Institute of Banking Studies Research »

Financial Inclusion and Financial Literacy in Kuwait

BY DR. CHRISTOPHER PAYNE
External Consultant

JUNE 2017

To contact the author, e-mail:
chris.payne@kibs.edu.kw

Please note that the findings and recommendations presented in this report are the sole responsibility of the author and do not reflect the views of the Central Bank of Kuwait or any other government body

Table of Contents

Section **Page**

EXECUTIVE SUMMARY

Levels of financial inclusion in Kuwait are on par with GCC peers, ahead of the global average, but lag behind high income OECD countries. For instance, according to 2014 World Bank data, 72.9 percent of Kuwait residents own a bank account, versus an average of 74.5 percent in the GCC (excluding Kuwait), 94.0 percent in high income OECD countries, and 62.0 percent globally.

To raise the level of financial inclusion in Kuwait will require reaching more women and reaching less-well educated sections of Kuwait's population:

- Relative to the GCC, according to 2014 data, Kuwait performs strongly with regards the financial inclusion of women. Even so, in Kuwait 79.3 percent of men have a bank account and 64.0 percent of women, a gap of 15.3 percentage points, while the gender gap in high income OECD countries is only 0.5 percentage points.
- Educational attainment appears to be a stronger determining factor of financial inclusion in Kuwait relative to other GCC nations. For instance, in 2014, 47.7 percent of Kuwait residents with only primary education own a bank account, versus 75.6 percent who graduated from high school, a gap of 27.9 percentage points. Survey data collected by the Institute of Banking Studies suggests that relative underservicing of less educated residents may be correlated to a relative underservicing of non-citizen residents.

The Central Bank of Kuwait's *Customers Protection Manual* sets out specific guidelines to banks with regards both financial inclusion and literacy; and while we believe more educational information could be presented on individual bank's websites, responses to our survey questionnaire show the banks are following guidelines.

Standard & Poor's global survey of financial literacy shows that while the level of financial literacy attained in Kuwait is higher than in Bahrain, Saudi Arabia and the UAE, the general level of understanding of basic financial concepts remains low. Many of the banks have expressed an interest in working together to enhance efforts to raise levels of financial literacy. We believe such efforts could be coordinated by the Central Bank of Kuwait and/or the Institute of Banking Studies.

World Bank data shows that 31.5 percent of Kuwaiti residents would be unable to access funds in an emergency, compared to 24.8 percent in the rest of the GCC and 15.6 percent in high income OECD countries. Likewise, only 25.5 percent of Kuwaiti residents save at a financial institution versus 51.6 percent in high income OECD countries. Potential future demographic challenges may require Kuwaitis to take on greater financial responsibility: borrowing less and saving more for retirement. Raising standards of financial literacy is a key part of preparing for such a change.

INTRODUCTION

The term ‘financial inclusion’ references the extent to which residents of a country have access to, and use, at an affordable price, banking services, such as depositing, borrowing, and making and receiving financial transfers, such as payments and salaries. In determining the level of financial inclusion, there is often a focus on the relative underservicing of segments of the population, including, although not limited to, females, the poorer, non-national residents, different ethnic minorities, young adults, and adults with lower educational qualifications.

Enhancing financial inclusion globally, for instance by reducing the number of people worldwide without a bank account (currently around 2.5 billion people – or half the world’s working age population), has been a goal of the G20 since the launch of the Global Partnership for Financial Inclusion at the G20 summit in Seoul in 2010.[1] The GPFI is an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders.

In 2014, the GPFI launched the Financial Inclusion Action Plan, by clearly stating the link between deeper financial inclusion and greater resilience in the global financial system: “financial inclusion helps build domestic savings, bolster household, domestic and financial sector resilience and stimulate business and entrepreneurial activity. The cumulative effect of widespread exclusion is increasing inequality, and slower growth and development.”[2]

The Action Plan outlined four specific areas that should be addressed:

1. Enhancing the access of SMEs to formal banking sectors
2. Increasing the extent to which regulators incorporate financial inclusion into rule setting for banks within their jurisdiction
3. Enhancing financial literacy by improving customers’ knowledge of banking and finance, with the result that customers make more rational financial decisions.
4. Expanding opportunities for technology to help reduce the cost of sending remittances.

While not a member of the G20, Kuwait has shown significant interest in addressing these issues and in improving financial inclusion. In the area of SME financing, for instance, the government has established the National Fund for SME Development; which has been discussed in a previous Institute of Banking Studies research paper, “Taking Stock of SME Banking in Kuwait.”[3]

Moreover, the Central Bank of Kuwait has made financial inclusion and financial literacy a key element of its *Bank Customers Protection Manual*, published in July 2015. While the Manual is written to complement other rules and regulations governing a bank’s granting of consumer and other instalment loans, as we show in Section 3, it also includes a number of statements regarding financial inclusion and literacy.

The aim of this study is to take stock of Kuwait's progress in enhancing financial inclusion and financial literacy, and suggest paths which the banks could take, individually and in concert, to raise standards further.

In Section 1, we use 2014 data (the most recent data available) in the World Bank Financial Inclusion Database to assess Kuwait's performance with regards financial inclusion. How, for instance, does Kuwait perform with regards to gender and the richer/poorer divide in the provision of basic banking services? We compare Kuwait's performance with fellow GCC nations, high-income OECD countries, the world as a whole, and Singapore. Singapore is included, first because it represents global best practice, and second because as a city-state with high levels of non-citizen residents, it exhibits similarities to Kuwait.

In Section 2, we examine the issue of financial literacy, using survey data from Standard and Poor and the World Bank. In this section, we make the specific link between literacy and the levels of borrowing and saving in Kuwait.

In Section 3 of the study, we use survey responses from the banks and our own analysis of websites to examine how Kuwaiti banks are responding to the Central Bank of Kuwait's consumer protection manual.

In Sections 1 and 3 we make use of responses to a survey questionnaire sent out to each of the banks. We would like to thank the respondents for taking to the time to provide us with such valuable information.

Please note that as the findings of this study are based predominantly on 2014 data, they may not reflect improvements in financial inclusion and literacy since the Central Bank of Kuwait published its Bank Customers Protection Manual in July 2015.

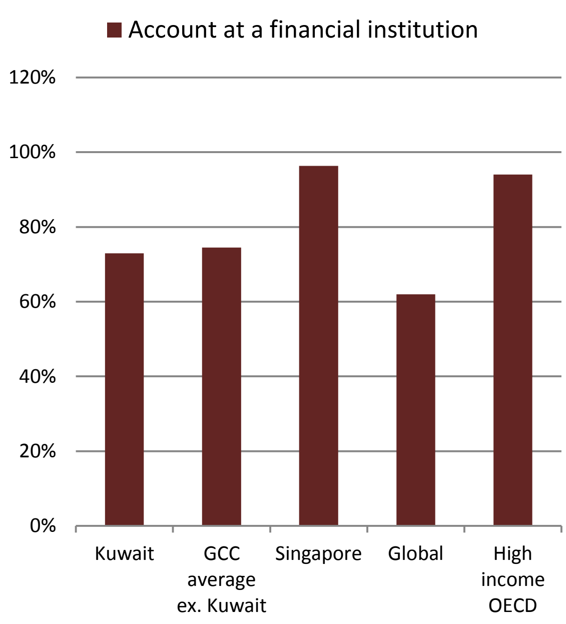
SECTION 1: ASSESSING KUWAIT'S LEVEL OF FINANCIAL INCLUSION

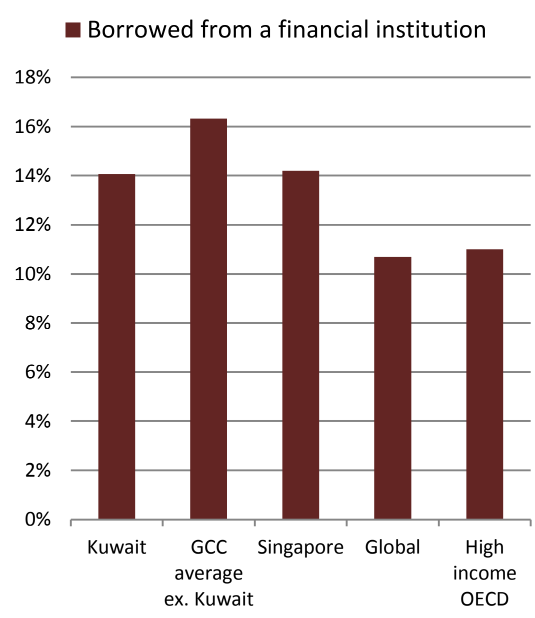
1.1 Overall financial inclusion

Retail banking customers use banks for three main reasons: to make deposits, to take loans and to make payments. The charts below show that on these basic measures financial inclusion in Kuwait is in line with other GCC countries and high by global standards; although still below levels achieved in high income OECD countries and Singapore. For instance, according to World Bank data, 72.9 percent of Kuwait residents own a bank account, versus an average of 74.5 percent in the GCC (excluding Kuwait), 94.0 percent in high income OECD countries, and 62.0 percent globally.

The left hand panel of Chart 1 measures the proportion of the population that has a bank account; the right hand panel the proportion of the population that has borrowed from a financial institution in the past 12 months. Chart 2 assesses the relative development of payment systems by looking at the percentage of the population that has a debit card in their own name. Unless otherwise stated, all data in this Section is taken from the 2014 World Bank financial inclusion database. Each of the charts reflects the percentage of individuals over the age of 15 years using each banking service.

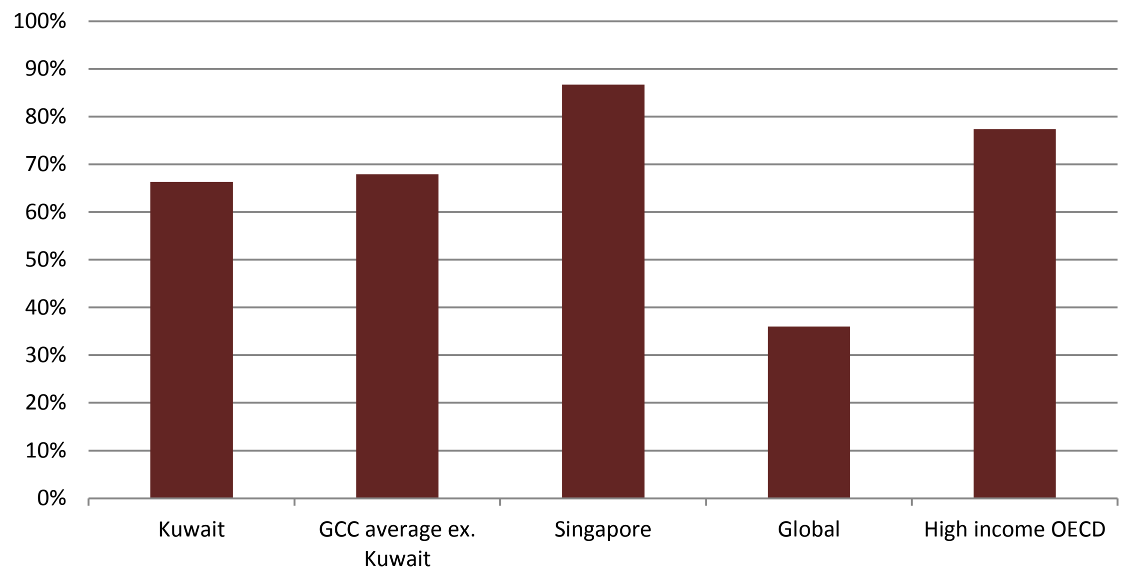
Chart 1: Kuwait in line with remaining GCC





Note: In the right-hand chart, the GCC average is represented by Saudi Arabia, UAE and Bahrain; data for Qatar for Oman was not made available by the World Bank.

Chart 2: Adults in possession of a debit card in their own name



Note: The GCC average is represented by Saudi Arabia, UAE and Bahrain; data for Qatar for Oman was not made available by the World Bank.

In terms of overall levels of financial inclusion, Charts 1 and 2 tell the same story: Kuwait is performing broadly in line with the GCC, significantly better than the world average but behind Singapore and high income OECD countries. In should be noted however that while borrowing from a financial institution is in line with Singapore, residents of Kuwait tend to borrow material amounts from non-bank sources. We discuss these issues in greater depth in Section 2 in the context of financial literacy.

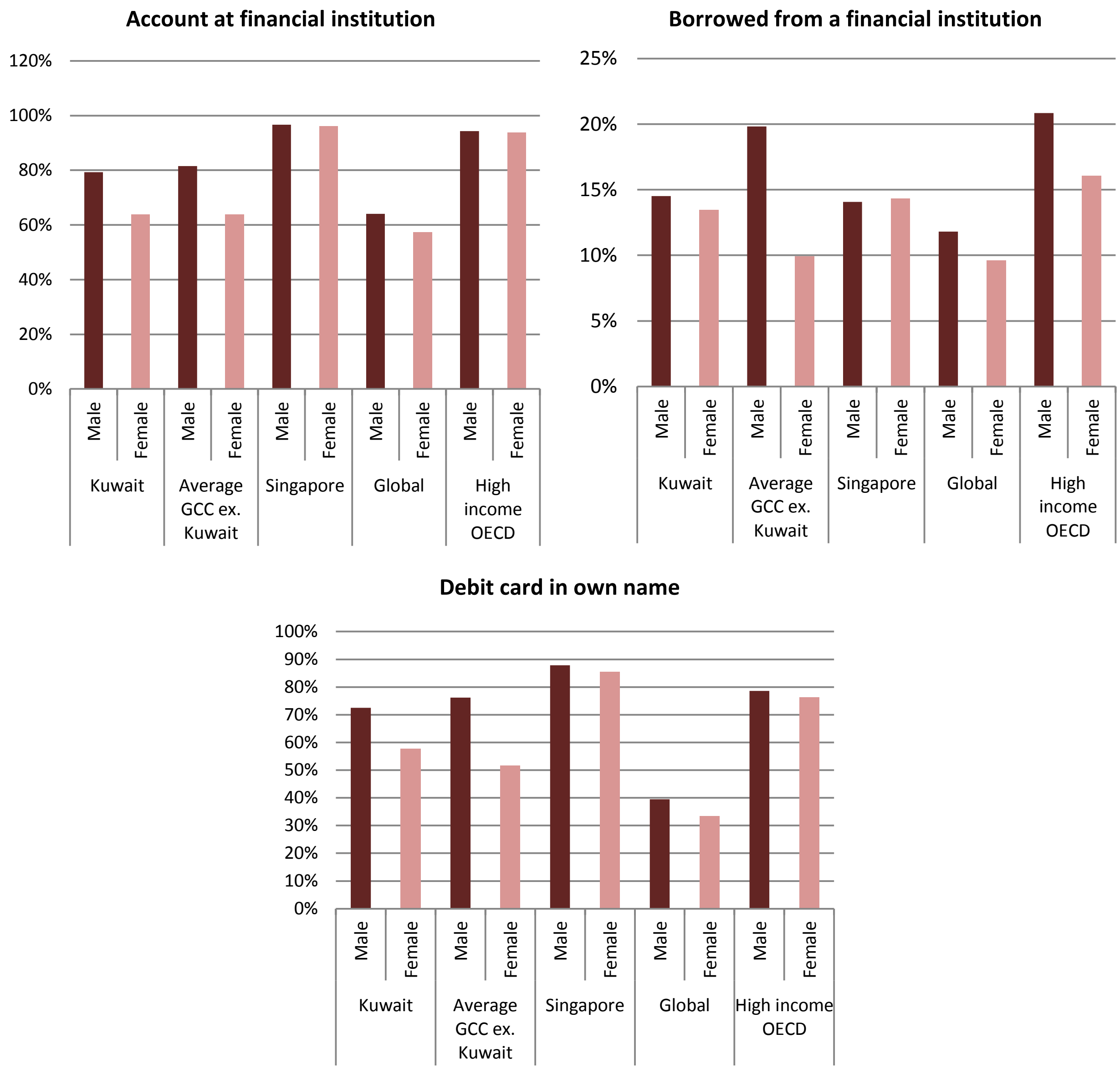
1.2 Financial inclusion by gender, income and age

While overall financial inclusion in Kuwait is good, a more detailed examination of World Bank data by different sub-sets of the population, e.g. male/female, richer/poorer, young adult, and educational attainment, shows that there are disparities worthy of attention.

1.2.1 Financial inclusion by gender

Chart 3 below shows that for all three banking services, Kuwait performs better on gender equality than the GCC average. In particular, Kuwait performs strongly in the context of borrowing from a financial institution, with significantly more gender equality in this category than in high income OECD countries. In the other categories: holding a bank account and having a debit card in one's own name, while performing well, Kuwait still lags behind the level of gender equality recorded in high income OECD countries and Singapore. Note, for instance, that in Kuwait 79.3 percent of men have a bank account and 64.0 percent of women, a gap of 15.3 percentage points, while the gender gap in high income OECD countries is only 0.5 percentage points.

Chart 3: Imbalances between male and female banking activity

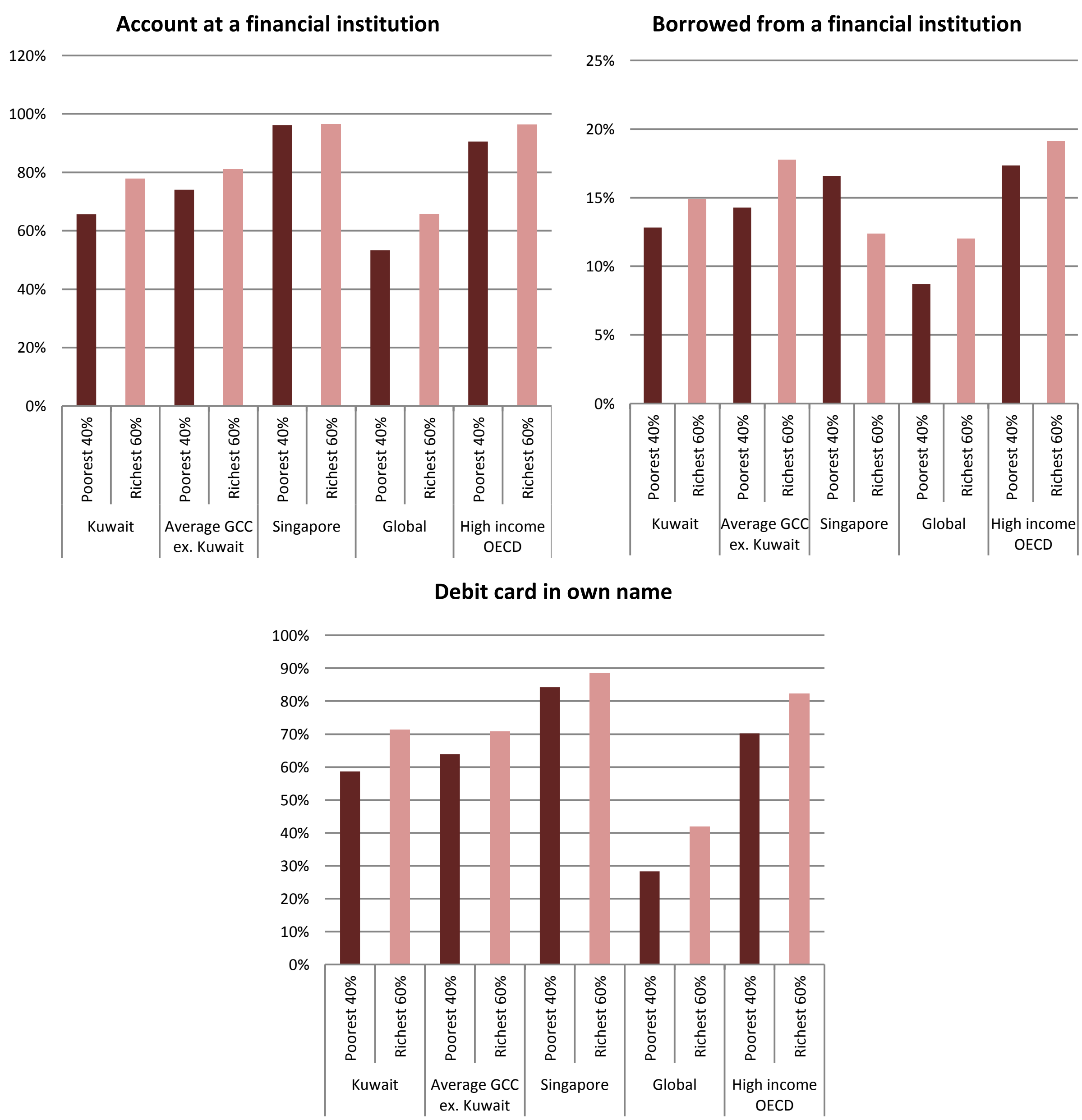


Note: Average GCC ex. Kuwait for ‘account at a financial institution’ composed of all GCC countries; for ‘borrowed from a financial institution’, and ‘debit card in own name’, data was only available for Saudi Arabia, UAE and Bahrain

1.2.2 Financial inclusion by richer and poorer

Chart 4 shows that while Kuwait is ahead of the global average, it does lag other GCC countries, albeit not in a significant way, in the relative balance between the richest and poorest in each country. This is most pronounced with regard to owning an account at a financial institution.

Chart 4: Imbalances between the richest 60 percent and poorest 40 percent



Note: Average GCC ex. Kuwait for all three charts composed of Saudi Arabia, UAE and Bahrain; data for Qatar for Oman was not made available by the World Bank.

Perhaps worthy of specific note is the performance of Singapore. Not only is the disparity between the richest and poorest less than in GCC and high income OECD countries, but in one case, borrowing from a financial institution, the poorest 40 percent are more active than the richest 60 percent. In some respects, this is exactly how it should be; after all, in theory poorer sections of society are more likely to need credit to make purchases, especially of expensive durable items, such as cars or ‘white’ goods (fridge, freezer, etc.). All the same, such an outcome is only possible given that poorer sectors of society still earn a sufficient income to make them reliable customers for the banks. This in turn requires a sufficiently advanced credit scoring/risk management system to ensure that repayment is highly probable.

Following this logic, and assuming that the commercial banks in Kuwait would like to expand lending to poorer elements of Kuwait’s population, they should work with Ci-net to ensure that, in addition to collecting data on all formal borrowing, the nation-wide credit-rating system also includes other data such as mobile phone bill payments, traffic violations, electricity and rent. These latter items are particularly relevant for assessing the credit worthiness of lower income groups.

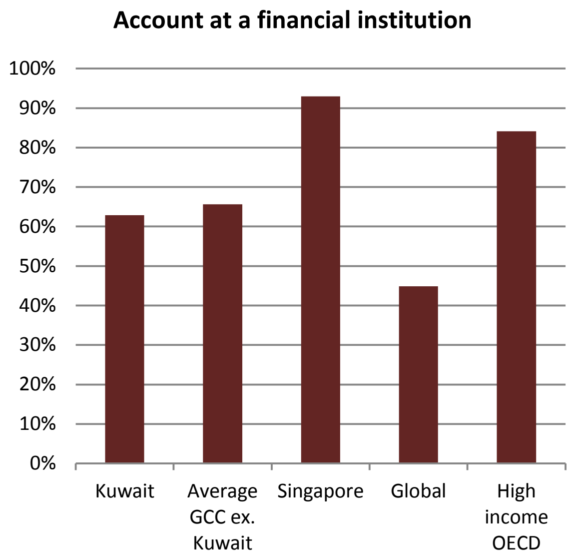
1.2.3 Financial inclusion for young adults aged 15 to 24

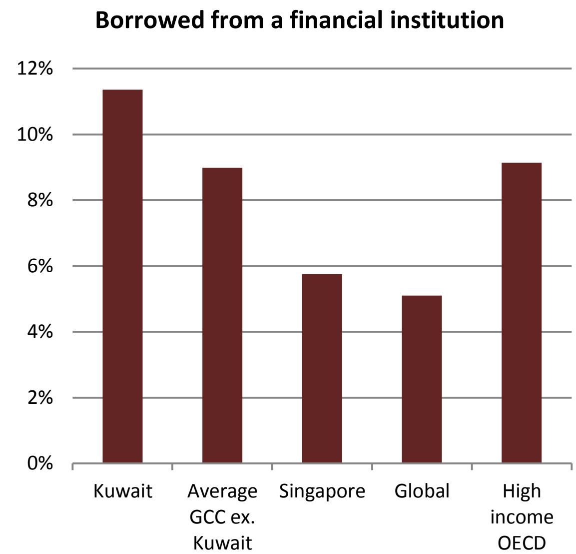
As Chart 5 shows, in the context of owning an account and having a debit card in one’s own name, Kuwait’s level of young adult financial inclusion is very much in line with the GCC and significantly above the global average. As a whole though, in these categories GCC countries do fall noticeably short of high income OECD countries. For instance, 63 percent of young adults in Kuwait have a bank account compared to 84 percent of young adults in high-income OECD countries.

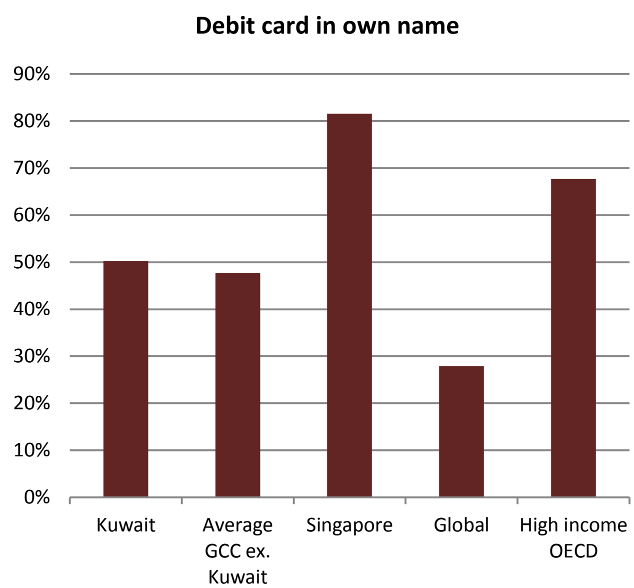
There may be many cultural and economic reasons for this. At the same time, significantly lower scores may reflect a relatively lower level of financial literacy among young Kuwait residents versus their counterparts in high income OECD countries and Singapore (see Section 2).

That said, it should be noted that Kuwait performs best of all with regard to young adults borrowing from a financial institution. In most respects, this should be welcomed although, as we discuss below, it does raise issues regarding the overall levels of personal borrowing in Kuwait.

Chart 5: Inclusion for young adults aged 15 to 24







Note: Average GCC ex. Kuwait for 'account at a financial institution' composed of all GCC countries; for 'borrowed from a financial institution', and 'debit card in own name', data was only available for Saudi Arabia, UAE and Bahrain

1.2.4 Financial inclusion according to educational attainment

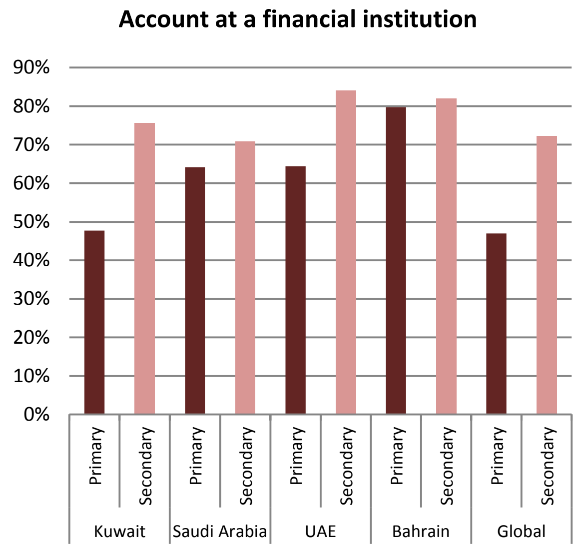
Chart 6 below displays differences in financial inclusion when gauged by educational attainment. For each country, the left column represents the part of the population for which the highest level of attainment is finishing primary school; the right column represents the part of the population with at least a high school diploma or equivalent. Before discussing the findings, it should be noted that the comparison does not include high income OECD countries or Singapore as there was no data available. This no doubt reflects the fact that very few people in these countries enter the workforce with only primary school education.

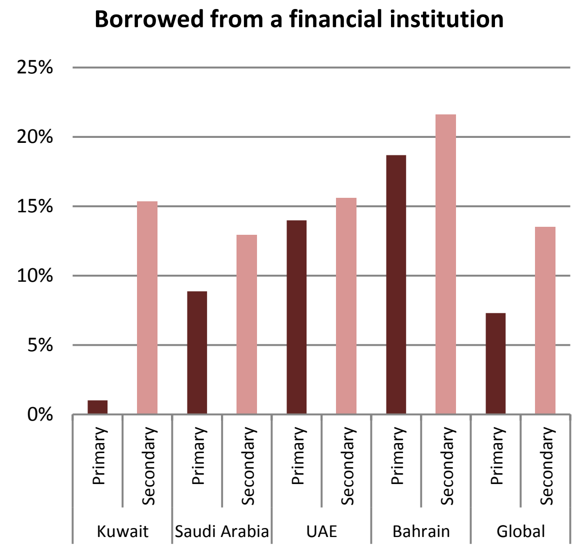
Measured by varying degrees of education, Kuwait performs relatively badly versus the GCC. For instance, 47.7 percent of Kuwait residents with only primary education own a bank account, versus 75.6 percent who graduated from high school, a gap of 27.9 percentage points. In Saudi Arabia the gap is 6.7 percentage points, in Bahrain 2.2 percentage points, and the UAE the gap is 19.7 percentage points. It should however be noted, these large differences may relate to specific policies that incentivize the opening of a bank account. For instance, in Kuwait the government pays a salary to all high school finishers which they can only collect if they have a bank account open to receive the payment.

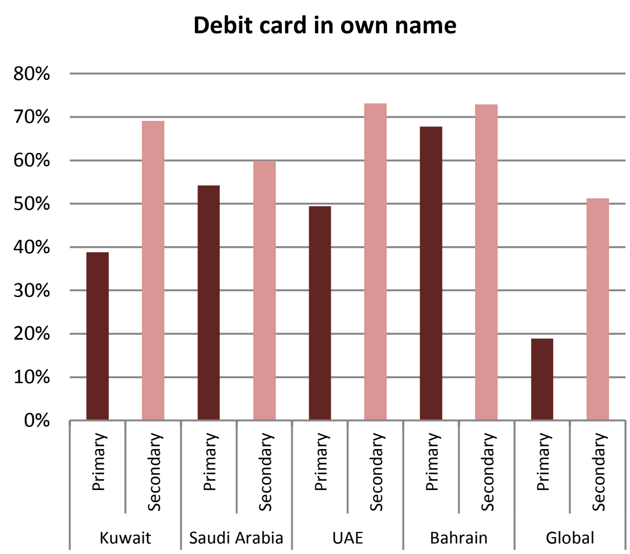
The large gap in Kuwait likely reflects the relatively poor education of migrant workers, over whose education the Kuwait government has no control. All the same, the data does suggest that there is potential for Kuwait to narrow this gap and raise the level of financial inclusion of less well educated segments of the population.

Any program addressed to this issue would have to involve significant enhancements to financial literacy so as to ensure that new customers did not imply the banks taking on extra risks associated with providing financial services to less well-educated customers.

Chart 6: Inclusion based on educational attainment







1.3 Summary: Kuwaiti vs non-Kuwaiti

Levels of financial inclusion in Kuwait are generally significantly above the global average and in line with GCC standards. From a GCC-only perspective, Kuwait performs strongly with regards to gender equality, and across all parameters with regards to borrowing from a financial institution.

That said, in almost all categories, Kuwait remains behind high income OECD countries and best practice (Singapore).

Of most immediate concern should be to increase the level of financial inclusion of less-well educated sections of the population. This should be undertaken in conjunction with programs to ensure sufficient levels of financial literacy.

As we have suggested, disparities in financial inclusion based on educational attainment may be correlated to residency status, i.e. whether an individual is a Kuwaiti citizen or not. While we only have responses from a subset of banks, our survey does provide anecdotal evidence to support this hypothesis. Specifically, in our sample, the number of bank accounts belonging to non-citizen Kuwait residents is 1.65 times the number of bank accounts belonging to Kuwaiti citizens, yet, according to Central Statistical Bureau data for 2011, there were at least two times as many non-Kuwaiti residents as Kuwaiti citizen residents.[4]

While not statistically sound, given the sample size, this finding supports the view that to increase financial inclusion in Kuwait will require a greater focus on the inclusion of non-Kuwaiti citizens.

SECTION 2: FINANCIAL LITERACY

2.1 Financial literacy and financial wellbeing in Kuwait

Financial inclusion and financial literacy are inexorably linked; understanding the kinds of services a bank offers is a prerequisite to making use of those services; equally, having a bank account acts as a catalyst to a better understanding of financial concepts and principles. Indeed, as we saw in the Introduction to this study, the Global Partnership for Financial Inclusion's Action Plan lists financial literacy as one of the four key areas that come under the umbrella of financial inclusion.

Yet financial literacy is more than just a route to higher levels of financial inclusion. There are, after all, millions of users of financial services (depositors and borrowers) with a relatively poor understanding of finance. For instance, without an appreciation of the compounding effects of interest rates, increased access to bank borrowing can lead to decisions that leave borrowers overburdened with debt and the systemic stability of the financial sector at greater risk. While much has been written about the role of unscrupulous lending practices in the United States that caused the 2008 financial crisis, too little has been written about the failure of government to educate potential borrowers about the risks and pitfalls associated with borrowing.

Findings from the 2014 Standard and Poor Global FinLit Survey, as discussed in a World Bank/George Washington University report, show that low levels of financial literacy are a global problem, not restricted to poorer or less developed nations. The survey, conducted in 140 countries including Kuwait, involving more than 150,000 face-to-face interviews, found that only 33 percent of adults worldwide are financially literate. Specifically, only 33 percent of adults were able to correctly answer at least three out of the four questions described in Table 1, each one covering a fundamental concept required for rational financial decision-making:

Table 1: Four questions to measure financial literacy*

Concept	Question	Answer choice
1. Risk Diversification	Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments?	A. Business or investment B. **Multiple businesses or investments** C. Don't know D. Refused to answer.
2. Inflation	Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy	A. Less B. **The same** C. More D. Don't know E. Refused to answer

	today?	
3. Numeracy (interest)	Suppose you need to borrow 100 US dollars. Which is the lower amount to pay back: 105 US dollars or 100 US dollars plus three percent?	A. 105 US dollars B. **100 US dollars plus three percent** C. Don't know D. Refused to answer
4. Compound interest	Suppose you had 100 US dollars in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account?	A. **More than 150 dollars** B. Exactly 150 dollars C. Less than 150 dollars D. Don't know E. Refused to answer

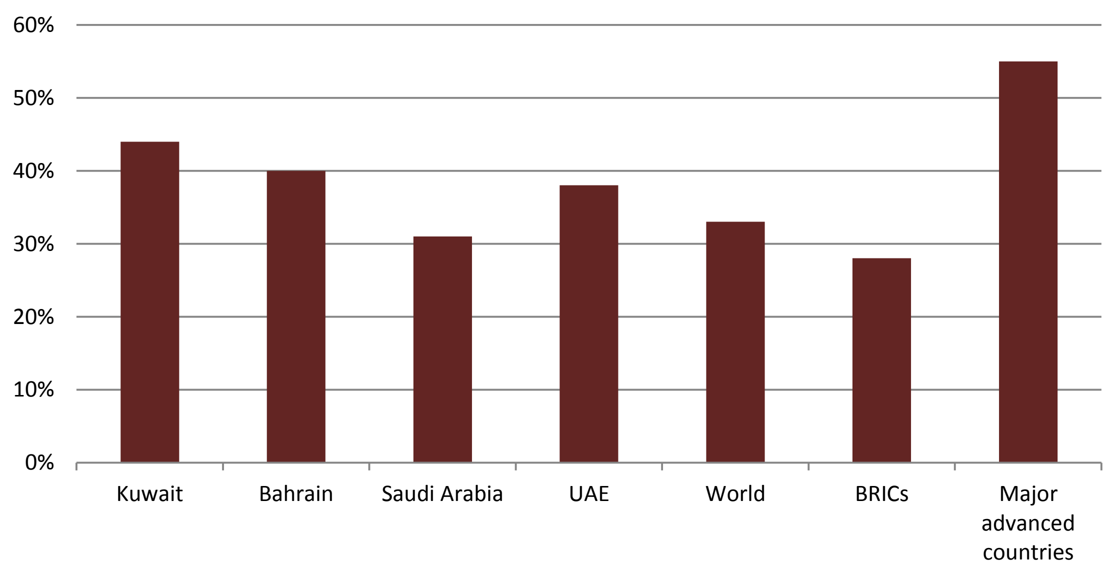
Source: S&P Global FinLit Survey

* Please note, these questions are written with conventional banks in mind. Were the questions to be posed to Islamic bank customers, an alternative questionnaire would need to be written.

As Chart 7 shows, Kuwait performed well relative to other GCC nations and the world. And while Kuwait still lags behind major advanced economies, like the U.S. and U.K., even in these countries, financial literacy is far from universal.

All the same, we believe that regulators and policy-makers in Kuwait should view these findings as an impulse to redouble efforts to improve financial literacy.

Chart 7: Kuwait financial literacy best in GCC



Source: S&P Global FinLit Survey
Note: Major advanced countries Canada, France, Germany, Italy, Japan, UK and the US
Brics are Brazil, Russia, India, China

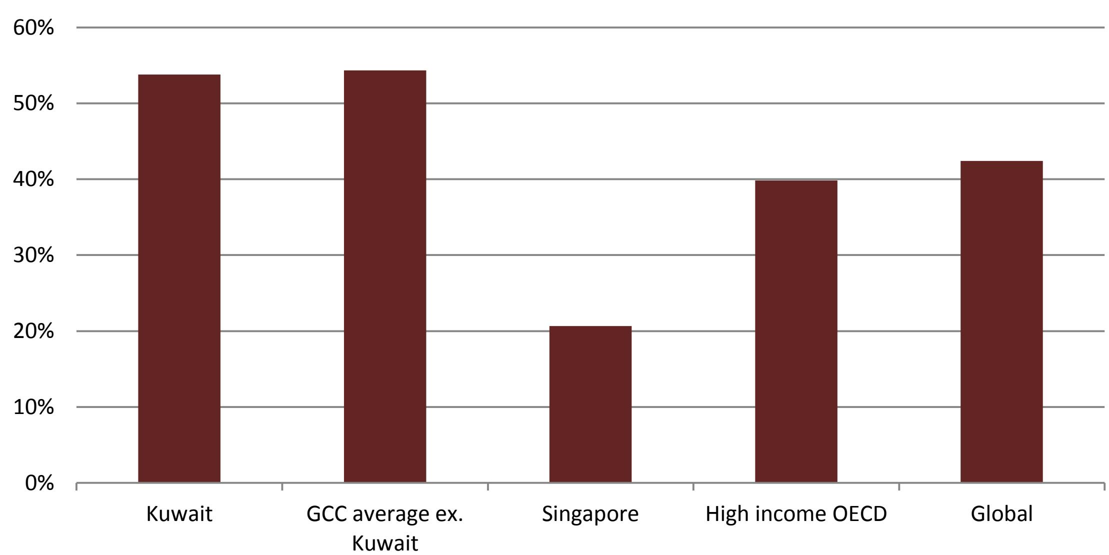
Understanding basic financial concepts is a necessary component of making rational decisions. Many short-term credit card users, for instance, do not fully understand the speed at which interest compounding can inflate total amounts owed. Moreover, an inability to understand all four concepts listed in Table 1 tends to undermine the reasoning required to save and prepare for retirement.

As Sections 2.2 and 2.3 show, data on saving and borrowing from the World Bank financial inclusion database supports S&P findings that levels of financial literacy in Kuwait are not conducive to a more sustainable use of financial services by the population at large, and that long-term financial wellbeing may suffer as a result.

2.2 Borrowing

Previously in Section 1 we showed that levels of borrowing from a financial institution in Kuwait were on par with global standards. However, this positive finding may mask a more concerning underlying reality. Chart 8 shows that there are high levels of borrowing in Kuwait; for instance 54 percent of residents over the age of 15 borrowed money in the 12 months prior to the World Bank survey. High levels of borrowing potentially raise concerns about the ability of individuals to properly plan and budget; and an over-reliance of non-formal sources of borrowing may imply an insufficient understanding of finance costs and compound interest.

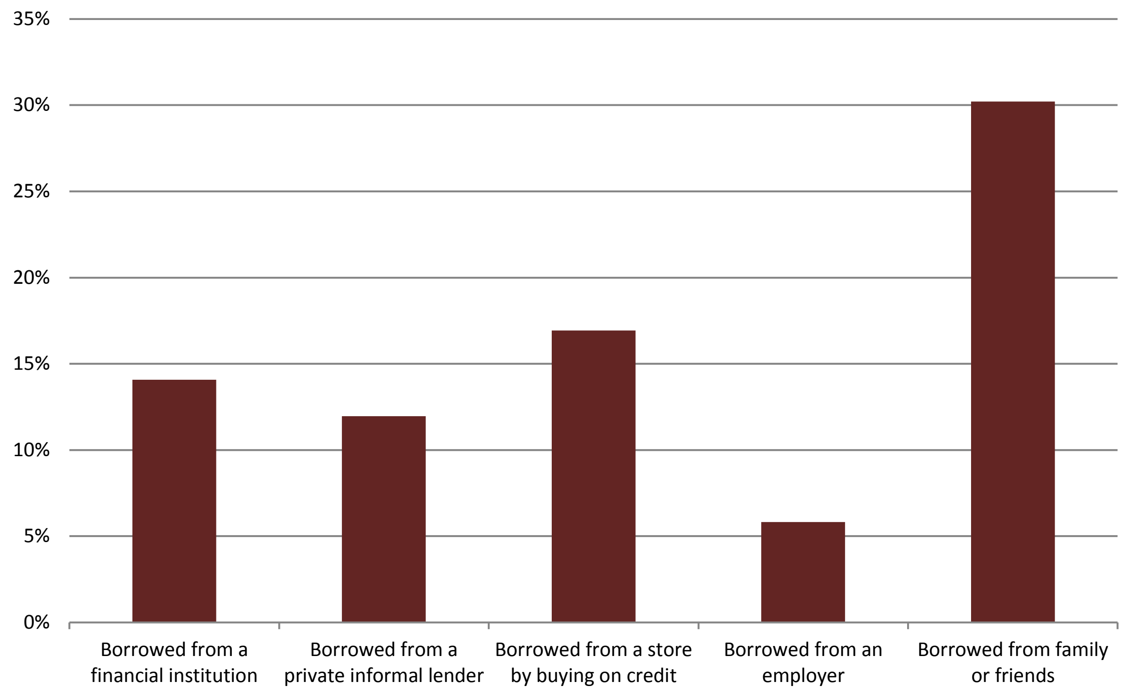
Chart 8: Percentage of residents borrowing in previous 12 months



Note: Average GCC ex. Kuwait for all three charts composed of Saudi Arabia, UAE and Bahrain

So where do Kuwait residents borrow from? Chart 9 indicates that many individuals in Kuwait are borrowing from family and friends, employers, informal money lenders and in-store credit.

Chart 9: Percentage of Kuwait residents over 15 years old who used each of these various sources of borrowing in the 12 months prior to the survey



While the majority of lending, by value, may well be provided by formal institutions, many residents are clearly using other sources to borrow. This mirrors much of the rest of the world. All the same, it should be noted that in high income OECD countries there is far less use of private informal lenders; only 0.9 percent of residents of these countries reported borrowing from informal lenders in the 12 month period leading up to the survey, compared to 12.0 percent in Kuwait.

Borrowing from the formal sector, as opposed to from informal money lenders, is preferable for borrowers as interest rates tend to be lower, and regulations protect borrowers from unscrupulous practices. More formal, relative to informal, borrowing is also good for banks and for society at large. On the one hand, limiting informal borrowing increases the size of the market for banks to sell to; on the other hand, more information can be collected on borrowers, enabling bank managers to make better, more informed decisions on the suitability of the borrower. This, in turn, enhances financial stability. Finally, from a social policy perspective, it is far preferable to limit to the extent to which individuals can be exploited by informal money lenders.

Chart 9 may suggest that in Kuwait efforts should be made to reduce the level of borrowing from informal money lenders and replace it with lending from the formal financial sector. With regards financial stability, this would be a positive step as regulations require borrowers to spend no more than 40 percent of their salary, after deductions, on servicing their borrowings. Even so, lending to expats who make less than KD 600 per month (90 percent of total expats in Kuwait), and are thus not currently eligible for bank borrowing, could raise risks for banks, if suitably strong safeguards are not put in place first.

Either way, increasing formalization of banking would involve both enhancing outreach to certain sectors of the population and improving financial literacy. At the same time, Government and regulators should address the overall level of private borrowing in Kuwait and consider whether efforts should be made to reduce it.

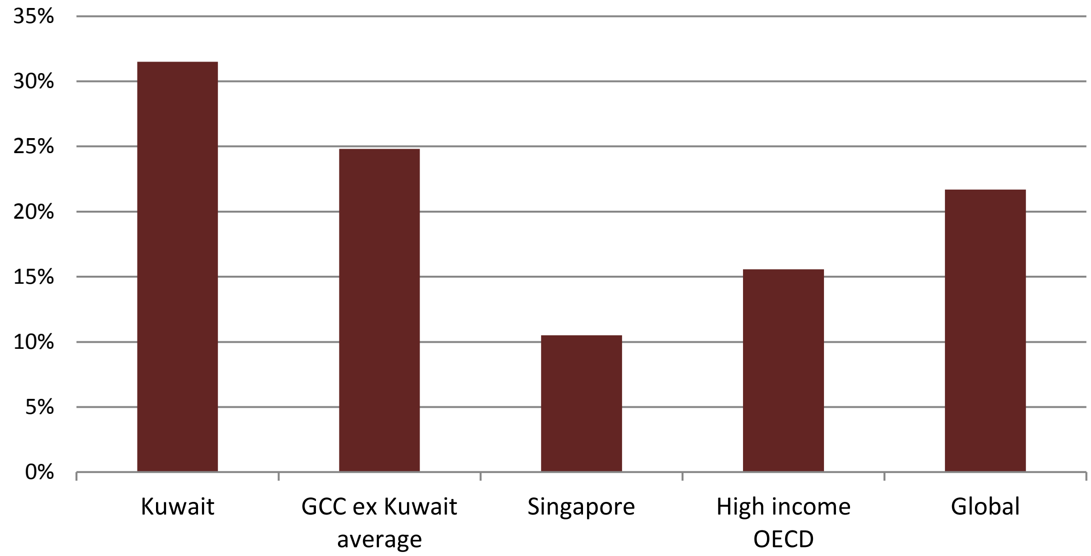
2.3 Saving

Being financially literate means being aware of future financial liabilities, whether expected, such as when retirement comes, or whether unexpected, i.e. is there a pot of money I can access in case of an emergency?

Chart 10 below shows that Kuwait residents perform poorly in the context of emergency funds. 31.5 percent of those surveyed said it would not be possible to come up with any emergency money. This compares with 24.8 percent in the GCC and 15.6 percent in high income OECD countries.

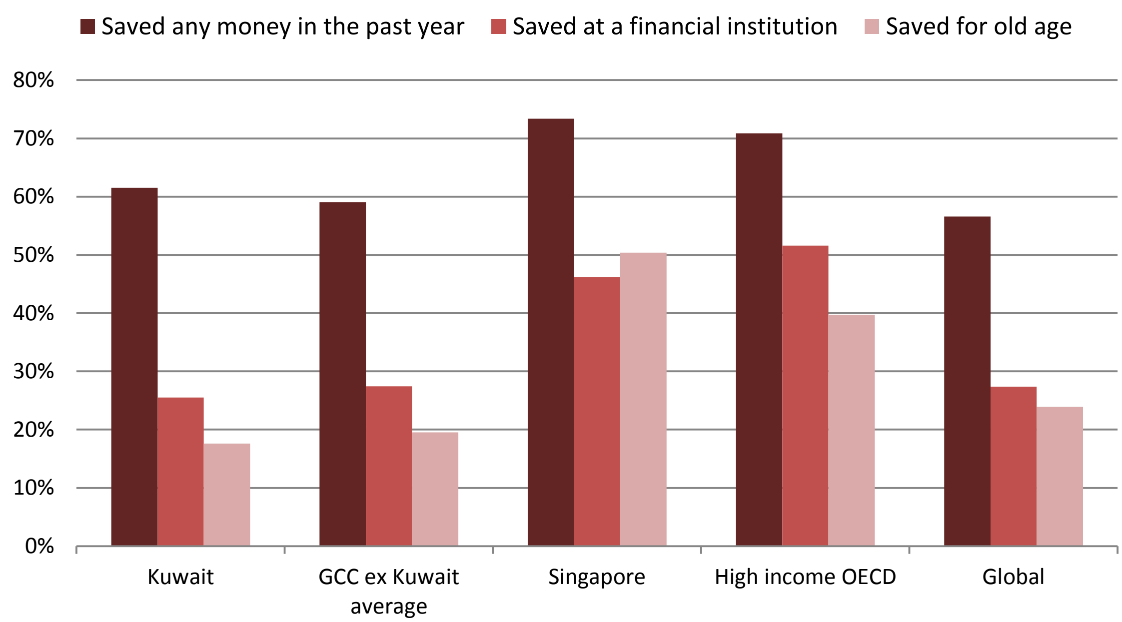
Equally concerning are the findings with regards to savings, shown in Chart 11 below. While Kuwait's performance is broadly in line with the GCC, it is significantly worse than high-income OECD countries and the world. Only 25.5 percent of those surveyed said they saved at a financial institution in the past 12 month, while 61.5 percent said they saved some money. This may suggest a failure to understand the profound effects of compound interest when saving over a long period of time. Moreover only 17.6 percent of residents said they saved for old age. This is less than twice the amount recorded in high-income OECD countries.

Chart 10: Few too Kuwait residents able to come up with emergency funds



Note: Average GCC ex. Kuwait for all three charts composed of Saudi Arabia, UAE and Bahrain

Chart 11: To little use of banks to save and too little long-term saving in Kuwait



Note: Average GCC ex. Kuwait for all three charts composed of Saudi Arabia, UAE and Bahrain

Almost certainly, the low level of saving for retirement in the GCC reflects generous state pensions provided to resident nationals. After all, knowing that one will be well looked after during retirement significantly reduces the incentive to save while enhancing in consumers' minds that foregone consumption now (in order to save) is nothing more than a lost opportunity to maximize satisfaction in the present.

Yet many rich countries around the world, including the U.S. and U.K., are delaying the payout of government pensions, putting back retirement for up to three years, in order to ensure that pension liabilities are fully funded. This reflects the fact that people are living longer and that falling birth rates are reducing the size of the working population that funds the pension payments of retirees.

While the structure of government finances is obviously very different in a small oil-rich country like Kuwait, future demographic challenges (approximately half the population is under 20 years old) may require a future government to follow other countries in scaling back retirement entitlement programs; whether by paying out less or raising the age of retirement.

Given an uncertain future and the possibility of the government having to trim its pension commitments, it makes prudent sense now for Kuwaitis to increase the amount they are saving for retirement. Enhancing financial literacy is key to working towards this goal; firstly, by explaining the problem and convincing people to save more; and secondly, because financial literacy involves teaching budgeting and planning skills, providing people with the techniques to manage their spending, thereby creating regular surpluses that can be saved.

SECTION 3: CURRENT POLICY AND NEXT STEPS

3.1 Meeting regulatory requirements

As discussed in the Introduction, the Central Bank of Kuwait has made financial inclusion and financial literacy a key element in its *Bank Customers' Protection Manual*, published in July 2015.

Principle 1, for instance, states that banks need to provide fair and equitable treatment:

> "*Banks, throughout the stages of their dealing with customers, should consider fair, equitable and honest treatment. They should adopt such a methodology as part of their governance rules. They should give more care and special attention to limited-income, less-educated customers, elderly and those with special needs, without gender discrimination*."[5]

In this regard, the banks are required to:

- Develop annual programs to achieve the objectives of financial inclusion, while monitoring the success rates of such programs.
- Exert more efforts towards studying the needs of the people who do not deal with banks, and take serious steps towards facilitating fulfillment of their requirements easily and safely.
- Adopt suitable approaches to attract people who are not used to dealing with banks (e.g. people with special needs, low-income persons) and provide positive procedures to address and encourage those categories of people to use their services, especially those that use technology.[6]

Principle 3 directly addresses financial awareness:

> "*Banks should develop the appropriate plans, programs and <u>mechanisms</u> to upgrade and disseminate banking and financial information to its current and potential customers. They should seek to raise the level of their knowledge, enabling them to access all aspects of the bank's products and services… make proper decisions, while directing them to obtain the appropriate information, as needed*."[7]

The 'mechanisms' should include:

- An annual plan with specific programs to support dissemination of financial and banking information, targeting an increase of banking and financial awareness.
- Efforts to work with civil society, scientific and professional institutions to enhance financial and banking awareness.

- Participating, from time to time, in conducting studies on measuring financial awareness, and the impact of measures adopted in this respect on increasing financial awareness and education, in order to assess the policies applied by banks, and how they could be enhanced.[8]

Sections 1 and 2 of this study clearly illustrate that more can be done to enhance financial inclusion and literacy in Kuwait. Even so, responses to the IBS survey questionnaire do show that the banks are aware of their responsibilities with regards to ensuring that customers are aware of the protections available to them, that provisions have been made to ensure compliance with consumer protection and regulations, and that steps are being taken to improve financial literacy.

The banks that responded to the questionnaire emphasized:

- Various help and support services made available to customers in branches and in call centers, providing basic information, detailed information on products and services and explanation of how to make complaints.
- Online information posted on websites.
- The use of social media to provide information on rights and protections, including the extensive use of SMS services.
- Internal periodic review and reporting from various departments about measures to ensure compliance with customer protection regulations.
- Continuous training of staff about banking services and products to ensure that products are not sold inappropriately.
- A full range of procedures to ensure special needs customers have full access to banking services and products; including having one branch per governorate that provides a special-needs customer liaison officer, the use of braille and speaker options on the website, and the redesigning of branches to make access easier for certain special needs groups.
- Various "Did you know" campaigns addressed to financial literacy, including videos, brochures and outreach to schools and internships.
- Internal research and reports dedicated to enhancing financial literacy and inclusion in Kuwait.

From the responses we received, it was clear that the banks had taken significant action to ensure compliance with regulations addressed to customer protection and special needs. The banks are also clearly taking seriously their responsibility to the community to ensure that financial literacy is enhanced.

That said, with specific regards to financial inclusion and literacy, the responses suggest that the banks could enhance their activities in two key areas:

1. Online information

While the banks do publish information explaining their products on the internet, our survey of the banks' respective websites suggests that more could be done to enhance education. For instance, the website of Lloyds Bank in the UK contains a whole section on 'help and guidance', which includes expert advice on financial planning, whether in the context of general budgeting or for a specific situation, such as returning to education, starting a family, getting married, going traveling or starting a business. The website includes videos of events, sponsored by Lloyds Bank, deliberately aimed at enhancing financial literacy.

There is certainly more that Kuwaiti banks could offer on their websites to help customers and potential customers have a better understanding of the fundamentals of banking and finance. Even so, the quality of financial education provided on the websites of large banks in 'advanced' banking systems remains deficient. We were unable, for instance, to find a bank website in either the UK or Kuwait that explained the key concepts of risk diversification, inflation, and compound interest, or provided numerical examples of how simple interest is calculated.

2. Target setting

As of writing, none of the banks have made public their annual plans to enhance financial inclusion and literacy; and thus it is not clear to what extent these plans, required by the Central Bank of Kuwait by the end of 2017, have been developed. Even so, it would not be surprising if progress is slow on this matter given the amount of resources required to address these issues when compared to each bank's imperative to manage and service its own client base. For instance, it may not be immediately obvious to an individual bank what the financial benefits are of enhancing nation-wide financial literacy and inclusion, as opposed to focusing greater resources on servicing the existing customer base.

As such, we would suggest that the banks work together to establish a program, with annual and intermediate targets, to enhance financial literacy in Kuwait. The banks, for instance, could work with the Central Bank of Kuwait or the Institute of Banking Studies to design and fund school outreach programs that teach the basics of finance to 15 and 16 year-olds, both Kuwaiti and non-Kuwaiti. Such training could, in time, become a core part of the school curriculum. Indeed, according to our research, no GCC country includes key aspects of financial literacy in its basic education program.

A committee dedicated to improving financial literacy would be vital in sustaining a nationwide push to improving financial skills and in monitoring progress through the sponsorship of nation-wide surveys to assess progress.

3.2 An additional comment on saving

While there is little direct data on personal savings rates in Kuwait, Charts 8, 10, and 11 on borrowing, emergency funds and savings suggest that Kuwait residents may not be saving enough.

Anecdotal evidence from the IBS survey questionnaire sheds further light on this issue. Indeed, according to the responses we received, Kuwaitis have over two times the number of loans that non-Kuwaiti residents have (note this is the number of loans not the value), yet non-Kuwaitis have only 17 percent less savings accounts than Kuwaitis (again, please note, this is the number of accounts, rather than the value). While, given the sample size, this is not a statistically valid conclusion, this data does support the view that Kuwaiti citizens are not saving as much as non-Kuwaiti citizens, as a percentage of income. This may add further evidence to our suggestion that many Kuwaitis are not saving for themselves, but instead spending incomes fully and using up financing opportunities in the knowledge that the government will continue to provide for them in retirement.

As previously discussed, demographic changes may require adjustments to be made to retirement entitlement programs. Given this risk, it makes sense for Kuwaitis to be increasing private savings now. Moreover, as the country moves forward and seeks to realize a vision of increased private sector participation and entrepreneurialism, it's important that more Kuwaitis take a greater degree of responsibility for their financial futures.

Improving financial literacy would have to be a key part of any program that aimed to encourage more private retirement savings. Indeed, recent academic research focusing on Germany has shown that providing information on future government pension payments has acted as a direct spur to increasing private retirement savings.[9] Of course, understanding information of this nature first requires a degree of financial and numerical literacy.

In the longer term, following many countries around the world, including the U.S. and U.K., Kuwait may need, in certain circumstances, to reduce defined benefit pension payments and place more emphasis on matching individual private contributions. For instance, if an individual saves 5 percent of his or her salary in a recognized savings product, the employer or government can match the contribution. Such a scheme could be very successful in focusing an individual's mind on financial decision-making and financial self-reliance. It could also act as spur to enhance the financial literacy of participants in the scheme.

CONCLUSION

The aim of this study was to take stock of Kuwait's progress in enhancing financial inclusion and financial literacy, and suggest paths which the banks could take, individually and in concert, to address areas where there is potential for further development.

In terms of financial inclusion, Kuwait is very much in line with other GCC countries and ahead of global standards, according to World Bank data. In terms of financial literacy, Kuwait residents performed above GCC peers and the global average, according to S&P data published by the World Bank.

In line with Central Bank of Kuwait guidance, the banks have implemented policies specifically aimed at enhancing financial inclusion and literacy.

All the same, there are clearly areas which could be focused on more to bring the level of financial inclusion and literacy closer to standards achieved in high-income OECD countries; in particular an important focus of policy should on the disparity between educated and less educated residents, and the extent to which that mirrors a disparity between non-Kuwaiti-citizen and Kuwaiti citizen residents.

Finally, while levels of financial literacy are relatively good versus the GCC, there is evidence that borrowing is too high and savings too low in Kuwait. Expanding financial literacy programs may help nudge Kuwaitis to saving more and thereby alleviate the future government pension burden.

We recommend that the Kuwaiti banks work together to create a program to improve financial literacy, especially among younger residents. This program could be enacted in conjunction with the Central Bank of Kuwait and/or the Institute of Banking Studies.

ENDNOTES

[1] G20, *The G20 Seoul Summit Leaders' Declaration*, November 11-12, 2010, p. 3
[2] GPFI, *2014 Financial Inclusion Action Plan*, September 2, 2014, Executive Summary
[3] Institute of Banking Studies, Taking Stock of SME Banking in Kuwait, September 2016, http://www.kibs.edu.kw/en_Publications_Research_detail.cms
[4] Central Statistical Bureau, *Statistical Review 2015*, 38th Edition, Population
[5] Central Bank of Kuwait, Bank Customers Protection Manual, July 2015, p. 7. Please note this document was only published in Arabic. The Institute of Banking Studies undertook its own translation into English, which is being quoted here.
[6] Ibid. p. 12
[7] Ibid. pp. 7-8, 11. Please note, we have added a few words at the of this principle from page 11, which covers the same ground.
[8] Ibid. p.12
[9] Mathias Dolls, Philipp Doerrenberg, Andreas Peichl, Holger Stichnoth, *Do Savings Increase in Response to Salient Information about Retirement and Expected Pensions?*, NBER Workding Paper 22684

ABOUT THE AUTHOR

Dr. Payne is an external consultant who has worked with the Institute of Banking Studies since 2014. Previously he was senior economist at Bloomberg Government, based in Washington D.C., where he authored numerous studies on Dodd-Frank, Basel III, and U.S. monetary and fiscal policy. Prior to that, based in London, he was Vice President of Asian equities for JPMorgan and fund manager of Emerging Market equities at F&C Asset Management. He began his career at PriceWaterhouse Coopers, where he qualified as a chartered accountant. He holds a bachelor's degree from Cambridge University, England, and masters and doctorate degrees from the London School of Economics. His first book, "The Consumer, Credit and Neoliberalism: Governing the Modern Economy" relates economic theory to monetary and banking policy in the U.K. and U.S. leading up to the global financial crisis of 2008. His second book, "The Economists' Diet", to be published in January 2018, uses behavioral economics and other economic ideas as a basis for providing successful weight-loss strategies.