

**OECD FORUM 2006**  
**BALANCING GLOBALISATION**  
22-23 May 2006, Paris

**Financial education**

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**The Regulator's Point of View**

**INTRODUCTION**

Good afternoon. It's my pleasure to take part in this panel and add a component to this discussion on financial education.

We're all here today because we recognize that for citizens to participate in today's financial marketplace, they must have a level of financial literacy or financial capability.

For my part, I'm going to talk about my Agency's experience as a regulator providing financial education and outreach to Canadians. I will address how I think financial education protects consumers. To illustrate the importance of addressing financial services exclusion, I will use (briefly) our experiences promoting Canada's Access to Basic Banking Services Regulations. And finally I will address the role of the OECD in financial education.

**FCAC, MANDATE**

I am the first commissioner of the Financial Consumer Agency. We're a new agency – created in 2001 as a direct result of a financial services task force looking into the future of Canadian financial services. We are an independent organization and a small one – with only 40 people, all in Ottawa, the federal capital – but we have a broad mandate. Simply put – to protect and inform.

We regulate all the financial institutions that are under federal jurisdiction. We ensure that they uphold consumer protection laws and live up to their public commitments to consumers. That's our protect role. And we inform Canadians about their rights when dealing with financial institutions. We offer unbiased information to help people make choices between financial services and products like credit cards and bank accounts.

The concept of financial capability is the underpinning of the work we do to inform Canadians.

**THE IMPORTANCE OF FINANCIAL CAPABILITY**

At my Agency, financial capability means having financial knowledge and understanding, being able to apply that knowledge with competence and being able to make responsible decisions.

We recognize financial capability is a continuum along which all consumers may move. And that market structures may be creating particularly vulnerable groups -- such as persons with low basic literacy or numeracy, persons with low-income or low-wealth, persons who are unbanked/under-banked or improperly banked, persons with disabilities, Aboriginal Canadians, newcomers to Canada, seniors and youth at risk.

At the same time, financial and government services are evolving quickly and in ways that place a greater burden of responsibility for informed decision-making on individuals.

In my opinion, Canada has an admirable social safety net – public health care, employment insurance, social services and income supports for the poor. But when it comes to financial capability, people are on their own. We assume that all individuals have an equal capacity to make good financial decisions. But the reality is that many people do not have the tools they need to make those decisions in an increasingly complex financial universe.

People need a financial services safety net based on knowledge and life-long learning.

As a regulator whose job it is to protect Canadians from financial institutions or practices that may take advantage of a lack of sophistication on the part of the consumer, financial capability is vitally important.

The government or the regulator cannot sit beside every Canadian as she decides what credit card is right for her. The government cannot provide financial compensation to people for bad financial decisions. And I, as a regulator, cannot reprimand a financial institution for profiting from an individual's poor choice.

However, we can arm a person with knowledge, and the ability to apply that knowledge to make responsible decisions. That is powerful protection that no one can take away from any individual.

As a regulator it only makes sense to help individuals gain their power through knowledge so they can feel confident when confronted with the financial services marketplace.

## **ACCESS TO BASIC BANKING**

At Canada's Financial Consumer Agency, we have found that while the marketplace is very complex the starting point for a consumer is often very simple. It is where many of us start when we first encounter a bank. With a cheque and a bank account.

But when our Agency started our work, far too many Canadians, especially those with low-incomes, were unaware that the most basic of services were available to them – without hassle and free of charge.

At that time, banks operated under a voluntary code that outlined how financial institutions ought to deal with their clients when it came to opening bank accounts. Compliance with the code was not good. And people were beginning to complain to us.

In 2003, the government made a fundamental change for Canadian consumers and brought in regulations that give Canadians a right to:

- Open a personal bank account.
- And go to any bank whether they are a customer or not and have a Government of Canada cheque cashed for free.

Once the voluntary code was replaced with binding regulations, bank compliance improved significantly.

This regulatory change was a small step to take, but very fundamental. And very important when you consider the costs for people who do not have a bank account.

Why are these two small regulatory changes important? For one thing they break down barrier to inclusion for the 3% of people in Canada who do not have a bank account -- and are thereby excluded from asset building and some government services.

Secondly, it means that people don't have to pay a fee to a cheque-cashing or payday loan outlets to get their own money.

Canadian consumers are better financial consumers and better protected financial consumers when they know they have these basic rights.

## **GETTING THE WORD OUT**

A certain amount of basic financial system and household money management education is covered in Canadian schools. And young people are well served by an introduction to financial education in schools.

For our purposes, we find it more effective to take a different role. We practice “real time education” – that is when a person needs to choose a credit card, we offer the information they need to make that choice competently. When a person needs to decipher a mortgage agreement, we offer the tools for her to do that.

We find that the written word is still a best practice as a basis for education. And we are dedicated to using plain language. Especially when getting basic information to low literacy, low-income groups. The information we created on the new Access to Basic Banking regulations are aimed primarily at these groups.

In this case, we created plain language brochures. Opening a Personal Bank Account and Cashing your Government of Canada Cheque for Free.

We also developed a set of “Train the Trainer” modules on Access to Basic Banking. Our outreach officers and the presentation book train people who, in turn, provide consumers with information about the Canadian financial sector, as well as information about basic banking.

Much of this work is done with non-government organizations – the people who work with low-income people. And we partner with other government departments.

## CONCLUSION

We know that the Access to Basic Banking regulations have changed the way our financial institutions interact with consumers. We know that we're getting 30% fewer complaints from consumers about access to basic banking.

And we believe that this simple change is the fundamental first step to breaking down a barrier to financial inclusion. But we don't know yet what impact the regulation and our outreach has had on the unbanked. And we know we have much more work to do before we will see solid results.

And this is the challenge we all face.

I know that international cooperation, in forums like this, has proven very useful in the work that my Agency and my counterparts around the world do educate people. We share knowledge and best practices with each other so we can do our work better at home.

I'm especially proud that in 2003 we started the International Forum of Financial Consumer Protection and Education. We started with 15 participants from 7 countries.

The objective of the forum was to bring together financial market conduct regulators from various countries so that we could share best practices and common areas of concern in the field of financial consumer protection and education.

With the global dimension of financial services and the increasing interdependence of financial markets, all financial market conduct regulators around the world now face similar issues and challenges. It is essential for regulators to have a common platform where we can compare notes on consumer protection and information.

The latest forum was in Malaysia. Fifty countries participated. We talked about financial capability. Fair market practices. Identity theft and fraud. Effective disclosure. Statutory vs. self-regulation. Supervisory frameworks for market conduct. Effectiveness measurement. And the future of consumer protection. I'm expecting a final report of the discussions to be finalized soon.

All the member of the forum share a common goal. We want to improve our consumer protection regimes. And we're hoping for a full representation from all major financial services markets because it will give us a greater perspective and help us to work on common issues and challenges together.

Consumers face a sophisticated, complex world of financial services. Knowledge is what they need to navigate that world.

And with that, thank you for your invitation and for your kind attention. I am pleased to be here, and I look forward to your questions and comments.