



OICU-IO스코

“Investor Education: IOSCO’s Perspective and the Latest Research”

2014 European Regional Committee,
Seminar Training Program



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Building
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BaFin
Frankfurt, Germany

IOSCO's Work - Investor Education

- IOSCO Principles of Securities Regulation
 - Importance of investor education, key issue 6 of Principle 3
- “Regulators should play an active role in the education of investors and other market participants.”

IOSCO's MOST RECENT ACTIONS

- Many IOSCO members play a role in delivering or facilitating investor education
- June 2012 *Investor Education: An Analysis of IOSCO Member Websites and Web-based Information* by IOSCO Education and Training Team
- February 2013 *Report on Investor Education Initiatives Relating to Investment Services* by Committee 3
- May 2013, approval by IOSCO Board for formation of new Committee 8 on retail investors

Spanning the Globe



Looking for Investor Education

투자자 교육

尋找投資者教育

En busca de la Educación del Inversor

A la recherche de l'éducation des investisseurs

a avea in grija educarea investitorilor

BAHITHIN 'ALA ET TA'LIM EL MOUSTASMIR



IOSCO's INVESTOR EDUCATION PORTAL

Members Lists | Links | Joint Forum | Monitoring Board | Monitoring Group | IFRS Database | Investor Alerts | **Investor Education** | Resea

Investor Education Portal

The online investor education information that can be searched by using the tool below, is being voluntarily provided and maintained by IOSCO members. You can search by selected investor education topics, IOSCO members, or by jurisdictions.

Jurisdiction: Member:

Investor Education Topics Select All

General Information

- Stated Goal of Investor Education Program
- Stated Institutional Support for Investor Education
- Other authority(ies) in my jurisdiction providing Investor Education
- What is New? (New programs, developments, policies etc.)

Investor Education Materials

- Investing - Basic Materials
- Investing - Advanced Materials
- Investment and Understanding Risk and Rewards
- Different Types of Investments
- Calculators / Tools
- Materials Relating to Scams, Frauds, and/or Alerts to Investors
- Classroom Instruction Materials
- Complex and/or New Financial Products
- Unique Resources for Investors

Specific Materials, Instruction, and Pedagogy/Methodology for:

- Youth (Grade School)
- High School
- Saving for College
- College

Specific Materials, Instruction, and Pedagogy for Assisting Certain Groups:

- Single Young Adults
- Married Young Adults
- Adults with Children
- Preparing for Retirement
- Retirement
- Military
- Investors who have "some" experience in investing

Evaluation and Research:

- How do you evaluate investor education initiatives?
- How do you determine if the investor education program influences investors in their investment decisions?

Any investor education program that has been proven to be successful in positively impacting investors:

- Program
- Supporting Research

http://www.iosco.org/investor_education/?section=portal

http://www.iosco.org/investor_education/

The Challenges: Does Investor Education Work and Does It Make a Difference??

1. Difficult undertaking given the complexity of today's products. (Slides 7 -10)
2. Financial literacy is not the only element for good financial decision making.
3. Inefficiency. Limited resources.
4. For some, personal finance classes increase confidence without improving ability – potentially leading to worse decisions.
5. Avoiding a regulation through education model that might blame investors for their plight, shaming them and deflecting calls for effective regulation.
6. Does the effectiveness of financial literacy education lack empirical support?

U.S. District Judge Katherine Forrest on the Jury Understanding Complex Securities Products the Goldman Sachs “Fabulous Fab” Trial (Summer 2013):

- “Be gentle.....”
- “I think the jury’s lost,” ...Fab’s attorney
- “They [the nine jurors] are going to have no idea what you’re talking about unless you explain the terms ... they are just going to be horrified that they’ve been picked...”
- "A synthetic CDO is gibberish," "You need to explain it and then come back to it and explain it again maybe," Judge Forrest ordered. "Have a heart."
- “You guys are going to have a hard time making this case non-mumbo jumbo...”
- ...explaining “gibberish” like C.D.O.’s to the jury. “Do not assume people know what an investment bank does.”

“NEW TERMS” USED TO DESCRIBE CDOs (At Fab’s Trial)

- “The most sophisticated bettors in the world were the only ones who got a seat at this table.”
- One investor bets the bonds will fail; another bets they will pay out, creating what is called a “zero-sum game.”
- “The only people who can bet are qualified intuitional investors.”
- Consider CDOs in terms of “fantasy baseball.”
- “Bookie” ...”Casino,” “Bet” on the National Baseball League...”Set the odds,” Betting against the house,...

“Contemporary Personal Financial Management”

- Skills Needed to Compare Two ARM:
 - Indexes, margins, discount caps on rates and payments, negative amortizations, payment options, and recasting (recalculating) your loan.
- Skills needed for retirement planning include:
 - the ability to predict rates of return – even if “past performance is no guarantee of future results.”

The Data: RANDOM SAMPLE:

The key is the use of statistically derived random sampling procedures. These ensure that survey results can be defended as statistically representative of the population. Surveys that do not follow these procedures can produce results that lead to misguided market research, strategic, or policy decisions.

Any so-called "survey" in which no attempt is made to randomly select respondents, such as call-in readers' or viewers' "polls", is likely to produce results that in no way reflect overall public opinion--even if many thousands of individuals participate.

<http://www.olma.vt.edu/courses/5115d/week5-random.html>

Which feature is more important?

1. Having a guarantee that your initial investment is secure, even if the growth potential is low
2. Having a high growth potential, even if there is some risk for losing your initial investment

U.S. Investors' Preferred Feature for a Retirement Account

Which feature is more important to you in a retirement account -- having a guarantee that your initial investment is secure, even if the growth potential is low (or) having high growth potential, even if there is some risk of losing your initial investment?

	Rather investment is secure, even if growth potential is low	Rather high growth potential, even if risk of losing investment	No opinion
	%	%	%
All investors	64	33	3
Retired	78	18	4

Gallup Poll

Lydia Saad

Investors Risk- adverse when it comes to retirement savings

March 31, 2014

Are you feeling pretty good these days about the amount of money you have to spend, or not?

Are you feeling pretty good these days about the amount of money you have to spend, or not?

By self-reported annual household income

	% Yes	% No
U.S. ADULTS	45	54
Annual income <\$48,000	35	64
\$48,000 to <\$90,000	50	50
\$90,000 to <\$240,000	59	40
\$240,000 or more	59	40

Gallup Daily tracking, 2013

How much confidence do you, yourself, have in banks?

Banking Baby Boomers' Trust in Banks

How much confidence do you, yourself, have in banks?

Among those with active bank accounts

	A great deal	Quite a lot	Some	Very little
Generation Y/Millennials (1980-1996)	25%	34%	33%	8%
Generation X (1965-1979)	18%	29%	42%	11%
Baby boomers (1946-1964)	12%	34%	42%	11%
Traditionalists (1900-1945)	15%	43%	34%	9%

Based on November 2013 retail banking study of 11,809 adults with bank accounts

GALLUP®

Gallup Poll
 Daniela Yu and Julie Ray
 Baby Boomers Put More Money Than Trust in Banks
 January 21, 2014

At what age do you expect to retire?

Baby Boomers' Expected Age of Retirement

At what age do you expect to retire?

	Baby boomers
64 or younger	27%
65	24%
66 or older	39%
Never	10%

Dec. 6-29, 2013

Gallup Daily tracking

GALLUP®

Gallup Poll
Jim Harter and Sangeeta Agrawal
Many Baby Boomers reluctant to retire
January 20, 2104

Thinking about money for the moment, are you the type of person who— enjoys spending money(or who)more enjoys saving money?

Americans' Saving/Spending Preferences and Annual Household Income

Thinking about money for a moment, are you the type of person who -- [ROTATED: more enjoys spending money (or who) more enjoys saving money]?

	Under \$20,000	\$20,000- \$29,999	\$30,000- \$49,999	\$50,000- \$74,999	\$75,000 or more
Spending money	30%	36%	35%	42%	43%
Saving money	66%	61%	62%	56%	55%

Aggregated data, 2009 to 2013

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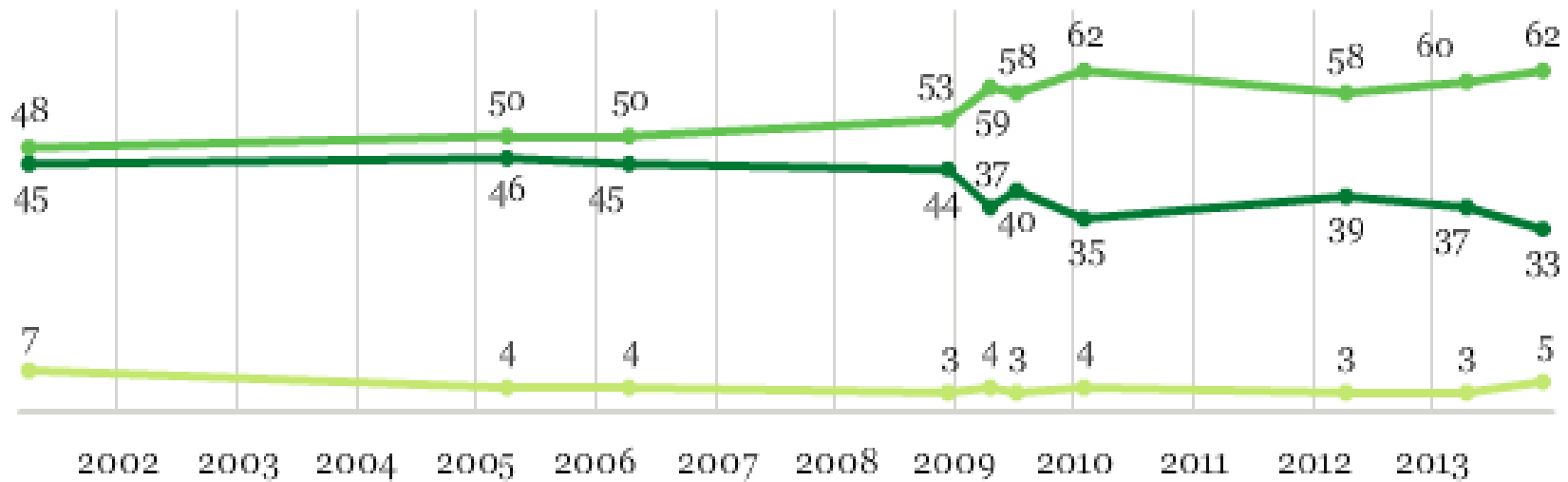
Gallup Poll
 Andrew Dugan
 Saving Most Popular Among Lower Income Families
 December 27, 2013

Are you the type of person who-- more enjoys spending money (or who) more enjoys saving money?

New American Pastime: Saving Money?

Thinking about money for a moment, are you the type of person who -- [ROTATED: more enjoys spending money (or who) more enjoys saving money]?

■ Spending money (%)
 ■ Saving money (%)
 ■ No opinion (%)





Percentage yes

ALL	32%
EDUCATION	
High school or less	26%
Total college	38%
IDEOLOGY	
Conservative	35%
Moderate	33%
Liberal	29%
PARTY ID	
Republican	34%
Independent	36%
Democratic	26%
HOUSEHOLD INCOME	
\$75,000 or more	39%
\$30,000 to less than \$75,000	30%
Less than \$30,000	32%

April 11-14, 2013

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Please tell me if you or your spouse or partner do any of the following to help with your personal finances?

Prepare a detailed written or computerized household budget each month that tracks your income and expenditures?

Today's schools should...

Expectations for Today's Schools Among the American Public

"Today's schools should..."

	% Strongly agree
Teach students critical thinking skills	80
Teach students communication skills	78
Teach students how to set meaningful goals	64
Know how to motivate students	61
Teach students how to collaborate	57
Foster students' creativity	58
Promote students' wellbeing	54
Build students' character	51

May 7-31, 2013
PDK/Gallup poll

Gallup Poll
Dennis Jacobe, Shane J. Lopez and Valarie Calderon
Americans say U.S Schools Should Teach "Soft" Skills
August 21, 2013

How would you rate your financial situation today- as excellent good, only fair, or poor? Right now do you think that your financial situation is getting better or worse?

	% Excellent/Good	% Getting better
18 to 29	48	73
30 to 49	43	53
50 to 64	44	37
65+	48	23

April 4-14, 2013

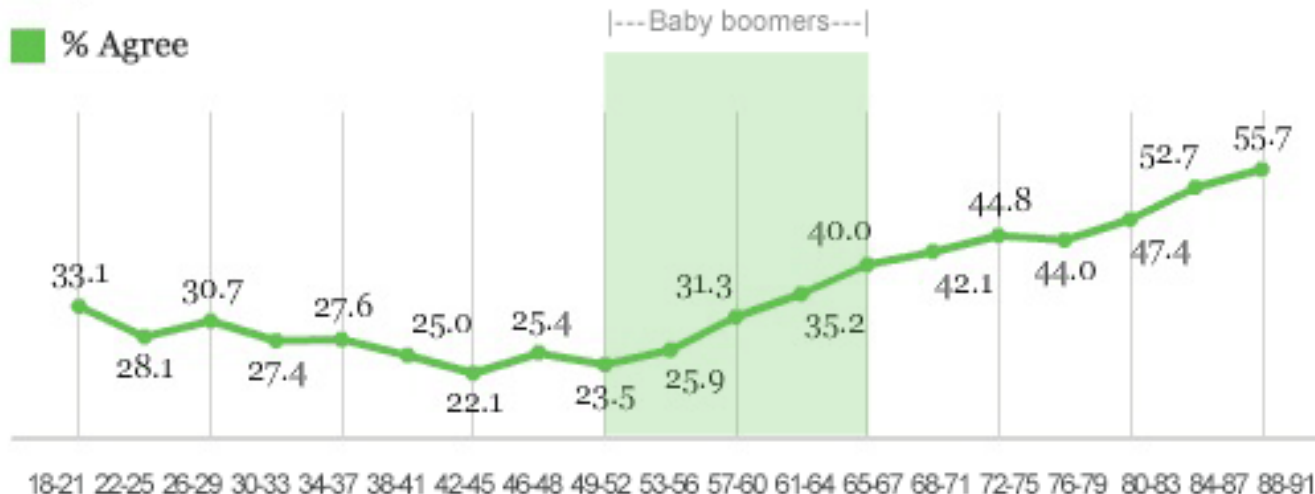
GALLUP

Gallup Poll
Dennis Jacobo, Chief Economist
Young Americans Most Positive About Direction of Finances
April 29, 2014

Do you agree with the following statement? “You have more than enough money to do what you want to do.”

Do you agree or disagree with the following statement? "You have more than enough money to do what you want to do."

By age



Jan. 2-June 25, 2013

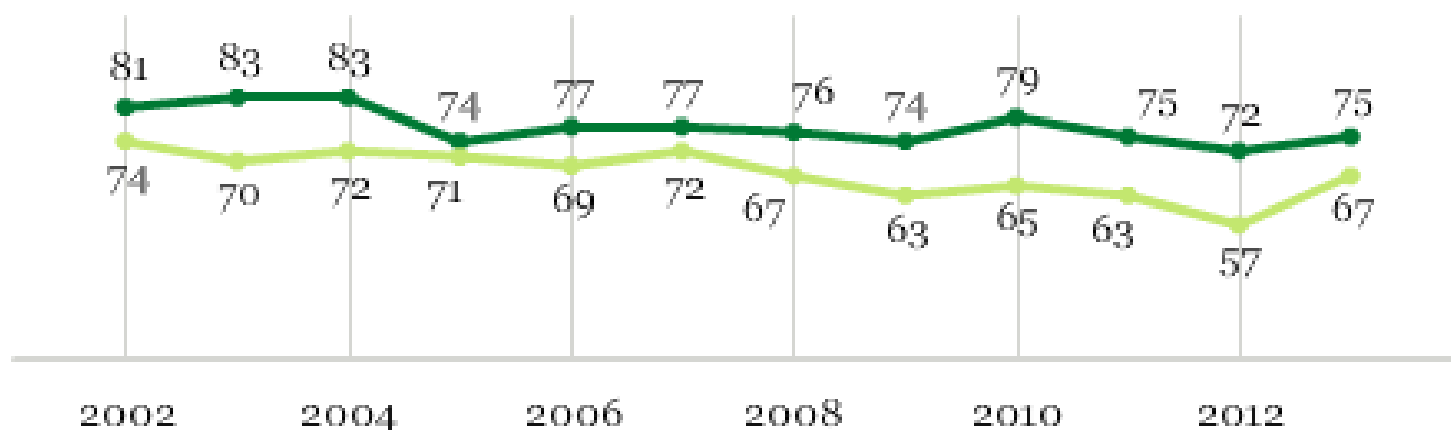
Right now, do you have enough money to live comfortably, or not?

Right now, do you have enough money to live comfortably, or not?

% Yes

■ Retirees

■ Nonretirees



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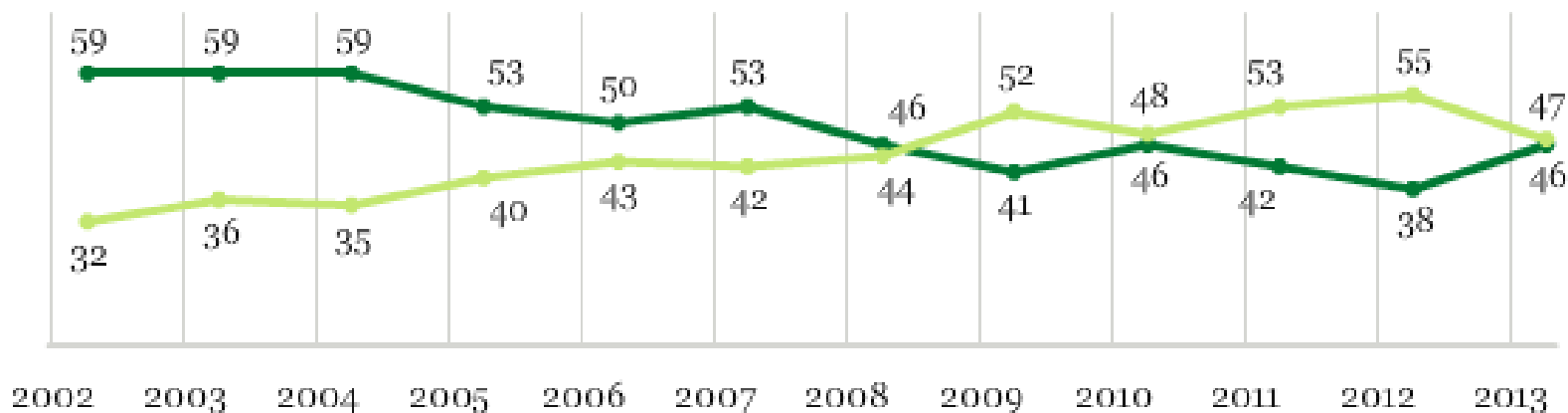
Gallup Poll
 Jeffrey M. Jones
 U.S. Retirees More Financially Comfortable Than Nonretirees
 June 4, 2013

When you retire, do you think you will have enough money to live comfortably, or not?

When you retire, do you think you will have enough money to live comfortably, or not?

Among nonretired adults

■ % Yes ■ % No



Trend is based on Gallup's annual Economy and Personal Finance survey, conducted each April

“Major” sources of income, current U.S. retirees, by annual household incomes

“Major” Sources of Income, Current U.S. Retirees, by Annual Household Income

	All retirees	Less than \$50,000	\$50,000 or more
	%	%	%
Social Security	61	73	49
A work-sponsored pension plan	36	27	55
A 401(k), IRA, Keogh, or other retirement savings account	23	19	36
The equity you have built up in your home	20	19	22
Individual stock or stock mutual fund investments	13	9	21
Other savings such as a regular savings account or CDs	14	14	15
Annuities or insurance plans	9	9	12
Part-time work	3	5	2
Money from an inheritance	3	4	3
Rent and royalties	4	3	6

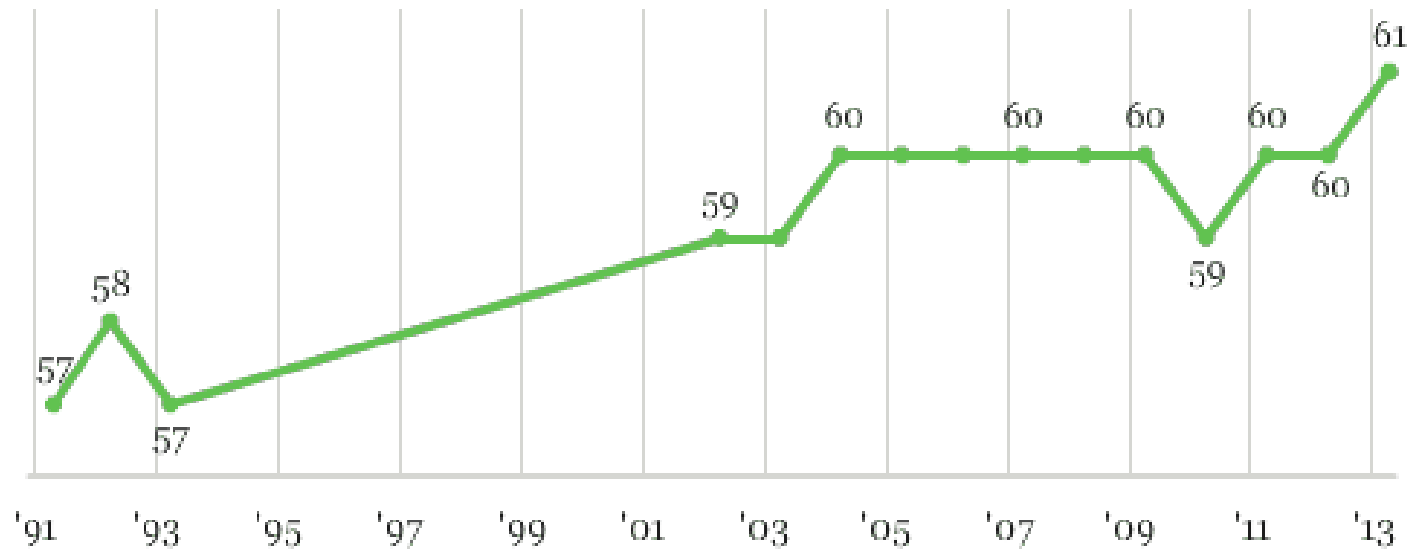
April 4-14, 2013

At what age did you retire?

At what age did you retire?

Among adults who are retired

■ Average age



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Who Has an Account?

Has an Account at a Formal Financial Institution

Among adults in developing countries, by within country income quintiles

	% banked
Poorest	24
Second income quintile	34
Third income quintile	42
Fourth income quintile	50
Richest	62

102 developing countries, 2011



What is Bothering You (Financially)

Next, please tell me how concerned you are right now about each of the following financial matters, based on your current financial situation -- are you very worried, moderately worried, not too worried, or not worried at all? If a particular item does not apply to you,

%¹ please say so. First, how worried are you about -- [ITEMS ROTATED]?

By age

	18 to 29	30 to 49	50 to 64	65+
	%	%	%	%
Not having enough money for retirement	52	68	72	42
Not being able to pay medical costs in the event of a serious illness or accident	52	63	63	50
Not being able to maintain the standard of living you enjoy	46	51	61	42
Not being able to pay medical costs for normal healthcare	39	48	51	35
Not having enough to pay your normal monthly bills	40	42	44	31
Not having enough money to pay for your children's college	42	59	29	7
Not being able to pay your rent, mortgage, or other housing costs	38	39	39	19
Not being able to make the minimum payments on your credit cards	16	21	22	14

April 4-14, 2013

Gallup Poll
 Frank Newport and Igor Himelfarb
 Middle-Aged Americans Most Worried About Their Finances
 May 6, 2103

Investor Education: Challenges

1. Adults are hard to reach
2. Few adults complete the program
3. Secondary school education has shown little success
4. Financial literacy scores are no better for those who took a semester-long high school course in Money Management
5. Material is not sticky (one off, not reinforced, not relevant to imminent decisions)
6. Overconfidence leads to potentially more trading and potentially increasing fees

Investor Education: REAL Challenges

1. “Researchers have not empirically validated financial literacy educations’ effectiveness as a policy tool.”
2. “A meta-analysis of the relationship of financial literacy and of financial education to financial behaviors in 168 papers covering 201 prior studies, found that interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples. Like other education, financial education decays over time; even large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention. We envisage a reduced role for financial education that is not elaborated or acted upon soon afterward. We suggest a real but narrower role for “just in time” financial education tied to specific behaviors it intends to help.” “Financial Literacy, Financial Education and Downstream Behaviors,” http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333898 (2014); http://www.nytimes.com/2013/10/06/business/financial-literacy-beyond-the-classroom.html?_r=4& (2013).
3. People overestimate how much they learn and how much future behavior will change.
4. A number of reported studies have found personal financial management programs have little to no effect on literacy of behavior:
 - High school students who took a personal-finance course “tend to do a little worse...than those who did not.”
4. Lack of information asymmetry.
5. Financial literacy education appears to have a short shelf life.

Financial Literacy Education

Financial Education → Financial Literacy →

Good Financial Decisions and Behavior

But Consider:

1. “Evidence and Ideology in Assessing the Effectiveness of Financial Literacy Education, 46 SAN DIEGO L. REV. 415 (2009), available at <http://ssrn.com/abstract=1098270>
2. “Financial Education: Lessons Not Learned Lessons Learned,” Boston University School of Management Federal Reserve Bank of Boston Conference on Financial Education Consumer Financial Protection (May 2011), available at <http://ssrn.com/abstract=1869313>
3. “The Financial Education Fallacy,” 101 AMERICAN ECON. REV.: PAPERS PROCEEDINGS 2011, available at <http://ssrn.com/abstract=1869323>
4. “Against Financial Literacy Education,” 94 IOWA L. REV. 197 (2008), available at <http://ssrn.com/abstract=1105384>
5. “Financial Literacy Education and Behavior Unhinged: Combating Bias and Poor Product Design,” 36 International Journal of Consumer Studies 523 (2012).
6. “Using the Right Yardstick: Assessing Financial Literacy Measures by Way of Financial Well-Being,” The Journal of Consumer Affairs, (243 – 262), Summer (2013).

But Also See:

1. “Financial Education and the Debt Behavior of the Young,” Federal Reserve Bank of New York Staff Reports, http://www.newyorkfed.org/research/staff_reports/sr634.pdf (2013).

Investor Education: What Seems to Work

Generally, investor education works best:

- Increased Numeracy Skills
- Financial literacy increases with years of higher education (But a function of intelligence, motivation and acquired problem solving skills.)
- Motivation
- Self-control
- Some Games - Stock Market Games
- Point of Sale / Teachable Moment /Just in time education /
Now you have my attention
- Providing Basic Skill Sets for “Basic” Literacy: Terms, “Risk and Reward,” Fraud
- Direct one-on one assistance is good.

Show Me a Program That Works

www.usma.edu/sosh/SiteAssets/SitePages/Faculty/Publications/hastings-madrian-skimmyhorn-ARE-2013.pdf

<http://www.globalfinlitsummit.com/wp-content/uploads/2013/11/Assessing-Financial-Education-Skimmyhorn.pdf>

<http://business.gwu.edu/flss/program/files/Presentation-flss-5.pdf>

Two Simple Samples (“TSS”):

Fitness calculator

VO2max
KALKULATOR

Male
 Female

How often do you exercise?
Almost never or less than once a week ▾

How long is your workout each time?
Under 30 min ▾

How hard do you train?
I take it easy without breathing hard or sweating ▾

How old are you?

What does your waistline measure in cm?

What is your resting pulse? *(number of beats per minute)*

Calculate

http://well.blogs.nytimes.com/2013/10/31/how-old-is-your-health/?src=me&_r=0

<http://www.ntnu.edu/cerg/vo2max>

Two Simple Samples: Stanford University MBA Course on Finance of Retirement and Pensions



<http://www.nytimes.com/2013/10/12/your-money/for-students-of-all-ages-an-online-course-on-retirement-planning.html?ref=retirement>

<http://online.stanford.edu/course/rauh-finance>

<http://www.youtube.com/watch?v=HuLIqNKwnZc>

IOSCO Actions:

- ❖ Investor Education Workshops
- ❖ Investor Education Website / Resources at IOSCO for IOSCO members
- ❖ Continued Member Research and Assessment
- ❖ Forums to Share “Best Practices” and “Good Ideas”
- ❖ Research Research Research
- ❖ What Works and What Does Not Work?

Conclusion

1. Investor Education must never ever never relieve the regulator of their investor protection obligation.
2. Investor education is no sliver bullet and it clearly has its limitations – and they are many.
3. Investor education is good....with respect to the basics.
4. Much to be learned from behavioral economics.
5. Take advantage of “teachable moments” and POS....and regulatory responsibilities.
6. Research, research and more research.
7. Looking for the gold standard of IE...if there is one.
8. Innovation and keep it simple, universal and clear.