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A Digital Financial Education to Support the «New Normal» in the Post-Pandemic Era

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Executive Summary

*The Covid-19 pandemic has accelerated the digital transformation strategy of firms, which have followed the technological path to support business continuity online, in response to government restrictions. The effectiveness of these business strategies depends on the familiarity and awareness of consumers with the use of online channels and therefore with the use of digital payments necessary to conclude transactions in marketplaces. In this context, **digital financial education**, seen as the knowledge of financial payment instruments (instant payment, app, credit or debt card, token, etc.), is fundamental to counter the slump in demand, to support consumption, and to encourage more rapid recovery of the economy.*

*Our contribution is related to the topic «Skills to develop in a post-covid-19 world». The contribution outlines a series of recommendations aimed at elevating and strengthening the degree of Digital Financial Education of individuals who, related to an acceleration of digital transformation in firms during the pandemic, can counteract the socio-economic effects of the health emergency. Inter alia, we believe that policy makers should, first of all, **formulate a digital financial education strategy at the country level**. Furthermore, they must detect and monitor the level of financial education of the country over time. They should also promote training courses, role-playing games, competitions, information and training initiatives aimed at improving the financial education of customers, distinguishing communication channels by type of target (young people, adults, the elderly). Information campaigns can promote a conscious use of digital tools, in order to reduce the risks of fraud.*

Furthermore, policy makers together with financial intermediaries (incumbent banks, fintechs, crowdfunders, etc.) must reduce the costs of digital financial instruments, in order to facilitate their dissemination and mass-use. Lastly, cooperation on a regional scale could create ideal conditions for digital transformation. These are policy actions that can stimulate economic recovery in the southern area of Europe and also in the non-EU Mediterranean Countries, characterized by a high level of digital divide compared to Northern Europe.

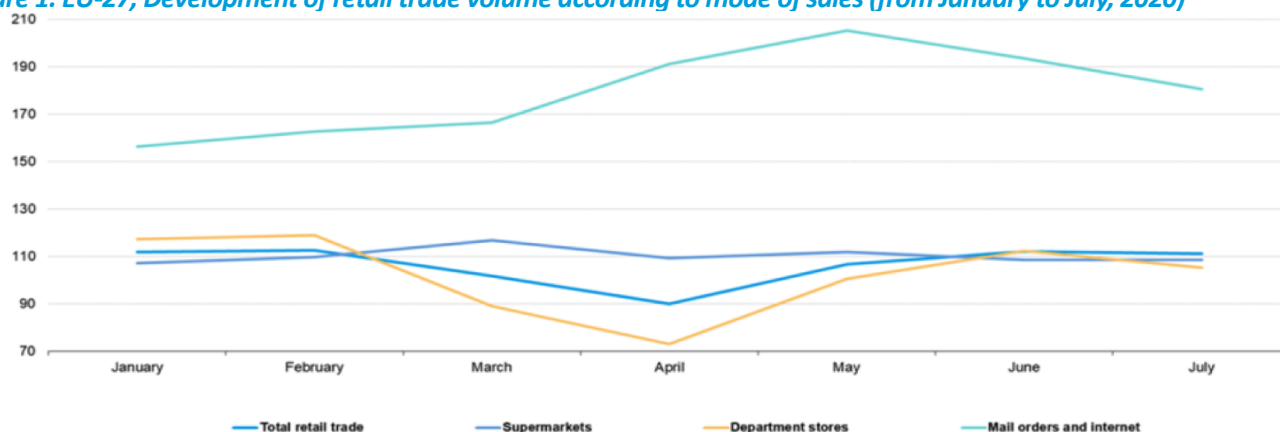
1. Introduction : Rising digital trends following lockdowns

The coronavirus pandemic that is threatening our health has forced all affected countries to implement restrictions in order to contain the risks of contagion. These restrictions inevitably slowed down economic processes in various industrial sectors. In order to ensure «business continuity», some firms have accelerated the use of digital transformation solutions, in some cases in an improvised or unplanned manner, in an attempt to minimize the economic damage caused by the lockdowns. Specifically, many firms have resorted, in the back-office, to smart-working solutions for personnel management, and in the front-end, to the activation of digital distribution channels to ensure the marketing of their products/services on the market, thus limiting the economic and financial damage caused by the coronavirus. Indeed, it is observed that the pandemic has generated an acceleration of the digital transformation in various economic sectors. Consequently, there is also a change in the habits of consumers who, out of fear of contagion and bound by the lockdown situation, have courageously pushed towards solutions and online purchasing methods to satisfy even basic necessities.

The e-commerce sector has been instrumental in coping with coronavirus restrictions. Since the start of the lockdown, marketplace or e-commerce solutions have recorded exponential growth, particularly in the sale of basic necessities. As pointed-out in fig. 1, Eurostat data (2020) shows the volume of retail trade, in the different modes of sale (supermarkets, department stores and Internet sales). As supermarkets generally remained open during lockdown measures in March and April, an increase in sales was registered in March. However, sales returned to normal levels in the following months. Closed department stores in many countries have experienced a decline that has not yet been offset. Meanwhile, internet sales had already been increasing for several years and the Covid-19 crisis further reinforced this trend as sales through this channel increased dynamically in March, April and May. With the reopening of stores in European countries, the development of Internet sales slightly slowed-down in the months of June and July, but the level of sales is significantly higher than that of February 2020.

Furthermore, since the COVID-19 outbreak, electronic payments in general and specifically contactless payment methods at the point of sale have surged in popularity (ECB, 2020). Therefore, to remain competitive, firms will have to make their logistics more dynamic and will have to develop new methods to attract and retain customers. It is thus necessary to prepare the entire digital ecosystem to better protect consumers and firms that use this technology. Consequently, the diffusion of such purchase methods through online channels towards older consumers (alongside digital natives) requires the need to include transactions and online payments in the «new normal». Above all, barriers to consumer distrust vis-a-vis digital payments must be removed, ensuring transparency and increasing safety in use.

Figure 1. EU-27, Development of retail trade volume according to mode of sales (from January to July, 2020)



2. Issues that impede on potential benefits remain, especially in the Mediterranean

There are difficulties in managing digital channels, which vary from country to country and even more from region to region because of the «digital divide». In fact, there are countries/regions that, even before the pandemic, used to offer smart-working services, as well as online shopping services and digital payments, unlike other countries anchored to a more traditional type of work and commerce. In Europe, the latest survey of the Digital and Economy Society Index (DESI), referring to 2020 and published annually by the European Commission, highlights a strong disparity between North and South and greater digitization of processes in Northern European countries, who are also among the world leaders in technological innovation. Among the Mediterranean countries, Italy ranks fourth to last in the ranking, well below the European average (European Commission, 2020). Only Romania, Greece, and Bulgaria perform worse, while the countries with the highest index are Finland, Sweden, Denmark.

As for the south and east Mediterranean, use of digital technologies is growing but there is still a need to address network deployment and affordability issues. Online retail spending is very low, close to \$100 per Internet user annually. Small and medium sized businesses (SMBs) barely use the Internet. Countries such as Jordan and Lebanon have higher internet penetration due in part to their urban nature (ICANN, 2017). In Jordan in particular, digital economic transformation is more than apparent, as the number of e-wallets doubled during the lockdown (Zawya) . Meanwhile, countries such as Algeria, Egypt, Morocco and Tunisia have lower literacy than their Levantine counterparts and a total of 100M citizens are still unconnected (ICANN, 2017). As a whole, the level of digitalization of businesses is lagging behind in non-EU Mediterranean countries. In these countries, in fact, instead of online and mobile payments, cash-on-delivery remains a primary mode of payment, constraining e-commerce growth. Additional problems, such as corruption, political instability, government bureaucracy, inadequate supply of infrastructure, limit the development of a digital economy (World Economic Forum, 2016).

The economic literature has addressed in detail the issue of digital transformation in businesses, identifying benefits and at the same time suggesting that it is an important driver of economic growth, capable of improving the competitiveness of businesses to the extent that the related risks are consciously managed (Godwin et al., 2020). This concept was taken up in a recent European Investment Bank report of 2019, where it was shown that firms that use digital technologies operate more efficiently than non-digital firms, which they would therefore not be able to better cope with this pandemic crisis.

The benefits do not stop only at businesses but **also extend to society**, especially in the pandemic era where digital technology has allowed citizens to avoid unnecessary travel thus staying at home and avoiding contagion risks (Chiou L. & Tucker C., 2020). It has been demonstrated how the transition to e-commerce has allowed a drop in prices thanks to greater competition, an expansion of the range of products and services offered (Brynjolfsson & Hu, 2003). As shown by a study conducted by the European Commission on the Member States, these benefits have allowed a general increase in household consumption and GDP, identifying a further margin of increase in the removal of barriers (JRC Technical Report, 2015).

In 2019, The Italian Digital Commerce Consortium (Netcomm) found, compared to 2018, a 15% increase in the value of online purchases in Italy, thus representing the highest increase ever achieved. The trend indicates that the current crisis will soon generate an even more substantial increase (ECB, 2020). Italy, as can be seen from the DESI index, is a country that still uses cash in commercial transactions. According to a report by Bank of Italy, the use of cash as a form of payment amounted to 86% of payments in Italy for 2018. This figure is mainly caused by the lack of financial education on the topic of digital payments. In Italy, in fact, there is still a strong diffidence towards this practice, like in other Mediterranean countries.

One of the main reasons is the lack of perception of money that is spent digitally. It is therefore necessary to implement **an education program that will direct consumers towards a more aware use of digital payments**. A cashless society would also represent a turning point to reduce the so-called «shadow economy». This is precisely the direction that is being followed in Italy, through the 2020 budget law, also thanks to the lockdown situation that has forced consumers to approach the world of digital payments.

Digital education is also linked to other social issues internationally, such as gender inequality. An OECD study (2016a) finds high gender differences in financial knowledge. In 19 out of 30 countries, population evidence reveals significant differences between the percentage of men and women who meet the minimum target on financial knowledge questions: financial knowledge scores are significantly lower for women than for men, even taking into account differences at the level of country, age and education. Limits of this type also characterize non-EU SouthMed Countries that have cultural and restrictive social norms. In this perspective, the development of a digital economy could further promote the social inclusion of women too, improving their integration into the world of work and business and promoting female business owners.

The mentioned benefits will be the starting point for an economic recovery. Therefore, all countries must accept this change, providing regulation that will eliminate the obstacles underlying the transformation. It is therefore of fundamental importance, to date, to address the issue of digital transformation to provide appropriate recommendations for Mediterranean policy makers.

3. Approach and Results, with special focus on the Italian example

With regard to the digital transformation of businesses in the COVID-19 era, during the lockdown, University of Salento (Italy) conducted a research aimed at businesses positioned in the southern Mediterranean area of Europe, in particular in Puglia, in order to evaluate what solutions were taken to support their business models during the coronavirus pandemic. This research was carried out through a questionnaire submitted to over 1,000 firms. The data shows that only 7.59% of the interviewees did not activate the smart-working mode in their organization, while 22.73% activated it only for some business processes and 69.68% activated it for the entire organizational structure.

Meanwhile, research focusing on other countries in the South Mediterranean where e-commerce is developing, such as Egypt, shows that 51% of adults still continue to pay «cash on delivery» for e-commerce purchases (Arezki et al., 2018). Nonetheless, some have recently shared ambitious plans, such as Morocco, where a five-year roadmap for the digitization of the country was recently approved; a 470 million euro program which aims to make Morocco the digital hub of Africa. Similarly, Tunisia has launched a National Strategic Plan named “Tunisia Digital 2020” which includes Smart Tunisia, a program devoted to the development and promotion of offshoring. This program offers multiple incentives for operators investing in this sector. This is a 5-year plan, with the aim of spreading the use of ICT technologies in the country’s economy, in order to significantly increase the number of jobs and export revenues in the ICT sector. This strategy aims to make Tunisia an international digital reference and make ICT an important lever for socio-economic development. Through this strategy, Tunisia would like to create employment, added value from innovation and improve the competitiveness of businesses.

For any country, moving the business to the online channel is closely linked to the need to conclude transactions through digital payments. In recent years, there has been an increase in the number of entities using alternative payment systems to cash as well as in the number of instruments that can be used to make payments. In addition to the classic credit or payment cards, it is possible to take advantage of the NFC technology of smartphones and smartwatches, a technology that allows to make payments

comfortably and quickly, also thanks to the development of user friendly applications, based on peer-to-peer technology. Regarding Italy, according to the Mobile Payment & Commerce Observatory of the School of Management of the Politecnico di Milano (2019), payments via smartphone or smartwatch will reach a value between 5 and 10 billion euros by 2021. The latest statistics on payment, published in May 2020 by the Bank of Italy, identify an increase in the use of payment cards as an alternative system to cash, while the use of checks, credit transfers and collection orders decreases. In 2019, the milestone of transactions with personal credit cards worth over 71 billion euros was reached. This trend is expected to grow further during 2020, given the constraint on travel restrictions that has led people to approach the world of online shopping.

In addition, the World Health Organization recently recommended to reduce the use of cash, as a potential contagion vehicle, thus further favoring the use of payment cards. This factor, however, could expose consumers to scams. In order for a country to be placed in the highest positions in the DESI ranking, the payment card holder must know the full functionality of this tool and rely on secure electronic transactions, to avoid being exposed to risks of fraud. One of the practices that undermine the security of digital payments is that of phishing, through which hackers take possession of the data of an account holder with the consequent misappropriation of his savings.

Another aspect that must be considered to encourage the use of electronic payments, concerns the commissions that merchants must incur. On this point, the Italian budget law 2020 introduced incentives for merchants who have POS, through the application of a 30% tax credit on the commissions applied to electronic payments for those who have an annual turnover of up to € 400,000. A further aspect not to be underestimated is the lack of perception of money and the fear of not having control of expenses, aspects that can be treated through effective and targeted financial education on the use of these financial instruments. The issue is also important in consideration of the expansion of the offer of payment instruments by fintechs, alongside the incumbent banks. These new operators offer innovative payment solutions that are different from traditional ones (see apps, cryptocurrencies, etc.).

These issues could be destined to disappear over time if the fears related to security and the perception of money are resolved so that these technologies become part of the daily life of the individual consumer. This could happen if the consumer acquires financial education that can facilitate a conscious and safe use of the payment instrument. The road ahead, as far as merchants are concerned, is a bit more uphill. In fact, it is necessary to reduce the commissions that banks apply on electronic payments, in order to make the merchant, if not inclined, at least indifferent to the acceptance of digital payment instead of cash.

4. Conclusion

The health crisis has accelerated the digital transformation of businesses and, consequently, consumers have approached online commerce to satisfy their needs. Firms have activated e-commerce services to ensure higher levels of turnover in an era where freedom of movement has been limited to reduce coronavirus infections. The considerable increase in online portals has triggered a mechanism by which consumers have necessarily had to deal with the use of digital payments, in a region such as the Mediterranean where, however, there is a habit of making purchases offline using cash and characterized by a high level of the digital divide. A real digital transformation post COVID requires adequate **financial education**, in order to eliminate all taboos surrounding digital payments, transmitting to consumers the concept that the use of electronic payment instruments is now part of normalcy. In some cases, it is also necessary to provide additional solutions to specific problems which limit digital economic development, such as an inadequately educated workforce (as in Turkey and Morocco), corruption (as in Albania), access to financing (as in Cyprus) (World Economic Forum, 2016).

5. Transferability of the Potentials Discovered & A-S-I Approach into the MED Context

The issue of payments is very important because, on the one hand, it favors economic development and recovery especially after the health crisis, on the other hand, however, it requires awareness and education in the use of payments by individuals. Supporting the diffusion of digital payments is equivalent to raising awareness of the skills of the individual, therefore educating individuals on the use of digital payments. The existing literature states that **there is a knowledge gap on financial education for young people**, although they are important users of digital technology, but even more so for adults, who have greater availability of wealth to spend. In this particular pandemic context, the digital transformation of businesses is important to support the balance and to counter the economic recession that is expected for 2020. The sustainability of firms must also be ensured through sufficient payment flows in a period in which the use of cash is feared, as a potential contagion vehicle. Therefore, particular attention must be paid to the financial instrument of electronic payments, used by people who have been «educated» to do so.

For these reasons, it is considered appropriate to **implement policy measures aimed at raising the level of financial and digital education** of individuals through a higher knowledge of the methods of use, as well as the technical and financial characteristics of the various digital payments (app, debt or credit card, token, instant payment, etc.) (see also OECD, 2016b). The measures that government bodies are recommended to take should be aimed at the general public, **young and old**, especially those who do not have the opportunity to autonomously raise their financial knowledge through school or university. Further interventions should be envisaged to reduce gender inequality and also favor the social inclusion of precarious social classes, especially in the South and East Mediterranean.

Having identified the reference targets, targeted initiatives can be carried out for each of them. As regards the **financial education of young people**, days could be included in the secondary school program to teach the right and conscious use of smartphones and smartwatches to make payments, warning against possible risks that could be incurred with these technologies. So that this initiative is not rendered in vain by the complexity of the topic, young people's attention could be attracted through practical examples, role-playing games, or in the form of recreational activities. Another effective technique for reaching young audiences is **through social networks**. In fact, one could take advantage of the long time that children spend on social networks to carry out advertising campaigns, exploiting both the advertising spaces made available by the producers of the applications and exploiting the media power of the so-called influencers or even, through videos on digital platforms (Tik Tok, Instagram, Facebook, etc.). Such training tools should also be implemented in agreement with the financial intermediaries (incumbent and fintech) that offer digital solutions.

As far as the education of adults is concerned, **awareness campaigns** could be undertaken, exploiting the television spaces intended for advertisements or making ad hoc television programs in time slots where attention is greatest for this target. In this case, the message should be as clear and simple as possible, in order to attract the attention of older people who are more resistant to change, as they are often not used to the use of the internet and electronic equipment such as smartphones.

On the issue of gender inequality, **advertising campaigns** related to specific products intended for a female audience could be promoted or, again, female entrepreneurship tools should be promoted by the non-profit sector. For this category, as well as for less well-off social classes, a favorable or reduced tax policy (ex. tax relief) could be promoted that spreads the use of digital technology in the economy. Furthermore, it would be important to organize short training courses, at particular times of the day or through newspapers, in order to provide these categories with the financial knowledge to integrate in the economic system.

On the side of businesses, banks, and financial intermediaries, the government should implement **policies that will reduce, in terms of costs, the differences between accepting cash and accepting digital payments**.

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Promotional campaigns aimed at the aforementioned targets could be launched by banks and fintechs, which distribute digital payment instruments at extremely low cost, and could bring disadvantaged individuals closer to financial innovation.

With regards the south and east shores of the Mediterranean, it would also be important for countries to have suitable regulations regarding personal data confidentiality, data governance and digital security. Currently, the south and east Mediterranean is the area where the population's confidence in personal data protection is the lowest in the world, which contributes to slowing down digital use (Augier & Francois, 2019). Financial intermediaries, for their part, should put in place effective **information solutions**, aimed at the various users of digital payments, also to protect the consumer from the risk of computer fraud, in addition to providing internal security mechanisms for their payment system.

Finally, a factor that will be decisive for the Mediterranean as a whole is cooperation on a regional scale. Having similar regulatory frameworks and norms and harmonizing interoperability among all countries would create ideal conditions for digital transformation. In this perspective, for example, an **international scientific committee** could be set up, composed of members from various countries, which - together with the various international institutions – would promote a common economic digitization strategy in the Mediterranean, based on **exchanges of ideas, experiences, virtuous programs and educational cross-country initiatives**.

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CMI-FEMISE "COVID-19 MED BRIEFS"

The recent coronavirus crisis threatens the health, economies and societies of all countries, regardless of level of development. In the South Mediterranean countries the fight against the pandemic is even more complicated. It must be done with limited health and economic resources compared to other regions. In addition, it takes place in a unique social and geopolitical context.

Cooperation and EU-Med strategies in key sectors are needed. Therefore, CMI and FEMISE have decided to join forces and launch this series of Policy Briefs to pave the way for thematic analyses and prescriptions, which will be explored throughout this series.



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