

# Ease burden of risk on consumers, says OECD

By Norma Cohen  
in London

Rules to protect consumers and improve financial literacy must be at the heart of efforts to preserve private pension savings and to prevent a repeat of the credit crisis, according to a report by the Organisation for Economic Co-operation and Development.

"More and more institutions are trying to transfer risks to their customers," said Bruno Levesque, head of financial education at the OECD.

In particular, the OECD had been concerned about the high proportion of homes in eastern Europe purchased with mortgages in foreign currencies, subjecting households to risks they might not understand, let alone be able to hedge.

Mr Levesque said the OECD believed it was insufficient to attempt to prevent future financial crises simply by imposing tougher regulations on banks: it was

the consumers who bought financial products that needed protection and better information.

"The crisis which emerged in the US mortgage market was linked to the lack of market conduct regulation," he said.

The report, to be published today, will make recommendations to other international bodies, including the G20, which is co-ordinating a framework to limit systemic risk in the world's banking system. So far, that group's discussions have centred on regulation of banks and not looked at how financial products are used.

"Over the last two decades, consumers have been burdened with a greater share of credit and pension risks," said André Laboul, head of the financial affairs division of the OECD, in a letter to accompany the report.

"Yet consumer awareness and understanding of these risks has hardly improved. Consumer vulnerabilities,

which have been further exposed through mis-selling and questionable market practices of financial market players, have been one of the sources of the mortgage market disruptions in the US which, in turn, sparked the global financial and economic crisis."

Mr Levesque said the OECD was worried about the trend of transferring risk from institutions to individuals, as private pension provision shifted from defined benefit schemes run by employers to defined contribution schemes, where individuals make investment choices.

It has also been concerned about financial innovation that allows risky credit products to be sold to households.

The OECD is particularly concerned about the risk to private pension provision from the financial crisis, and notes that all efforts must be made to preserve it because governments cannot bear the burden on their own.