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Financial Education

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INTRODUCTION

Good afternoon, ladies and gentlemen. I am delighted to be here and am even more pleased to see that financial education is positioned, I feel appropriately, alongside the related issues on corporate social responsibility and corporate governance.

WHY SHOULD THE FINANCIAL COMMUNITY PROMOTE FINANCIAL EDUCATION?

A market with ill-informed consumers benefits no one. While ignorance is most obviously harmful to consumers, it also impacts on financial services companies and we have a clear self-interest in promoting financial education.

At the core of our business is the collection of money from customers and the management – and hopefully growth of – this money. It is not in the interest of companies such as Prudential for consumers to decide not to save, or to make the wrong decisions because they do not understand what is appropriate for their individual needs. Well-informed consumers are better placed to recognise the need to save and invest appropriately. This could, in turn, lead to lighter touch regulation, with lower costs for providers and consumers.

It is also in our interests that our employees understand our customers' needs, so that they may develop products and services that appeal. For this, they must also understand the basics of finance. And of course, our employees are themselves consumers.

There is also a significant reputational dimension to the provision of financial education. One of the major issues facing the financial services community is the need to restore consumer trust and confidence in savings. The decline in consumer confidence, evident in many markets, has been influenced in recent years by a range of factors including volatile global market conditions, damaging corporate failures (with associated erosion of occupational pension benefits) and, in the UK, the mis-selling of some financial products and indeed the collapse of some trusted financial institutions. A sustainable business built on transparency and trust is a key objective and financially literate consumers will help us achieve this.

Society is, of course, composed of people beyond our customer base who may or may not be in a position to save. We also have a role in educating this population.

WHAT IS THE PROBLEM?

Today's financial world is a complex maze that many people find impossible to navigate. Studies consistently demonstrate that many people lack even the basic financial skills needed to provide security for their families, let alone to thrive in today's fast-paced global financial services environment.

In the UK, where Prudential established its business over 150 years ago, it has been estimated that half the adult population cannot go beyond simple subtraction and addition. People are unable to master even basic concepts, such as percentages, that are fundamental to getting to grips with financial literature.

The Prudential Group has worked with Cambridge University Professor Burchall, on a study which reveals that nine million people in the UK are what they describe as "financially phobic". This means, they shy away from anything to do with financial information - from bank statements to savings accounts to life assurance.

Perhaps worryingly, in the UK, people prefer to view their home as their major financial asset. This is hardly surprising. Unlike a financial services product it is tangible and it delivers immediate benefits. What is not so apparent is that it too is an investment with more than an element of risk. And, of course, its value is notional, until realised, either partially or wholly.

Survey data also highlights a curious contradiction in what people say about their financial education needs. Our own financial literacy survey (carried out by MORI) shows 8 out of 10 adults in the UK say they feel confident in dealing with their financial affairs. Data from the Financial Services Authority recently reported, however, that a quarter of adults don't realise their pension is invested in the stockmarket.

What is the stigma attached to admitting we need help in understanding finance? And is this something that might dissuade people from taking part in a financial education session? This is an area on which we have much to learn. One of the themes beginning to emerge from our work and our knowledge of this area, is that much is down to the careful use of language in how programmes are offered.... By way of example, one educational charity we work with recently organised a workplace education event entitled "Managing your Debt". Perhaps unsurprisingly, few people turned up. The same event, retitled "Investing in Your Future", drew a much larger audience.

THE SOLUTION

So what is the solution?

Three years ago, Prudential launched a campaign to generate awareness and policy debate about the value of financial education, via forums such as this, as well as to

deliver practical solutions for children and adults through the development of initiatives in partnership with charities, educational and other organisations, not least, the OECD. We called our campaign Plan for Life Learning, because we believe that learning about finance needs to occur through life.

Our research has consistently shown that the most trusted organisations to take the lead in improving knowledge about personal finance are not-for-profit organisations such as the Citizens Advice (41%) service in the UK and schools and education centres (27%). And this is why we are helping to build the capacity of these organisations to deliver this service into communities. Many voluntary organisations need cash, as one might expect, but also expertise. This is where financially astute employees can also add social value. And at the same time, we learn about how to improve our communication with consumers.

Some of you may also be aware of the OECD research project currently underway, funded by ourselves, comparing approaches to financial education internationally. We are confident, that this will be of considerable significance, the first research of its kind to compare the varying international approaches to financial education. Its results will be used to produce guidance (for Governments and regulators) on effective consumer financial education strategies across OECD countries and in some Asian non - OECD countries.

One area that I hope this study sheds some light on is how countries are measuring the success of financial education. This is an issue that will be looked at in some depth by the Financial Services Authority in the UK, which has been charged by the Treasury to develop a national financial capability strategy. I am pleased to serve on that committee. It is very early days, but it is crucial that the value of providing financial education can be measured.

Of course, many of our insights into this area are developed via work underway with our customers and employees. Financial products, by their very nature, are often complex. But this should not be an excuse for a lack of transparency. Making the information we provide to consumers as simple as we can and developing measures to encourage and support the shift from a "spending" to a "savings" culture goes hand in hand with the provision of financial education and to maintaining a positive reputation in the market.

I mentioned earlier, the need for our employees to be well trained in this field in order that they can recognise and design products that serve customers' needs. Prudential UK offers its employees a day off a year specifically for their own finance education needs.

CONCLUSION

WHERE DO WE GO FROM HERE?

There is still much to do and a huge task lies ahead. But we can take strong encouragement from forums such as this, where the issue is clearly on the international agenda. It is my hope that the OECD research project into international

financial literacy can be presented to regulators, governments and indeed the financial services community across the world and that it will help all of these audiences to understand how consumers can be assisted to understand what provision, if any, they need to make to ensure that they can make informed choices to improve their own financial well-being.