

OECD's Financial Education Project

I. Background – increasing importance of consumer financial education

Financial education has always been important for consumers in helping them budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud. But the importance of financial education has increased in recent years as a result of both financial market developments and demographic, economic and policy changes. Capital markets are becoming more sophisticated and new products are continuously offered, including hybrid instruments whose risk-return characteristics are not immediately discernible. Consumers now have greater access to a variety of credit and savings instruments provided by a range of entities from on-line banks and brokerage firms to community based groups offering counselling and financing aid to low and moderate-income families. They can now use automated teller machines (ATMs) and personal computers to handle many of their financial transactions. Investors in equities now have access to many new trading mechanisms and venues, some of which offer speedier executions or greater anonymity, as well as access to many different types of investments.

A larger number of consumers are involved in financial markets...

- The baby boom that most OECD countries experienced, along with an increase in life expectancy, means that there will be a growing number of retirees spending more years in retirement. They will need to ensure that they have an adequate retirement income.
- One consequence of the deregulation of financial markets is the increased competition for new credit card holders with the result that many young people may be burdened with high debts at a time when they are trying to start a family and buy a home.
- Over the past decade personal income has increased in many countries with the result that more people now have funds to invest. Equities as a per cent of disposable income have more than doubled in a number of countries in the same period.

Increasingly serious consequences of poor financial decisions...

- Consumers need to be convinced of the importance of saving and of making wise investment choices. As a result of changes in pension arrangements, an increasing number of retirees will depend upon income from defined-contribution pension plans, whether sponsored by the employer or the state, and their own personal savings. Consequently, they will need to know how much and how to invest and they will need to become involved with financial markets. A financially literate population that understands the importance of saving and investment is especially important to emerging countries that are making the adjustment to globalisation, a market economy, and deregulation of financial markets. Financial education can help these countries to make the most effective use of competition, stock markets, and banks to increase real economic growth and reduce poverty.
- The increase in the number of consumers in financial markets along with the growth in competition among financial services providers to sell new products raises the risk that consumers may become victims of aggressive marketing, fraud or their own financial ignorance. Aggressive marketers may push consumers to invest in financial products that are not in the consumers' best financial interests. Consumers may also be persuaded to invest in schemes that promise high returns but are, in reality, scams with the funds not being used for the purposes promised. And sellers of financial products may not always make clear the potential risks of some investments. In some cases, consumers have lost most, if not all, of their savings in these risky, fraudulent or ill-advised investments.
- At the same time, surveys of financial literacy indicate that many consumers do not have an adequate financial background or understanding. According to a survey in the United States, 55 percent of adults and 66 percent of high school students do not understand such basic economic concepts as inflation and interest rates. In Japan, only one per cent of consumer education professionals said that consumers have an adequate level of financial knowledge. In Australia, a survey found that 37 percent of those with investments do not understand that their investments can fluctuate in value.

II. The OECD and Financial Education

The importance of financial education has been recognised by the governments of a number of OECD member countries. Financial education has been included in the work programmes of various bodies of the OECD. The Committee on Financial Markets is focussing its attention on the protection of individual investors and savers, especially future pensioners. The protection of individual investors

includes issues related to fiduciaries' rights and duties, investment choice, proper diversification, financial education, and investment managers' accountability. The programme of work of the Insurance Committee recognises the growing need for insurance policyholders (both in life and non-life markets) and pension beneficiaries to be not only better informed but also better educated. Finally, the programme of the Working Party on Private Pensions refers to a two-year project on private pensions which would include an assessment of how much financial literacy and financial education individuals need to make appropriate decisions with respect to their pensions – especially given the increase in the number of workers covered by defined contribution schemes where the investment risk is borne by the employee.

The OECD's Financial Education Project

In response to this increased emphasis on the importance of financial education, the OECD has recently established a Financial Education Project to study financial education programmes in OECD member countries and selected non-member countries.* This project is developing an inventory of financial education programmes and preparing a report on the current state of financial literacy and education in OECD countries. The report will also include a list of good practices for financial education programmes. In addition, a webpage has already been set up (www.oecd.org/daf/financialeducation) and there are plans for an electronic discussion group and conferences in order to facilitate communication and the exchange of information on financial education issues.

The first phase of this project, currently on-going and largely based on the results of questionnaires, describes the types of financial education programmes that exist and analyses the effectiveness of these programmes. The analysis also includes a review of relevant studies in economics, social policy, education, and related fields, as well as discussions with experts in the area of financial education. In addition, existing analyses of current programmes are being reviewed to determine best techniques for evaluating financial education programmes. This phase is expected to provide policy recommendations to improve financial education in OECD countries.

The second phase will involve in-depth surveys of the financial literacy of consumers in selected countries. Interested countries volunteering to conduct a survey of their consumers will share the results with the OECD's Financial Education Project. These surveys will be based on and will add to already existing surveys on financial literacy and will be extremely useful to both the countries conducting

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them and to others in terms of providing information on how to effectively implement and target financial education programmes. The lessons learned from these surveys will be collected in a handbook for policymakers.

Preliminary results from the first phase

Importance of financial education

Many of the countries mentioned the importance of providing workers with information about their pensions and how to invest their savings for retirement. Not unexpectedly, the countries citing the importance of financial education in the area of pensions are those that are either experiencing an increase in the number of workers covered by defined contribution pension plans – thus requiring that workers make choices about how to invest their pension contributions –, or are changing their state supported pension system so that part of it is funded. Another example frequently mentioned is the importance of financial education in providing individuals with information on new financial products and services and how to evaluate and compare these new products and services. Countries also feel financial education is important in helping provide individuals with a better understanding of insurance, in making sure they are aware of the risks and related need for protection, and in aiding them in dealing with issues of credit and debt. Several countries expressed particular concern about the growing indebtedness of young people.

The responses to the OECD questionnaires on financial education affirm the importance and timeliness of the Financial Education Project. The countries surveyed recognise the necessity for financial education for consumers and are grappling with the most efficient and cost-effective ways to provide this information. To address these concerns, the OECD's Financial Education Project will help policymakers to identify, implement, and evaluate the most appropriate and effective financial education programmes.

Obstacles to providing financial education

Countries mentioned four main obstacles to providing financial education. The obstacle mentioned most often is financial or budgetary. Financial education programmes cost money and countries have many other demands on their limited budgets. Another obstacle frequently cited is lack of awareness on the part of the public to the long-term benefits of financial education. Countries also noted that consumers may be too busy to take the time to become more financially literate or may distrust financial institutions and anything to do with them. A third obstacle mentioned by several countries was the difficulty of organising all the different public and private groups providing information on financial education. One coun-

try noted that so many groups are providing financial information that it is confusing the consumers. Finally, some countries mentioned that they are having difficulties reaching or targeting the appropriate consumers for their information on financial education.

The OECD's Financial Education Project can serve as a source of information for countries on the types of financial education programmes currently in operation and on the relative effectiveness of these programmes. The Financial Education Project can also provide a place where countries can meet to exchange information and ideas about identifying the most cost effective financial education programmes, about efficiently targeting these programmes to the appropriate group of consumers (e.g. women, minorities, low income workers), or about the best way to organise the plethora of financial education programmes so that consumers are not overwhelmed by too much information. As a result of these discussions and exchanges, countries will be better able to select programmes that meet both their financial education objectives and their budgetary constraints.

Financial education initiatives undertaken

Countries mentioned a variety of initiatives undertaken by both public and private organisations to provide financial education to consumers. The methods of dissemination most often mentioned are offering seminars or courses, distributing pamphlets and/or reports, or putting information on web sites. Several countries have conducted TV and radio campaigns to educate consumers about financial issues. Others have set up consumer telephone lines where individuals can call to learn about financial issues. A number of countries have programmes to facilitate and encourage the teaching of financial education in schools.

Finally, several countries send out individual notifications about expected levels of state benefits so that individuals will have an idea of how much more they will need to save in order to have a comfortable retirement.

The OECD's Financial Education Project can provide assistance with the dissemination of financial information by providing information to member countries on what other countries are doing in terms of financial education programmes. In addition, the Project can provide a forum in which countries can compare and discuss various strategies to educate consumers about financial issues. In such a forum, the countries can describe what worked best as well as what worked less well, in terms of effectively administering the programme, in terms of effectively targeting the message, and in terms of budgetary cost.

Evaluations of financial education programmes

No country surveyed is currently undertaking any evaluations of its financial education programmes. However, three countries report plans to evaluate pro-

grammes in the near future. There have been several rigorous evaluations of financial education programmes in the United States undertaken by academics, one evaluating the effects of financial education offered in the schools and another evaluating an employer-sponsored financial education programme.

In this area, the Financial Education Project can make a significant contribution, as it will identify and analyse the existing evaluations of financial education programmes in order to help countries determine effective programmes and define desired outcomes that are measurable. The project will also investigate the experience of public awareness and educational campaigns, which, like financial education programmes, are interested in increasing consumers' awareness of particular issues, in order to see what aid they can offer in programme design and evaluation. In addition, an analysis of the literature on adult financial literacy programmes should help to identify the characteristics of successful programmes. From all of these sources, criteria for the design, implementation, and evaluation of effective financial education programmes will be developed.

III. Contact information

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