The OECD project on Financial Education and the International Network for Financial education

OECD-Banque du Liban
International Conference on Financial Education: Building financially empowered individuals

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Outline

• The framework
• A call for financial education
• The OECD and INFE programme
• An integrated approach
Selected International Trends

- Increasing financial risks (financial crisis)
- Access and inclusion issues (vulnerable groups)
- Increased sophistication
- Increased transfer of risk to households who are taking on more financial risk and responsibility. This is true for instance for both credit decisions (mortgage), health and retirement savings (DC schemes).
Increasing financial risks and transfer of risks to households

- This calls for a new regulatory approach
- New focus on market conduct and not only on prudential regulation
- Focus on financial education but also access (an essential condition see session I) and consumer protection (the other side of the same coin see session II)
- Awareness is key
Lack of awareness

• The problem is indeed that households may not be aware of the risk they face
• Households may not understand the need to be protected or overestimate their protection and their understanding
• Thus, they do not seek protection
• and may...just not care
Call for further information and awareness

- Transparent information and disclosure is key. This is the minimum.
- Information should be understandable; plain language should be used.
- “Less is more”: danger of overinformation.
- Information is necessary but not sufficient: individuals need to understand the information.
Call for financial education

- Many individuals are ill-equipped to face risks and make proper financial decisions
- This calls for improved financial education and awareness on
  - Risks
  - Financial, pensions, insurance products
  - Their rights and responsibilities
- The goal of financial education (a process) is to improve financial literacy (the result)
Broader impact of financial education

• Financial education will help build more efficient financial markets by:
  — improving confidence
  — encouraging the development of new products and services
  — and thus increase competition, innovation and product quality

• Financial education can also help to reduce poverty and improve social cohesion
The situation is serious

• Recent surveys show that the level of financial education is low in most countries, including in developed countries.
• Worse: consumers often overestimate their financial understanding and thus do not seek to improve it
• This is all the more important as the process of financial education takes time
• Financial education is not just for investors. It is essential for the average family trying to balance its budget, save for children’s education and save for retirement
Solutions are encouraging

- We have found that good financial education programmes are effective: they can increase workers participation in pension plans, reduce mortgage and credit delinquency, and more generally, increase consumers confidence in themselves and in financial institutions.
A role for all stakeholders

- Governments and financial authorities (key role of central banks in several countries) working hand in hand with parliament (including national campaigns, coordination): session IV
- Schools
- Financial institutions
- Employers
- Trade unions
- NGO’s, etc.

There is a strong call for **national strategy** (as discussed in session III) and **public-private** partnership
Win-win strategy for financial industry

• When *objectively* promoting financial education and awareness, financial institutions help:
  • Improve confidence and trust in financial markets, products and institutions
  • Improve risk awareness and thus increase demand for protection
  • Improve understanding of products and their advantages and thus increase demand
  • Reduce losses through better prevention and mitigation
Momentum due to financial crisis

- **Findings from a survey conducted through the International Network for financial Education**
  - Lack of financial literacy is one of the contributors to the crisis and in particular of its aggravation
  - The crisis and its consequences have highlighted the need for enhanced level of accountability of financial institutions vis-à-vis their clients and consumers
  - They have also raised awareness on the need for increased financial literacy and capability of households and policymakers
  - The crisis is a « teachable moment »
  - The crisis is a trigger for policy actions in the financial education area
OECD and INFE programme on financial education

- Recognising the need for policymakers and other relevant stakeholders to meet the objective of improving financial education, the OECD launched in 2003 its “international programme on financial education”

- Under the aegis of the OECD Committee on Financial Markets and the OECD Insurance and Private Pensions Committee
OECD and INFE programme on financial education

• OECD has become the international leader on the development of guidelines and standards in financial education

  • G8 Financial Ministers recognised, in June 2006, OECD work on financial education and requested the Organisation to further develop financial literacy guidelines based on best practices

  • recently supported by policymakers like Secretary of US Treasury, the Council of the European Parliament, the governor of Reserve bank of India or the Mexican Minister of Finance
Outputs

• Several publications
  – the first international survey on financial literacy
  – Report on financial literacy in insurance
  – Report on financial literacy in pensions
  – Research on behavioral issues in financial education, on annuities, communication
  – Stocktake on methodology, financial education at school
  – etc

• An international definition focusing on a capacity building process
OECD Principles on financial education: a selection

• Financial education programmes should focus on high priority issue (credit, debt, pensions, etc)
• Financial education should be taken into account in the regulatory and administrative framework and considered as a tool to promote economic growth, confidence and stability, together with regulation of financial institutions and consumer protection.
• National campaigns should be encouraged to raise awareness of the population
• Financial education should start at school. People should be educated about financial matters as early as possible in their lives (see session VI on financial literacy as a life skill to be integrated in schools)
OECD Principles on financial education

• The role of financial institutions in financial education should be promoted and become part of their good governance with respect to their financial clients. Financial institutions’ accountability and responsibility should be encouraged not only in providing information and advice on financial issues, but also in promoting financial awareness of their clients, especially for long-term commitments and commitments which represent a substantial proportion of current and future income. (see session V on social responsibility of the financial sector)

• The development of methodologies to assess existing financial education programmes should be promoted. Official recognition of financial education programmes which fulfil relevant criteria should be considered.

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OECD Principles on financial education

• In order to take into account the diverse backgrounds of investors/consumers, financial education that creates different programmes for specific sub-groups of investors/consumers (i.e. young people, the less educated, disadvantaged groups) should be promoted.

• According to the needs of the jurisdiction, evaluation processes should inter alia involve: Evaluation on a more systematic basis of the risks, of the population’s degree of literacy, of the education needs.
OECD good practices (building on comparative analysis)

- Good practices for financial education on **pensions** (2008)
- Good practices for risk awareness on **insurance** (2008)
- Good practices for Financial education on **credit** (2009)
- More to come (e.g. on financial education at **school** 2011)
Worldwide reach

• Setting up of the **International governmental network for financial education**:  
  • 500 members from 140 institutions representing 69 countries and international bodies  
  • International Meetings in Washington, Bali, Paris, Rio de Janeiro, Rome, Beirut; next will include, Canada, South Africa, United Kingdom  
  • Regional programmes currently under development in South East Asia, central Europe, MENA and Latin America  
  • MoU with countries (for instance Indonesia)
INFE Subgroups

- The measurement of financial literacy and inclusion
- The evaluation of financial education programmes
  - It is important to provide financial education, however it is essential to provide efficient and effective financial education programmes.
- Financial education at school
- The development of national strategies and related issues
- Future sub group on financial inclusion/access
- Future sub group on social marketing and communication
OECD/INFE work

- work on **pensions issues**, which will be undertaken by the OECD in co-operation with the IOPS
- work on credit, **savings**, investment with the objectives to develop guidelines; work on the role of **financial intermediation** in the financial education process
- work on **behaviour economics** (essential to develop adequate financial education strategies: see session VII)
- Work on **communication/awareness campaigns**, social marketing and development of appropriate related tools
- Work on **vulnerable groups** like women
- the development of the **financial literacy option in PISA 2012** (support through the subgroup on financial education programmes in schools);
- **Review and adaptation of current guidelines**
International dissemination

- Conferences/presentations all over the world: Brazil, Columbia, Egypt, France, Hong Kong, Hungary, India, Indonesia, Malaysia, Mexico, Russia, Singapore, Turkey, UK, USA
- Issue a newsletter, several publications
- Co-operation with other international organisations (IMF, EU, IOPS, FinCoNet etc.), including a close co-operation with the WB
- Setting up of an international Gateway at [www.financial-education.org](http://www.financial-education.org), (currently in upgrading phase)
The International Gateway for Financial Education (IGFE) is established by the Organisation for Economic Co-operation and Development (OECD) as part of its overall comprehensive project on financial education. The main objectives of the gateway are to:

- Launch and develop the first global clearinghouse on financial education which gathers an extensive and comprehensive range of information, data, resources, research and news on financial education issues and programmes around the globe.
- Raise awareness on, and visibility of, financial education issues worldwide and ensure the wide dissemination of research, best practices and guidelines on financial education.
- Promote the access to and exchange of information, knowledge, experience and expertise on financial education.
- Support the creation of a worldwide network of governmental representatives and key stakeholders on financial education.
- Encourage further the elaboration of best practices and principles with the guidance of the network and under the aegis of the OECD [How to join].
Financial education is not enough: necessary…but not sufficient

– Other measures are needed to overcome consumers myopia and passive behaviour
– To deal with fraud, miss-selling
– To protect consumers against bankruptcies
– And more generally to protect consumers’ rights
Financial education: part of a system (pension example)
Financial consumer protection

- Financial education and financial consumer protection are closely linked
- OECD 2009 survey on financial consumer protection
  - Policies focus mainly on disclosure (which thus call for education)
  - Need to test relevance of existing disclosure
  - Less is more
  - Other tools explored in some countries
  - Importance of adequate redress mechanisms
Integrated pillars

- Access and inclusion (see next session)
- Prudential regulation and enhanced governance
- Consumer information and protection
- Competition
- Financial education and awareness

They are interconnected and interactive
• In the framework of **increasing risks** and increasing **transfer of risks**, of gaps in coverage and lack of education and awareness; there is a strong need for **improving financial education and awareness**
  – This process calls for **national strategies**, public-private partnership and **important role of NGO**
  – It should start at **school**
  – Is should deal with **priority areas** such as pensions, credit, savings and risk awareness
  – It should allow for special role by **financial institutions** whose responsibility should be encouraged and it should address **vulnerable groups**
  – It calls for **efficient education** and **methodology** to measure both literacy and efficiency of the programmes
  – Financial education is indispensable but financial education alone is not the panacea; it is part of a **wider policy approach**, complementing prudential regulation and calling for consumer protection
  – It calls for a **worldwide approach**
THANK YOU

more information at:

www.oecd.org/daf/financialeducation
and www.financial-education.org