terms and conditions of fintech contracts and protection of personal information.

Insights

Currently, many consumers lack understanding of new types of financial services such as P2P lending and crowd funding, and face difficulty dealing with even traditional services when they are done on a digital channel. To make good use of fintech services, consumers need to develop their financial literacy that includes information on specific products and overall knowledge of financial matters, as well as digital literacy that includes understanding of digital technologies and information, and capability to handle digital tools. Education on financial and digital literacy can help capacity-building of consumers to grasp and mitigate potential risks of fintech services, thereby contributing to consumer protection. And going forward, more emphasis needs to be put on strengthening digital literacy.

At the same time, to make fintech industry more reliable and trustworthy and further advance the sector, it is essential to strengthen accountability of fintech companies, and ensure consumer protection. Strengthening fintech companies' duty of explanation to facilitate consumers' informed decision-making would be one way of doing so.

Resources

[Korea Institute of Finance \(KIF\) website](#)

Related Links

Summary: [How to Balance Financial Innovation with Stability](#)

Insight: [Improving Regulation of Punitive Rates for Delinquent Loans](#)

Insight: [Promoting the Default Option in Private Pension Systems](#)



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