



OECD Good Practices on Financial Education Relating to Credit Issues

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Consumer aspects to the crisis

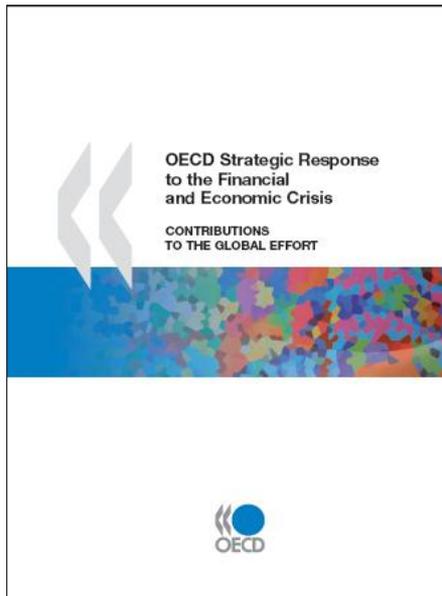
Credit market conditions

A number of consumer-related conditions and credit market dysfunctions, which contributed to the crisis:

- Product innovations (sometimes questionable ones)
- Market complexity
- Transfer of responsibilities and risks to households
- Public policy objective: Asset building at any cost
- Inappropriate selling practices, weak regulatory oversight
- New credit users
- Consumers overestimating their knowledge and skills
- Consequences of uninformed decisions can be disastrous!

OECD Response

- OECD strategic response to the crisis includes a financial education and consumer protection component (<http://oecd.org/dataoecd/33/57/42061463.pdf>)



- Multi-country survey on financial education and the crisis
- Financial consumer protection regulation: Stocktaking; analysis; guidelines
- *OECD Recommendations on Good Practices on Financial Education and Awareness Relating to Credit*

OECD Financial Education Recommendation on Credit

- Developed under the aegis of IPPC and CMF, as part of OECD Financial Education Project.
- Supplement the Council Recommendation on Principles and Good Practices for Financial Education and Awareness issued in 2005.
- Goal: to guide governments and relevant public and private institutions seeking to develop financial education and awareness programmes in relation to credit.
- Approved in 2009 as a non-binding Council Recommendation addressed to both Members and non-Members.
- Outcome of extensive consultations.

Objectives of Financial Education on Credit

Enabling individuals to:

- develop the knowledge, understanding, skills and confidence needed to adequately appraise and understand their rights and responsibilities as credit holders and the various credit options available to them;
- know where to look for important information, objective advice or help if they need it;
- take informed decisions about how to protect themselves and their relatives, to adopt a proactive and responsible behaviour as regards their credit;
- develop basic abilities of financial planning as regards their credit, taking into account their possible future income and life cycle changes; and
- understand the consequences of bad credit choices or behaviour

Stakeholders' roles

1. The OECD (including Secretariat and leading committees – CMF and IPPC)
 - Monitor evolutions in credit markets and assess appropriateness of consumer education and protection frameworks
 - Identify good practices and develop guidelines and harmonized standards
 - Promote international awareness and discussions

2. Public action

- Ensure consistency of policies
- Provide direct financial education support (publications; tools; hotlines)
- Public awareness campaigns
- Oversee proper disclosure
- Provide framework for allowing market player to confirm consumers' understanding
- Promote and facilitate development of credit reporting facilities

Stakeholders' roles (cont'd)

3. Financial institutions/intermediaries
 - Clearly set their FE role responsibilities and part of their good governance
 - Ensure staff training, qualifications and competence
 - Due diligence in assessing consumer profile
 - Accountable for ensuring consumer understanding and provide accurate information
 - Transparency on consumers' right to recourse and complaint mechanisms

4. Credit reporting agencies

- Should make credit information easily available to consumer
- Should raise awareness of importance of reviewing credit report periodically
- Should help improve consumer understanding of their credit report
- Should guide consumers in improving credit history and behavior
- Should not limit consumers' ability to shop around

5. Social and business partners

- Provide client/members with information, training and proper referrals
- Help consumers understand their credit options
- Sponsor production and distribution of financial education material
- Develop innovative tools for assisting and reaching out to vulnerable consumers.

Special considerations on mortgage

- Consumers should be provided with neutral tools to evaluate how much of a mortgage they can afford.
- Lenders should clearly state to consumers the implications of false statements on application
- Legislation should promote and standardise clear, transparent and plain language disclosure.
- Regulatory considerations towards making lenders accountable for inappropriate loans
- Special financial education focus on :
 - The lesser importance of monthly payments
 - The benefit of accelerating mortgage payments

Recommendations on credit education programme design

1) Assessing needs and existing programmes

- Especially, need for:
 - Better understanding of implications of bad credit behaviour on an individual's wellbeing
 - Links between consumers' financial literacy levels and behaviour on credit choices and risk exposures
 - Assessment of specific credit education needs in subgroups of the population, gaps, etc
 - Systemic evaluation of financial education programme relating to credit

Recommendations on credit education programme design

2) Mechanisms and tools

- Should include:
 - Broad media campaigns and wide-ranging events.
 - Development of multiple sources of information
 - Provision of various delivery channels
 - The development of independent social networks
 - The use of plain language.



Thank you!

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