BACKGROUND NOTE TO THE SPEECH OF MR RICHARD BOUCHER, OECD DEPUTY SECRETARY GENERAL

At the occasion of the RBI-OECD Workshop

On

“Delivering financial literacy: challenges, strategies and instruments”

March 22-23, 2010, Bengaluru, India

Financial literacy and inclusion are issues of critical importance as we all strive for a more transparent, robust and sustainable economy, and a fairer society. The importance of these issues to India is evident. The Reserve Bank, India’s oldest and most experienced financial supervisory body, has chosen financial literacy and inclusion as its theme for its Platinum Jubilee. The participation of Mr. Mukherjee and Dr. Subbarao in this workshop as well as other eminent Indian officials and stakeholders also attest to the commitment India has made to improve the financial literacy of its population.

India is not alone in this regard: This workshop also welcomes the participation of many South East Asian stakeholders and their Central Bank representatives, as well as officials from other major emerging economies such as Brazil and South Africa.

The financial crisis has highlighted the need for strengthened national and global financial regulation and supervision, including in the area of financial consumer protection. We should not forget that, at the epicenter of the crisis – the subprime mortgage sector in the United States – insufficient levels of financial literacy were among the major aggravating factors. If there is any consolation to be drawn from this debacle, it is that the importance and profile of financial education has been raised decisively around the world. And this is true not only for governments, but also for consumers.

Against this backdrop, 3 aspects of financial education are at the core of OECD work in this area and are reflected in the programme of this meeting:

1) the importance of financial education as a complement to an appropriate financial regulatory and consumer protection framework and OECD related work

2) Financial education as a means to financial inclusion; and the

3) Efficiency of Financial Education initiatives

1) the growing recognition of the importance of financial literacy as a complement to an appropriate and strengthened financial regulatory framework.
Within the context of its overall project on financial education, the OECD has been one of the few organisations to recognize explicitly the need to both:

- review the adequacy of current financial consumer protection regulatory frameworks, and

- enhance and strengthen financial education initiatives and programmes.

At an international level, as more and more governments and policy makers acknowledge that there is ample room for improvement in financial literacy, financial education issues are climbing up national agendas. Related corrective policy measures, initiatives, and more importantly coordinated national strategies have recently been designed and implemented by governments here in Asia and in many countries around the world.

Due reference must be made to the comprehensive projects and activities developed by RBI, and other Indian financial institutions to reinforce financial capability and literacy of Indian citizens. The OECD particularly welcomes the multi-targeted strategy established by the RBI, which takes into account individuals’ needs and capabilities in order to devise tailored financial literacy programmes as well as innovative and wide-ranging programmes in schools. The active contribution of RBI and Indian officials in the regional and international arena, notably on financial literacy, and its excellent co-operation with the OECD also deserves special mention.

Many other Asian countries, including Indonesia, Japan, Korea, Malaysia, Philippines, Thailand, Singapore or Hong Kong or more recently China have also developed innovative and far-reaching initiatives in the area of financial literacy.

Finally, as demonstrated by the presence of colleagues and distinguished officials from the other 4 continents, financial education has unquestionably become a global issue and a high policy priority: South Africa is currently designing a national strategy on this issue; Brazil launched its strategy last year.

Four prevailing challenges are at the core of OECD work and our common concerns:

1. The rapid pace of innovation and growing sophistication of financial markets
2. The virtual explosion of financial products (like credit cards) being offered to a vast and growing number of “new consumers”
3. The increasing transfer of risks, such as longevity and investment to households in the pension field in particular
4. Consumers’ worrying low awareness and understanding of financial concepts and overestimation of their knowledge and skills relative to financial products and issues.
The OECD work since 2003 have strived to address this new and complex financial landscape and to identify the possible roles and responsibilities of various involved stakeholders and governments. Since the inception of its project, the Organisation has taken the lead in the development of international standards and principles on financial education and awareness. We have now released 4 sets of principles and good practices on financial education and awareness: the first one in 2005 provides a general reference framework, followed in 2008 by 2 sets of guidelines that focus on private pensions and insurance. The most recent OECD good practices in financial education, which were issued in 2009, relate to the field of credit, which is particularly relevant in the context of the financial crisis. The Organisation is currently in the process of developing a new set of guidelines on the role of insurance intermediaries in insurance awareness, education and consumer protection. The wide-ranging analytical work has benefited since 2008 from the experience and knowhow of the members of the OECD International Network on Financial Education, which brings together financial education experts from 60 governments including many participants in the workshop.

Also in 2008, with a view to disseminating the comprehensive body of data information and research collected through our activities, the International Gateway for Financial Education was established. The Gateway, which is the first global clearinghouse on financial education, catalogues more than 250 programmes and studies in 70 countries.

2) Financial literacy as a means to financial inclusion

Along with enhanced consumer protection, financial education must also be provided hand-in-hand with improved access to financial markets and services, particularly for vulnerable segments of the population. This is a concern for all countries, and has resulted in the establishment by the G20 of a special expert group to work on this issue.

A few telling figures: in the US, between 25 million and 56 million adults are underbanked. Here, in India, only 40% of the population has a banking account, 10% life insurance coverage and only 2% have a credit card. Financial exclusion rates ranging from 50 to 60% of the population are also common to Indonesia or China in Asia, as well as South Africa and Brazil. And this situation may worsen as a consequence of the financial crisis.

India and the RBI's leadership in the development of comprehensive measures to fight financial exclusion, especially in rural areas and for small and medium-sized enterprises, should be specially recognised.

At the OECD, we also particularly value the importance of such policies and are engaged in work towards the elaboration of possible policy solutions through various fronts:

On the demand side, financial education could play an important role in enabling the

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1. [www.financial-education.org](http://www.financial-education.org)
most vulnerable segments of the population to use legitimate and well-governed financial services. The Organisation therefore concentrates its activities on the analysis and promotion of efficient programmes that are tailored to improve the financial skills and knowledge of the most vulnerable groups. Such programmes should promote their awareness of available financial services and enable them to make appropriate use and choice of these services.

But this is certainly not enough. There is also much to be done on the supply side, firstly to ensure the appropriateness of financial regulation frameworks aimed at protecting consumers in general but especially vulnerable ones in their dealings with financial products. The role and corporate responsibilities of financial institutions and intermediaries in developing and effectively disseminating suitable, simple and no-frills financial products to underserved groups should also be encouraged. The development by the OECD this year of dedicated guidelines applied to the insurance sector and in the future to the overall financial sector is notably aimed at promoting such standards and incentives.

The next meeting of the OECD Committee on Financial Markets to be held in Paris mid-April, in which Dr Chakrabarty has agreed to participate, will also tackle these essential issues. The OECD also appreciates the possibility to contribute to the work of the special G20 expert group in this forward-looking area.

Here are some of the challenges that lie ahead: financial education should be efficient and aimed not only at enhancing financial awareness but also supporting the development of more responsible financial habits and behaviours.

This is an undoubtedly ambitious target; but the OECD wishes to promote efficient use of public and private resources on financial education. Yet over the past few years, some observers have pointed to the limits of financial education and the relatively uncertain outcomes of related programmes.

This is why the Organisation, notably through its network, is directing most of its efforts in research and work designed to identify efficient programmes and practices, and to further refine financial education means and enhance their impact. This work includes the development of a methodology to evaluate the efficiency of financial education programmes, the design of a methodology to assess the level of financial literacy, and the use of the empirical results and outcomes of research in the field of behavioural economics.

In this area of research, the introduction of financial education into school programmes has been identified by many of you, as also supported in the OECD 2005 recommendation, as one of the particularly efficient and appropriate tools. Efficient -- because schools are best able to reach the widest national audience and because they can help develop sound habits and nurture future financially capable and responsible adults. Appropriate – because young people are also an essential target of educational policies. Besides, as a complement to the OECD’s comprehensive work on this particular area, the OECD decided earlier this year to include a financial literacy component in our
forthcoming Programme for International Students Assessment (PISA) for 2012. This programme is now conducted in more than 65 countries and concerns 15 year old students as they are finishing their compulsory school curriculum.

All these issues are well reflected in the programme of this workshop, which should spur very interesting and productive discussions and suggest possible solutions.

This workshop is also very timely in light of OECD’s objective to strengthen its engagement with India and South East Asian countries. In that respect, the OECD will continue to fully support these governments’ dedicated efforts aimed at empowering individuals to take full part in the financial marketplace.

See the OECD brochure on financial education circulated at the workshop for further information, the OECD dedicated website www.financial-education.org or contact Ms Messy at “flore-anne.messy@oecd.org”