

OECD-US Treasury Conference on
Financial Education
Washington, DC
May 8, 2008

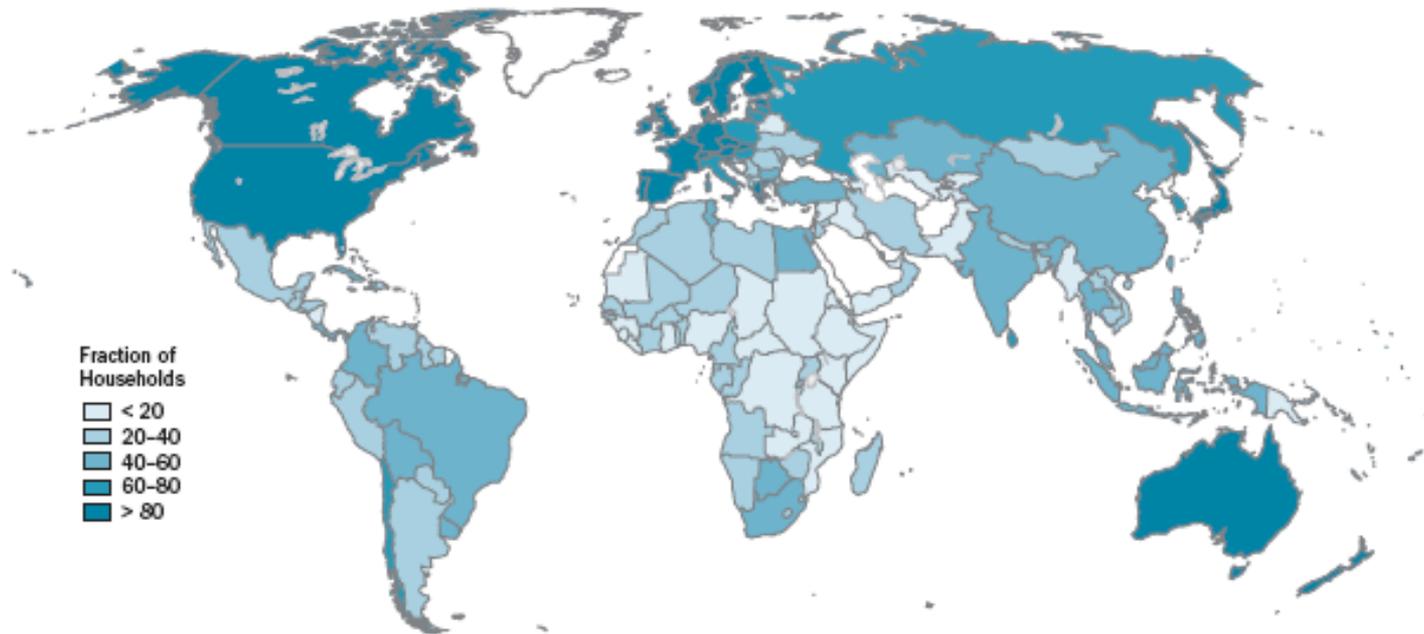
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Why is the World Bank involved in financial literacy?

- Weak financial literacy impedes development of financial sector in developing countries (*WB Finance for All? 2007*)
- Research shows that increasing depth of financial sector reduces poverty
 - Increasing the level of the financial sector from that of Peru to Chile reduces the size of the population on \$1 per day -- from 10% to 5% or perhaps even lower (Beck, Demirguc-Kunt, Levine 2007)
- Review of consumer protection & financial literacy initially requested by Czech Republic & Slovakia
 - Other reviews being done for Romania, Croatia, Azerbaijan, Russia, Bulgaria, Lithuania

In many developing countries, most are outside
the financial system –
fewer than 20% may have bank accounts



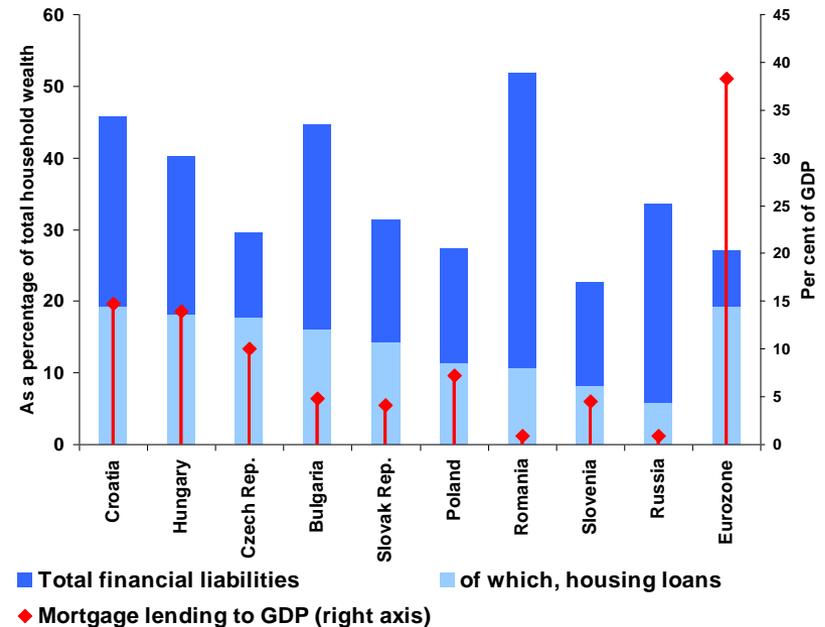
Even for those using financial services, weak literacy stops consumers from developing strong financial health

- Weak financial literacy impedes consumers' ability to protect their financial assets
 - In Russia, 37% of retail financial consumers are unaware that there is a securities law and a regulatory agency to protect their interests.
 - In Romania, 55% of complaints lack sufficient documentation to be reviewed.
 - In Azerbaijan, when government introduced pension payments by debit cards, rural families hired intermediaries to access the ATMs.
- Poor consumers may be vulnerable to predatory lending practices
 - Those with weak financial literacy are particularly vulnerable.
 - In Slovakia, households without formal income spend 38% more of their income on debt service than middle-income households.

Weak financial literacy also undermines development of the financial sector

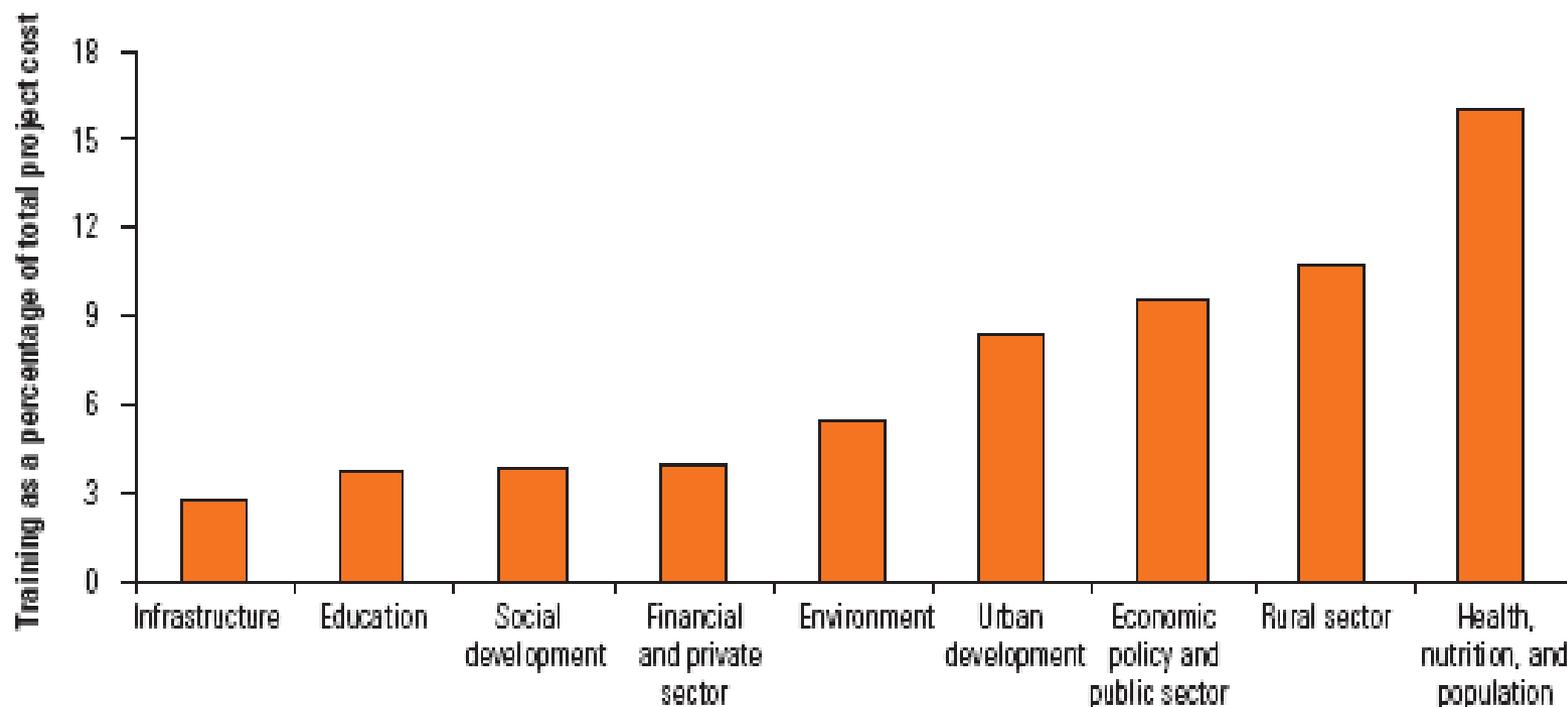
- Increase in household debt places new burdens on consumers
 - Throughout Eastern Europe, consumers take mortgages in foreign currencies
 - ... but are unable to manage FX risk
- Move to private pensions requires consumers to understand risk vs. return
 - Consumers need to choose pension strategies and products
 - ...but lack basic financial skills

Households' financial liabilities and housing loans, 2006

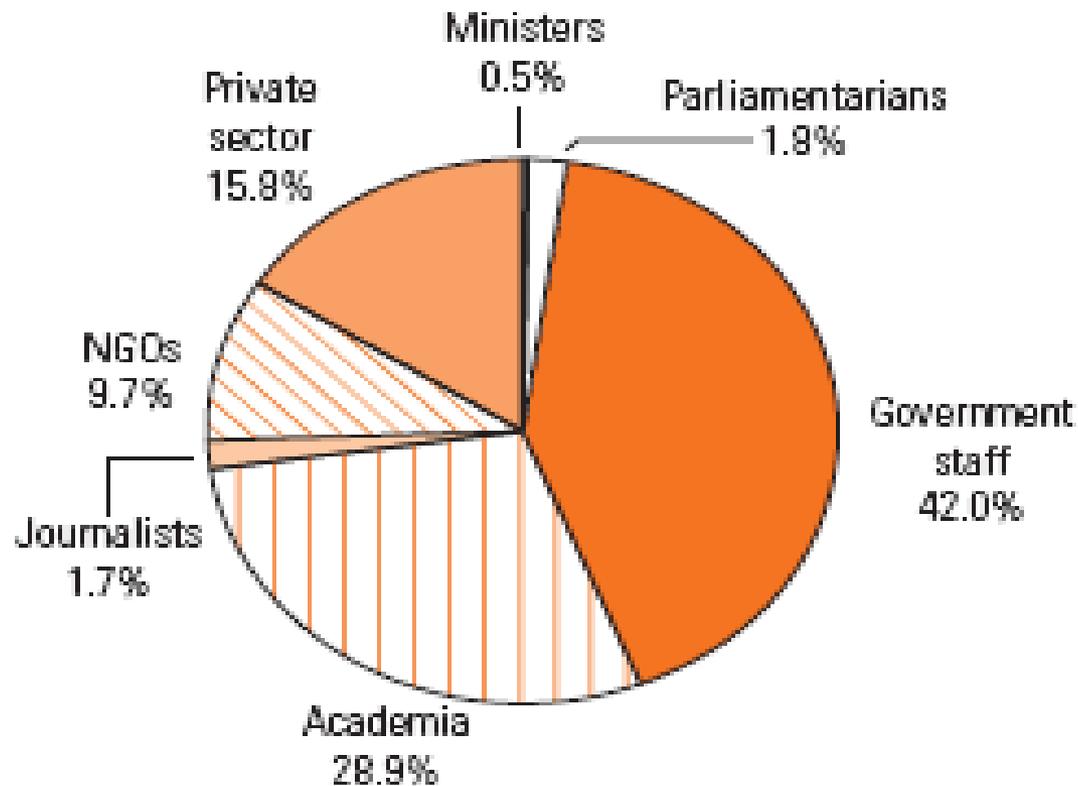


European Bank for Reconstruction and Development 2007

WB finances about \$700 million a year of training as part of sector lending programs worldwide

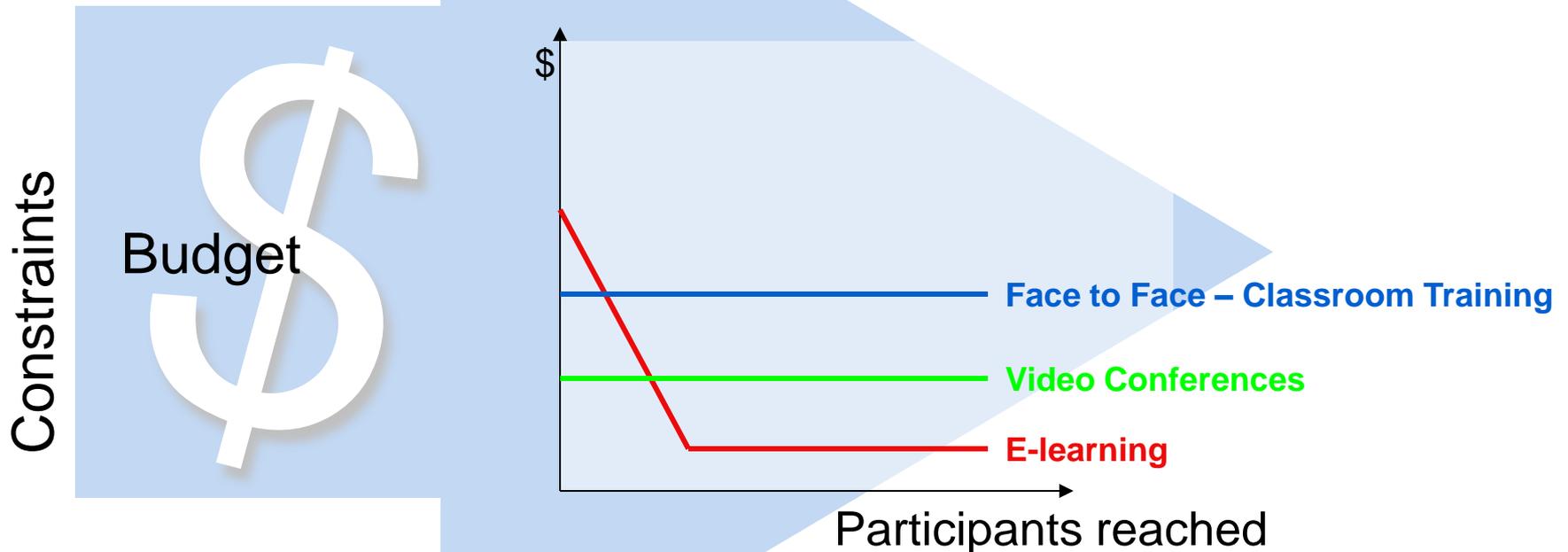


We also train government staff, academics and private sector organizations and NGOs directly



Data from 2002-06

For financial education, E-learning can be the most cost-effective way to teach



E-learning also has the greatest impact, particularly when teaching specific skills

<i>Mode of Training</i>	Useful	Relevant
E-learning	94%	76%
Classroom	90%	77%
Video-conference	76%	71%

<i>Type of Training</i>	Useful	Relevant
Skills Building	90%	78%
Knowledge Exchange	82%	77%
Policy Development	84%	53%

Data from WB Institute 2007

More is needed - WB is developing pilot program on consumer protection & financial literacy

1. Diagnostic reviews of country framework compared to good practices for consumer protection & financial literacy
www.worldbank.org/eca/consumerprotection
2. Nationwide surveys of literacy levels in population
3. Support for legal and institutional improvements on consumer disclosure and recourse mechanisms
4. Controlled trials of financial education teaching methods
5. Consumer awareness through media
6. Financial education at “teachable moments” (e.g. signing of mortgages and loans) and retirement decisions
7. Financial advice & consumer advocacy