



# **OECD/INFE POLICY FRAMEWORK FOR INVESTOR EDUCATION**

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## FOREWORD

This paper focuses on investor education as an important component of increasing awareness of financial institutions and markets, encouraging participation and fruitful investment strategies when relevant and perhaps even more importantly ensuring financial well-being for individuals and their families. Based on an analysis of levels of participation in capital markets and of the barriers preventing individuals and households from investing for the long-term, it suggests a policy framework for investor education. The framework is intended for use by national authorities as well as private stakeholders.

The framework has been developed through an iterative process among the public financial institutions part of the OECD International Network on Financial Education (OECD/INFE), and thanks to the input and support of the members of the OECD/INFE Working Group on Financial Education for Long-term Savings and Investments. Co-ordination with the International Organisation of Securities Commissions (IOSCO) and in particular its Committee 8 on Retail Investors has taken place thanks to the presence of some members in both committees, as well as through bilateral contacts and co-operation between the OECD/INFE and IOSCO's Secretariats.

The members of the OECD/INFE Working Group on Financial Education for Long-term Savings and Investments are: Mr. Olaf Simonse, Ministry of Finance, the Netherlands (Chair of the Working Group); Mr. Miles Larbey and Ms. Laura Higgins, Australian Securities and Investments Commission; Mr. Vasco Cavalcanti and Ms. Marise Torres, Securities and Exchange Commission of Brazil; Mr. David Kneebone, Investor Education Centre, Honk Kong, China; Mr. Shri Hariharan Neelakanta Iyer Securities and Exchange Board of India; Mr. Girraj Prasad Garg, National Institute of Securities Markets, India; Ms. Ikuko Marutani and Mr. Hiroshi Ohata, Japan Financial Services Agency; Ms. Diane Maxwell, Commission for Financial Capability, New Zealand; Ms. Lucélia Fernandes, Portuguese Insurance and Pension Funds Supervisory Authority; Mr. Lyndwill Clarke, Financial Services Board of South Africa; Mr. Bülent Tokgöz, Capital Markets Board of Turkey; Ms. Caroline Rookes and Mr. David Haigh, Money Advice Service, United Kingdom.

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## EXECUTIVE SUMMARY

Long-term investing in financial markets, under sound investor protection frameworks, can provide individuals with opportunities to strengthen their financial well-being. However low financial literacy levels, the negative effects of the financial crisis on trust as well as behavioural biases can reduce or prevent individuals' participation in retail financial markets.

Recognising the challenges this can pose for policy makers wishing to support the long-term financial well-being of their citizens, the OECD International Network on Financial Education (OECD/INFE) set up an Expert Working Group on Long-term Savings and Investments (LTSI) in October 2012 at the OECD/INFE Meetings in Cartagena, Colombia. Since its creation, members of the Group have actively contributed to OECD/INFE work on financial education for retirement, financial education for long-term savings and financial education for long-term investments. The work stream on long-term investing has been conducted in close co-operation with the International Organisation of Securities Commissions (IOSCO) and in particular its Committee 8 on Retail Investors.

This paper provides an analysis of the role of financial education in policies in supporting and encouraging long-term savings and investment, and in particular of investor education, and offers a high-level international policy framework to support governments in their investor education initiatives, aimed at both existing and potential investors, in advanced as well as emerging economies.

As a complement to financial consumer protection and investor protection regulation, investor education initiatives can support an informed and beneficial participation of consumers in retail capital markets. Such participation can contribute to supporting individuals' financial well-being, while also achieving broader public policy objectives. For individuals, long-term investment decisions can underpin the search for higher returns on savings, the purchase of real estate, the need to appropriately fund retirement, or accumulate wealth to be passed on to future generations. From a government perspective this can stimulate investment in domestic capital markets and divert investments from unproductive assets, while contributing to a more effective financial markets regulation. For emerging economies in particular, these initiatives can encourage participation of local investors in domestic capital markets, increase their depth and make these less dependent on external factors and more resilient to global financial shocks.

Against this background, in most countries that are part of the OECD International Network on Financial Education (OECD/INFE) a majority of citizens do not participate in capital markets, and specifically that they do not invest at all or to a limited extent for the long-term.

The framework, developed with the input of the policy makers members of the OECD/INFE Working Group on Long-term Savings and Investments, takes into account both the diversity of national circumstances and the diversity among potential and existing investors, in particular when it comes to their levels of financial literacy and awareness and their behavioural biases. The framework aims to remove the potential barriers that can prevent (potential) investors from participating in financial markets and achieving financial well-being while also seeking behavioural change, such as by addressing inappropriate risk-taking or excessive risk aversion.

The Framework is meant to be used as an international reference in the development and implementation of national initiatives on investor education, both as stand-alone policy tools and as part of national strategies for financial education, as well as by non-public stakeholders.

## 1. THE RELEVANCE OF INVESTOR EDUCATION

Particularly in the aftermath of the financial crisis, potential investors need to have access to, and confidence in, a well-functioning market, with a choice of suitable products within an effective framework of consumer protection and industry regulation.

Well-functioning, well-regulated financial markets and financial institutions providing a choice of appropriate financial instruments are vital foundation stones in any attempt to increase safe levels of investing activity amongst individuals and households. Products must be properly designed and fairly marketed and efforts should be made to curb fraud and mis-selling practices. Mis-selling scandals impact not only on those who face direct losses, but also on the wider population by reducing general confidence in markets, possibly causing a reduction in investments and as such in liquidity, as well as instability and further losses. Once the foundation stones are in place, potential investors can be encouraged (when appropriate) to participate in capital markets.

Educated investors will *ideally* be aware of the (financial) risks they are confronted with and be able to estimate the amount of savings and investments they will need to meet their own needs and those of their family; understand the balance of risk and reward relative to saving and investment products and their costs; recognise that market fluctuations are normal; and, acknowledging their own limitations, know who to trust to provide unbiased, objective advice. They will be better equipped to recognise and avoid fraud and scams. Consumer complaints will reflect genuine breaches in consumer protection and regulation, reducing the burden on ombudsmen and consumer complaints bureaux caused by consumers misunderstanding their rights and responsibilities and increasing the speed with which genuine problems are resolved.

Investor education is one of the tools to complement financial consumer/investor protection regulation that can support and guide individuals' decision making to balance their budget, make ends meet, identify risk factors and plan for their long term future appropriately.

It is however important to stress that investor education policies should preferably be addressed, irrespective of the levels of development of the economy they are in, to individuals and households that have the financial capacity to invest and to absorb risks, including potential new entrants and the recently financially included. With this caveat, investor education can encourage effective participation in capital markets and provide benefits from a government and an investor/consumer perspective.

### **Rationale from a government perspective**

Investor education initiatives can support informed and effective participation of consumers in retail investment markets and address a series of issues that have gained relevance in both advanced and emerging economies. Through these initiatives, public authorities are seeking ways to encourage savvy and commensurate behaviours with a focus on the balance between short-term priorities and longer-term security. This is the case in particular when individuals and households would have available income to dedicate to long-term investments, but lack the financial literacy and confidence required to overcome the barriers mentioned in section 3.

This is confirmed by responses to the OECD/INFE survey on financial education for long-term savings and investments conducted in 2013, in which policy makers report low levels of participation in capital markets, and indicate that this can have negative effects on the financial well-being of their citizens (see section 2).

From the government perspective, depending on national circumstances, investor education policies and programmes can:

- Increase low levels of investments or divert investments from unproductive assets: governments might wish to use investor education policies to stimulate investment in domestic capital markets, where this is low. Acting on the demand side to direct more household income into equities can redirect households' investment preferences from potentially non-productive investments in non-financial assets such as real estate or gold.
- For emerging economies in particular, encourage participation of local investors in domestic capital markets can increase their depth and make them less dependent on external factors and more resilient to global financial shocks, as capital market development tends to lower the sensitivity of asset returns to global financial conditions (IMF, 2014).
- Contribute to effective financial markets regulation, as educated investors can support securities markets regulators by spotting and reporting frauds and scams.
- Address the levels of risk-taking by retail investors:
  - Excessive risk-taking: a proportion of retail investors invest in stock markets without the necessary precautions, with gambling attitudes. Governments might wish to put in place appropriate investor education frameworks to counterbalance the negative effects on the economy and on individuals' financial resilience. This becomes more relevant in the current low interest rate environment affecting major industrialised economies, which might push retail investors to invest without the necessary awareness and skills in high-risk products.
  - Excessive risk-aversion: some potential investors might opt for over-cautious long-term investment strategies which won't provide sufficient revenue to support their future needs and can have an impact on their long-term financial security and demands on public spending. Governments might want to educate these investors to the benefits of an appropriate participation in capital markets.

### **Rationale from an individual/household perspective**

At the individual level, an appropriate choice of long-term investments is essential for financial well-being. The transfer of financial risk from governments to individuals and households that began before the global financial crisis has expanded in scope. This means that individuals need to bear more responsibility for their long-term financial well-being, and to invest in order to be more resilient to financial shocks and accumulate sufficient assets to ensure retirement income and fund future expenses (which may include the costs of health care or education, acquiring adequate housing, etc.). The future financial well-being of individuals therefore also depends on the knowledge, skills and confidence to manage their money and build sufficient financial assets.

## ***The objectives of investment decisions***

Individuals and households might decide to hold long-term investments for various reasons:

- Life-cycle motive, by which individuals make rational choices at each age on the amount of consumption spending. By investing and disinvesting, individuals can adjust their consumption needs at different life stages, regardless of the income they earn in a specific stage (Modigliani, 1986).
- Seek higher returns than on savings, especially given the low interest environment.
- Buy real estate.
- Generate additional income to meet current or future expenses.
- Fund retirement.
- Accumulate wealth to be passed on to future generations.

Investing for the long-term can take place through a variety of traditional assets often purchased from financial intermediaries, such as government bonds, stocks and mutual funds, or new investment tools using digital means (see Box 1). Among these innovative tools are investments in crowdfunding or peer-to-peer investing which often do not take place via a regulated financial intermediary and as such are potentially less safe for consumers.

### **Box 1. Overview of long-term investment instruments available to households and individuals**

Depending on national circumstances, legal frameworks, and financial market regulation, the range of products that qualify as long-term investment and that is available to retail investors might vary. It is nonetheless possible to identify the most common traditional investment products available to a majority of retail investors:

*Government Bonds:* Government bonds are a documentary promise to repay borrowed money with interest at a rate determined at issue starting on a date fixed at the time of issue.

*Mutual Funds:* A mutual fund is a financial structure through which investors pool their funds to invest in a diversified portfolio of securities. Individual investors purchase shares in the fund, representing an ownership interest in the large pool of underlying assets i.e. they have an equity stake. The selection of assets is made by professional fund managers. Mutual funds therefore give individual investors the opportunity to invest in a diversified and professionally managed portfolio of securities without the need of detailed knowledge of the individual companies issuing the stocks and bonds. Fund managers must adequately inform investors about the risks and expenses associated with investment in specific funds.

*Stocks:* A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt and is liquidated.

*Life Insurance:* includes insurance on a contractual basis of following items: life assurance, (which covers assurance on survival to a stipulated age only, assurance on death only, assurance on survival to a stipulated age or an earlier death, life assurance with return of premiums, marriage assurance and birth assurance) annuities, supplementary insurance (insurance against personal injury and disability resulting from an accident or sickness), and permanent health insurance.

In addition to these traditional products, new technologies now permit investors to also engage in crowdfunding investments or peer-to-peer investing. These new forms of investment can create additional risks for consumers, given the nature of the peer-to-peer market and the lack of standardised provision of information to potential investors, who must rely on their abilities to gather and process information on possible investment opportunities.

*Investments in Crowdfunding:* Crowdfunding generally takes place through social networks, internet especially, with the entrepreneur detailing the business activities and objectives, in some cases in the form of a business plan, and requesting funding under specific terms and conditions. This represents the main innovation of crowdfunding with respect to other forms of finance, as the entrepreneur does not need an intermediary, such as a banking institution, to seek funding and can source directly the savings of a large audience. The forms of crowdfunding that are most relevant to long-term investing are lending and equity purchase. Through lending, investors receive the interest and the principal at the end of the lending period. There also exist crowd-lending forms based on the revenue-sharing principle, that is, where creditors are not paid interest at the end of the defined lending period, but rather an amount which includes an agreed share of the earnings, in case of good performance of the debtor.

With equity, a privately-held company offers securities to the general public, through the medium of an online platform. Investors receive a share in the business and may acquire voting rights (OECD, 2015a).

(Source: OECD Glossary of Statistical Terms)

### ***Relevance for retirement income***

Among the main reasons to invest for the long-term is the need to accumulate sufficient income for retirement. Faced with ageing populations and fiscal pressures, many governments have restructured their pension systems by reforming pay-as-you-go schemes. This is likely to extend working lives and reduce benefits for future generations. At the same time, defined-contribution (DC) private pension schemes play a major role for new entrants, increasing uncertainty over benefits and the burden on individuals. These are therefore becoming increasingly responsible for managing risks and their resources. In this context, it is essential that individuals have the necessary skills to make their own retirement plans and manage their resources in retirement (see Chapter “The Role of Financial Education in Supporting Decision-Making for Retirement” in OECD, 2016b).

The private pensions offer differs among countries and economies, in particular in the extent to which people participate in pension plans and in the extent to which private pensions contribute to people’s overall income in retirement. Notwithstanding these variations, individuals who possess a personal or a workplace defined contribution pension scheme must decide how their contribution is invested. Plan providers can simplify the choices available to consumers, notably offering a range of funds characterised by different investment strategies that meet plan holders’ needs based on age and risk appetite.

The relevance of investor education for retirement income depends on the level of autonomy that individuals enjoy in managing their pension plan. However, even if pension plan holders do not actively construct an investment portfolio and rely on the providers’ offer, it is in their interest of to understand the choice available and to reassess its suitability at different points in their personal and professional life

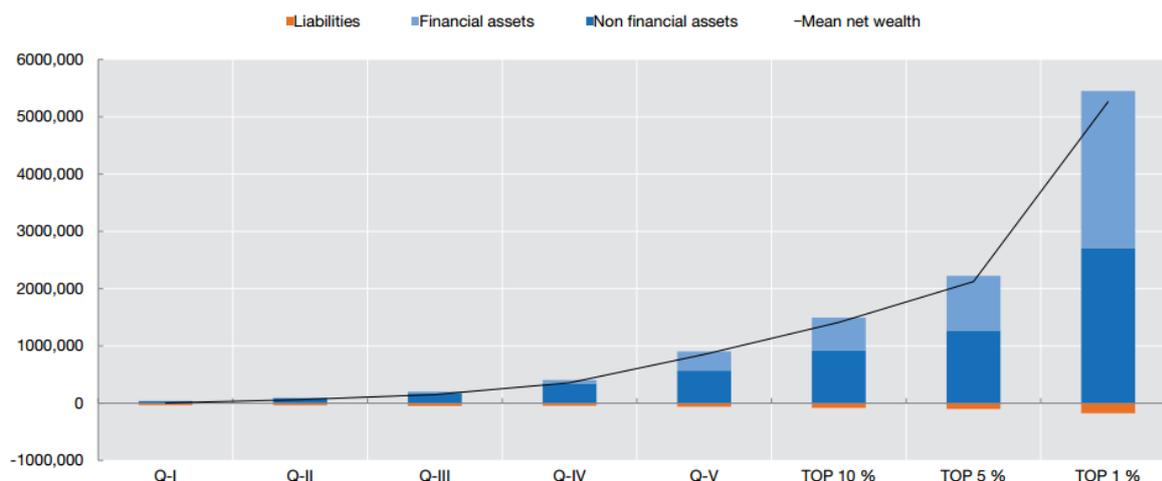
### ***Impact on wealth inequality***

Differences in investment knowledge and skills may also play a role in determining wealth inequality. Indeed, recent research indicates that low financial literacy, by creating barriers for effective participation in capital markets, has an impact on wealth inequality (Lusardi, Michault, Mitchell, 2013). Individuals that have higher financial literacy tend to earn a higher rate of return on their investments, due to their use of more sophisticated products, their understanding of the benefits of diversification and the fact that they tend to pay lower fees for investments in funds.

This is also confirmed by analysis conducted in OECD countries, which indicates that ownership of financial assets is among the factors that most influence wealth inequality. In particular, the analysis shows that financial assets are much more concentrated than non-financial ones: it follows that higher prices of financial assets are associated with a larger share of wealth going to the top 10% of the population (OECD Statistics Brief, 2015).

**Figure 1. Wealth composition and average net wealth by quintile in OECD area**

(2010 or latest available year, values in 2005 USD PPPs)



Source: OECD Statistics Brief, 2015

### Box 2. Complement to other OECD/INFE and global policy priorities

Work on investor education is also complementary to other important areas of work of the Network and of the OECD Secretariat:

- OECD/INFE work on **financial inclusion**: investor education is among the key priorities in national strategies implemented in countries with recently developed financial markets and with high levels of financial exclusion. In these markets, investor education initiatives can increase confidence in domestic financial markets and support their development. Investor education policies can also support the categories of the population that do not have access to investment products in developed markets. Work on investor education might also feed into the OECD/INFE work on remittances.
- OECD work on **financial consumer protection** through the G20/OECD Task Force: investor education is an essential component of financial consumer protection measures and of the regulatory framework for retail investments. Investor education includes issues such as understanding the financial market players and landscape, which address the levels of financial consumer protection and complaints/redress mechanisms.
- A focus on investor education is also consistent with the [G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors](#) developed by the G20/OECD Task Force on Institutional Investors and Long-term Financing and approved by G20 Leaders, where Principle 8 reads:

*“Principle 8: Financial education, awareness and consumer protection*

*8.2 Tailored financial education and awareness strategies should be put in place to inform potential and actual users of institutional investment vehicles about the benefits of long-term saving and investing, as well as any potential risks and costs”*

## 2. CURRENT PATTERNS OF PARTICIPATION IN CAPITAL MARKETS

Participation in capital markets by individuals and households is considered insufficient by policy makers in OECD/INFE economies. Economic theory predicts that individuals and households, even with limited income surplus, will invest in capital markets given positive equity premiums. However, contrary to what economic theory would suggest, not all individuals and households participate in stock markets (directly or indirectly) even when there is a positive equity premium and as such participation would bring positive economic outcomes (Bertaut and Haliassos, 1995; Mankiw and Zeldes, 1990).

A series of barriers prevent their participation (see section 3) and create an economic loss for investors and for the economy as a whole. This is confirmed by OECD/INFE members, who report that in an overwhelming majority of economies, many people do not save/invest (enough) for the long-term (see Table 1).

**Table 1. Main issues relating to long-term saving and investment in the 29 OECD/INFE economies responding to the LTSI survey (2013)**

LTSI issues		Relevance among responding economies
Many people...	... do not save/invest <b>anything</b> for the long-term	65%
	... do not save/invest <b>enough</b> for the long-term	89%
	... <b>cannot access</b> formal savings or investment products	24%
	... <b>rely on non-financial assets</b> such as property or help from family	62%
	... are overly reliant on <b>government support</b> for the long-term	65%

Participation in financial markets is lower than expected even among individuals and households with substantial income surplus and capacity to invest (Van Rooij et al., 2011) - pointing to the role of factors such as general trust in the system among other things. Such participation is particularly low among vulnerable sectors of the population. Indeed, most respondents to the OECD/INFE survey mention the low participation of particular groups such as young people and women.

When participation occurs, the choices of consumers display substantial variation among economies with similar economic development and from the same geographical area. The choices made by the households that do possess long-term investment products are influenced by an array of factors that are specific to each economy and that go beyond levels of financial markets sophistication or geographical area. This is confirmed by the information provided in Box 3 relative to financial assets held by households in OECD countries (for which cross-comparable data are available), which reveals that the degree of variation among households' financial portfolios is determined by specificities (either from the supply or demand side) in the domestic market.

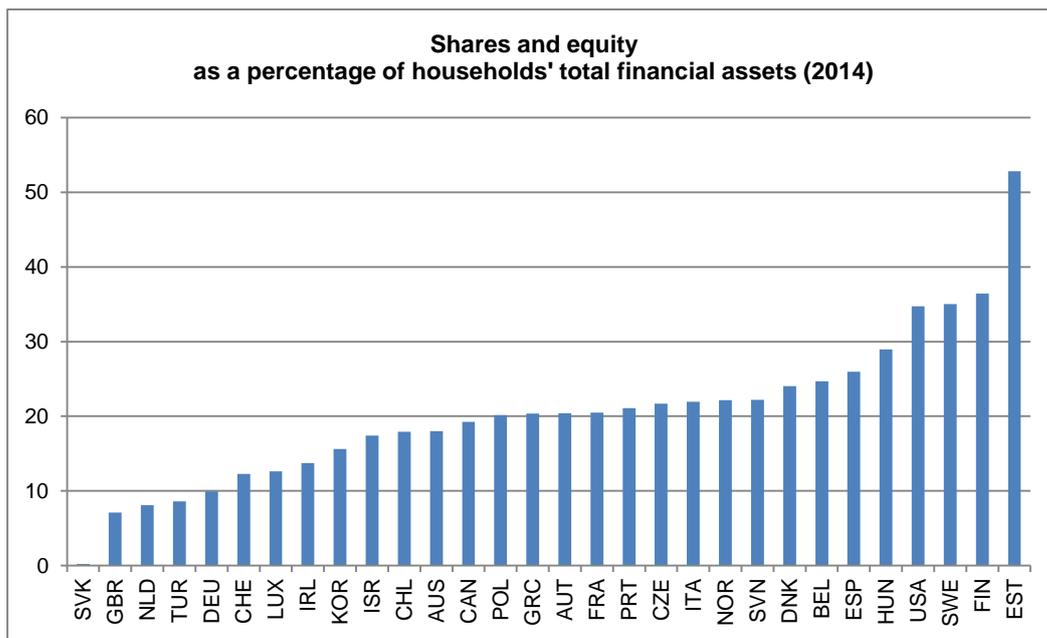
### Box 3. Households' financial assets in OECD economies

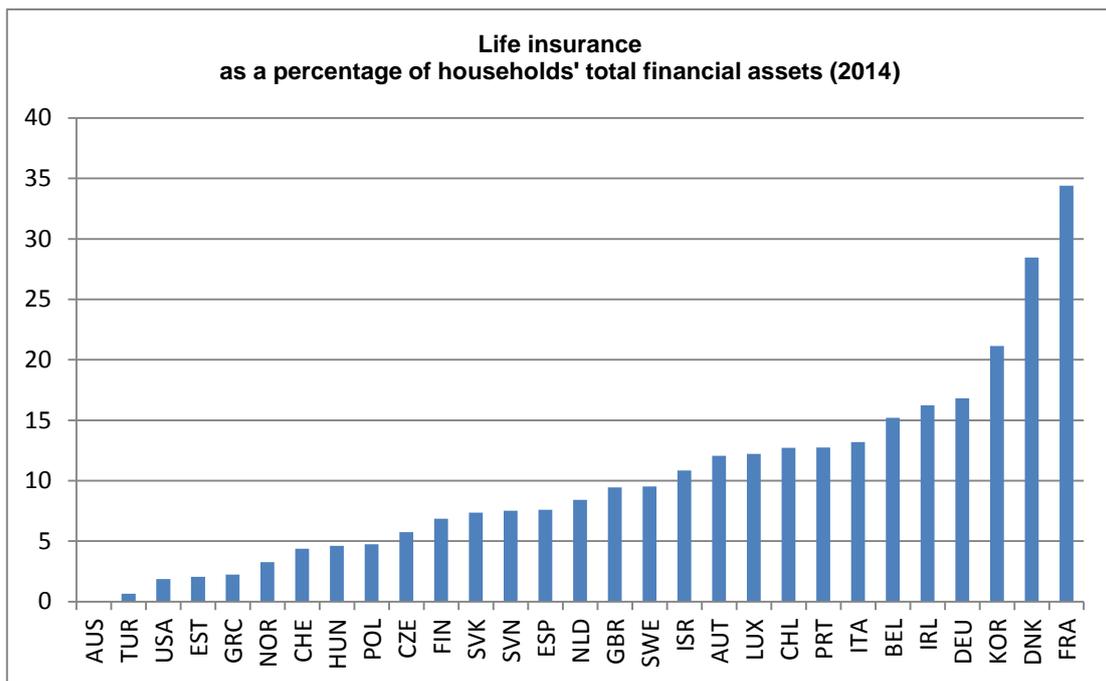
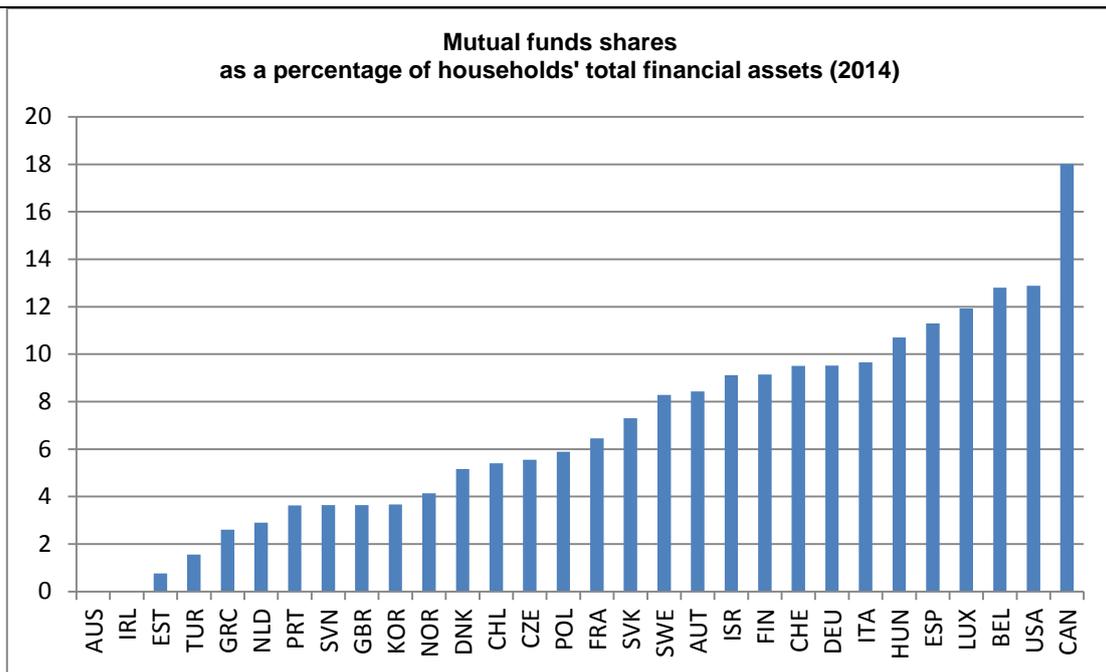
Financial assets held by households form an important part of overall wealth and are an important source of revenue, either through the sale of those assets or refinancing, or as a source of income (such as interest and dividends). The structure of financial assets held by households varies substantially among OECD economies, and an overview of its evolution and composition can bring interesting insights into the role to be played by investor education policies.

Considering data from 1995 to 2006, there has been a decrease in holdings of currency and deposits and an increase in the percentage of securities other than shares, shares and other equity, and of investment funds shares in households' financial balance sheets (Ynesta, 2008). This increase can be witnessed in particular in the 1995-2000 period, coinciding with a period of strong stock performance on equity markets in OECD economies. As a consequence of the financial crisis, between 2007 and 2010 the percentage of shares and other equities and of mutual funds has decreased in almost all OECD countries (OECD, 2014).

Notwithstanding these general trends, the analysis of this data highlights that GDP and capital markets development alone cannot explain the composition of households' financial assets, and that other factors must be taken into account. Tax treatment and the preferences of domestic financial services providers do play a role in determining the composition of households' financial portfolios.

Data below shows the percentage of total financial assets of typical long-term investment products among selected OECD economies in 2014.





The differences in households' financial assets, even among economies with a similar level of development and with similar financial markets, highlight that investor education initiatives must be tailored to the regulatory and tax structure of the country, take into account demand side preferences (such as propensity to save) and supply side elements such as financial markets development and product offer.

Source: Household financial assets, OECD Data <https://data.oecd.org/hha/household-financial-assets.htm>

### **3. BARRIERS TO PARTICIPATING IN FINANCIAL MARKETS AND ACHIEVING FINANCIAL WELL-BEING THROUGH LONG-TERM INVESTMENTS**

The decision of individuals and households to participate in financial markets depends on their personal characteristics and economic situation, such as attitude to risks, fluctuations in income, occupational status, home ownership, and more generally life events (changes in the composition of the family unit in particular) and on available investment opportunities (and awareness of their existence). However, even when consumers have an appetite for investing that would suit their long-term needs, and appropriate products exist, they face a number of barriers that can make investment decisions appear irrelevant, impossibly complex, unpalatable or unrewarding.

Some of these barriers can be addressed by investor education programmes. These are in particular:

- low financial literacy and awareness;
- unfamiliarity with the financial system due to recent financial inclusion;
- lack of trust in financial markets and in the financial consumer protection framework;
- presence or perception of participation costs; and
- behavioural biases.

#### **a) Low financial awareness and literacy and inadequate behaviours**

##### ***Policy makers' views***

A survey conducted among the members of the OECD/INFE reveals that policy makers recognise the low financial literacy of their citizens with regards to long-term investing. OECD/INFE members indicate that many people still lack confidence or don't know how to set their investment goals, which types of products to use, how to choose among available options, how to assess risk and reward and the performance of their long-term investments (see Table 2).

**Table 2. Shortcomings in long-term investing behaviours in the 29 OECD/INFE economies responding to the LTSI survey (2013)**

LTSI issues		Relevance among responding economies
Many people either lack the confidence or do not know...	... <b>how to</b> set their long-term saving and investment goals	68%
	... <b>which types</b> of saving and investment products they could use to meet their goals	65%
	... how to <b>choose a specific saving or investment product from amongst the options</b> available without help	65%
	... <b>how to assess risk and reward</b> when making savings or investment decisions (including risks due to lack of diversification, longevity, fraud etc.)	51%
	...how to <b>assess the performance</b> of their long-term savings and investments	65%

*Evidence from the OECD/INFE measurement surveys and national surveys*

This lack of adequate levels of financial literacy on long-term savings and investments is also confirmed by the results of OECD/INFE surveys of financial literacy and inclusion. The data collected by the OECD/INFE in 2010 and 2015 reinforce and give an internationally cross-comparable dimension to evidence that has been collected by researchers on national samples. Data collected through OECD/INFE measurement exercises (Atkinson and Messy, 2012; OECD 2016a; OECD 2017) indicate for instance that, typically, the lowest average financial knowledge scores relate to compound interest and risk diversification, two key concepts needed to understand long-term investment products.

Similarly, worrying data can be found looking at financial behaviours. The analysis conducted by the OECD/INFE in 2015 indicates that fewer than half of respondents in the surveyed countries had made an attempt to shop around for their most recent financial product; and with respect to the sources of information, many people used information such as brochures picked up in branch, product specific information found on the internet, employer’s advice or general newspaper articles to inform their decision, indicating a willingness to seek some information before committing to a financial product. Furthermore, a minority of people sought impartial guidance from sources such as independent advice, best-buy comparisons or the specialised press. The latest OECD/INFE survey conducted among G20 economies (OECD 2017) further confirms that the way in which people choose financial products is a particular concern, with only a small minority (15%) using independent sources to compare across products and providers.

The evidence collected by the OECD is confirmed by national surveys. For instance, Van Rooij et al. (2011) find that the lack of financial literacy is more pronounced when related to the understanding of advanced financial concepts, such as risk diversification, the inverse relationship of bond prices and interest rates, or product awareness, notably the difference between stocks and bonds and the nature of investment products such as mutual funds. In Italy, the Italian Securities and Exchange Commission (CONSOB) investigated the behavioural attitudes of Italian households and investors in its 2016 report on financial investments (Gentile et al, 2016). It found alarmingly low levels of financial literacy, as well as a lack of familiarity with a majority of investment products other than government bonds. The research also highlighted that only 6% of respondents display correct attitudes towards portfolio diversification, and that wrong attitudes in this respect are more pronounced among the less wealthy and less educated individuals.

Interesting data on specific target groups emerge also from research conducted in Turkey. There, surveys conducted in 2011 addressing capital markets awareness and knowledge among women and youth underline specific weaknesses. Among women, 52% of those who indicated managing money for the long-term do not make capital market investments, and while 72 % use credit cards, 85% do not consider themselves knowledgeable about capital markets (see also section V on women among priority target groups). Among young people, higher awareness is not matched by an equal understanding: 97% of the surveyed population is aware of stocks; but only 61% report being knowledgeable about them. This reinforces the need to provide adequate investor education programmes that are tailored to the target audience, and also to the groups of the population with high levels of awareness but lack of understanding and/or familiarity.

Recent data collected through global OECD/INFE surveys of financial literacy and financial inclusion corroborated previous evidence that women tend to be less confident than men about their financial knowledge and less willing to take financial risks when saving and investing (OECD, 2016a; OECD, 2017). Indeed women are found to be less likely to invest in risky assets (Jacobsen et al., 2014; Almenberg and Dreber, 2015), which may be related to their lower financial knowledge, lower confidence and greater risk-aversion.

These data confirm the relevance of providing investor education as a complement to financial consumer protection frameworks. Indeed, even in economies with well-regulated retail financial markets, consumers can incur losses when purchasing long-term investment products unless they possess the necessary knowledge and skills. As an example, in Germany, studies conducted by the Ministry for Consumers Affairs (Evers and Jung, 2008) show that around 25 billion EUR are lost annually by consumers because they terminate their long-term investments prematurely. This points to inadequacies of their understanding of financial information and might cause them to fall victim of inadequate advice by distributors.

#### **b) Unfamiliarity with the financial system among the recently financially included**

Evidence gathered through the OECD/INFE surveys of financial literacy and inclusion across different economies indicates that financial exclusion remains, to a degree depending on the level of development of the economy and its financial market, a major concern at least in some countries. Even in economies with mature financial markets, vulnerable parts of the population are still financially excluded (OECD 2016b; OECD 2017).

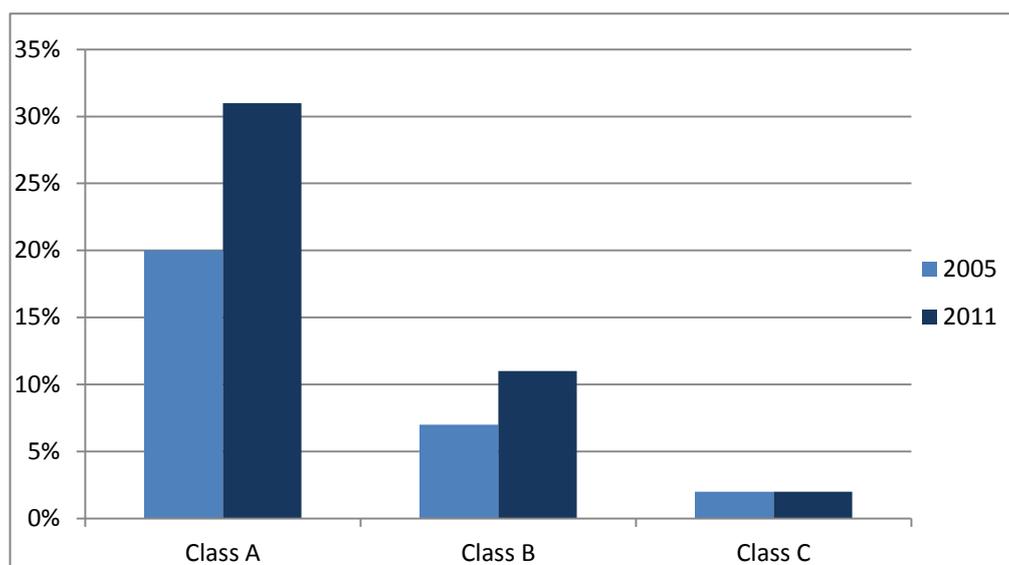
With respect to long-term investments, the focus is less on the financial excluded per se, and more on the “recently financially included”. These population segments will need focused initiatives that take into account their lack of familiarity with investment products, their lower levels of financial literacy and their recent exposure to financial intermediaries. This is the case in emerging and advanced markets alike. In emerging markets, substantial sectors of the population have only recently gained access to long-term investment products (see Box 4) and their financial choices can have profound implications for the economy as a whole. In advanced economies, as indicated by the OECD/INFE 2015 Measurement survey and the G20/OECD INFE report on adult financial literacy in G20 countries, the lack of active product choice raises questions on the extent to which consumers assess the suitability of products they intend to purchase or hold (OECD, 2016a; OECD 2017).

#### Box 4. New investors in emerging markets: the case of Brazil

In emerging markets the percentage of consumers that can have access to investment products is increasing steadily in parallel to the reduction of general financial exclusion levels (Atkinson and Messy, 2013; Gan, et al., 2012).

Interesting data collected on the evolution of investors' profile in the main stock exchange of Brazil BM&FBOVESPA, indicate that the percentage of retail investors has increased substantially over the period 2005-2011 (Brazilian Financial and Capital Markets Association, ANBIMA, 2011).

**Holding of investment funds per income category in Brazil: evolution 2005-2011**



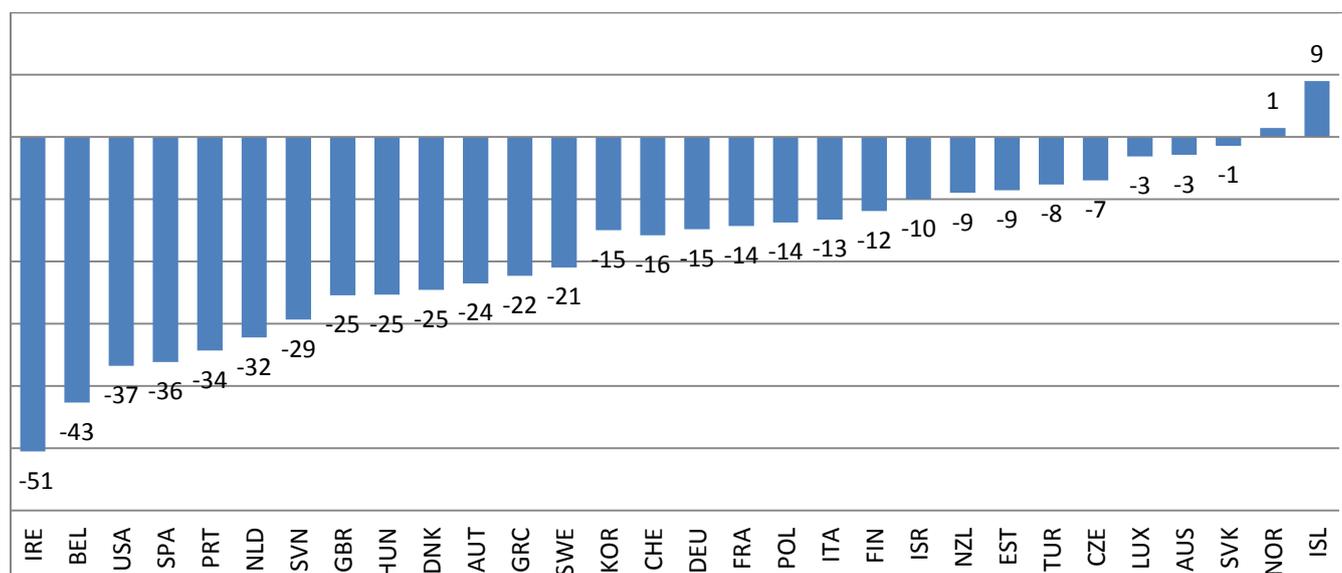
The increase in the number of investors is due in particular to newcomers to the financial system, who potentially display lower levels of financial literacy and less familiarity with the financial system. Class C is the new lower middle class; class B is the more comfortable – but not wealthy – traditional middle class, and class A is the very upper middle class and the wealthy<sup>1</sup>.

#### c) Lack of trust in the financial system

The relevance of investor education policies and programmes has been further reinforced following fraud episodes involving corporates in the late 90s and by the financial crisis, which had an impact on the levels of confidence of individuals and households in financial markets and institutions (see Figure 2). This lack of trust has had an effect on stock market participation and demand for equities (OECD, 2014). The comparison of the structure of households' financial assets between 2007 and 2012 indicates that the financial crisis brought a restructuring of households' portfolios towards more liquid and less risky financial instruments.

<sup>1</sup> A family with monthly income above BRL 9,745 (USD 4,342) is typically considered part of class A; between BRL7,475 and BRL9,745 part of class B and from BRL1,734 to BRL7,475 part of class C. Individuals in class A and B went from 13.3 million to 22.5 million between 2003 and 2011; in class C the increase had been of the same magnitude, from 65.8 million to 105.4 million. On the overall population, the percentage of individuals that do not hold any investment product went from 65% in 2005, to 51% in 2011.

**Figure 2. Confidence in financial institutions: percentage change 2007-2012 in selected countries**



Source: OECD Social Indicators

From the perspective of investors, the decision to participate in the stock market is strongly affected by their levels of trust, and ultimately by the perception that the information they receive is reliable and that the system operates fairly (Guiso, Sapienza, Zingales, 2008). In this sense, trust can be defined as the subjective probability that individuals attribute to the possibility of being treated fairly. This probability is based on the characteristics of the financial system (investor protection framework, disclosure regimes, etc.) and on the perception of investors, which is also a result of investors' educational background and levels of financial literacy. Investor education can support a better appraisal of the functioning of the financial system, including an understanding of risks and opportunities. This can create the conditions in which individuals have a better assessment of the financial system and can as such facilitate, if the system is indeed healthy and transparent, participation in capital markets.

#### **d) Participation costs**

Individuals and households can also be prevented from investing in capital markets due to the real or perceived participation costs that this requires (Haliassos and Michaelides, 2003). These participation costs can be either financial (pecuniary) or behavioural. They can be categorised as:

- financial cost, such as entry/exit fees to be paid to hold certain investment vehicles or to make transactions on investment accounts and life insurances, cost of advice;
- the time and knowledge necessary to invest in the stock market; and
- psychological costs that households and individuals uncomfortable with investing might incur when deciding to participate in equity markets or to hold unfamiliar investment products.

## e) Behavioural biases

In addition, especially for individuals who actively manage their investments, research has highlighted common bad investment decisions that can be understood through the lens of behavioural finance (Library of Congress, 2010; Spencer and Nieboer, 2015). The relevance of behavioural biases in determining investment decisions is also confirmed by research conducted by IOSCO, which in its sound practices for investment risk education (IOSCO, 2015b) suggests the need to focus on influencing retail investor attitudes and behaviour in order to increase the effectiveness of education initiatives.

Among the most relevant to policy makers designing investor education interventions are:

- Active/excessive trading: a sign of overconfidence, it affects men more than women (Barber and Odean, 2000 and 2001).
- Tendency towards passive decision-making, procrastination and the path of least resistance (Choi et al., 2010).
- The disposition effect: whereby investors tend to sell well performing stock and stick to losing positions, undermining possible long-term gains by focusing on short-term results (Odean, 1998; Benartzi and Thaler, 1995).
- Disregarding the role of fees in favour of past performance and returns (Carhart, 1997; Choi et al, 2010).
- Familiarity bias: choosing investment opportunities based on their own location (Huberman, 2011; Strong and Xu, 2003) and knowledge of a certain industry/company, or because of familiarity due to their own employment status (i.e. heavily investing in the employer's stock).
- Noise trading and momentum investing: actively managing investment portfolios based on short-term volatility or solely on most recent performance and not by taking data into account (Hong and Stein, 1999; Barber and Odean, 2008).
- Naive diversification or insufficient diversification (Statman, 2004; Campbell, 2016; Benartzi and Thaler, 2007), i.e. allocating assets proportionally among each fund in a portfolio, without considering their suitability and quality. Naive diversification is particularly relevant also in the context of personal retirement plans. Plan holders may adopt simplifying heuristics and rules of thumb for managing complex sets of information and this can be reflected in their choice of investment funds. For instance, when presented with a large menu of investment options, individuals may engage in naive diversification strategies as the "1/n heuristic" described in). If investors are offered n choices, then they tend to allocate 1/n of their investment to each of the choices offered, independent of the risk characteristics of each option.

## 4. POLICY AND CORPORATE RESPONSES TO SUPPORT INVESTORS' PARTICIPATION IN CAPITAL MARKETS

The results of the LTSI survey conducted among the OECD/INFE membership highlighted a few initiatives aimed at supporting participation in capital markets, both from the public and the private and not-for-profit sectors (see Box 7). The measures undertaken to this effect have been on the supply side, ranging from macroprudential regulation and taxation, to financial consumer protection. Investor education policies can act as a support to these measures, and empower investors in their relationship with financial services providers.

### Regulatory responses

These measures can be categorised as:

- *Prudential regulation*: to ensure that financial firms offer similar degrees of safety to consumers (with measures acting on record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, etc.);
- *Market conduct regulation* to make sure that distribution channels operate fairly and to prevent miss-selling practices to the extent possible. These measures can include client categorisation and suitability requirement as well as the advertising and promotion of financial products. More recent measures also take into account remuneration structures, including requirements for firms not to create incentives to recommend particular financial instruments irrespective of their suitability, as well as the definition of remuneration policies that encourage fair treatment of clients and avoid conflicts of interests, as in MiFID II in the European Union or in the regulation on conflicted remuneration implemented by ASIC in Australia (see “Policy measures to improve the quality of financial advice for retirement” in OECD, 2016b).

These measures are particularly relevant as many consumers often rely on the advice of financial sector professionals without reflection, due to a long-standing relationship with a financial provider, their lack of both financial literacy and familiarity with long-term investing. However, the remuneration system of investment advisors can give rise to biases in the quality of products marketed to retail investors, and determine the sale of products that are not suitable to the risk appetite and long-term needs of retail investors (see Box 5).

#### Box 5. The role of financial advice

Investor education policies must also prepare individuals to understand financial advice and to interact with financial advice professionals. The pervasiveness of financial advice varies across jurisdictions and depends on supply side factors such as distribution channels, as well as on the regulations applicable to the market. It is however possible to draw some implications for the design and implementation of investor education initiatives.

The increasing importance of financial advice has made it the subject of scrutiny from the research community as well as regulators and governments (this also applies to retirement, see “Policy measures to improve the quality of financial advice for retirement” in OECD 2016b).

Financial advice can support consumers in their decision-making and can help them setting long-term goals by providing both the expertise and the motivation needed to take action. This can be beneficial, as OECD/INFE evidence shows how a majority of individuals do not plan for the long-term and do not set any financial objective. Interactions with investment advisors can help in particular by making individuals more prone to take investment risk and by tailoring their risk to their specific financial circumstances (Foerster et al., 2014).

Against this background, in markets where conflicted remuneration has not yet been addressed, financial advisors might not always operate in the best interest of clients but operate based on commissions and financial incentives made available by products providers. The results of OECD/INFE measurement surveys across different economies indicate that consumers do not shop around enough, and do not make enough efforts to make informed decisions, and can therefore fall victim of bad or inappropriate advice. This can affect individuals' financial well-being especially for the categories of consumers that tend to rely to an excessive extent on the advice of their own financial institutions (such as their high-street bank).

Evidence confirms that the category most at risk in this context is that of low financially literate individuals. Research conducted by the European Central Bank (Georgakos and Inderst, 2011) has highlighted that households rely on financial advice to a degree that depends on their levels of financial literacy. Households with high levels of financial literacy will base their decisions to hold risky assets on the soundness of their legal protection and the extent to which they perceive that their rights as consumers are protected. Households with low levels of financial literacy on the other hand need to rely on professional advice, and they need to trust professional advice in order to hold long-term investments.

This has important implications from an investor education policy perspective, as it underlines the need to provide to low financially literate households the adequate tools to effectively interact with financial intermediaries.

### **The UK Financial Advice Market Review**

The increasing need for individuals to take responsibility for their long-term financial well-being and their low levels of financial literacy have brought several jurisdictions to conduct reviews of the potential advantages and pitfalls that individuals and families might meet when using financial advice.

In the **United Kingdom**, the Financial Conduct Authority and the Treasury have completed an in-depth review of the market for financial advice in 2016. In their final report they point out in particular that, despite the possible advantages of accessing regulated professional advice, individuals do not necessarily seek it as they are put off by its costs and their preference for the use of technology. The FCA identifies areas in which regulators and governments can intervene to make the market for advice more affordable. In particular, they note that the market is skewed towards high-quality, personalised solutions for those who have big budgets to invest. However, they note that everyone needs an assessment of its personal situation at every financial decision. Consumers on a lower budget and with limited amounts to invest – who are often also those with lower levels of financial literacy and thus more in need of advice- are as such left cut off this market. UK authorities recommend changes in the regulatory framework that would allow for more streamlined advice on simpler consumer needs that could be charged in a proportionate way.

This recommendation goes hand-in-hand with the need to increase accessibility and address other barriers to the supply of advice. These include lack of trust by consumers, which is being addressed through the implementation of the Retail Distribution Review<sup>2</sup>; lack of confidence in engaging with financial advice, due to perceived or real lack of financial literacy and awareness; as well as lack of knowledge on where to find advice and access it. Specific recommendations in this field include a redefinition of what constitutes financial advice, to make it more flexible, and a more proactive role of the industry in creating a “pension dashboard” allowing consumers to access in one place all the information on how their retirement savings are invested from their different providers.

These recommendations also underline the relevance of increasing consumers' financial literacy on long-term investing as, if successful, will make financial advice more easily available to consumers, that will need to understand what advice to seek, and what to make of it, especially if provided through electronic means and not through a face-to-face interaction.

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<sup>2</sup> The Review, launched in 2006, raised the minimum level of adviser qualifications, improved the transparency of charges and services and removed commission payments to advisers.

- *Product regulation and disclosure requirements*, and in particular changes to disclosure regimes that take into account insights gathered through the investigation of consumers' understanding of pre-contractual information (see Box 6);
- *Incentives to encourage personal investment*, whether in unit trusts or other pooled investment vehicles, or in investments made through life insurance. These can be for example capital gains tax exemption for investments held longer than three years, as in the Czech Republic, opportunity to save small amounts in government securities free of commission and charges, and at the same interest rate as for larger investments, as in Mexico, tax advantaged investments in qualifying investments as in New Zealand, tax exemption for life insurance pay-outs after 10 years or more as in Slovenia, or tax exemption for capital gains in stocks and shares, as in the United Kingdom through the Individual Savings Accounts (Lewis and Messy, 2012).
- *Soft compulsion* in retirement plans, through which governments have introduced default mechanisms in key private pensions decisions in order to counter individuals' inertia and to direct them to investment choices that are suitable to their profile. For instance, in Estonia members of mandatory retirement schemes may choose among different investment options but the default portfolio is a fixed income fund. Similarly, KiwiSaver default funds adopt a conservative investment approach including a 15-25% allocation to growth assets. In Chile, individuals that do not do not explicitly choose an investment strategy are assigned to one of the five funds differentiated by risk profile according to their age (see "The Role of Financial Education in Supporting Decision-Making for Retirement" in OECD, 2016b).

### **Box 6. The standardisation of pre-contractual information for retail financial products in the European Union**

The standardisation of pre-contractual information has been addressed by the European Commission in order to counter some of the problems faced by investors when it comes to the reliability and the comparability of financial information.

Work conducted on the pre-contractual information has been developed in the framework of the Markets in Financial Instruments (MiFID) and Packaged Retail and Insurance-based Investment Products (PRIIPS) Directives and has culminated in the definition of a Key Investor Information (KII) document that presents information allowing for comparison among offers.

This KII will be drafted by the financial service provider, but will adhere to a common format and will allow the potential buyer to answer the following questions:

- "What is this investment?"
- "What are the risks and what could I get in return?"
- "What happens if the product manufacturer is unable to pay out?"
- "What are the costs?"
- "How long should I hold it and can I take money out early?"
- "How can I complain?"
- "Other relevant information"

In order to better present the required information and assess consumers' preferences and needs, the European Commission undertook studies that included broad quantitative surveys supplemented by qualitative testing with focus groups, across a representative sample of countries in the EU (IFF Research and Yougov, 2009).

The focus groups allowed European authorities to understand in particular the areas that, despite the simplification of information, continued to prove challenging for the average European consumer. These are:

- Understanding capital guarantees, and in particular their limitations;
- Understanding the likelihood of performance scenarios; and
- Understanding the cost associated to product purchase and holding.

This exercise shows how, despite a simplified provision of information, consumers cannot rely on disclosure alone, and need to possess certain levels of financial literacy to successfully navigate financial markets, in particular when it comes to long-term investing decisions.

Investor education, especially when targeted to consumers that are most in need, can increase the tools that retail investors have at their disposal and to counteract the information asymmetries that govern the relationship between sellers and buyers of investment products. Investor education can clarify the areas that are still challenging to consumers, reduce the time needed to shop around for and understand the products available, and make consumers more confident about their skills and aware of their limitations.

## Investor education policies

The possible benefits offered by investor education policies have led to their development either as part of national efforts, or as standalone initiatives. In particular:

- the inclusion of investor education as a priority within national strategies for financial education and their programmes, either explicitly (for example in Brazil, Canada, the Netherlands) or in the context of a life-stages approaches (for example, Australia; Hong Kong, China; US); and
- the development of specific investor education initiatives (mostly by securities commissions).

Public authorities conducting investor education activities do so either through an explicit mandate or through an implicit one (OECD, 2015b; IOSCO, 2015).

### *Examples of programmes promoted by public authorities<sup>3</sup>*

*Brazil:* The Brazilian National Strategy for Financial Education (ENEF) has an important focus on investor education, thanks to the role played by the Securities and Exchange Commission of Brazil (CVM). The objectives of the investor education policies are raising the population's awareness about long-term savings and investment opportunities, as well as its risks and advantages, the achievement of a sustainable expansion of market boundaries and more generally the dissemination of a long-term investment culture.

In order to inform its policies and programmes, CVM also established a Behavioural Sciences Advisory Panel (NEC) that aims to help CVM to apply behavioural economic insights to improve the effectiveness of educational projects and public policies. In addition, through the Office of Investor Protection and Assistance, CVM manages its Investor Assistance Units, the Financial Education Unit, the Behavioural Science Unit, and the soon to be established Educational Center.

*Hong Kong, China:* The Investor Education Center, the institution leading the national strategy for financial education in the territory of Hong Kong, China, adopts a multi-pronged strategy that includes cooperation with the stakeholders active in the territory. The IEC, in collaboration with financial regulators, industry practitioners and tertiary education institutions, launched an education campaign to promote responsible attitudes and habits towards money management among young adults, and encourage them to plan their finances from a young age. The campaign, held from October 2013 to May 2014, comprised a creative multimedia competition, a series of interactive workshops and a carnival.

The IEC, together with the Open University of Hong Kong, China, also organised an Investor Education day in January 2015 featuring lectures by experts and professionals about investments and the stock market.

*India:* the Securities and Exchange Board of India (SEBI), in the context of the Indian national strategy on financial education, undertakes various activities for investor protection and education, which include facilitating online grievance redressal through [www.scores.gov.in](http://www.scores.gov.in), the dissemination of investor education through various means such as awareness programmes, a dedicated investor awareness website ([www.investor.sebi.gov.in](http://www.investor.sebi.gov.in)), and awareness programmes through mass media (TV/Radio/Print/bulk SMS). SEBI also runs financial education workshops for different target groups through their nation-wide programme Resource Persons: these are SEBI certified financial education trainers that have undergone

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<sup>3</sup> For a review of investor education policies and programmes addressing specifically investment risk, please see the IOSCO Report “Sound Practices in Investment Risk Education”, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD505.pdf>

intensive training at National Institute for Securities Market (NISM, established by SEBI). The resource persons are expected to conduct a minimum of 12 and a maximum of 52 training workshops in a calendar year, and are chosen based on a proven teaching record. The programme targets audiences such as homemakers, young investors, middle-income and self-help groups.

In addition, SEBI has prescribed to its registered securities market intermediaries to take measures in area of investor protection and education, namely earmarking separate funds/amounts for investor protection and education, setting up arbitration centres and investor services centres (for providing assistance to investors). Intermediaries must also conduct their own awareness programmes: mutual funds shall annually set aside at least two basis points from the daily net assets for investor education and awareness initiatives, and must make complete disclosures in their trustee report to SEBI regarding the investor education and awareness initiatives undertaken; investor Services Funds (ISF) and Investor Protection Funds (IPF) of Stock Exchanges and Depositories must be used for various purposes of investor protection and education as prescribed by SEBI regulations. SEBI also works in co-ordination with its registered securities market intermediaries and recognised investor associations, to synergise efforts in the area of investor protection and education and conduct joint awareness programmes, joint participation in exhibitions to disseminate investor education, develop research, as well as gather feedback on policies affecting investors.

*Malaysia:* The Securities Commission of Malaysia (SC) places importance on the education and empowerment of investors as part of its investor protection mandate. Since its inception in 1993, the SC has conducted various programmes to educate Malaysian investors on the importance of understanding concepts beyond saving and budgeting, to fully comprehend the various products in the capital market and know their rights and responsibilities as investors, as well as avenues for redress. In 2014, the SC launched InvestSmart, a comprehensive investment awareness and literacy campaign under its investor empowerment initiative, to enable more confident and informed retail participation in the capital market. InvestSmart aims to provide the public, particularly the next generation of investors, with valuable investment information, presented in a simplified format through new technology and multimedia platforms, supplementing traditional investor education and engagement channels.

*Spain:* the national strategy for financial education also focuses on long-term investments, with a dedicated section on the national strategy website [finanzaparatodos.es](http://finanzaparatodos.es). The specific section on investing includes advice, beginning with why it might be relevant to switch from long-term savings to long-term investments. The website then follows the steps of an investment decision (before investing, the investment itself, and how to manage it), providing educational materials and tools.

*United States:* the Securities and Exchange Commission of the United States has developed a dedicated website for investors ([investors.gov](http://investors.gov)). This website includes sections on the functioning of financial markets, investment basics, and explains how to research and manage investments; in addition, it includes a section on life events and how to invest in different points in life. It also acts as a clearinghouse for resources aimed at specific target groups (teachers, students, parents, military personnel, Native Americans).

**Box 7. Investor education provided by the private and not-for-profit sectors**  
(selected examples)

**Initiatives by retail financial intermediaries**

The private sector can play an important role when it comes to investor education policies. As highlighted in the first part of this paper, awareness of financial products is – among other factors- a crucial determinant of investors' participation in capital markets.

The probability of being aware of financial products is also a consequence of the distributors (retail banks, financial advisors) incentives to inform investors. Indeed, academic research has demonstrated that among the factors that increase product awareness (such as education, age, and wealth) are also long-standing relations with the same financial services provider.

However, financial market players will favour their client base, and within this pool the target groups that are more likely to buy stock and/or invest in larger amounts, and will therefore focus on wealthier individuals and households or individuals with higher education (Guiso and Jappelli, 2005). This can be mitigated with the inclusion of actions by the private sector in national strategies for financial education.

**Initiatives by stock exchanges**

Stock exchanges, both in developed and emerging markets, usually include investor education resources on their websites. These resources focus on the functioning of stock markets and the traded instruments, but can also include basic financial education resources.

**Initiatives ran by capital market associations and investment associations**

Industry associations representing capital markets institutions can be providers of investor education. In **Brazil**, the Brazilian Financial and Capital Markets Association (ANBIMA) is the representative of the institutions operating in the Brazilian financial and capital markets. ANBIMA manages an investor education website and has produced investor education guides for the general public as well as for students in schools.

Investors' associations are also providers of financial education for long-term investments, albeit in most cases this is provided to members, at a fee. In **Singapore**, the Securities Investors Association of Singapore (SIAS) was created following a considerable fraud affecting many local investors with the aim of fostering responsible investing. It is membership based. Among its objectives are the promotion of the importance of financial planning, the education of investors on the need for investing and its risks, and more generally the importance of keeping abreast, understanding and evaluating current market conditions to make informed investment decisions. In order to deliver tailored investment education, the Association has designed an online test intended as a prerequisite to understand if individuals have the necessary knowledge to access certain products.

## 5. A POLICY FRAMEWORK FOR INVESTOR EDUCATION

Based on the findings of the report and on existing OECD/INFE research and instruments, this section offers a policy framework for investor education. This framework has been developed bearing in mind the risk and complexity of investment and its long term nature, as well as the different needs behind it (funding education, retirement income, asset building, etc.). This framework also takes into account both the diversity of national circumstances and the diversity among potential and existing investors, in particular when it comes to their levels of financial literacy and awareness and their behavioural biases. Finally, the framework aims to allow for innovation in the ways individuals can invest, but also receive advice, information and instruction.

### **Definition and main objective**

Investor education can be considered an integral part of financial education that concentrates on the population who invest or could have the financial capacity to invest in capital markets, typically including both existing and potential investors, depending on the country circumstances and on enabling them to participate safely in financial markets. As such, investor education policies and initiatives are also a complement to investor protection, financial market regulation, and financial inclusion with a view to supporting healthy and transparent financial markets development and long-term financial wellbeing.

The process of investor education can be defined building on the OECD definition of financial education (OECD, 2005) as “*the process by which through information, instruction and/or objective advice, potential and existing investors improve their understanding of investment products, concepts and risks and develop the skills and confidence to become more aware of investment risks and opportunities, to make informed choices, to know where to go to seek advice, and to take other effective actions to improve their long-term financial well-being*”.

This process will in particular concentrate on removing the potential barriers that can prevent (potential) investors from participating in financial markets and achieving financial well-being through long-term planning and investments. It should also seek behavioural change, whether for example to counter excessive risk aversion or inappropriate risk-taking.

### **a) An enabling framework**

Investor education initiatives, in order to be effective and achieve behavioural change in the population, should ideally be implemented within an enabling framework, such as a national strategy for financial education (OECD, 2015b), that defines the role of public authorities and of the private and not-for-profit sector (OECD/INFE, 2014). In addition, investor education initiatives should be based on the market characteristics and the regulatory framework, as well as on the levels of financial literacy and biases of the target population.

#### ***The role of a national strategy and public authorities***

The provision of investor education with the objective of developing the long-term investment skills of the population has several advantages for governments and public authorities, as highlighted in

Section I. With this view, governments and public authorities should ideally design and implement investor education policies that take place in the context of co-ordinated national efforts to promote financial literacy and that are sustainable over time. The presence of national strategies for financial education is an advantage as it can promote the importance of financial literacy at the highest level of government and foster co-operation among public stakeholders (governments, regulatory and supervisory authorities as well as central banks) and the private and not-for-profit sector (stock exchanges, financial providers, and investors associations). It can also improve the overall level of financial literacy and awareness of the population, facilitating the implementation and the success of investor education initiatives.

#### *The role of private stakeholders*

Public authorities should consider co-operation with the industry and its self-regulatory bodies– such as financial providers and investment advice profession- in the design and support of such investor education policies. These possess knowledge of their client base and, under the appropriate framework and the supervision and monitoring of public authorities, can deliver investor education at the key moments in clients’ lives (OECD/INFE, 2014).

#### *The overall policy, market and welfare context*

The design and implementation of investor education policies and programmes has to take into account the various policy, market and welfare elements which may have an impact on investors’ needs and ability to participate safely and fruitfully in financial markets, including:

- suitability and adequacy of product and market conduct regulation;
- offer of financial products by financial services providers (both domestic and foreign);
- existence of non-traditional forms of investing (e.g. crowd-funding and peer-to-peer);
- disclosure regimes and financial advice regulation and provision;
- assessment of financial markets’ healthiness (measured for instance through the numbers and type of fraud and mis-selling cases);
- tax regime for long-term investments and real estate investing;
- characteristics of the pension system and level of autonomy of individuals (i.e. level of contribution; types of investment) to build up their future retirement income;
- investing in high or low interest rates environments, depending on national circumstances, and the understanding of real returns.

Given the nature of long-term investing and the role of financial services providers and financial advisors, it is also particularly relevant that public authorities take into account the structure of distribution channels and of the financial advice profession (and existence of robo-advice), and that investor education initiatives prepare individuals to interact with these in the most effective way.

#### Population’s circumstances

Understanding the knowledge, attitudes and behaviours of individuals and households with regards to long-term investing requires an analysis of financial literacy (such as the one developed through the

OECD/INFE), see OECD, 2016a), capital market awareness and general household surveys to gauge the areas of vulnerabilities and the kind of financial products held. This should be complemented by an analysis of the most common complaints and reasons to seek redress.

In addition to the overall financial literacy levels of the population, policy makers could also take into account the characteristics of consumers such as propensity to save and invest, risk aversion and preference for certain product categories; and the presence of groups that are exposed to higher risks in relation to long-term investments, identified through qualitative and/or quantitative methods. The identification of these groups should focus both on prospective and existing investors.

## **b) Delivering investor education**

The delivery of investor education should address both prospective and existing investors, and focus in particular on the groups that are most in need. The content of such initiatives should cover the whole process of investing for the long-term, from goal setting to product choice, and benefit from the development of core competencies frameworks at the international level. Investor education policy and programmes should allow consumers to effectively access and benefit from information, instruction, and advice. Finally, these initiatives should be monitored and evaluated to permit to policy makers to fine-tune their content and increase their effectiveness and relevance to consumers.

### ***Priority target groups***

The provision of investor education should take into account that there are specific target groups that might be facing higher risks when participating in capital markets. Investor education policies and programmes should be addressed at those already investing for the long-term, and at those that are not yet investing, and in particular the recently financially included. The instruction and advice provided to these categories should be simplified, and tailored to their financial literacy levels.

For advanced investors, the entire range of topic of the investor education framework should be considered. For to-be-investors, emphasis could rather be placed on the consumer protection framework and on the redress mechanisms available, as well as on basic elements of long-term investing depending on the product categories that they can access based on KYC requirements.

The definition of these two categories should be evidence-based, and stem from quantitative and qualitative analysis of financial literacy and inclusion surveys, general household surveys, data on households financial assets as well as dedicated surveys.

### ***Prospective investors***

- the recently financially included, who lack familiarity with the system and might be more prone to fall victim of mis-selling, fraud, and to make bad investment decisions not tailored to their long term needs;
- young people, who – given the scaling back of welfare provision in several countries – need to understand the importance of investing for the long-term at ever earlier ages for retirement and other needs;
- investors who have lost confidence in long-term investing due to the effects of the financial crisis.

### *Existing investors*

- individuals with low levels of financial literacy and awareness, who might lack basic understanding of the legal framework for investor protection, not understand the consequences of long-term investing, and be more prone to rely too heavily on financial advice (see Box 5);
- working adults in pre-retirement, that must carefully plan investment portfolio de-risking and pension decumulation;
- over-confident individuals, that might not fully appreciate their lack of financial management skills and as such over-invest or chose products that expose them to unnecessary risks;
- women, who display on average lower financial knowledge, but who have longer life spans (while being more likely than men to underestimate their longevity) and who can have, depending on national circumstances, more irregular income flows throughout their working life (OECD, 2013; and OECD, 2016a).

### *Content*

Ideally the content of investor education programmes would cover the whole process of raising awareness about the need to invest for the long-term, understanding individual and household longer term needs, setting realistic goals, choosing and managing long-term investments, searching for advice and solutions, exploring different sectors and products to find the most appropriate level of diversification, making and reviewing those decisions, as well as understand the basics of the financial consumer protection framework.

The development at the international level of core competencies frameworks on financial literacy for adults (G20-OECD, 2016) can be useful in designing investor education initiatives at the national level. The possible development of competencies frameworks on investor education can further complement the indicative list below, which provides a first indication of the type of content to be incorporated in investor education policies and programmes:

- awareness and understanding the benefits of long-term financial planning and identifying personal goals that encourage long-term investing;
- knowing where to obtain information about the track record and reliability of financial intermediaries and providers, differentiating between fraud and scams and legitimate intermediaries and offers;
- understanding level of protection and rights given current levels of regulation;
- gaining a better appraisal of risks and understanding the importance of risk diversification;
- knowing what to disclose about personal circumstances and needs, as well as knowing what to ask to financial services providers;
- understanding the product offer and the key financial terms relating to long-term investment products;
- choosing and comparing among different products and among different providers;

- making consumers aware of their own biases (over-confidence, levels of risk aversion, etc.).

Depending on national preferences and risk attitudes, investor education policies can specifically address also niche markets such as gold, or real estate investing when this plays an important role as a source of long-term income to families. The content of investor education initiatives should further be refined to address the aspects of product disclosure that consumers find more challenging, and that can be specific to each economy and to its retail financial market. To this effect, it can be beneficial to conduct an assessment of consumers understanding of disclosure through dedicated focus groups, or at least through an analysis of consumer complaints data.

### *Delivery*

#### *Information*

Governments and market authorities should make available to existing and potential investors clear, objective and up-to-date information on long term investing and investment products. This information should be prepared bearing in mind the characteristics of consumers within their jurisdictions and be consistent with the disclosure materials of the most common long-term investment products available to consumers, whether in the domestic or international markets.

This information should allow individuals and households to become aware of the need to invest for the long-term and of the product offer available in their economy, as well as of the risks associated with investing (scams, frauds, etc.). Consumers should also be informed of the presence of investment advice and how to access it, as well as of complaint redressal mechanism and investors' rights and responsibilities. In addition, the delivery of information should also aim to raise awareness among consumers of their own biases, such as attitude to risk and loss.

This can be achieved through the establishment of websites that seek to become the reference at the national level through consumer-friendly branding and interactive web-based tools, which are supported by awareness and communication campaigns. It can also benefit from co-operation with the relevant private and not-for-profit stakeholders that can reach consumers at key life stages or point of sale.

#### *Instruction*

Investor education initiatives should aim at building new competencies and changing behaviours. The traditional delivery channels used to deliver financial education (schools, workplace, national events, as per the characteristics of the economy and – if relevant – of its national strategy for financial education) can be a starting point to provide instruction and public authorities should consider including elements of investor education in the financial literacy policies and programmes that already exist.

The provision of instruction should also take into account behavioural biases and the potential role of nudges in supporting behavioural change. In addition, given the increasing preference of customers for interactive and online tools, investor education initiatives should also make full use of the available technology through the use of innovative methods such as games and simulators.

#### *Advice*

The role played by advice is particularly relevant with respect to long-term investing. Given the complex nature of long-term investment products and the financial consequences of decisions in this domain, consumers are more likely to need advice to make appropriate investment decisions.

As a consequence, governments and other public authorities should ensure that potential and existing investors have access to quality advice that is transparent and unbiased. They should ensure that the market for financial advice meets transparency criteria and in particular that consumers understand the role of fees and the potential existence of conflicts of interest. Depending on national regulation, authorities could also consider expanding the provision of unbiased advice about long-term investing.

Recent developments in the market for advice, such as the emergence of technology-based models (robo-advice) are promising in this respect, especially for consumers with lower incomes. But public authorities should also ensure that an appropriate framework is in place to inform and educate consumers about these platforms and that the safety of users is guaranteed.

### ***Monitoring and evaluation***

Monitoring and evaluating the implementation of investor education policies is required from an accountability perspective, to ensure that funds are spent efficiently, and to allow policy makers to better understand the appropriate policy mix (among information, instruction and advice as well as between education and regulation) needed to support consumers.

Authorities conducting evaluation of the impact of their initiatives can be supported by the theoretical frameworks and the practical tools elaborated at the international level (OECD/INFE 2012; OECD/INFE 2012a; OECD/INFE 2012b). They should also consider making the results available to the research community and to relevant international organisations.

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