THE IMPLICATIONS OF THE USE OF PERSONAL DATA FOR FINANCIAL SERVICES CONSUMERS

WORK IN PROGRESS

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BETTER POLICIES FOR BETTER LIVES

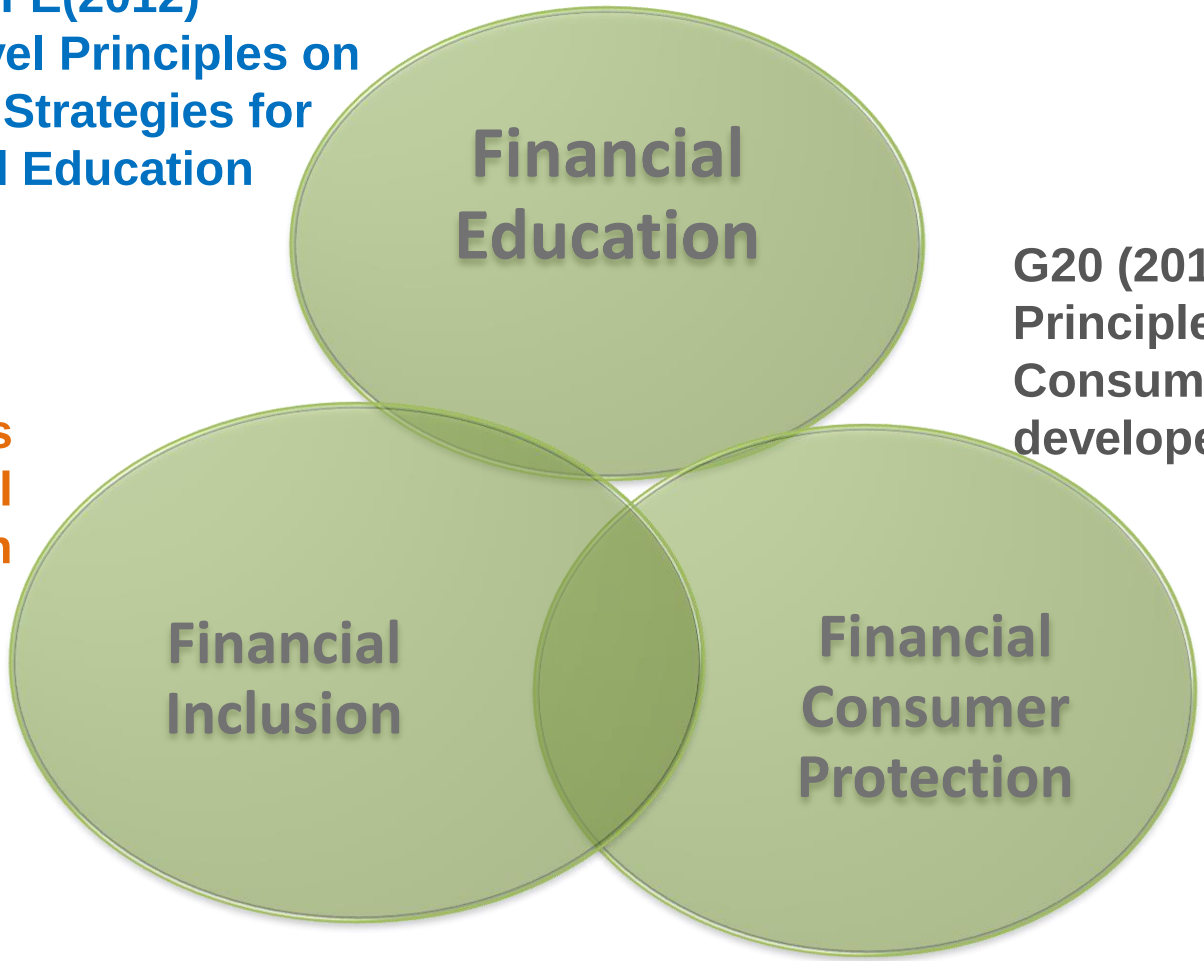
BACKGROUND

Consumer empowerment in the face of digitalisation requires a comprehensive approach

OECD/INFE(2012) High-Level Principles on National Strategies for Financial Education

G20 (2011) High-Level Principles on Financial Consumer Protection developed by the OECD

G20 (2010) Principles for Innovative Financial Inclusion



G20 (2016) High-level Principles on Digital Financial Inclusion

Policy principles and guidance recognise the importance of considering data protection and use

- Ensure regulatory responses apply regardless of the distribution channel, i.e. technological neutrality
- Ensure regulatory responses reflect the business model, size, systemic significance as well as complexity i.e. proportionality
- **Use insights gained form data analysis to ensure evidence-based approached, including understanding of the behaviour of consumers**
- **Strike the right balance between potential benefits of innovation and maintaining appropriate degree of FCP**
- Maintain flexibility, adaptability and continuous learning
- Cooperate with other policy makers and oversight bodies

Principle 8

"Consumers' financial and personal information should be protected through appropriate control and protection mechanisms.

These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties).

The mechanisms should also acknowledge the rights of consumers to be informed about data-sharing, to access data and to obtain the prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data".

G20/OECD Digitalisation and financial literacy The policy guidance recommends 5 actions:

Develop a national diagnosis of the impact of digital finance on individuals and entrepreneurs

Ensure coordination between public authorities and private and not-for-profit stakeholders to support coordinated messages and approach

Develop core competencies on digital financial literacy of consumers and entrepreneurs to:

- Build trust and promote beneficial use of DFS and related technological innovation
- Protect consumers and small businesses from vulnerability to digital crime
- **Empower consumers to counter new types of exclusion due to the misuse of data sources, including data analytics and digital profiling**
- Support consumers at risk of over-reliance on easy access to online sources of credit

Deliver financial education through digital and traditional means and address the needs of target audience through tailored approaches

Facilitate and disseminate evaluation of financial education programmes addressing DFS

PERSONAL DATA IN THE CONTEXT OF INCREASED DIGITALISATION

What is personal data ?

OECD definition (1980 Principles – reviewed in 2013):

- "any information relating to an identified or identifiable individual (data subject)"
- However, data analytics has made it easier to relate seemingly non-personal data to an identified or identifiable individual, thus blurring the boundaries between non-personal and personal data.

European Union General Data Protection Regulation (GDPR), defines personal data as:

- "any information that relates to an identified or identifiable living individual"
- "different pieces of information, which collected together can lead to the identification of a particular person, also constitute personal data"

Personal data and digitalisation

The generation of new personal data

- Almost universal access to mobile telephones and the Internet (but with regional and socio-economic differences)
- Internet of Things (IoT)
- Biometrics

Big data relates to the huge amount of data generated from activities that are carried out electronically and from machine-to-machine communications (e.g. data produced from social media activities, from production processes, etc.). Big data have characteristics summarised as "3V" (volume, variety and velocity):

- volume, referring to vast amounts of data generated over time;
- variety, referring to the different formats of complex data, either structured or unstructured (e.g. text, video, images, voice, documents, sensor data, activity logs, click streams, co-ordinates, etc.);
- and velocity, referring to the high speed at which data are generated, become available and change over time

The role of data processing and advances in analytics

Data mining:

- The set of techniques used to extract information patterns from data sets.

Profiling

- The use of data analytics for the construction of profiles and the classification of individual consumers in specific profiles; credit scoring, price discrimination and targeted advertisement are typical examples of activities involving profiling.

Machine learning

- A subfield in computer science, and more specifically in artificial intelligence. Machine learning involves activities such as pattern classification, cluster analysis, and regression

Personal data collection from a consumer-centric perspective in financial services

Consumer awareness	Data collection channels
Consumer is aware	Data provided by the customer as part of the KYC process Data given by the customer in order to support a specific product purchase Data given by the consumer in order to use a specific service such as data aggregation tools
Consumer is not aware	Data collected by the provider during customer interactions Data collected by the provider on publicly available information (social media) Data provided to the provider by a third party such as credit reference bureau

This is increasing dramatically

How is this wealth of data used by financial services providers (both incumbents and FinTechs)

- **Customer profiling**: data stemming from on-line behaviour, geolocation tools, electronic payments and wearables can provide financial service providers with valuable insights on the financial lives of their customers and deliver more detailed customer segmentation.
- **Risk assessment**: data contributes to an assessment of risks based on multiple sources.
  - Credit: in jurisdictions with positive credit scoring systems (i.e. in which not only negative credit marks are reported by a central authority), big data and augmented analytics determined the emergence of credit scoring tools that integrate thousands of data points about individuals.
  - Insurance (see IPPFM papers)
- **Robo-advice** applied to develop a personal financial plan with a view to saving, saving for retirement, or investing.
- **Account aggregation**, i.e. the compilation of information from different accounts (checking, investments, savings accounts) in one single place to facilitate personal financial management

There are benefits for consumers, some already widespread

This has already brought benefits for consumers:

- **Extended reach,** eg using big data to create a credit score for previously ‘unscorable’ clients
- **Lower costs,** through increased competition and the emergence of FinTech companies in particular in the payments and lending segments.
- **Aggregator services** that use financial and payment data from bank accounts of consumers for dashboard and accounting products.
- The possibility of creating **personalised built-in nudges** in the personal financial management tools used by consumers.
- **Robo-advice,** which has made financial advice available to consumers that could not afford to receive financial advice through human interaction

.. But also risks:

Role of big data in determining insurance or credit decisions:

- Big data can be used to determine the risk profile of consumers with much greater detail– (e.g. for credit and insurance).
- Wider set of data about the individual consumer and – depending on the algorithm - information inferred on the based on consumers in similar data sets
- Depends on the applicable regulatory framework in each jurisdiction
- Greater risk discrimination can lead to better rates for some customers but also worse rates or exclusion for others

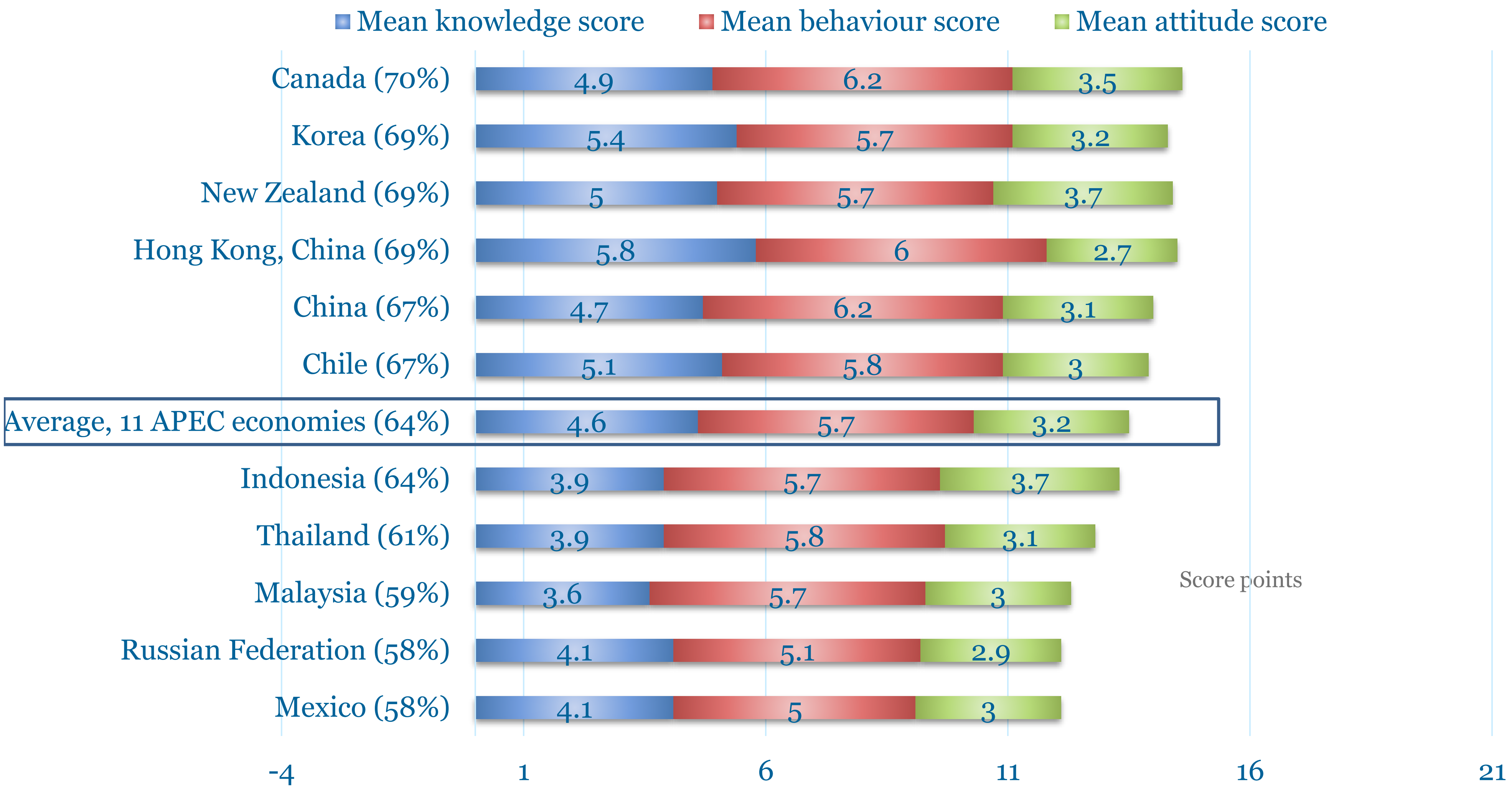
Cyber-security risks:

- Financial institutions hold valuable information and are a profitable target for cyber criminals.
- Data intensity (measured as the average volume of data stored per organisation) is highest in financial services (including securities and investment services and banking)

Mixed consumers' response

Strong awareness of cybercrime risks and importance given to data privacy	Despite these concerns, not all consumers apply the necessary steps to safeguard their personal data online
	Differences in risk perception and in response by target audience (above 65, no formal qualifications: more worried, but also less steps to increase security)
Willingness to trade personal data for added benefits	Some consumers (notably young, digitally skilled) would trade more personal data in exchange for lower costs or personalised services
	Some would go as far as banking with GAFAs
Consent it NOT informed	Even among consumers with high academic and socio-economic background
	This raises questions as consumers are being given more control over their data in some jurisdictions (EU GDPR)

Consistent with low levels of financial literacy



Sources G20/OECD INFE Report on Adult Financial Literacy in G20 Countries OECD/INFE International Survey of Adult Financial Literacy Competencies and SBIF (2016) Encuesta de medición de capacidades financieras en los países andinos: Chile 2016

What can be done to better protect and empower consumers?

Develop a national diagnosis	*Supply side*: • How financial services providers use consumers' personal data, in the framework of the applicable national legislation *Demand side*: • Attitudes towards privacy and personal data use • Consumers' understanding of digital footprint • Online security awareness
Ensure coordination	*Among public authorities*: • Coordinate with, or at a minima consult, the national data protection authority, if existing, or the public authorities with a legal mandate and effective means in the field of privacy and data regulation. *With the private and not-for-profit sector*: • Public authorities should seek to harness the knowledge of the private sector, and in particular of FinTech actors, to understand new developments in the field of personal data sharing.

New core competencies may be beneficial

Empowering consumers, including the most vulnerable, to counter new types of exclusion due to the misuse of various data sources, including big data, and digital profiling	
appropriately manage their digital footprint to the extent possible:	• *consumers should be aware of the analytical possibilities offered by big data, and that any online activity can be used by financial services providers to customise offers and define cost and range of product offer;* • *in countries with positive credit scoring systems in particular, consumers should understand that credit scoring decisions can be influenced by personal information that is not related to their personal credit history.*
avoid engaging in risky behaviours involving their personal data, and understand the consequences of sharing or disclosing personal identification numbers, account information, or other identifying information such as address, birth date or government-issued numbers whether digitally or through other channels:	• *target groups that display the lowest familiarity with online transactions and lowest levels of digital literacy should be prompted to take effective measures to safeguard their personal data and privacy.*
assess the kind of information that is requested by (financial) service providers to decide whether it is relevant and understand how it may be stored and used:	• *target groups that are willing to share more personal information with financial services providers in exchange for benefits, notably younger generations and the more technologically savvy, should be aware of the consequences to their privacy and should share non-essential additional information based on informed consent.*
Increase awareness of consumer rights with respect to personal data, and on the applicable regulatory framework, especially if this gives consumers new rights and discretionary control	• *In jurisdictions where changes to personal data regulations have assigned new rights to consumers, they should be informed through awareness campaigns.*

..core competencies (cont'd).

Protecting consumers and small businesses from increased vulnerability to digital crimes such as phishing scams, account hacking and data theft	
the existence of online fraud and of cyber security risks when choosing and using digital financial services for personal and business purposes and making financial transactions online, including when using account aggregation tools ("screen scraping");	• *Consumers - and the most vulnerable target groups in particular - should be alerted to the need of using strong passwords to protect their personal data and financial transactions online.*
the possibilities offered by account aggregation tools where these exist, and how to use and stop using such tools safely given that they are providing access to their account information to third parties;	• *Consumers understand data sharing revocation terms and when to revoke authorizations to access, use, or store data* • *Consumers understand that through screen-scraping, the passwords and login information remains with the third-party provider also when they stop using the service, increasing the likelihood of the password being stolen or misused.*

Digitalisation of financial services: cross OECD work to understand impact, spur dialogue, and provide policy solutions

Blockchain Policy Centre

Pensions
- Use of technology to enhance interactions with pension members
- Impact of technology on business models
- Regulatory approaches to Fintech

Insurance
- The sharing economy and insurance
- AI applications
- InsurTech

Robo-Advice
- Benefits and challenges
- Robo-advice platforms and role in promoting savings for retirement

- **Initial Coin Offerings** (ICOs) for inclusive SME financing
- (Digital) **Short-term consumer credit** and inclusiveness

OECD *Going Digital* project
www.oecd.org/going-digital

Global events

OECD Summit on Going Digital
11-12 March 2019

OECD Global Blockchain Policy Forum 2019
12-13 September 2019

THANK YOU

FEEDBACK AND COMMENTS WELCOME

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DIGITAL AGE AND CONSUMER PROTECTION OF FINANCIAL SERVICES IN INDONESIA
(The Role of Financial Services Authority amid the Growth of Fintech Industry)

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Abstract

Digitalization has penetrated various industrial sectors including financial services which have brought various changes in the production, distribution and consumption patterns. Like all new developments, there is potential for both increased opportunities and risks for consumers. It was broadly known that consumers of financial services were frequently damaged because of various unfair trade practices conducted by financial service providers, their low level of financial literacy, and the weakness of consumer protection policy. Making sure the foundations of a connected system are designed to benefit consumers will be essential. This article aims to explore the problems and challenges faced by policy makers, especially Financial Services Authority / *Otoritas Jasa Keuangan* (OJK) in protecting the interests of consumers of financial services in the digital era. One of the challenges faced by the OJK is running a dual role i.e. on the one hand should ensure financial services providers operate correctly and responsibly, and on the other hand also must empower and protect consumers' interests. This article respectively describes the rationality of consumer protection in the financial services, the dynamics of fintech growth and its problems, and concludes with an analysis of the role of OJK in the era of fintech industry.

Keywords: fintech, consumer protection, financial services, OJK

A. Introduction

Access to financial services that is stable, secure, and fair is strongly important for consumers around the world. In fact consumers often buy financial services products that are not suitable for their needs. Besides, the contract and the charge fees are also unfair and often detrimental for consumers. This is because the bargaining power of consumers is very weak in front of financial services providers. Consumers are facing more complicated problems because of the use of technology by the financial services industry and it had long been predicted. According to Moore’s law, the computing speed will grow exponentially the communication cost will continue to drop quickly. Without any doubt, the advance in IT will continue to play an important role in the development of the financial industry.[1]

The emergence of fintech industry actually aims to make financial services, banking and non-banking industries, more efficient. Access to financial services providers become

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[1] Steven Li, “Future Trends and Challenges of Financial Risk Management in the Digital Economy”, *Managerial Finance*, Volume 29 Number 5/6 2003, p. 115.

easier and faster as well. But unfortunately, the arrangements and the supervision of the OJK is still weak and has not been effective. On the other hand, consumers are still at a low level of financial literacy. There has been a growing recognition that limited consumer understanding of financial services, or a lack of financial literacy as it is often called, means that consumers of financial services are vulnerable to exploitation.[2] This is the condition which causes occurrence of cases in the field of financial services.

The development of fintech industry essentially already anticipated by OJK with OJK Regulation No. 77/POJK. 01/2016 concerning on Informational Technology Based Lending Services. OJK, which was established under the Law No. 21 year 2011, has been regulating the liability of the Financial Services Providers (FSP) to provide consumer protection. OJK has also set up a procedure of registration, licensing, lending to the rules about the billing. Then every fintech provider is obliged to register at OJK. However, the status listed at OJK is not a guarantee that they will not violate the rules and/or detrimental to consumers. Moreover, the data show an increasing number of fintech providers are not listed. For registered, OJK should remain punish them, such as revoke their permission, if fintech industry violated consumer rights.

Thus, without good and comprehensive arrangements as well as strict supervision, it is certain that business growth fintech may bring losses to consumers. Indonesia Consumer Organization Foundation (YLKI) for example, during the year 2018 has received more than 50 complaints online borrowing money (one of the type of fintech). Most of the complaints are related to unethical way in collecting debt, even calculation system of interest and fines that is not obvious and detrimental to the consumers.

According to Article 4 of Law No. 21 of 2011 about Financial Services Authority, states that one of the tasks of OJK is to give protection to consumers and/or the community. Therefore in order to provide consumer protection, OJK has issued OJK's regulation (POJK) No. 01/POJK. 07/2013 about the Protection of Consumers of Financial Services Sectors. The research question is how OJK Regulation provides consumer protection on one side and also delivers regulation to mitigate risk for the companies or related parties mainly in the context of the growth of fintech industry.

[2] James F. Devlin, "Monitoring the Success of Policy Initiatives to Increase Consumer Understanding of Financial Services", *Journal of Financial Regulation and Compliance,* Vol. 11 Issue: 2, 2003, pp.151-163, https://doi.org/10.1108/13581980310810471

Therefore, this article analyzes the importance of consumer protection in the the middle of fintech industries and examines the role of OJK through their related policies. This article respectively describes the rationality of consumer protection in the financial services, the dynamics of fintech growth and its problems, and concludes with an analysis of the role of OJK in the era of fintech industry.

B. Research Method

This was normative legal research based on the secondary data involving both primary and secondary legal material. The primary legal material consists of Law No. 21 of 2011 and OJK's Regulations concerning its role in the era of fintech industry. This research was enriched by an interview with some of OJK's staff and also by doing Focus Group Discussion (FGD) with financial industry representatives. The approach used was the normative juridical approach. Whereas analysis was carried out by using a qualitative approach.

C. Discussion and Analysis

1. Rationality of Consumer Protection in the Financial Services Sector

Consumer protection actually includes a variety of topics, but not limited to product liability, privacy rights, unfair business practices, fraud, misrepresentation, other business/consumer interaction. In the perspective of consumer protection, the Financial Service Providers (FSP) has the bargaining power that is relatively better and more dominant rather than consumers. Their bargaining position is more powerful in the middle of digital financial industry growth, among others, are characterized by the use of a standard agreement followed by unbalance provisions and tend to harm consumers. The consumer that was already in a very weak position, even will be more exacerbated by vague and misleading information given by FSP. Unfortunately most consumers rely solely on information about financial services products that will be bought from FSP only. Furthermore according to Angelo Capuano and Iain Ramsay[3] the weakness of the consumer of financial services include :

[3] Angelo Capuano and Iain Ramsay, "What Causes Suboptimal Financial Behaviour? An Exploration of Financial Literacy, Social Influences and Behavioural Economics, *Legal Studies Research Paper* No. 540: 2011, Melbourne Law School.

1. Consumers may not consider the key features of financial products before making a decision to purchase a product. This includes not considering risk and return, being over optimistic about return and having price insensitivity such that consumers are unaware of the actual cost of the products they hold;
2. Consumers may not read the terms and conditions of financial products;
3. Consumers may not compare the price and quality of different financial products from different providers;
4. Consumers may not evaluate financial products they already own to determine whether they are still needed;
5. Consumers may purchase financial products they do not need;
6. Consumers may not consider that the fees and charges attached to financial products contribute to the overall cost of owning those products;
7. Consumers may ignore their investment objectives and needs when purchasing financial products;
8. Consumers may be "short sighted", or look at initial short-term cost without fully considering long term benefit and cost;
9. A number of consumers rigidly "compartmentalize" money. This means that some consumers may allocate particular funds or a percentage of income to saving, and despite having accumulating credit card debt, continue to save and not repay that credit card debt.

One of the problems faced by financial services consumers is about the transparency of the product. The Consumers International[4] asserts that financial information should at least meet the criteria: clear, sufficient, reliable, comparable, and timely. Law No. 8 of 1999 concerning Consumer Protection also regulates the obligation of the businessmen to provide information that is clear, correct and fair. Meanwhile, in order to protect the interests of consumers and the public, Article 28 Law No. 21 of 2011 concerning Financial Services Authority allow to OJK to provide information and education to the public regarding the characteristics of the financial services sector, services, and products. But in practice, at least by examining the cases of financial services occurred, there are still many FSP violates their obligations and have an impact on consumer losses. It was shown at least by the amount of consumer complaints lodged to OJK.[5]

Then it is reasonable if OJK issued Circular Letter No. 12/SEOJK.07/2014 concerning Provision of Information for Marketing of Financial Products and/or Services. The essential principles in this letter requires FSP to:

1. deliver information regarding products and/or services that are accurate;
2. deliver information regarding products and/or services that are fair based on actual information about the benefits, costs, and risks of each product and/or service;

[4] Consumers International, "Safe, Fair and Competitive Markets in Financial Services: Recommendations for the G20 on the Enhancement of Consumer Protection in Financial Services" CI: March 2011.

[5] Total number of consumer complaint lodged to OJK since 2013 until July 2018 was 3.968 cases. The data was obtained from Adam Novriansyah, staff of Education and Consumer Protection Unit – OJK, 27 July 2018.

3. convey information regarding products and/or services that are clear and complete;
4. convey information regarding products and/or services that are not misleading;
5. pass information as mentioned in No. 1 - 4 along with information summary of products and/or services, marketing activities and advertising as well as other things that can be equated with it;
6. deliver concerning the realization of the issuing and/or change product features and/or financial services that require approval from OJK.

Access to obtain information that is correct and accurate as the basis of consumers to choose products, is one of the important things to be realized and guaranteed by the Government. Despite it being an obligation of FSP but OJK must ensure that FSP meet its obligations through effective and ongoing supervision. Various efforts to embody protection of financial services' consumer must be realized. In addition to encouraging products transparency, in consumer protection perspective there are few things that should be regulated such as: (1) standard mechanisms of consumer complaints; (2) the existence of the institution of an independent consumer dispute resolution; and (3) consumer education and empowerment programs.

Concerning with consumer education in financial services sector it ought to be noted ideas of Tim Kaiser and Lukas Menkhoff[6] that affirm several things: (1) effects of financial education depend on the target group: teaching low-income participants (relative to the country mean) and target groups in low-and lower-middle income economies have less impact; (2) the success of financial education depends on the type of financial behavior targeted. There is evidence that borrowing behavior may be more difficult to impact than saving behavior by conventional financial education; (3) increasing intensity supports the effect of financial education. Then Government and OJK whose have responsibility to do it, must be seriously prepare and develop consumer education programs effectively.[7] In its implementation, the involvement of Consumer Organizations, Association of FSP, and other related parties should be optimized.

Thus, consumer's access to justice should be enhanced and improved, not only through formal juridical approach but also using of sociological approaches. In this

[6] Tim Kaiser and Lukas Menkhoff, "Does Financial Education Impact Financial Literacy and Financial Behavior, and if so, When?", *DIW Discussion Papers*, No. 1562, 2017. *Deutsches Institut für Wirtschaftsforschung* (DIW), Berlin.
[7] Nowadays, OJK is preparing a draft of OJK Regulation concerning Consumer and Community Services to the Financial Services Sector in Financial Services Authority

case Iain Ramsay[8] argues that: "the question of access to justice has been an important theme in consumer protection. Redress institutions can effectively continue the goal of awarding compensation, settlement of disputes, behavior modification, and the development of norms, as well as give confidence to consumers and businesses in the market". In the meantime Klaus Viitanen[9] argues that consumers' access to justice can be divided into two groups: (1) the protection of the collective interests of consumers; such as through the regulation and supervision of the marketing as well as regulation and oversight of product safety; (2) the protection of the individual rights; where consumer rights are met in individual cases after a contract is completed or when a consumer is not satisfied with the product that they bought.

Furthermore Michell Lyttle[10] states that consumers' access to justice includes: (1) the ability to claim and succeed in obtaining compensation; (2) the ability to retain insufficient claims of evidence; (3) proportional costs; (4) effective and simple procedures; (5) rapid process from beginning to conclusion; and (6) the effective enforcement of a decision. Meanwhile Mary Donnelly[11] argues that financial services have particular features which make the issue of consumer access to justice/redress especially relevant. *First*, financial services often involve highly complex products. This gives rise to inevitable information asymmetry, where financial service providers know a great deal more about their products than even cautious and careful consumers. *Secondly*, many financial services are purchased on a "credence" basis whereby their value to the consumer becomes apparent only with the passing of time. For example, the determination of whether an insurance contract meets a particular consumer's needs typically becomes apparent to the consumer only when s/he makes a claim on the insurance policy.

In this context the great hope was also placed to OJK to realize consumers' access to justice in financial services sector through a variety of rules, policies and

[8] Iain Ramsay, "Consumer Law, Regulatory Capitalism and the 'New Learning' in Regulation", *28 Sydney L. Rev. 9*, 2006.
[9] Klaus Viitanen, "Consumer Law: Especially from the Viewpoint of Consumer´s Access to Justice", *Lecture Material*, University of Helsinki, October 2008.
[10] Michell Lyttle, "Consumer Access to Justice", *paper* on the Conference on Litigation Costs and Funding, University of Oxford Faculty of Law, 6-7 July 2009.
[11] Mary Donnelly, The Financial Services Ombudsman: Asking the 'Existential Question' (September 13). Dublin University Law Journal, Vol 35, pp 229-260, 2012. Available at SSRN: https://ssrn.com/abstract=2188845

programs. In the context of information, OJK should be able to make itself as the center of information for consumers of financial services at any time they requires information related products and other financial services. In this case OJK held its function as "financial adviser" (as in the United Kingdom there is The Money Advice Service) that play a role in providing information and advice to consumers with regard to financial services for free and independent. The independence of the institution who provides financial advice is strongly important according to Gerard Lemos[12] because: (1) consumer needs to be clear that a particular product is the one that he or she wants and will do the job expected of it; (2) after making a purchase, the consumer needs to know that if something does go wrong they have someone they can trust to turn for redress; and (3) the consumer wants to know that the government is on their side.

OJK should be more active and able to “equal” with FSP in influencing consumer decision making process, so that consumer decisions is taken consciously and appropriately and not just based on the advertising/promotion given by FSP. In this case Toni Williams[13] argues that: "Proponents of financial literacy education may assume that if firms can influence consumer decision-making processes so powerfully then financial educators also should be able to do so with well-designed interventions that are effectively delivered ". Moreover, with the use of technology in the field of financial services, market penetration on financial services sector has been going on with the massif, fast, and difficult to be controlled. The centrality of finance and financial markets to economic change has been dramatically reinforced by technological change, and this is leading to a new hegemony of financial markets in a more open and interdependent world. This new global transformation has gravely challenged the capacity of the state to provide effective governance of financial markets are not only themselves, but also of economic affairs generally.[14]

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[12] Gerard Lemos, ‘Towards a National Strategy on Financial Education”, *Presentation Paper* on Bank of Indonesia-OECD Regional Asian Seminar on Financial Literacy, Jakarta 27 June 2011.

[13] Toni Williams, “Empowerment of Whom and for What? Financial Literacy Education and the New Regulation of Consumer Financial Services”, *Law & Policy*, 29 (2) April 2007, pp.226 – 256.

[14] Philip G. Cerny, “The Dynamics of Financial Globalization: Technology, Market Structure, and Policy Response”, *Policy Sciences* 27, Netherlands: Kluwer Academic Publishers, 1994. p. 320

2. Dynamics of Fintech Growth and Its Problems

Article 4 of Law No. 21 of 2011 about Financial Services Authority states that one of the tasks of OJK is to give protection to consumers and/or the community. Therefore in order to provide consumer protection, OJK has issued OJK's regulation (POJK) No. 01/POJK. 07/2013 about the Protection of Consumers of Financial Services Sectors. This regulation is intended to apply the principle of balance, i.e. between the developing of financial services sector continuously and simultaneously provide protection to consumers and/or the community as a user of financial services. This rule contains 3 main aspects, namely: (1) improvement of transparency and disclosure of the benefits, risks and costs over the product and/or service of FSP; (2) the responsibility of the FSP to perform a conformity assessment of products and/or services to the risk faced by the consumer; (3) the simpler procedure and ease of consumer to lodge a complaint and dispute resolution over the products and/or services of FSP.

The growth of fintech industry, including peer to peer lending, became a challenges of OJK to further regulate it. The Non-Performing Loan (NPL) risk according to the data of OJK per December 2017 is 0.99% which is means that 0.99% of the disbursed loan stalled or failed to be returned by the borrower although the ratio of the loan stalled as of the end of May 2018 according to OJK has already dropped to 0.64%.[15] While the loans were distributed through the service of lending and borrowing is IDR 6.16 billion. Therefore approximately IDR 39,424 billion which are jammed.[16]

Relating to the efforts of pressing the NPL, some fintech service providers use: (1) collect loans from borrowers who have the NPL of 0.49%; (2) select a business segment services and creative industries because both have a relatively low risk; (3) in collaboration with the underwriting insurance to anticipate the NPL; (4) strict selection of partners for lenders and borrowers, among others, they have no record of debt loans and loans to productive effort; (5) using of artificial intelligence to evaluate the feasibility of loans, prevent, and detect fraud, as well as the guarantee of a loan.[17]

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[15] *Kompas* Daily Newspaper, June 19, 2018

[16] *Kompas* Daily Newspaper, July 7, 2018

[17] *Kompas* Daily Newspaper, June 19, 2018

The cooperation conducted by PT Asuransi Kredit Indonesia (Askrindo) and fintech service providers which in line with the trend of the financing which leads to digitally base, will be a challenge and at the same time opportunities for the company. The company's premium income was not the target, but the number of new clients from small and micro enterprise of financing technology-based. Askrindo targeting 10,000 new customers of small and micro enterprises of financing technology-based. More and more clients of fintech guaranteed, then more small and micro enterprises got the ease to develop their business.[18]

OJK also requires Fintech service providers to protection their consumer data security. Regarding this Krishnan Dandapani[19] asserts that "as the electronic modes of finance evolves rapidly across the globe, security and integrity concerns become acute." OJK has issued POJK No. 77/POJK. 01/2016 concerning on IT Based Lending Services or peer to peer lending to support it. Fintech platform in Indonesia is now obliged to sign up to OJK as proof of a commitment to consumer protection. Up to December 21, 2018, the total number of registered and licensed fintech providers is as much as 88 companies. Indeed OJK encourages people to use the services of fintech which is already registered/licensed in OJK. However, OJK does not able to control the illegal practices of fintech which are potentially harming consumers. Hundreds of illegal fintech service providers still operate and offer their products in the community.

Fintech service or peer to peer lending between interest parties becomes a means of encounter between investors and micro-enterprises who need additional funds. This service more favored because its business process more efficient as well as the regulation is more lenient especially regarding the procedures and requirements (compared with procedures and requirements that must be met by the prospective debtor if borrowing at the bank). However, this service risk is quite high due to the absence of the agreement of guarantee/collateral (special guarantee) either in the form of a guarantee over the moving objects or fixed objects as well as individual or corporate guarantee. In the process of peer to peer lending business which are

[18] *Business Indonesia* Daily Newspaper, June 28, 2018

[19] Krishnan Dandapani, "Growth of e-Financial Services: Introduction to the Special Issue", *Managerial Finance*, Vol. 34 Issue: 6, pp.361-364, https://doi.org/10.1108/03074350810872769

mediated by fintech companies, at least there are three parties involved in it i.e., the owner of the funds, the borrower of funds and fintech providers. The legal construction between them is not simple because it can be occurred: (1) between the owner of funds and the borrower of funds upon the intercession of fintech providers; (2) between the owners of funds with the fintech providers which is entrust their funds to the borrower. Various possibilities of legal construction over the triangle relationship bring each responsibilities consequence. The responsibility here is also has begun when the risk will be transferred to the insurance companies; who will be burdened to pay insurance premiums; and which property can be saddled by surety for the debt arising from the relationship of loan and borrowing money.

On the other hand if the debtor is not able to meet its obligations and then its status become gridlocked lending, it surely would be detrimental to the owner of the funds that put their money on the fintech companies. In this context consumer protection should be embodied, one of them is by involving insurance company (as risk guarantor). This cooperation will positively impact i.e. existence of users' convenience and increasing of public trust. In addition this mutual cooperation will raise trust of fund owners, retail, or institution being higher then can increase the on-time rate of return. After all, the development of platform fintech is something that is natural and attract the people who looking for a higher profit potential than conventional services while getting a simple, fast and easy service.

As the complement of POJK No. 77 of 2016 concerning IT Based Lending Services, OJK has also issued OJK's regulation No. 13/POJK.02/2018 about the Digital Financial Innovation (DFI) to further strengthen the consumer protection towards the risks that might be occurred in the era of DFI. Regulation about DFI is not regulating Fintech Company institutionally, but rather set of products, processes, and business models. This new regulation also does not regulate the prudential issues; all such matters are directly submitted to FSP.

Policy making of OJK based upon market-discipline approach. In this case there are three principles that must be met by fintech service providers i.e. (1) disclosure of information, (2) the creation of a code of conduct by fintech community, and (3) consumer protection. In the DFI's regulation there is fintech health program through the limited test space of fintech (called "regulatory sandbox"). Evaluator do not only come from OJK, but also from Central bank (Bank Indonesia) as well as the Ministry of Communication and Information Technology. The elected fintech providers will be allowed to follow regulatory sandbox. As for the criteria of fintech providers that would follow such program is based upon their new financial service innovation and their efforts to provide benefits to the public.

Actually fintech industries have been growing rapidly. Based on a survey conducted by OJK in collaboration with the Association of Fintech Service Providers, there are more than 187 start-up companies in the financial services sector operating in Indonesia and there are more than 500,000 conventional companies such as banks, capital market, insurance, financing institute and other who did the digital transformation in their services and products. Unfortunately, not all of them registered and fulfill requirements that have been defined by OJK. It means that OJK cannot reach fintech industries that operate illegally. In this case, OJK just declares public warning by issuing information concerning licensed fintech industries. OJK cannot use its authority to force and provide punishment to unlicensed fintech industries. The public must be aware to avoid damage caused by those industries.

In order to protect the interests of consumers (either a lender or borrower), OJK issued a press release No. SP-05/VII/SWI/2018 about "Task Force on Investment Vigilant" that encourage people to beware towards unlicensed Fintech Peer to Peer Lending. The core of the press release is warning the public to always check the legality of fintech service providers (fintech peer to peer lending) to OJK because based on OJK Regulation No. 77/POJK. 01/2016 nor OJK Regulation No. 13/POJK.02/2018, fintech service providers are mandatory filing of registration and licensing into OJK. OJK's Task Force on Investment Alert have found that over 200 entities who perform business activities of peer to peer lending are not registered or do not have a business license. OJK's Task Force also asks the public not to establish business relations with them because they are not under supervision of OJK and potentially detrimental to society.

On the other hand, the growth of start-up business in financial services sector will improve financial services to the public and could be speed up the realization of the digital economy. Thus, it can encourage the acceleration of the financial inclusion especially for those who are not able to reach banking services. The phenomenon of the fintech growth has certainly encouraged OJK to strengthen market discipline-based approach (market conduct) as already stated in OJK Regulation No.13/POJK.02/2018. The steps taken by the OJK aims to strengthen the structure of financial services, protect consumers and safeguard the stability of the financial system.

OJK argues that the market discipline approach is taken because the pattern of development of fintech industry follows the market's demand. For example, in the financing of trade in fintech sector peer to peer lending affected investors in determining the magnitude of interest rate. It could not be approached with prudence principle as concerns third party funder. However, OJK will remain monitor its progress by not immediately determining the upper limit of interest rates on fintech peer to peer lending. OJK also encourage the association of fintech providers to supervise the growth of startup business so as not grow into the new "moneylender" model. These are in OJK Regulation No. 13/POJK.02/2018 referred to as the principle of independent monitoring. OJK opens an opportunity in fintech sector innovation, but it must be done responsibly with upholding consumer protection and maintain the stability of the financial system. By paying attention to their responsibility, the growth in fintech industries is expected to increase the level of financial inclusion in Indonesia. In this case, Messy-Anne Flore[20] argues that in order to improve financial inclusion qualitatively, supply-side approaches should be combined with demand-side strategies which includes financial education and consumer protection. Improved financial literacy in particular can help ensure consumers are aware and make savvy use of financial services available to them for all stakeholders' benefits.

As it known financial inclusion in Indonesia is still growing slowly. Slow growth in financial inclusion can be caused due to non-price barriers (e.g. because of the absence of financial institutions in this area - the supply curve is vertical at zero for them) and the issue of cost (price) charged to the consumer for any service. Lack of access because banks do not serve a particular area or charge too much may arise because of a low level of competitiveness in the banking system.[21] Fintech industry therefore needs to contribute to improve and accelerate the growth of financial

[20] Anne Messy Flore, "Role of Coordinated Financial Education Strategies to Improve Financial Inclusion: an International Perspective", *Presentation Paper* on Bank Indonesia - OECD Regional Asian Seminar on Financial Literacy, 27 June 2011.

[21] Stijn Claessens, "Access to Financial Services: A Review of the Issues and Public Policy Objectives", *the World Bank Research Observer*, vol. 21, no. 2 (Fall 2006).

inclusion. They can collaborate with the banking industry to provide better financial access to the community. Banking is geared towards supporting the platform fintech providers, including peer to peer lending which is based upon information technology. During this time the banking and the platform fintech providers is still running alone. By using of technology and innovation, they can fill the gap and eliminate dependence on bank in various economic financing. Fintech has to take their role in strengthening the structure of financial services. During this time, the structure of the financial services was still superficial; 74% of national financial services are still dominated by the banking. Of that total, about two thirds were dominated by huge banks owned by the Government. OJK notes that inclusive financial ratios in Indonesia has reached 63 percent of the total population by the end of 2017. At the end of 2018 OJK's target in inclusive financial ratio could reach 70 percent and 75 percent being in 2019. Is it optimistic figures? Of course it could be debatable.

3. The Role of OJK in Fintech Industrial Era

As mentioned above, trend of the growth of fintech industry is already happening and its existence becomes a phenomenon that "rip off" and disrupt the practices of conventional financial institutions. The Asian Development Bank[22] also noted that fintech industry has greater scope for reducing costs and improving service quality. For example, by utilizing Big Data, machine learning and alternate data. Fintech companies can also develop innovative risk assessment model to generate credit score for consumers with a limited credit history. In addition its challenge is the company's need to build stable fintech ecosystem and costly effective in Indonesia.

Therefore OJK in accordance with the tasks and functions should keep paying attention to the growth of fintech business and regulates them properly. Although OJK is already attempting to regulate the fintech service providers in order to protect the interests of consumers, for example by obliging fintech industry to register to OJK, but in fact only a small part of fintech industry listed at OJK. As mentioned above, up to December 21, 2018 total number of registered and licensed fintech business as much as 88 companies and hundreds of other did not registered. Their existence is

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[22] See: ADB, "How fintech can accelerate financial inclusion in Indonesia", https://blogs.adb.org/blog/how-fintech-can-accelerate-financial-inclusion-indonesia accessed at Oktober 5, 2018

potentially harming consumer. Even many consumers have been already complain their losses to some consumer organizations. In this case, OJK should take more serious steps to prevent consumer losses and not enough just by a public warning

Indeed OJK should strengthen the fintech industry in Indonesia through its arrangements and oversight, to control its risk and to ensure that their growth bring benefit to the public and there is no legal vacuum on it. This is called by Folarin Akinbami[23] as an interventionist approach. Akinbami identifies the interventionist approaches to consumers protection are characterized by the greater involvement of government or regulators in the monitoring of suppliers and sellers of goods and services in a bid to protect the interests of the consumers. Typical interventionist approaches include bans and regulation, altering the default rules and risk-sharing. Interventionist approaches in financial services include conduct of business regulation and product regulation.

Therefore the existence of OJK Regulation No.13/POJK.02/2018 should be followed with law enforcement both by preventive or repressive ways. In this case OJK (and supported by other government institutions) should take steps that are already recommended by the ADB[24] as follows: (1) creating a national digital identification system will ensure that every Indonesian has a unique demographic number. This will help address the root of the problem, namely the know-your-customer verification; (2) expanding access to financial services. The government's push for digitization of government-to-person payments is an important initiative; and (3) leveraging the near-universal penetration of mobile phones, which have become the primary medium through which consumers get their information. They also facilitate new types of information including extremely precise, real-time, geo-location information in the form of transactions, inquiries, and SMS. Use of mobile phones for financial services provision might facilitate access in developing countries, where mobile phones are often more widespread than fixed lines and can have a lower threshold for many users than banks do.[25]

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[23] Folarin Akinbami, "Financial services and consumer protection after the crisis", *International Journal of Bank Marketing*, Vol. 29 Issue: 2, 2011, pp.134-147, https://doi.org/10.1108/02652321111107620
[24] ADB, *op.cit*.

[25] Stijn Claessens, *op.cit*., p. 229.

The success of the future of fintech in Indonesia also relies on effective regulation. It means that the risks associated with the providers and products that are driven by new technology should be well understood and managed efficiently. Regulation increases transparency, decrease of the risk of fraud, data usage violation, and increase market confidence that can accelerate the acceptance of fintech. The existence of effective regulation is very important because basically, the start-up is a disruptive innovation that is innovations that help create new markets, disturbing or damaging the existing markets. They are looking for opportunities where the regulations do not exist or are not clear. Fintech companies trying to do various things in a way that is cheaper, more efficient, and transparent compared to the traditional financial institutions.

Besides OJK should continue to optimizing the existence and role of the "OJK Innovation Centre for Digital Financial Technology/OJK INFINITY" to protect the interests of consumers. Things related to the consumer data protection must be well-ordered by OJK in such manner in order to the fintech industries implement good corporate governance principles such as risk management to push transparency, accountability, responsibility, independence and justice. Transparency is the key factor of success of fintech development through clear reporting systems to consumers and OJK. To improve transparency, there should be a standard about the types of information that must be owned by fintech industry and how more detail information should be provided. These things should be better regulated by OJK, clearer and detail, including in establishing of the loan transactions, electronic applications (with authentication and fraud detection in the online application), web sites, and privacy concerns.

Similarly with the transparency of information concerning with the rights and obligations of each parties, such as investors, borrowers, fintech platform, bank correspondent regarding potential income, potential risks, costs, results, risk management and mitigation if failure occurred, then it must be opened widely. Another important thing is establishing effective communication with consumers, either through the phone, texting, chatting, sending emails, and encouraging the fintech to do that through clear regulations and standards.

OJK also should ask the fintech industry to provide financial education to consumers so that they have better understanding regarding fintech service. All that is needed by the consumer of financial services as mentioned Gerard Lemos above.

However expectation to the fintech company to educate consumers should not be separated from the intervention of OJK to ensure that all of fintech industry assignments will be well implemented. With adequate financial literacy at consumer level, the expected market conditions would be more efficient because consumers will be more critical and have enough capability in responding to the various offers come from FSP. Angelo Capuano and Ian Ramsay[26] said that: "financially literate consumers are more financially efficient. Seeking and purchasing 'better, cheaper and more appropriate products and services can drive efficiencies in the financial industry'. This leads to increased competition, better quality products and greater innovation and diversity in the market. Knowledge of consumer rights and contracts also allows consumers to evaluate products more carefully and as a result demand more from suppliers."

D. Conclusion

OJK are still face a lot of challenges and obstacles in implementing its policies especially in the growing of fintech industry. One of OJK challenges in this case is its capability to control and regulate the growing of fintech in one side and provide consumer protection in other side. Besides that support of the Government policy in terms of consumer data management system or secure digital nationwide identification system is absolutely needed. One of them is immediately stipulate the Law of Personal Data Protection as a legal basis for OJK Regulation on consumer data protection.

OJK must continue to improve their internal systems in order to make them more effective in building an integrated surveillance system. OJK also should optimizing their role in preventing harm of consumers through various preventive actions and increase consumer education in financial services issues. Development of fintech supporting infrastructure should be conducted including the existence of comprehensive and effective rules. Last but not least, improving of consumer financial literacy through various programs that involving related stakeholders such as Universities, Fintech Industry Association, Local Governments, and Consumer Organizations, should be strengthened. In this case OJK must aware that they have limited capacity to implement its tasks and responsibilities.

[26] Angelo Capuano and Iain Ramsay, *op.cit.*

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<for 2019 IAFICO>

Culture & Cultural Difference in Global Financial Regulation

August 20, 2019

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Motivation

- Culture Matters in General.

: Max Weber (1905), Francis Fukuyama (1995), Samuel Huntington (1997), …

- How do Financial Cultures Differ across countries ?

: Chen, Chun Hua (2013), Jung, Hongjoo (2016),…

- What has been being done w.r.t. culture in Financial markets ?

: KPMG (2016), Evolving Banking Regulation Part Five: Culture and Conduct.

: Power, Michael, Simon Ashby, Tomaso Palermo (2013), Risk Culture in Financial organization, Research Report, LSE and so on.

: De Nederlandsche Bank (2015), Supervision of Behavior and Culture: Foundation, Practice & Future Developments.

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- What is to be done or explored w.r.t. culture ?

1. Concept of Culture

Definition

Culture

- Value System
- Behavioral Pattern
- Symbol System

Classification of Culture

- Religion
- Region
- Language
- Life Style

2. Culture Comparison

1 Cultural Dimension

1 Hofstede(1980)

<table>
<tr><th colspan="2">Dimensio</th><th>Meaning</th></tr>
<tr><td colspan="2">Power Distance</td><td>• Fear of Subordinates against Superior
• Top down decision making</td></tr>
<tr><td colspan="2">Uncertainty Aversion</td><td>• Conservative, Pessimistic, Passive</td></tr>
<tr><td rowspan="2">vs</td><td>Masculinity</td><td>• Highlighting income, promotion, competition</td></tr>
<tr><td>Feminism</td><td>• Emphasizing relationship, cooperation, security, environment</td></tr>
<tr><td rowspan="2">vs</td><td>Individualism</td><td>• Independence</td></tr>
<tr><td>Groupism</td><td>• Group or family protection</td></tr>
<tr><td colspan="2">Future Orientation</td><td>Saving or education for future</td></tr>
</table>

1 Culture Dimenson

2 Minkov(2011)

Industry	vs	Indulgence	Pride	vs	Modesty
Hard working		Enjoying life	Consistency and intolerance		tolerance
Instinct	vs	Reason	Exclusion	vs	Inclusion
Competitiveness and short sightedness		opposite	Xenophobia		Open-minded

2. Characteristics of national Culture

2 Some Examples

[1/2]

USA	Horizontal, Individualistic, Pragmatism, Indulgence
Korea, Japan, Indonesia	Masculine, Uncertainty Averse, Pragmatism
U.K.	Horizontal, Individualistic, Uncertainty loving, Indulgence
France	Vertical, Individualistic, Uncertainty Averse,
Germany	Uncertainty Averse, Pragmatism, Indulgence
Italy	Masculine, Uncertainty averse, Individualistic
China	Industry, long-term orientation

03. Research on Global Insurance Culture

1 Survey Questions

Source : Jung, Hongjoo (2016), Insurance Culture in the World, Pubple

stakeholder	Survey Questions
consumer	1.How much Uncertainty Averse ? (Uncertainty Aversion)
	2.Goal of insurance contracts ? Risk management or Relationship management? (Individualism)
	3.Decision making ? Short-term or Long-term ? (Future Orientation))
Salesperson	4.Highlighting sales performance or customer relationship ? (Masculinity)
	5.Preferring retention of existing customer or new business ? (future orientation)
	6.Fearing insurance company ? (power distance)
Insurance company	7.Focusing on survival and business risk ? (uncertainty aversion)
	8.Emphasizing market share or industry ranking ? (individualism)
	9.Loving differentiation? (individualism)
	10.Promoting performance ? (pride vs. modest)
	11.Fearing supervision agent ? (power distance)
	12.Revenue or profit over customer interest ? (masculinity)
Supervision Agent	13.Public interest over private interest ? (individualism)
	14.Openness among banking, capital market and insurance ? (exclusiveness vs. inclusiveness)
	15.Protection of consumers over protection of both companies and consumers
	(sharing responsibility of company default) ? (conservativeness vs. innovativeness)
	16.Impartial against foreign or new companies ? (uncertainty aversion or conservativeness)

2 Summary of Replies

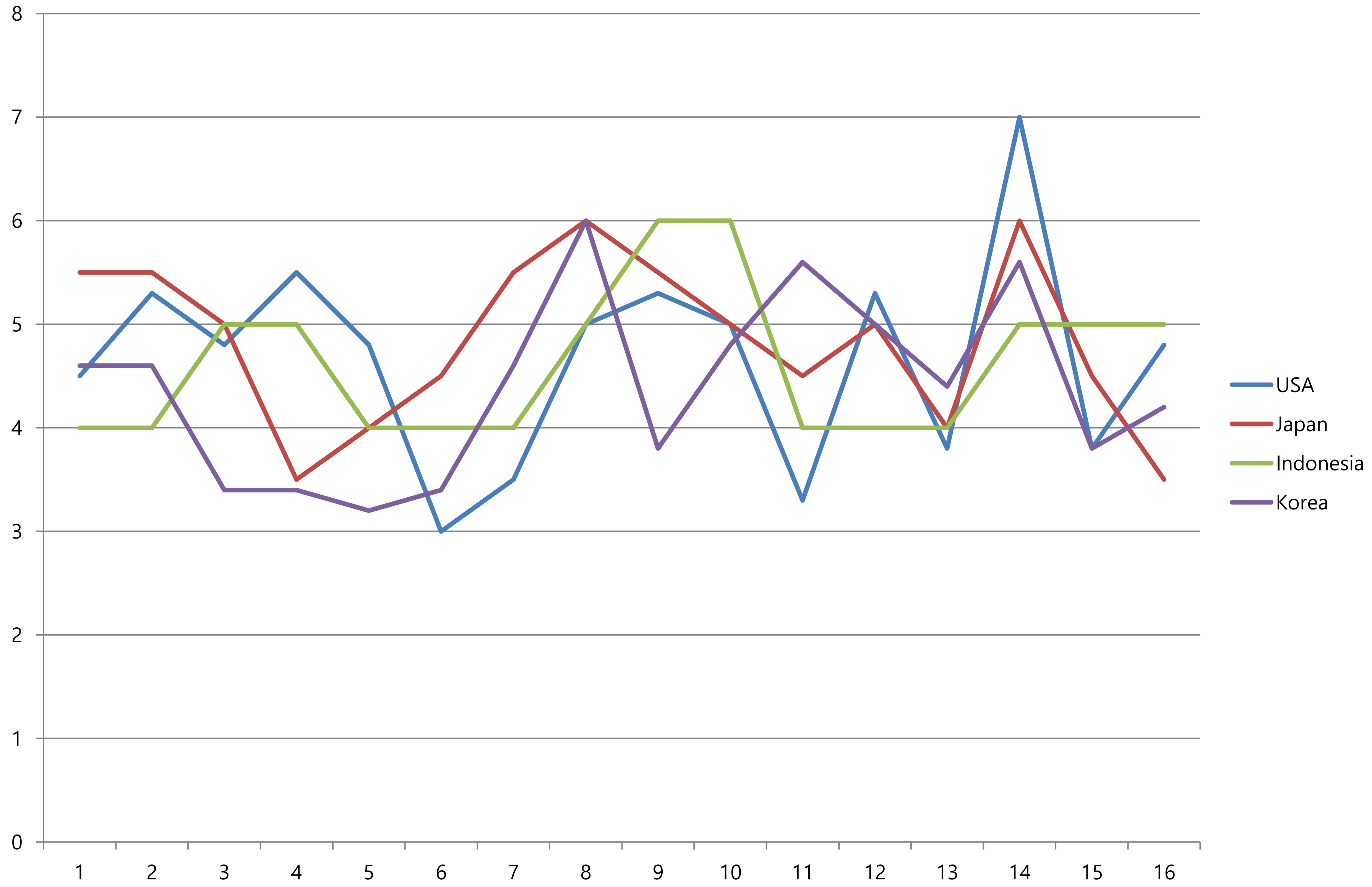
Source : Jung, Hongjoo (2016), Insurance Culture in the World, Pubple

stakeholders	usa	japan	uk	france	germany	italy	chna	india	indonesia	brazil	russia	taiwan	iran	*kore*
consumer	4.5	5.5	6.0	4.0	5.5	5.0	4.0	5.0	4.0	3.0	4.0	6.0	4.0	*4.6*
	5.3	5.5	6.0	5.0	3.5	6.0	3.0	4.0	4.0	2.0	6.5	6.0	3.5	*4.6*
	4.8	5.0	7.0	3.0	3.0	1.0	3.5	6.0	5.0	2.0	2.0	6.0	2.5	*3.4*
salespersons	5.5	3.5	5.0	4.5	3.5	2.0	3.0	3.0	5.0	4.0	2.5	5.0	2.0	*3.4*
	4.8	4.0	4.0	3.5	3.0	1.0	4.0	4.0	4.0	3.0	3.5	5.0	2.0	*3.2*
	3.0	4.5	2.5	4.0	5.0	5.0	5.0	3.0	4.0	2.0	2.5	4.0	2.0	*3.4*
Insurance companies	3.5	5.5	5.0	5.0	3.0	6.0	4.5	4.0	4.0	6.0	4.0	4.0	6.0	*4.6*
	5.0	6.0	6.0	5.5	6.0	3.0	4.0	6.0	5.0	6.0	6.5	7.0	6.0	*6.0*
	5.3	5.5	5.0	5.5	6.0	4.0	4.0	4.0	6.0	4.0	5.5	5.0	4.0	*3.8*
	5.0	5.0	4.5	4.0	5.5	7.0	4.0	5.0	6.0	7.0	5.5	6.0	7.0	*4.8*
	3.3	4.5	4.5	5.0	4.5	3.0	4.0	6.0	4.0	5.0	6.5	5.0	5.5	*5.6*
	5.3	5.0	5.5	5.0	4.5	7.0	2.5	6.0	4.0	5.0	6.0	5.0	6.5	*5.0*
Supervision agents	3.8	4.0	5.5	4.5	4.0	6.0	3.5	6.0	4.0	7.0	3.0	5.0	6.0	*4.4*
	7.0	6.0	1.5	6.5	5.5	2.0	4.5	7.0	5.0	7.0	5.5	6.0	4.0	*5.6*
	3.8	4.5	4.0	5.0	5.0	2.0	3.0	4.0	5.0	4.0	4.0	5.0	3.5	*3.8*
	4.8	3.5	7.0	5.5	5.0	5.0	4.0	5.0	5.0	6.0	3.0	5.0	2.0	*4.2*

3. Research on Global Insurance Culture

3 How is Korean Culture in Insurance Market?

stakeholder	Survey Questions	Korea Situation
consumer	1. How much Uncertainty Averse ? (Uncertainty Aversion)	4.6
	2. Goal of insurance contracts ? Risk management or Relationship management? (Individualism)	4.6 low
	3. Decision making ? Short-term or Long-term ? (Future Orientation))	3.4
Salesperson	4. Highlighting sales performance or customer relationship ? (Masculinity)	3.4 low
	5.Preferring retention of existing customer or new business ? (future orientation)	3.2
	6.Fearing insurance company ? (power distance)	3.4
Insurance company	7.Focusing on survival and business risk ? (uncertainty aversion)	4.6
	8.Emphasizing market share or industry ranking ? (individualism)	6.0
	9.Loving differentiation? (individualism)	3.8 very low
	10.Promoting performance ? (pride vs. modest)	4.8
	11.Fearing supervision agent ? (power distance)	5.6 very high
	12.Revenue or profit over customer interest ? (masculinity)	5.0
Supervision Agent	13.Public interest over private interest ? (individualism)	4.4
	14.Openness among banking, capital market and insurance ? (exclusiveness vs. inclusiveness)	5.6
	15.Protection of consumers over protection of both companies and consumers	3.8
	(sharing responsibility of company default) ? (conservativeness vs. innovativeness)	
	16.Impartial against foreign or new companies ? (uncertainty aversion or conservativeness)	4.2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Indonesia
Korea

	USA	Japan	Indonesia	
1	-0.37	0.46	-0.83	
2	0.43	0.46	-0.83	
3	1.13	1.16	1.38	consumer long term orientation
4	1.83	-0.34	1.38	
5	1.33	0.36	0.58	new business orientation
6	-0.67	0.66	0.38	
7	-1.37	0.46	-0.83	
8	-1.27	-0.44	-1.23	
9	1.23	1.26	1.98	differentiation strategy
10	-0.07	-0.24	0.98	
11	-2.57	-1.54	-1.83	power distance
12	0.03	-0.44	-1.23	
13	-0.87	-0.84	-0.63	open mind
14	1.13	-0.04	-0.83	
15	-0.27	0.26	0.98	
16	0.33	-1.14	0.58	

4. Recent Policy Research on Culture

1 Research on Culture in Financial Regulation/Supervision

: Power, Michael, Simon Ashby, Tomaso Palermo (2013), Risk Culture in Financial organization, Research Report, LSE and so on.
: De Nederlandsche Bank (2015), Supervision of Behavior and Culture: Foundation, Practice & Future Developments.
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4. Recent Policy Research on Culture

2 Research Outcomes

: Importance of Culture in behavior, conduct and performance of financial institutions
: Most of financial failures are related to corporate culture (including ethics)
: Trying to influence the culture by supervision agents without finding optimal universal culture yet (relating to goal of financial institutions)
 * What is the optimal Risk Culture?

5. What is to be done from now on?

Academic Research

Value of Culture

- Ideal Financial Market Structure & Outcome
- Relationship between Culture and Performance
- Cultural Variation across countries

Policy Research

- Consumer
- Industry
- Regulator
- Global world

Summary

- Culture, the value system determining behavioral pattern of people or human organization, is getting more attention in financial supervision system, particularly in some European countries.
- This paper reviews some policy and academic research on the relationship between culture and financial regulation after showing cultural difference among countries.
- Although financial regulators pay attention to industry culture, we need also to look at regulators' culture and their difference as well as consumers' difference in culture.
- Behavioral economics or finance needs to shed light on financial regulation or on financial consumer protection for development of financial system.

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Thanks for your attention