

# **Financial literacy strategy in the Czech Republic**

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## ***Session 4 - financial literacy and the role of disclosure***

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# Information, Consumer Protection and Financial Literacy

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Relationship on retail financial markets:

**Product provider** develops a financial product (FP) which is accompanied by standardised FP info

**Product distributor** with due care transfers this information in clear, transparent, understandable manner to a consumer (disclosure)

**Consumer** is educated enough to understand the standard information and can make informed decision by him/herself and/or by using independent financial counselling

# Information rules

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Information on financial products must be:

- clear
  - understandable
  - comparable
- => easy to say, hard to define...

Czech MoF plans to develop a standardised set of information necessary for consumer decision making

- using UCITS short prospectus as a benchmark
- recent challenging experience with APR (Annual Percentage Return) for consumer credit required by EU directives – not understandable, does not provide enough decision-making information

# Financial literacy and emerging markets

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- Low level or lack of financial literacy may cause challenges to local markets
- Domestic markets may develop quickly while consumers always need more time to adapt their behaviour and learn what new markets and new financial products are good for
- Need for public policy bodies to tackle the issue
  - financial market is based on trust, lack of trust means a major challenge for the market
  - financial markets are vital for the whole economy
  - lack of financial literacy and consequent disappointment (or even deprivation) may cause lack of trust not only in financial market but also in the economy as a whole

# National financial literacy strategy I

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- Background on the Czech Republic
  - the Czech Republic in 1990s – emerging market, transformation of economic system
  - establishment of financial and capital markets from the scratch
  - establishment of the capital market by an administrative decision (coupon privatisation)
  - complete lack of financial literacy, no need for over 40 years,
  - problem not recognised by public policies

# National financial literacy strategy II

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- mid 1990's financial scandals – numerous bank bankruptcies, asset stripping of investment funds, credit union scandals
- failure of public policy bodies to cope with the issue, increased moral hazard
- extreme fall of confidence in financial markets of general public

## Ex-post policy reactions:

- introduction of EU-compliant rules
- enhancement of regulatory and supervisory regime
- new disclosure requirements
- financial literacy issue on the agenda

# National financial literacy strategy III

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- 2002 Investor Adviser project
  - run by the Czech Securities Commission
  - focused on capital markets
  - leaflets, website, school visits, TV series
  - central bank and the MoF not active
- 2005 government decision to develop more systematic approach to consumer protection on financial market and to financial education
  - coordinated by the Ministry of Finance
  - dialogue of governmental agencies, market participants and consumers
  - plan to establish a modular system (school education, adult education and focused education) and coordination platform for financial education projects

# Czech National Financial Education Curriculum

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- Key elements of the System
  - definition of the financial literacy
  - definition of financial literacy standards
  - review of the "initial" level of financial literacy
  - implementation of financial literacy standards into the National School Curricula
  - development of training programmes for teachers and their training
  - teaching the curricula
  - regular review of financial literacy and effectiveness of the education programmes
  - accountability – feedback and reports for government and public

# Czech National Financial Education Curriculum II

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## ■ Timeframe

- December 2005 decision of the Government to start development of the Curriculum
- December 2006 approval of National Financial Education Curriculum
- 2007 Implementing financial literacy standards in curricula, testing the system
- by 2008/09 system implemented (hopefully)

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**Thank you for your attention**

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