

“Importance of Financial Education”

Keynote Address by Mr. Pier Carlo Padoan
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INTRODUCTION

I'm sure all of you noticed the increasing new buzz around Financial Education. *The Economist* was recently referring to this as the “global crusade which is under way to teach personal finance to the masses”.

Like never before, researchers, public authorities, community groups, industry associations and international organizations, are developing financial education initiatives and want to understand how people can become “financially literate”, or in other words, have the knowledge, understanding, skills and competence to deal with everyday financial matters and make the right choices for their needs.

Looking at the variety of organisations represented here today, we have a great demonstration of the expertise, knowhow and commitment that is being put towards this goal of informing and protecting financial consumers.

AREAS OF CONCERN

Why have so many stakeholders started paying so much attention to the issue of financial education and literacy? You will all have your personal answers to that, but for the organization I represent, the OECD, financial literacy and awareness clearly promotes economic growth and well being, by expanding the quality of available financial services, and by enhancing the ability of individuals to more effectively use these services for their best interest.

But why is this goal so difficult to reach? There are, in my view, three broad areas of concern that call for enhanced financial education:

1. There is a rapid and growing sophistication of financial markets, as a result of deregulation, globalisation and technological progress in the financial marketplace. Consumers are now faced with a variety of complex financial instruments offering a large range of options. And in some cases, as underlined by the recent market turmoil, it may take years before the quality of the products can be assessed.
2. At the same time, risks have been increasingly transferred to households. Households now assume more of the responsibility and risk for financial decisions, especially in the areas of credit and retirement savings. For example,

the shift in the pensions field to defined contribution schemes means a transfer both investment and longevity risks to individuals, who may not have the knowledge to deal with these risks.

3. Rapid developments in several emerging economies have resulted in the explosion of financial products (like credit cards) being offered to a vast number of “new consumers”, many of whom have only limited experience with formal financial systems.

OECD RESPONSE

In response to these concerns, 5 years ago the OECD launched a major international programme on financial education. The programme is composed of 3 main components:

The first facet is analytical: A key milestone of the programme was the publication, in 2005, of *Improving Financial Literacy: Analysis of issues and policies*. That was the first major international study addressing the issue of financial education. This study analyses financial literacy surveys in OECD member countries; highlights the economic, demographic and policy changes that make financial education increasingly important; describes the different types of financial education programmes currently being offered in OECD countries; and endeavours to evaluate their effectiveness. It also recommends actions that policymakers can take to improve financial education and awareness.

The second objective of the programme is related to the first one and concerns the development of international guidelines and good practices.

- The 2005 study was accompanied by the OECD Council's *Recommendation on Principles and Good Practices for Financial Education and Awareness*. The aim of the Recommendation is to help policymakers design and implement effective financial education programmes. The Principles include suggestions
 - on how governments can increase public awareness of financial issues ,
 - on how financial institutions can provide objective information on financial products,
 - the role of employers in the provision of financial information,
 - what the providers of retirement savings products need to consider in determining the content and delivery of financial education programmes.
- In June 2006 the G8 finance ministers welcomed the ongoing work of the OECD on its Financial Education Project, and called for further development of financial literacy guidelines based on best practices.

- In response, the OECD developed and recently adopted financial education guidelines and good practices in the pensions and insurance sectors.
- In light of the recent developments in the mortgage and credit markets, the OECD is analysing policy issues related to financial education in the area of credit, and this will likely result in the development of further guidelines for that sector.

The third component of the programme relates to promoting international cooperation on financial education. When establishing the programme, OECD governments recommended that the Organization become an international forum to exchange information on recent national experiences in financial education.

- We achieve this goal through the organization of high level conferences like the one you are attending today, which has been prepared jointly with the Department of the US Treasury; The OECD has organised similar events in India, Russia, and Turkey. We will hold a Global Forum on financial education in Jakarta in October of this year, in co-operation with the Indonesian government.
- To further promote international cooperation, we recently created the *International Network on Financial Education*, which held its first meeting yesterday in the margins of this conference. The purpose of the Network is to bring together high-level public officials from OECD and non-OECD countries to discuss issues, new developments, experiences and programmes related to financial education. The Network will also allow governmental experts to exchange views on good practices and contribute to the development of OECD guidelines and principles in the area of financial education.
- We have also set up the *International Gateway for Financial Education*, accessible at www.financial-education.org. The Gateway will serve as an international clearinghouse for financial education and good practices around the globe.

BUT FINANCIAL EDUCATION IS A ONLY ONE PILLAR OF ADEQUATE FINANCIAL POLICY ACTION

Since the OECD issued its *Recommendation on Principles and Good Practices for Financial Education and Awareness*, a number of governments have developed wide ranging financial education policy approaches. We have also been impressed with the innovative financial education initiatives that have been developed by NGOs, the private sector and by small community groups.

These initiatives are important. At the same time, financial regulation is also an essential component of consumer protection. While financial education can help individuals

understand the information that is disclosed to them, policy makers and regulators are certainly expected to provide a framework of protection and supervision, for example to make certain complex products “off-limits” to retail consumers or investors or to ensure that information on products is communicated in plain and understandable language.

Financial education should also be developed hand in hand with improving access to financial markets and services. This access concerns not only populations in developing economies but a significant number of consumers in OECD-member countries – very often minorities or low income groups who do not have access to the banking system. Access to effective, efficient financial services is also a particular issue for international migrants.

CONCLUSION – CHALLENGES AHEAD

We still have much to do and learn about financial education programmes and how to improve them.

First, it is important to increase consumer awareness of the necessity for financial education and to make it accessible. Financial education is not just for investors. It is just as important, if not more so, for the average family trying to balance its budget and save for their children’s education and the parents’ retirement. More needs to be learned about the financial education needs of consumers at various stages in their lives and how financial education programmes can be designed to best address these needs. We need to better understand how consumers prefer to receive information on financial issues and on how financial education can be best delivered to consumers busy with jobs and families. We should also understand the limitations of financial education programmes and the behavioural factors like inertia or passive behaviour which reduce the effectiveness of financial education and need to be complemented by other mechanisms.

Another challenge is to deepen our knowledge about the role that different institutions can effectively play in educating for financial literacy. Schools certainly need to incorporate financial education into curricula. And we need to better define the roles and responsibilities that can be taken by financial institutions to advance individuals’ financial awareness and access to financial services.

To better understand the needs of consumers and the roles of institutions will require objective analysis of which programmes are effective. Evaluation is key to being able confidently to identify good practices.

We hope the discussion at this International Conference on Financial Education will illuminate some of these issues and facilitate the exchange of views and sharing of experience in the area of financial education and awareness.