



“Scoping of Problem” Document

Project: Consumer Financial Education

Section 1 Project information

PUBLIC-PRIVATE FINANCIAL SECTOR MODERNIZATION MATRIX					
Italian Banking Association CRITERIA	European Central Bank CRITERIA				
	<i>Asymmetric information reduction</i>	<i>Completeness of the market</i>	<i>Increased opportunities to engage in financial transactions</i>	<i>Reduced transaction costs</i>	<i>Increased competition</i>
Business development					
Industry competitiveness					
Industry reputation					X

Short description of the context: Financial consumer education is an increasingly important issue, given the rapid development pace of the financial market, the complex and sophisticated financial products that entail also more compel risks. In Albania, BoA had multiple initiatives on financial educations over the last years. The other stakeholders’ involvement has been very weak and there has not been any coordination of various private and public initiatives.

Stakeholder proposing the project: BoA and AAB

Other Stakeholders involved (sponsors): MoE, FSA, consumer protection association, professional organization

Project objective:

To prepare a national strategy on financial consumer education and a medium-term, structured and nation-wide financial education program to be endorsed by all stakeholders – with specific actions to be launched within three months after the endorsement by SPI Committee.

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Description of the project contribution toward financial modernization: Financial education is bringing to consumers an improved financial situation, improved financial access, adequate retirement income and reduced risk of over-indebtedness. For SMEs financial education means development and growth. For financial industry, a better understanding of financial issues means a higher demand for financial products and promotes competitiveness and efficiency. Financial education serves the financial authorities' objectives of financial stability and of development.

Project Working Group:

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The EU Better Regulation Approach

Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. “Do nothing” option	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).

Section 1: Scoping the problem

1.1. Problem identification

Background Information

Financial education is a very important decision tool for consumers living in an increasingly sophisticated and globalized financial market, enabling them to budget and manage their income, save, borrow and invest efficiently, understand and protect themselves against specific risks and as well as avoid becoming victims of fraud. Financial education promotes also competition among financial intermediaries and ensures the smooth functioning of financial markets and the economy. Consumer education is a policy instrument for authorities to contribute to a sustainable growth in financial intermediation activities and a marketing tool for financial institutions to build robust client relationships. Bank of Albania has shown over the past years a very strong commitment for improving the financial literacy. Bank of Albania issued several guides, leaflets and other papers on the central bank, on the banking system, but also on personal finance issues:

- **on the banking system:** [The Building of the Bank of Albania](#); [Bank of Albania - Our central bank](#); ABCs of interest rates; Waiting for the Credit Registry; What is price stability for you?; Speaking simply about inflation; Payments system; [Bank of Albania’s monetary policy instruments and procedures for their execution](#), etc;
- **on personal financial education:** Students’ financial guidebook¹; A guide to your first bank account²; The new era of internet banking; _ Electronic money: The future of money?; Debt and loan = a matter of interest; [Why should you have a](#)

¹ This brochure is designed for the target group of high school students who are thinking of following a university or college. In order to give students all the useful information that will able them to make “smart” financial decisions when they start their university or college experience, this brochure is written in a language understandable by the public at large. Inside it contains all the general information on some of the most used financial notions and instruments, as well as some basic money management advises.

² It describes in a simple language the advantages of having a bank account. It outlines the types of bank accounts available in the Albanian commercial banks and how to open one. The brochure also provides the answers to some basic questions frequently asked by the public while opening and managing a bank account.

<p><u>personal budget?</u></p> <p>- on other issues: Central banks of the region; European Central Bank ___ Preparations for the euro. Guideline on euro banknotes and coins, etc.</p>
<p><i>1.1.2 Market Analysis</i> <i>General market:</i> Financial market <i>Specific segment:</i> Retail market <i>Sub segment:</i> Individuals</p>
<p>1.1.3 Legal framework</p> <p>Law No.9902, date 17.4.2008 on Consumer Protection Based on articles 78, 83, paragraph 1 of Constitution, with the proposal of the Council of Ministers. Article 4, paragraph (d) “Consumers have the right to education”</p>
<p><i>1.1.4 Stakeholders - Institutional framework</i> Public authorities: on financial market (Bank of Albania, Financial Supervision Authority, Ministry of Finance), and on consumer issues (Ministry of Economy) Private financial institutions and their professional organizations (Albanian Association of Banks, Albanian Association of Insurers, etc) Consumer associations: Albanian Consumers Association; Office for Consumer Protection; Consumer and Environment Protection Center. Other organizations: Women’s associations whose programs include household management.</p>

<p>1.2. Market/regulatory failure analysis (nature and evidence)</p>
<p>The regulatory framework has some provisions on the banks’ transparency in their relationship with customers. The general consumer protection regulation provides also the compulsoriness of offering complete correct and accurate information on products. There is no regulation on financial education but, according to the international experience and best practices, there should be a national strategy to set up the priority of the financial education. BoA undertook several initiatives in the banking field, but these were not complemented by private initiatives.</p>

<p>1.3. Policy Goal(s) threatened by the failure [e.g. financial stability, market integrity, market confidence, consumer protection, facilitating innovation, enhancing competition]</p>
<p>General Objectives:</p> <ul style="list-style-type: none"> - To ensure the banking system stability. <p>Specific objectives:</p> <ul style="list-style-type: none"> - To prepare a national strategy for financial consumer education - To prepare a a medium–term, structured and nation-wide financial education program to be endorsed by all stakeholders <p>Operational:</p> <ul style="list-style-type: none"> - To set up specific actions to be undertaken by all stakeholders

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1.4. “Do nothing” option

1.4.1 Possible medium-term (max 2 years) self – corrective market actions (e.g. mechanisms through which the “Do Nothing” option would address the market/regulatory failure).

BoA will continue its financial education initiatives and maybe some other stakeholders will be involved or they will undertake their own initiatives. In order to ensure a continuous financial education, targeting the appropriate audience and an efficient use of resources, a national financial program with specific responsibilities for all stakeholders and under authorities’ coordination is necessary. This would bring recognition for various initiatives, would facilitate international financing and international cooperation for the various actors.

1.4.2. Impact of the “Do Nothing” option to the various stakeholders (to be filled only if the “Do Nothing” option could be taken into further consideration)

Impact on consumers:

- More exposure to risks, financial instability due to lack of informed decisions, financial exclusion

Impact on regulated firms/ banks:

- More costs for informing the customers, vulnerability to rumors and panic, higher credit risks, lower volume of business

Impact on authorities:

- financial instability
- economic and social problems
- lower growth

1.5. Alternative policy option(s)

1.5.1. Broad description of the regulatory or self-regulatory action(s) needed to remedy the market or regulatory failure and hence achieve the policy goal(s)

EU recommends that a national strategy on financial education is set up. EU and OECD recommendations state also that authorities should be promoters of the financial education programs and should coordinate various private and public initiatives.

1.5.2. Possible operational regulatory or self-regulatory actions to achieve the policy goal

- to set up a national strategy on financial education
- to set up a financial education program
- to promote individual financial education initiatives
- to promote a awareness campaign on the importance of financial education
- to have a structured approach, covering all the above

1.5.3. Description of Option 1:

A national strategy is necessary in order to state Government’s views on financial education, the priorities and direction, as well as the involved parties. All further initiatives should subscribe to this strategy.

1.5.4. Description of Option 2

A financial education program is meant to establish a nation-wide action plan and specific responsibilities of different stakeholders, targeted audience, content, instruments and means. It should be placed under the coordination of an authority.

1.5.5. Description of Option 3

Individual initiatives are important to really accomplish financial education objective and should be developed as specific projects by the stakeholders. Stakeholders could state their plans for financial education in the next period.

1.5.5. Description of Option 4

An awareness raising campaign on financial education should be developed on a national scale, convincing stakeholders on the benefits. It should use all media channels and bringing even examples from the real life.

1.5.6. Description of Option 5

Undertaking only one of the above mentioned options would not be likely to meet all requirements for a continuous, coordinated, structured approach – a real financial education system.

Summary Problem Scoping			
Consumer Financial Education			
Market failure			
Asymmetric information	Market power	Positive externalities	Negative externalities
X			

(Existing) Regulatory failure			
Regulation wrongly prescribed for the market	Regulations succeeded in addressing the failure; a different market failure (e.g. side effect)	Regulation made it worse	Regulation so far has failed to work; maybe in due course
	X		