Digital Regulation

Between health care and finance: Knowledge of customers' financial situation

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Thanks to the digital revolution, microdata will give us detailed information about customers' financial situations, as is already the case for a patient's health in the Healthcare System. This will be the cornerstone on which the new ways of understanding Financial Inclusion are based.

Microeconomic Consequences of the Crisis and Financial Inclusion

The last major economic crisis, which began in 2008, underlined just how important people's financial situation is in their lives. The increasing complexity of financial products is associated with the innovative processes of financial markets and does not necessarily represent a problem per se, but rather a solution to existing problems of inefficiency. The interconnection of financial markets, an insufficient level of regulation, as well as inadequate incentivisation and risk control mechanisms within financial institutions, were, among other factors, the key trigger elements in the recent crisis.[1] However, we must also consider other aspects of a more microeconomic nature that affected the impact of the financial crisis on the real economy, such as the role of consumers and their high level of indebtedness[2].

The actions implemented after the crisis have been aimed at the financial industry and its customers (viewed from the perspective of both households and non-financial businesses, with a special focus on micro, small and medium-sized enterprises). In the case of the financial services industry, these actions have been focused on increasing regulatory safeguards, together with the strengthening of public institutions responsible for the control of financial systems and/or their competencies. In the case of customers, changes have focused on three broad areas identified by the Organization for Economic Cooperation and Development (OECD) on the basis of three sets of high-level principles put forward by G20 leaders in the first half of this decade: financial inclusion (which includes the development of innovations in access in the fintech field), consumer protection in financial products and financial literacy.

With respect to financial inclusion, understood as the participation of citizens and companies in the formal financial system, without financial services a person's financial situation can be seriously jeopardised, just as the physical health of a person is clearly conditioned by a lack of health services. Studies confirm how greater financial inclusion leads to an improvement in peoples' financial situations, especially in developing economies.[3]

1: See (among others) for more details, Financial Crisis Inquiry Commission (2011), "The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States." U.S. Government Printing Office, Washington D.C.; Crotty, J. (2009), "Structural causes of the global financial crisis: a critical assessment of the 'new financial architecture'", Cambridge Journal of Economics, 33, pp. 563-580; and Plosser, C. I. (2009), "Redesigning financial system regulation." At the "Restoring Financial Stability conference: How to Repair a Failed System", at the University of New York, 6 March 2009.
2: See (among others) for more details, Lusardi, A. M. and Mitchell, O. S. (2014), "The Economic Importance of Financial Literacy: Theory and Evidence", Journal of Economic Literature, 52(1), pp. 5-44; and Dimova, D. (2015), "The Role of Consumer Leverage in Financial Crises", Oxford University and International Monetary Fund, https://www.aeaweb.org/conference/2015/retrieve.php?pdfid=1092.
3: For more details, see Dupas, P. and Robinson, J. (2013), "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya", American Economic Journal: Applied Economics, 5(1), pp. 163-192; and Prina, S. (2015), "Banking the poor via savings accounts: Evidence from a field experiment", Journal of Development Economics, 115, July 2015, pp. 16-31.

According to the World Bank's Global Findex 2017 database, there are an estimated 1.7 billion adults in the world who do not have access to financial services, i.e. do not have an account at a financial institution or through a mobile money provider. This is equivalent to more than a third of the world's adult population, considering that population data from the Department of Social and Economic Affairs of the UN's Population Division indicate that there were just over 4.9 billion adults in the world in 2016.

From the perspective of customers associated with the business side, looking at access to credit as a relevant variable, the results move in the same direction as for households. According to World Bank data, about half of the world's small and medium-sized enterprises do not have access to formal credit, and the percentage is much higher in the case of microenterprises.

To understand the importance of these figures, a comparison can be made with health services. According to the 2017 World Health Organization/World Bank Global Monitoring Report on Universal Health Coverage, at least half of the world's population (about 3.6 billion people) is not fully covered by essential health services. That is, these people do not receive the health services they need, or their use of health services exposes them to financial difficulties.

Importance of people's financial situations

Access to an account and/or loans can help or be a necessary tool to improve people's financial situations. However, it is necessary to offer a comprehensive solution that includes not only consumer protection in financial products, but also an improvement of consumers' financial literacy. In this sense, financial inclusion feeds on itself.

The lack of transparency perceived by individuals in the system constitutes a barrier not only to entry into the financial system, but also to a greater degree of loyalty of those who are already customers. According to Global Findex data, about a fifth of the population without an account in a financial institution or through a mobile money provider point to a problem of lack of trust in the financial system. Financial knowledge plays a relevant role in improving people's confidence in the financial system, given a certain level of transparency.

The innovations taking place in the world of Information and Communication Technologies (ICT) can improve the transparency of financial institutions and, in particular, facilitate access to quality financial information that improves the level of financial literacy, especially among a younger audience (as is the case in the field of health care[4]). In addition, this technological revolution is allowing the generation of a series of metrics that offer a much more complete image of the financial needs of customers, thanks to the accumulation and use of their microdata, as also occurs in healthcare, both in the case of older people (for example, checking their mobility and the risk of falling that they have inside their homes[5]) and young people (for example, through social networks, sentiment metrics are generated to identify the people that have most influence within the online healthcare communities[6]). The detailed knowledge of the customer's financial situation provided by these microdata is a cornerstone in the arch of services that banks will provide in the future. This process will drive financial inclusion more effectively when consumers and small and medium-sized enterprises are more aware and have information available to them to determine which financial products and services best fit their needs.

The personalisation of the financial products and services that a bank employee can provide is akin to the personalised treatment that a family doctor can offer to a patient, just as the role of the personal financial adviser can be associated with that of a specialist doctor in a particular branch of health care. These equivalences can also appear on the requirements side, especially on the ethics side. Just as the World Medical Association published an International Code of Medical Ethics in 1949 after the horrors of the Second World War, it is not unthinkable that a similar code of ethics could eventually be developed by financial professionals with the ultimate goal being to improve the well-being of society.

4: See Ghaddar et al. (2012), "Adolescent Health Literacy: The importance of Credible Sources for Online Health Information", Journal of School Health, 82(1), pp. 28-36.
5: See Stone et al. (2015) "Average in-home gait speed: Investigation of a new metric for mobility and fall risk assessment of elders", Gait & Posture, 41, pp. 57-62.
6: See Zhao et al. (2014), "Finding influential users of online health communities: a new metric based on sentiment influence", Journal of the American Medical Informatics Association, 21, pp. 212-218.

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