Improving long-term savings: incentives, consumer protection and financial education

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OECD-Spain Conference on Financial Education

10-11 May 2012, Madrid

OECD/INFE savings project

Rationale:

* Savings are vital to households and national economies
* Products and distribution channels are becoming more complex and sophisticated
* People are taking on more risk for own financial wellbeing

Aims:

* Identify high level policy issues and barriers to saving
* Find examples of policy approaches

Method:

* Research evidence + OECD/INFE questionnaire

National policy issues identified

* Insufficient saving, especially pension saving
* Low income/vulnerable groups
* Need for personal responsibility
* Informal saving
* Asset allocation
    - ‘Too much’ investment in property or other non-financial assets
    - Financial assets concentrated in bank deposits; insufficient investment in stock market

Based on responses from 27 INFE member countries

Barriers to long term saving

* Insufficient income/ too much debt/financial exclusion
* Behavioural influences
  * ‘Living for today’/social norms
  * Procrastination
  * Loss aversion
* Market factors
  * Information asymmetries
  * Choice – too much, too little
  * Information overload
* Lack of trust
  * In formal financial services
  * In financial institutions and intermediaries

Low levels of financial literacy

* Lack of knowledge about:
  * Which products are suitable for long term saving
  * Risk/return, benefits of compounding
  * Where to get advice
* Lack of skills to interpret complex information

Some policy approaches

Barrier	Approaches
Financial exclusion/low income/debt	Debt advice, financial education Saving incentives, asset building schemes Incentives to use formal savings
Behavioural factors	Financial education in schools Compulsory or ‘opt out’ savings schemes Incentives to save/invest Investor education Support and feedback
Information asymmetries	Consumer protection regulation Better (not more) disclosure ‘Generic’ advice Comparison tables
Lack of trust	Consumer protection regulation Financial education and awareness

Encouraging pensions saving

Compulsory employer contributions (Australia)

* Minimum employer contribution 9%
* Self employed ‘opt in’
* Tax advantaged employee saving
* Matched funding for low/middle income employees
* Choice of fund

Asset building

Individual Development Accounts (Canada)

* Encourage low-income adults to save for education
* $3 match for every $1 (up to $1500) in Learn$ave account
* Savings can be used for education or to start a small business
* Financial education programme included – skills in planning and budgeting
* Regular support and feedback on amounts saved.

Financial education and awareness

Australia	Website, advice on ‘Investing between the flags’
Japan	Public seminars on money management and securities investment
Mexico	Interactive websites, social media, toll-free advice line. Workplace and university seminars
Singapore	Interactive website to encourage engagement with Central Provident Fund
New Zealand	‘Sorted’ website with blog, social media to encourage debate about personal finance

Some conclusions

* Encouraging long term saving is a complex issue requiring multiple, joined up, approaches
* Consumer protection regulation can help build trust but awareness is an issue
* Compulsory/'opt out' saving can be efficient but does not enhance financial literacy
* Tax or other financial incentives may be poorly targeted and not well understood, so carry high 'deadweight' cost
* Asset building programmes appear effective and can generate long term benefits (but are expensive)
* Financial education can encourage saving and improve financial decision making, but need:
  * More evaluation
  * More emphasis on investor education
  * To take account of behavioural issues