Consumer education: a national necessity or an unnecessary irritation?

Maria Helena Santana

Cape Town, 2011 IOSCO Annual Conference
Why consumer education?

Increasing number of individual investors

- The number of individual investors who directly invest in stocks has increased
- The vast majority of them are retail investors

**Individual investors’ accounts at CBLC**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>155,183</td>
<td>219,634</td>
<td>456,557</td>
<td>536,483</td>
<td>552,364</td>
<td>610,915</td>
</tr>
</tbody>
</table>

Source: BM&FBovespa

**Investment clubs**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,323</td>
<td>1,631</td>
<td>2,160</td>
<td>2,776</td>
<td>2,955</td>
<td>3,054</td>
</tr>
</tbody>
</table>

Source: BM&FBovespa

- Investment clubs are collective investment vehicles designed for retail investors
• Trading by individual investors and investment clubs has been very significant: in the last 3 years, they have accounted for 25% - 30% of total trading value in the stock market.

• In 2010, the amount traded by these investors reached the average of US$1.6 billion per day (buy and sell).
Why consumer education?
Increasing number of potential investors

<table>
<thead>
<tr>
<th>Income group ranking</th>
<th>Income range (R$)</th>
<th>Population 2009 (mi)</th>
<th>Population 2009-2003 ∆ (mi)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A</td>
<td>Above 6,329</td>
<td>9.60</td>
<td>3.25</td>
</tr>
<tr>
<td>Class B</td>
<td>4,854 – 6,329</td>
<td>10.37</td>
<td>2.39</td>
</tr>
<tr>
<td>Class C</td>
<td>1,126 – 4,854</td>
<td>94.93</td>
<td>29.06</td>
</tr>
<tr>
<td>Class D</td>
<td>705 - 1,126</td>
<td>44.45</td>
<td>- 2.43</td>
</tr>
<tr>
<td>Class E</td>
<td>Below 705</td>
<td>28.84</td>
<td>- 20.48</td>
</tr>
</tbody>
</table>

Source: Fundação Getúlio Vargas (FGV). The New Middle Class: The Bright Side of the Poor (http://cps.fgv.br/en/nmc)
Estimates

**Classes A/B workforce**

Market opportunity: individuals between the age of 25 and 54 with income exceeding R$4,8 thousand per month
Market size estimates: 8.8 million

**Class C workforce**

Market opportunity: individuals between the age of 25 and 39 with income between R$1,1 thousand to R$ 4,8 thousand per month
Market size estimates: 23.3 million

Assuming these individuals live somewhere in the top 25 metropolitan cities in Brazil

Based on the proportion of population in these cities, 77% of all metropolitan cities population reside in top 10 metropolitan cities*.

77% of market reside in top 10 cities

% of individuals who will be investing

A/B

6.8MM

~27%

1.83MM

C

17.9MM

~14%

2.58MM

Additional # of investors at BOVESPA by 2016*

~4.4MM

* Estimated by Georgetown University/ McDonough School of Business and CVM (Sep10-Mar11)
Changes in income distribution are likely to persist and will impact the demand in all sectors of the financial market

- Newcomers are looking for high returns but they are, as a rule, financially illiterate
- Investment decisions may be impulsively made or made based on poor advice
  - Besides the individuals’ losses, the cost of enforcement may increase (Ponzi schemes, scams and frauds, larger number of complaints)
A national strategy program, based on partnerships involving also the private sector, allows the dissemination of financial literacy in large scale and very early, targeting children and young people at school.

- Financial literacy is the necessary basis for well-informed investment decisions.
- Investors’ financial behavior is better addressed under the umbrella of a national effort, since the skills to make good investment decisions are not a matter of a specific sector of the financial market.
Timeline: from Investor Education to a National Strategy on Financial Education

• 1998 - creation of CVM’s investor education program (folders, meetings, awards, website etc.)
• 2006 - establishment of CVM’s Consultative Committee on Education (partnership with market entities)
• 2006 - establishment of COREMEC (Committee of Capital Markets Regulators: CVM, Central Bank, insurance and pensions regulators)
• 2007 - a COREMEC working group (coordinated by the CVM) is assigned to draft the Brazilian National Strategy on Financial Education
• 2009 - a draft of the National Strategy program is presented
• Jan/10 - launching of a pilot project of Financial Education in Schools (high school), to be part of the National Strategy
• Dec/10 - the National Strategy is approved
• Apr/11 - members of the National Council for Financial Education are appointed (CONEF) to coordinate the National Strategy
Initiatives adopted by the COREMEC

- National Inventory of FE projects (70)
- National Survey on Financial Literacy
- Website: www.vidaedinedinheiro.gov.br
- Pedagogical support group: financial + education sector
  - Ministry of Education on board
- Pilot project on schools
The pilot project involves:
- 5 states of Brazil
- Around 900 schools
- About 27 thousand students

The process comprises 2 stages: education and impact evaluation on the financial behaviour of 2 groups (treatment group and control group)
### Pilot project

**Financial Education in Schools**

<table>
<thead>
<tr>
<th>States</th>
<th>Municipalities</th>
<th>Schools</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TREATMENT GROUP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CE</td>
<td>24</td>
<td>62</td>
<td>2012</td>
</tr>
<tr>
<td>DF (Brasília)</td>
<td>1</td>
<td>32</td>
<td>1105</td>
</tr>
<tr>
<td>MG</td>
<td>6</td>
<td>14</td>
<td>360</td>
</tr>
<tr>
<td>RJ</td>
<td>42</td>
<td>134</td>
<td>3513</td>
</tr>
<tr>
<td>SP</td>
<td>14</td>
<td>180</td>
<td>5741</td>
</tr>
<tr>
<td>TO</td>
<td>12</td>
<td>17</td>
<td>505</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>99</td>
<td>439</td>
<td>13.236</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th>Schools</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONTROL GROUP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>60</td>
<td>1959</td>
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<tr>
<td></td>
<td>1</td>
<td>32</td>
<td>1112</td>
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<td></td>
<td>10</td>
<td>15</td>
<td>371</td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>136</td>
<td>3752</td>
</tr>
<tr>
<td></td>
<td>34</td>
<td>192</td>
<td>6037</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>17</td>
<td>514</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>128</td>
<td>452</td>
<td>13.745</td>
</tr>
</tbody>
</table>
• The goal of the impact evaluation is to measure the financial knowledge and behavior of students in 2 distinct phases:
  • Short and medium term – in August of 2010, the students and their parents have responded a questionnaire, which will be repeated in the end of 2011
  • Long term – 5 years later, a new questionnaire will be applied to the same students to monitor possible behavioral changes (each identified by Individual Taxpayer Number – CPF)

• Next Steps
  • May, 9-10 - International Workshop (Rio de Janeiro) to disclose preliminary results of the pilot project
  • 1st semester 2011 – workshop for the parents of treatment group’s students
Thank you

www.cvm.gov.br

pte@cvm.gov.br