

# Financial Education/Consumer Education : An essential component of the fast evolving financial landscape

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# Outline

**Financial education: a growing policy priority  
in the new financial landscape**

Addressing policy and stakeholders' concerns:  
**The international OECD financial education project**

**OECD and its INFE's main messages**

**Challenges ahead ongoing  
and future endeavours**

# What is financial education?

## OECD 2005 Definition: A **Capacity Building Process**

*“by which financial consumers/investors improve their **understanding** of financial/insurance products and concepts; and through information, instruction and/or objective advice develop the **skills** and **confidence** to become more **aware** of financial risks and opportunities to make informed choices, to know where to go for help, and take other **effective actions** to improve their financial well-being and protection”.*

➔ Outcome is **Financial literacy/capability...**



# Financial education: a growing policy priority in the new financial landscape

- 1) An overlooked premise of the sustainable and inclusive development of financial services and their regulatory framework**
- 2) A critical skill in the context of changing equilibrium and financial landscape**
  - Increasing transfer of risks to individuals**
  - More consumers have access or should have access to financial services**
  - More complex sophisticated financial landscape**
  - Prudential Regulation is not enough**



- ⇒ **Asymmetry of information, knowledge and power**
- ⇒ **Importance of individuals' financial decisions but...**

## Financial education: a growing policy priority in the new financial landscape (cont.)

### 3) In all countries -albeit with important disparities-, worryingly low levels of financial (OECD/INFE 2010 survey):

- Attitude : Confidence and Care
- Awareness, Knowledge and Understanding
- Skills (shopping around)
- Responsible behaviours

⇒ A few telling examples :

- ⇒ Only **10% of respondents** provided correct answers to a series of very simple financial knowledge questions (source US 2009 survey)
- ⇒ At the same time, **37% self-assessed** their financial knowledge as very high
- ⇒ Globally surveys show that **young people, women, low income groups display** much lower level of financial knowledge
- ⇒ A majority of individuals have difficulty in planning ahead -and for retirement -and do not feel confident dealing with financial issues



⇒ Only “good news” from the crisis: the public is more interested in financial issues: a “**teachable moment**”?

## Financial education: a growing policy priority in the new financial landscape (cont.)

- 4) Together with financial consumer protection, financial education has become one of the pillars of the new financial regulatory framework  
(Source OECD/INFE 2009 & 2010 surveys)
- Increasing number of dedicated financial education initiatives and development of **national strategies in more than 20 surveyed countries**  
(Source OECD/INFE Survey 2010)
  - Financial education policies goes hand in hand with a global **shift towards reinforced consumer protection illustrated by the 2 most recent :**
    - ➔ G20 Communiqués in November in Seoul and February in Paris

***Efficient financial education* should benefit  
all involved stakeholders ...  
but should be integrated through a *holistic approach***

**Which includes:**

Financial  
inclusion and  
access  
strategies

Financial  
education  
and  
awareness

Financial  
consumer  
protection

Competition  
governance  
and prudential  
regulation

# OECD Response : A Global Financial Education Strategy

Started in **2003**

Purpose: respond to the objective of policymakers and other stakeholders to **improve financial literacy**

Serviced by 2 OECD committees

- The Committee on Financial Markets
- The Insurance and Private Pensions Committee

3 pillars :

1. Data collection, research and international analytical framework
2. Internationally recognised standard setting objectives
3. International dissemination and co-operation

Extensive and global programme of work



# 1) Reference international research and work

**2005 – OECD issued the first international publication on financial education**

**2008 – First analysis on:**

- Risk awareness and insurance education
- Private Pensions and saving for retirement



**2008 – Several reports on specific issues:**

- Credit
- National pension awareness
- Annuities and FE
- Risk awareness on large-scale risks
- FE at schools
- Evaluation of FE programmes



## 2) OECD : the international standard-setter on financial education

### 4 sets of recommendations

**Principles and Good practices on Financial Education and Awareness**  
(endorsed by OECD Council in 2005)

Good Practices for Financial Education Relating to **Private Pensions**  
(endorsed by OECD Council in 2008)

Good Practices for Enhanced **Risk** Awareness and Education on  
**Insurance** Issues (endorsed by OECD Council in 2008)

Good Practices on Financial Education and Awareness Relating to  
**Credit** (endorsed by OECD Council in 2009)



⇒ **More to come notably on financial education in schools**

# 3) Global dissemination and ownership

## International Network on Financial Education

- Public experts on financial education from **76 countries and 160 public bodies**
- 6 meetings since 2008
- 2011 meetings : Toronto, 25 May; Cape Town, 26 October
- **All Public experts interested in financial education are welcome to join**

## Creation of regional fora

- Central Banks in Asia (in March 2010); second meeting in June 2011 in Jakarta

## Co-operation with international stakeholders

- Relevant international partners: the EC, the IMF, the World Bank, the ILO, AFI
- OECD and major global economies (through MOU)
- Selected market players and NGOs

### 3) Global dissemination : selected OECD international events on financial education

- New Delhi, 2006
- G8 in Moscow, 2006
- Istanbul, 2007
- Washington D.C., 2008 with US Treasury
- Bali, 2008, with Bank Indonesia
- Brazil, Rio de Janeiro, 2009
- Bangalore, 2010 with RBI
- with Central Bank of Italy and Lebanon in June 2010 and Oct 2010

#### **FORTHCOMING EVENTS**

**OECD – FCAC Financial Literacy Conference,  
Toronto, 26/27 May 2011**

**OECD-South Africa Conference on Financial  
Education, Cape Town, 27/28 October 2011**



# 3) International Gateway for Financial Education

*First global clearinghouse on financial education*  
[www.financial-education.org](http://www.financial-education.org)

International Gateway for Financial Education - Windows Internet Explorer provided by OECD - 28 October 2010

http://www.financial-education.org/pages/0,2987,en\_39665975\_39666038\_1\_1\_1\_1\_1,00.html

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International Gateway for Financial Education

**IGFE**  
INTERNATIONAL GATEWAY FOR FINANCIAL EDUCATION

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This programme is developed by the OECD


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**International Network on Financial Education**

- > Sign-in or join the Network

**IGFE - International Gateway for Financial Education**



The Gateway serves as global clearinghouse on financial education, providing access to a comprehensive range of information, data, resources, research and news on financial education issues and programmes around the globe.

The Gateway was developed as part of the OECD Project on Financial Education.

URL for this site: [www.financial-education.org](http://www.financial-education.org)

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## 1) FRAMEWORK

- ✓ **Complement but not substitute to the regulatory framework and market conduct**
- ✓ **Assess the needs and gaps in financial literacy and map existing programmes**
- ✓ **Identify clear and realistic policy goals**
- ✓ **Earmark long-term and sustainable resources**
- ✓ **Prioritize target audience**
- ✓ **Design evaluation at the outset of programmes**

## 2) STAKEHOLDERS' ACTIONS AND ROLES

- ✓ **Coordination of initiatives at national level:**
  - **Establishment of national strategy**
  - **Avoiding duplication and setting responsibilities**
- ✓ **Governments as coordinators/facilitators**
- ✓ **Specific requirements for financial institutions:**
  - **Financial education is part of good governance**
  - **Accountable and responsible for:**
    - Provision of suitable information and advice
    - Promotion of financial awareness
- ✓ **Involvement of a variety of partners**  
NGOS, private and local networks and actors

### 3) APPROPRIATE and ADAPTED TOOLS

- ✓ Focus on **”quality disclosure ”**
- ✓ **Start as early as possible and at school**
- ✓ **Ongoing, life-time and continuous** process
- ✓ Identify **target audience** and their preference
- ✓ Use a **variety of channels and medias**
- ✓ **Develop relevant resources**
- ✓ Use **simple, engaging and tailored messages**
- ✓ **Teach the “teachers”**



## 4) FINANCIAL EDUCATION'S LIMITS

- ✓ FE is **no panacea** and is a **long-term process**
- ✓ FE has **limits**: links between financial knowledge and behaviours are not obvious
- ✓ FE is a new policy priority: more robust **evaluation** on efficiency of various programmes and international measure and data on financial literacy are **needed**
- ✓ **Consumers are not rational** :
  - ✓ Passive behaviours even if they are properly informed
  - ✓ Numerous psychological/behavioral biases
- ✓ **Solutions** to counter these limits at least on the short term (default mechanisms) should be considered where necessary
- ✓ **Appropriate regulation** to prevent notably fraud & bankruptcies and offer easy redress and **improve the quality of financial information and transparency**

# OECD/INFE ongoing work: Responding to challenges ahead

Expert INFE subgroup on **evaluation of financial education**  
Guide and method and Principles to be released in 2011

Expert subgroup on **measurement of financial literacy**:  
First results of pilot exercise : May 2011

**Inclusion of financial literacy in PISA 2012 : first framework available**

Expert subgroup on financial education **at schools**  
Outputs : guidelines, learning framework, comparative reports -2011

Expert subgroup on the **development of national strategies**  
Outputs: high level principles and report in 2011

# OECD/INFE ongoing work: Responding to challenges ahead (cont.)

Specific research on behavioural and psychological economics  
(special academic session in Rome and in Canada- forthcoming)

Work on the roles of financial intermediaries (case of insurance sector)

Focusing on **major policy priorities:**

- **pensions** (awareness, DC schemes, pensions coverage)
- **credit; savings and investment**

Special attention to **vulnerable groups and especially women**

Development of work in complementary fields :

- **Financial inclusion** : INFE subgroup
- **Consumer protection** : new OECD Task Force to respond to G20 call



Financial education remains  
a relatively new policy area which benefits from  
the experience and expertise of  
various stakeholders

Looking forward to a fruitful discussion  
**THANK YOU!**



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International Gateway for Financial  
Education

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