FINANCIAL EDUCATION AND THE CRISIS

POLICY PAPER AND GUIDANCE

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FINANCIAL EDUCATION AND THE CRISIS

High-level policymakers and decision makers gathering at the occasion of the two OECD International Conferences on Financial Education organised in 2008 with the US Treasury in May and Bank Indonesia in October, pointed to the importance of financial education in the context of the financial crisis. Similarly, Charles Schwab, the President of the US Advisory Council on Financial Literacy recently argued that: "while there are many causes to the economic problems facing the country, it is undeniable that a lack of financial literacy is a contributing factor". The current deepening of the crisis and the resulting longer-term approaches strategies adopted by governments worldwide have further highlighted the need for enhanced individual financial literacy and capability as a necessary complement to efficient financial regulation and supervision at the domestic and global scale.

In the framework of the International Network on Financial Education (INFE), established in 2008, which includes more than 80 countries and over 200 public bodies[1] interested in financial education, it was decided to develop substantial work on the relations between the financial crisis and financial education. This project explores the effects of financial illiteracy on the development of the crisis and, consequently, the need for strengthened financial education, and the potential role of financial education in mitigating the impact of similar crises in the future. It also aims at drawing preliminary conclusions and lessons from this experience, from a financial education and consumer protection perspective.

To that end, a questionnaire has been developed and disseminated to INFE members. Contributions to this questionnaire were collected from late 2008 until early March 2009. Responses from 40 public institutions in 30 countries[2] have been gathered.

This data collection and ongoing monitoring of the financial literature allowed for the elaboration of an analytical synthesis of the responses, as well as preliminary policy recommendations based on policy measures undertaken by governments in response to the crisis.

This report was discussed at the OECD Committee on Financial Markets, the Insurance and Private Pensions Committee and the International Network on Financial Education in the first half of 2009. Such note was welcomed by the three bodies.

[1] As of September 2010

[2] Including Austria, Belgium, Bosnia, Brazil, Canada, Croatia, Czech Republic, Estonia, Finland, France, Germany, Hungary, Iceland, India, Indonesia, Ireland, Italy, Japan, Malaysia, Mexico, Netherlands, Philippines, Poland, Serbia, Singapore, Slovak Republic, Spain, Switzerland, United Kingdom, United States.

TABLE OF CONTENTS

Boxes

I - HOW LOW LEVELS OF FINANCIAL LITERACY AND RISK AWARENESS MAY HAVE CONTRIBUTED TO THE CRISIS

Most respondents to the questionnaire, as well as key stakeholders in the United States and elsewhere, indicated that the lack of financial literacy of individuals cannot be pointed at as the only factor leading to the crisis. In doing so, however, they also agreed that financial illiteracy certainly contributed to deepening and worsening its effects.

The initial crisis and its immediate effects

The widening financial crisis is not stemming from a single cause. It was rather prompted by a combination of the risky and improper behaviours and decisions of various stakeholders. Among those, financial institutions, experts and sometimes regulators unquestionably carry most of the responsibility. But the lack of understanding of households on financial issues and, in particular, on credit and investment, has also a major role. As a result, individuals have accepted (sometimes unknowingly) to support more financial risks than what they could afford.

In the United States, the subprime mortgage crisis is primarily the result of poor risk management and misleading selling practices by lenders and financial institutions, in a context of real estate overvaluation and lax monetary policy and regulatory oversight in the financial sector. However, the development of a speculative bubble and its burst was also due to the reckless financial behaviours of households, including the most vulnerable ones who contracted mortgages they should not have subscribed considering their financial situation. Actually, individuals were often not aware of the risks they were exposed to and did not understand the terms and conditions of the mortgages they purchased, which often resulted in significant increases in their monthly payments over time. They either relied on the unfitted financial advice from relatives or dishonest lenders or even sheepishly followed the irresponsible behaviours of others. In this respect, higher level of financial capability may have helped these individuals better understanding the risks and conditions of the credit products they were buying. Besides, this process was further emphasized by the loosened and remote link between households and banks or poorly regulated financial institutions. Concerned financial providers did not appropriately price and assess the risk of default, partly owing to the possibility to transfer this risk to other institutions through collateralised debt obligations and other kind of derivatives products.

In other countries, relatively similar and intertwined series of causes triggered by the US financial crisis, including a lack of individual financial awareness and responsibility, have led to similar consequences and housing foreclosures. For example, in most Central and Eastern Europe (CEE), and particularly in Hungary and the Baltic States, a very large proportion of mortgages were issued in recent years by subsidiaries of foreign banks (mostly Austrian, Swedish and Belgian) in foreign currencies (typically the Euro or Swiss francs) and then repaid in local currency. These products were attracting for some consumers as they allowed them to benefit from lower interest rates. The counterpart of these products, however, was that they were exposing consumer to exchange rate risk. The global credit crunch notably resulted in the drying up of foreign investments in emerging economies and in the significant depreciation of local concerned currencies (and typically the forint) making mortgages payment shooting up. This obviously entailed tricky financial situations for concerned households. In addition, since the practice has generalized in recent years, it has affected entire national economies and is eventually a cause of serious concern for lending countries. In this respect, the Hungarian government had to turn to the International Monetary Fund for financial and technical assistance late last year. The World Bank and the European Investment Bank for Reconstruction have also recently offered to provide CEE countries with financial help. In Western Europe and in particular in Austria, the collective exposure of domestic banks to loans issued in the CEE zone amounts to over 70% of Austria's GDP and to 20 to 25% in Sweden and Belgium, and to lesser amount in Italy or Germany[3].

In addition to credit risks many households have also been exposed to increasing investment risks. The survey reveals that individuals, particularly in Europe, the United States and Asia, have massively invested in highly risky assets portfolio, including some risky structured products. These investment decisions were often made on the advice of their financial providers, and in absence of sufficient consumers' awareness and knowledge of these financial instruments. The stock market plunge that followed the initial credit market turbulence therefore resulted in significant unexpected losses for these individuals who had made uninformed and unsuitable investment decision.

These are unfortunate demonstrations of the potential implications of financial illiteracy in today's increasingly complex financial sector. At a global scale, inappropriate financial decisions, when they are generalized to a large proportion of households, can have ripple effects and may even jeopardize the stability of the whole economic and financial system.

They also show that if individuals have low level of risk awareness and financial capability, other main stakeholders in the process - financial institutions and advisers, as well as policymakers and regulators- are not necessarily more financially skilled and lack essential accountability. The potential lack of education of advisors is particularly worrisome since poorly financially skilled individuals tend to highly depend on their advices. As for policymakers, their inability to properly evaluate the risks increasingly supported by households at a macro level, sometimes prevented them from adequately informing and warning the population on the potential instability of the housing markets in the United States, on the exchange-rate risk in CEE countries or on the underlying risk of complex financial products.

Apart from the general lack of financial literacy and awareness the loosen relationship between households and financial institutions has also reinforced information asymmetry. In turn, it has likely amplified the uncertainty regarding the level of risk to which each counterpart was exposed and eventually further reduced financial institutions' accountability to their clients.

The aggravation of the crisis and long-term prospects

Most surveyed countries have highlighted that if financial illiteracy could not be pointed at as the main root cause for the crisis, it has certainly played a key role in worsening of its effects. In this regards, a majority of respondents have underscored that insufficient financial skills have probably enlarged the scope of the crisis and exacerbated individual situations.

Moreover, in many economies, lack of financial education and consumer awareness, may bring individuals to react in unexpected or sometimes irrational ways. This may have policy implications and, in some cases, adversely affect the impact of government intervention. For example, many countries and in particular emerging economies reported that the lack of public awareness of deposit insurance and

[3] See Roubini N. *et al.* (2009).

guarantee schemes have prompted individuals to massively withdraw their deposit and savings from banks (e.g., in Poland, Hungary, Serbia and Russia).

More generally, countries have underlined that the lack of financial literacy in the context of the crisis may have led to a general and broader drop of confidence in financial institutions and regulators typically inciting individuals to overly limit their investments in financial markets and in the economy- thus further delaying economic recovery. In this respect, enhanced level of individual financial capability may allow for a better understanding of policy intervention and contribute, to some extents, to its overall efficiency. With better perception of the rationale for the introduction of policy measures, individuals' confidence in the financial and economic system would be strengthened. In turn, this could prevent households from overacting as a result of the crisis. Greater financial literacy and confidence of consumers may nurture more balanced behaviours in respect of the management of their wealth and budget on the long term.

In addition, the lack of confidence in financial investment may have heightened impact in the context of the increased transfer of longevity risk and pension investment risk to individuals through Defined Contributions (DC) pension schemes[4]. In many countries which have introduced pension DC schemes in recent years, the financial crisis had negative impact on the performance of pension funds and on related investments held by individuals. This has resulted in the population at best questioning the appropriateness of the new pension system, and at worst panicking. In countries where individuals are also responsible for the management of their investment in their DC schemes or in countries which have planned the introduction of this reform (including Italy, Mexico and Poland), the lack of confidence and financial capability of the public could entail even more concrete and sudden financial downturns.

[4] See also section II Box 2 for more details on pension awareness campaigns launched as a result of the crisis.

II- IMPACT OF THE CRISIS ON ENHANCING AWARENESS ON FINANCIAL EDUCATION ISSUES AND FOSTERING THE DEVELOPMENT OF RELATED POLICY ACTIONS

If the crisis has shed light on the importance of increased level of financial literacy for global financial and economic stability, it has done so in different and uneven ways for the public, policymakers and private decision makers. Accordingly, this increased awareness has notably prompted governments and interested stakeholders to take some remedial policy actions in the financial education area.

Has the crisis increased awareness on the importance of financial education?

As stressed by many observers and the large majority of countries (more than 90%) responding to the questionnaire, one of the lessons to be learnt from the crisis, is that the vast majority of the population is ill-equipped to participate in the global economy because they lack basic financial skills, an issue that has not necessarily received enough attention so far.

The crisis, like most adverse experience, has put the emphasis on both the general low level of financial literacy and the need to develop efficient financial education initiatives to address these gaps[5]. The role played by the global credit crunch as regards financial education however depend on the seriousness of the crisis and its effects in each country and on the level of awareness on the role of financial education before these events.

The public: the crisis as a "teachable moment"

As also evidenced notably by OECD research[6], the challenges about financial education issues, is that consumers are generally unaware of their (financial) risks, overestimate their financial skills, and show little interest in financial issues. The financial crisis and its direct, stressful and potentially significant long-lasting consequences on individuals' wealth and well-being have incited households to become more concerned and interested in financial issues. The survey shows that in most countries, consumers are now seeking more financial information and eager to better understand the implication of various financial matters on their daily life. As sketched out below, most government and stakeholders have accordingly taken steps to address these requests.

One of the few positive aspects of the current financial crisis is that it corresponds to one of these "teachable moments" when households are willing to be taught about long-term complex risks and financial issues they are generally reluctant to consider and to spend time on. Moreover, as stressed by some observers and researchers[7], most people are learning through experience and even more so through adverse experience. For instance, generations who were confronted to great inflation, are more likely to understand this concept and to react in a proportionate manner if the situation occurs again. At the macro level, this may have even resulted in the adoption of a particularly cautious monetary policy in Europe over the last decades. In this respect, it could be expected that generations which are currently

[5] This was already mentioned and illustrated in the 2005 OECD report – See OECD (2005a).

[6] See, for example, OECD (2005a).

[7] See, for example, Lusardi, A., (2009) and Sumit, A. *et al.* (2006a).

facing the crisis may become more careful about their use of credit products (and their features), and about the underlying risks of the financial products offered to them. Research[8] suggests that they might also be in a better position to transmit this basic knowledge to their children. However, research[9] also revealed that consumers also tend to forget fast and that lessons need to be repeated in various forms to prove efficient. Consumers should also be equipped with the necessary tools and solutions to better anticipate crisis situation and know where to find information on remedial measures.

Lastly, the crisis may have helped in some countries to build enhanced awareness of the public, main policymakers and of key private and social partners on the need for financial reform. This emerging realization is instrumental to the introduction and successful implementation of important social and financial reform implying a greater transfer of risks to individuals, such as pension reform. It eases the development and design of the new schemes based on a national consensus, smoothens the transition period and provides better and sound grounds for an efficient implementation of the reform.

The fall in confidence aroused by the financial crisis and its effects should however not be understated. The role of policymakers and other stakeholders in efficiently communicating on the crisis and on remedial policy measures introduced is therefore particularly critical in order to make of this "window of opportunity" an efficient teaching experience. This is certainly a challenging task owing to the stressful and difficult context and to the necessary reliance on non-financial expert media and partners[10].

Policymakers: the crisis as a trigger to the development of a more long-term approach to financial literacy issues

First, it is worthwhile highlighting that policymakers' awareness on financial education issues is particularly critical. In the financial education field, the coordinated intervention of governments and public authorities is generally necessary to ensure that the whole population and targeted vulnerable groups are efficiently reached; that information, advice and learning provided are reliable neutral and consistent. Lastly public intervention is called for in the financial education field considering its potential positive impact at an individual and global level for the economy and society.

The role of the crisis in further developing awareness on financial literacy issues varies according to countries' circumstances. The crisis had generally a two-fold effect. The immediate consequences of the crisis have first often prompted policymakers to focus on short-term remedial interventions to ensure the stability of the financial sector and of its institutions, and then to take measures to boost economic recovery. Although these measures may have also encompassed more structural reform relative to the financial regulation and supervision, they did not all involve the recognition of the importance of financial education. Still, in a longer term perspective, results of the survey show that, in most countries, the crisis has highlighted important drivers of our modern economies that contributed to reinforcing the importance of appropriate individual financial capability.

Besides, the crisis has demonstrated that the lack of financial literacy of even relatively small groups of the population could have considerable adverse effects on the global economy. It has also revealed

[8] See, for example, Lusardi (2009).

[9] See, for example, Sumit, A. *et al*. (2006a) and Lyons, A. and Neelakantan, U. (2008).

[10] See following section for more details.

that in today's complex world, the development of an appropriate regulatory framework is essential, but not necessarily enough to guarantee the soundness of the financial system and the financial protection and well-being of individuals. In this respect, households with appropriate financial skills could also play a key role through more responsible financial behaviours and foster the development of more sound, competitive and transparent financial markets, while building their own financial and social wealth.

In this respect, in countries where national financial education initiatives were being implemented or considered, the crisis generally reinforced the conviction that financial education should be developed hand-in-hand with an efficient regulatory framework. They have accordingly often enhanced their strategy and taken further measures in this area to address the consequences of the crisis[11]. In countries where financial education had just started to be given some attention, the crisis has also generally resulted in greater awareness of the need and urgency to develop coherent and coordinated national initiatives and strategy[12]. However, the strength of the political willingness in this group of countries is variable and is sometimes not uniformly shared at all levels of the political apparatus. This situation often implies that financial education is not considered as a top priority on the medium term and is not devoted enough resources to ensure the development of sustainable, consistent and efficient financial education strategy.

In a nutshell, the crisis seems to have been a rather "efficient promoter" of the importance of improving financial literacy, which have notably prompted policymakers to take some related remedial and in-depth measures as evidenced in section B.

Financial institutions: the crisis as an highlighter of the need to enhance their accountability and reinforce their advising role vis-à-vis consumers and in the financial education process

The financial crisis and its main causes have also shown that improper and opaque selling practices could put financial institutions and the financial markets into serious difficulties. The crisis has further shed light on the importance of appropriate accountability of financial institutions to consumers and their clients[13]. The suitability of the role played by financial institutions as regards their clients and consumers proved to be critical for their own soundness and competitiveness on the long term. This role typically encompasses the assessment of clients and consumers' risk exposure, the provision of objective and transparent information on financial products offered, proper and adapted financial advices and suggestion of financial products commensurate to consumers' needs. In this regard, it has confirmed the recommendation already made in the OECD 2005 *Principles and Good practices for Financial Education and Awareness* that financial education approach and fair treatment of consumers should be integrated into the corporate governance culture of financial institutions.

This increased awareness of financial institutions on this issue is also suggested by the recent development of good practices relative to the provision of information, fair selling practices and their

[11] See following section for details on financial education programmes and measures introduced as a result of the crisis.

[12] For example in Belgium, Estonia, Iceland, India, Indonesia, Italy, Mexico, Serbia, the Philippines and South Africa.

[13] As also mentioned in the OECD Recommendations relative to financial education – see OECD (2005b), (2008c and d) and (2009, forthcoming).

advisory roles. It is however noteworthy that most of these measures were primarily promoted by governments.

Remedial policy actions relative to financial awareness and education

More than two thirds of the responding countries have mentioned that they have introduced or consider implementing specific measures in relation to financial education as a result of the crisis. As highlighted above, some countries have developed financial education programmes[14], including coordinated national strategies[15], even before these events. The occurrence of the crisis has reinforced the relevance of these initiatives and often incited policymakers and main concerned stakeholders to develop further measures to address the consequences of the crisis or to reinforce and better structure their current initiatives[16]. In addition, the crisis has also encouraged policymakers and other stakeholders, in some countries, to launch and/or to consider developing a consistent financial education strategy at a national level[17]. Only a very limited number of surveyed countries (e.g. Bosnia & Herzegovina) indicated that they have no public financial education programmes in place and do not intend at this stage to develop any as a result of the crisis.

Financial education initiatives prompted by the crisis are three-fold: a first set of measures is aimed at restoring confidence in the short run and facilitating economic recovery. A second seeks to address particular issues and challenges arising from the crisis. Lastly, more structural and long-term approaches are being considered by responding countries in order to effectively nurture households' financial capability. These measures vary in scope and content, depending particularly on countries' economic and financial development, the maturity of their financial market, the advancement of their regulatory framework and, more importantly, the level of financial awareness and literacy and its perceived impact on the aggravation and magnitude of the crisis.

Short-term/medium-term measures: limiting the effect of the crisis and paving the way to a smoother recovery

Short-term measures established by countries were mainly aimed at narrowing the information asymmetry between consumers and financial market stakeholders. They also sought to ensure that households understand the context that led to the crisis, its likely micro impact, as well as prudential

[14] By public financial education programmes, we refer to initiatives developed by one or several public bodies on financial education, but not necessarily in a coherent and coordinated manner. Public financial education programmes (excluding countries with a defined national strategy) are developed in the following countries (not an exhaustive list): Austria, Belgium, Croatia, Estonia, Germany, Hungary, Iceland, India, Indonesia, Ireland, Italy, Mexico, the Philippines, Poland, Serbia, Slovak Republic, South Africa and Switzerland. It is noteworthy that some of the countries in this list are currently planning the development of a national strategy (see box 3 in section II for details.)

[15] Existing coherent national strategies involving the coordination of several public bodies and ministries as well as the development of a structured roadmap can be found particularly in Australia, Brazil (2008), Canada, the Czech Republic, Japan, the Netherlands, New Zealand, Malaysia, Spain (May 2008), the UK and the US.

[16] This is the case, to various extents, for instance in Austria, Belgium, Canada, Estonia, Hungary, India, Indonesia, Iceland, Ireland, Italy, Japan, Malaysia, Mexico, the Philippines, Poland, Serbia, South Africa, Spain, Switzerland, the UK and the US.

[17] See Box 3 in section II- for more details on the recent development of national strategies.

regulation and protection measures that were put in place. These measures largely intended to restore consumers' confidence in the financial sector.

In this area, countries and public stakeholders have vied for the development of different kinds of both traditional and more innovative financial awareness and education tools. These encompass press statements and media campaigns, but also the organisation of workshops and lectures on the crisis, information leaflets, development of specific websites, and the establishment of dedicated call centres and counselling resources. Based on the results of the survey, this section will focus on some of these experiences and highlight some relevant features of these measures.

Most countries surveyed mentioned that they developed specific press statements or broader media awareness campaigns[18]. The purpose of these activities was first to reassure the population on the crisis and on the stability of the financial system. They were also aimed at providing information on regulatory policy measures, particularly related to deposit insurance (specifically in Hungary, Italy, Serbia and Poland). In some countries such as Poland, these campaigns were accompanied by specific initiatives and training for targeted groups (such as the media, managers of corporations and bank staffs). This was meant to guarantee that these potential disseminators of the information would deliver an effective message. Media campaigns also included the use of different supports adapted to the countries' needs and various audiences: e.g., newspaper articles and banners, websites, workshops/lectures, trade-fairs, contests, and dedicated financial education day or week. In Mexico for instance, the government launched an initiative called the "National Week of Financial Education". This special event offered a good opportunity to foster the emergence of a broad national awareness on the importance of financial education and to create synergies among the different institutions involved in financial awareness and education initiatives. This dedicated week involved the organisation, in a limited period of time, of various activities (e.g. each day of the week was dedicated to a selected key financial topic and targeted and broader awareness events) and the use of diverse media (e.g. newspapers, television, radio network and magazines) and channels (e.g. paper material and websites).

Many countries have also underlined that in order to be efficient, the message and the policy measures should be consistent and coordinated among public institutions. In designing their awareness campaigns stakeholders should devote equal attention to both the message content and the ways, channels and partners that will be used to vehicle the message. For instance, the initiative of the GPW – the Polish stock exchange trading operator- to elaborate a dedicated strategy to communicate about financial issues and the crisis and reach out market participants is particularly relevant. This roadmap designed in co-operation with the Capital Market Foundation includes tailored consumers/investor activities, activities in relation with the media and activities with listed corporations.

Paper materials such as dedicated information note, leaflets, brochures and guides providing information on the crisis were also elaborated and released in many countries (notably in Austria, Indonesia, Italy, Hungary, Mexico for pensions, Serbia and the US). For example, the Hungarian Financial Supervisory Authority (FSA) prepared a short information sheet in order to inform the public about the crisis. The FSA has also developed a leaflet containing information on the Deposit Insurance Fund's new rules on minimum guarantee. Also important is the way these paper documents are being circulated and made known. For example, in Indonesia, the brochure entitled: "How to deal with the global financial

[18] Including Austria, Croatia, Hungary, Finland, France, India, Ireland, Italy, Malaysia, Mexico, the Philippines, Poland, Serbia, the United Kingdom and the United States.

conditions" was disseminated early 2009 through bank offices and websites. In Serbia, a leaflet warning households on the dangers of keeping their savings away from the banks was distributed in daily newspapers.

In most countries, concerned public authorities and financial regulators have also used websites to provide more information on the crisis[19]. Some of these websites contain a Q&A section (e.g. in Austria), a blog dedicated to the crisis (e.g. in Switzerland), comparison tools and calculators (e.g., Austria, Estonia and Italy). In the US, many federal and state agencies (e.g., the Cooperative Extension System, the Securities Exchange Commission, the Federal Reserve, the Federal Deposit Insurance Corporation and the President 's Advisory Council on Financial Literacy) have developed new websites or new sub-section to existing websites to assist and advise consumers in the context of the crisis. One important issue about the development of websites, apart from the relevance of their contents, is to ensure they attract consumers' interest and that they are broadly used. In this respect, the Estonian Financial Supervision Authority's campaign, which launched its consumer education website containing information on the crisis, is particularly noteworthy. This initiative was combined with the organisation of an interactive game and with several activities[20] aimed at informing and involving the largest audience possible.

Finally, some countries have established new structures, such as call centres and credit counselling agencies, or adapted existing ones[21] in order to respond to consumers questions and concerns in relation with the crisis. For instance, the mandate of the Malaysian Credit Counselling and Debt Management Agency has been enlarged to also focus on financial education issues. In the US, the Housing and Economic Recovery Act of 2008 calls for the creation of a financial education and counselling programme to assist prospective homebuyers, in addition to other measures.

Targeted initiatives: addressing specific needs and concerns

Governments have also developed interesting targeted initiatives to reach out specific targeted groups or to better manage a specific policy issue.

In this respect, some countries, such as Poland, have tailored programmes to better involve some potential financial education "disseminators" (e.g., Bank employees, journalists, the media and main decision makers). In Estonia, special information materials for social workers are being developed to ensure that they will be in the best position to perform their new duties as debt counsellor.

Other programmes are aimed more directly at attaining particular segments of the population. A wide range of these have been designed and set up for young people and school students in the wake of the crisis (see box 1). In Poland, a tailored campaign addressed to senior consumers (over 60-year–old) and dealing with the use of credit card was also launched in December 2008.

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[19] For example in Austria, Estonia, Ireland, Italy, Malaysia, Mexico, Philippines, Poland, Serbia, Switzerland and the United States.

[20] These include advertisements in national newspapers, video on LCD screens at bus stops, press conferences, direct e-mailing, participation in fair-trade and partnership with main banks.

[21] For instance, in Hungary, the FSA enlarged the opening hours of the customer service, in Ireland, the Financial Regulator, broadened the services of its consumers' hotline and similarly in Serbia -the National Bank widened the services of its visitor centre.

Box 1. Youth-targeted initiatives launched in the wake of the crisis

In *Austria*, the Central Bank OeNB organised in the fall of 2008 a special Euro Bus Tour in primary schools across the country in order to provide schoolchildren with information on money and the Euro. This initiative has proven successful and should be conducted again in 2009. At the same time, OeNB has also organized with the Austrian Consumer Association a special contest for teenagers on consumer awareness, including a financial component. In Canada, a large bulk of initiatives, undertaken in recent years by the Financial Consumer Agency of Canada (FCAC) as part of its national strategy, is addressed to the youth. Two FCAC web resources are worth mentioning in that respect: *The City: a financial life skills resource*", is designed to help young to acquire financial skills and "*the Money Belt*" provides various programmes to train teachers and to support financial education classes to students. In Estonia, a project to organize a nationwide contest for all students involving the making of a short video on their relations with money issues is being planned for 2009, as well as the development of a dedicated website. In the Philippines, various programmes targeting the youth were developed before the occurrence of the crisis and reinforced in its aftermath. In Poland, the BFG (the Polish Central Bank) has prepared specific supporting materials approved by the Ministry of National Education for teachers of secondary level education. In the UK, classes dealing with money issues as part of the wider FSA financial capability strategy have lately been focusing more on the effects of the crisis on households and families.

Another interesting and focused campaign was launched in Hungary in late 2008 (during the holiday season). That programme aimed at warning households (through websites and public announcement) not to contract additional credit cards or consumer loans in order to purchase Christmas gifts. This action was combined with recommendations made to financial institutions not to advertise and promote this kind of financial products during this period and with a monitoring of their compliance with this guidance. In the Philippines, programmes to increase the awareness and provide information on financial services were tailored for overseas Filipinos investors. Specific initiatives are also addressed to micro and small entrepreneurs and provide some additional information and advice relative to microfinance.

Finally, awareness campaigns have been conducted to address specific financial concerns arising from the crisis – this is particularly the case of the pension field[22] as detailed in Box 2.

[22] In this area, it is worth noting that the OECD has conducted substantial work over the last years through the Insurance and Private Pensions Committee, including: the OECD (2008d) Recommendation and related reports included in OECD (2008a) and two consultant reports included in OECD (2008b) on *pension awareness* and *financial education and annuities*.

Box 2. Pension awareness campaigns launched in the wake of the crisis

Following the crisis and its adverse effects on pension funds performance, some countries and especially those that had implemented wide pension reforms in the last years, undertook specific pension awareness and education programmes.

In Italy, the negative impact of the crisis on pension funds prompted households and investors to get concerned about the recent reform of the pension system introducing automatic-enrolment. To address this issue, the COVIP - the pension funds' supervisor- took several actions in the regulatory and education areas to mitigate the effect of crisis and restore confidence. As far as awareness and education are concerned, these measures encompassed a broad media campaign (including articles in newspapers and TV interviews), a less frequent dissemination of information on pension funds performance, better information on pension estimation (via a new dedicated note) and the review and update of the COVIP website aiming at introducing more financial education contents. To supplement these measures, on the long term, with a structural and nationally coordinated strategy, the COVIP is planning a financial and retirement education strategy at the national level, in co-operation with the Ministry of Education.

In Mexico, the adverse effects of the crisis on pension funds have pushed the CONSAR -the national commission for the pension system- to elaborate a broad information campaign to reassure pensioners on the stability of the pension fund system. This message was conveyed using the CONSAR website, personal letters to concerned workers, meetings at the workplace and the dissemination of a brochure released by the Ministry of Finance and Public Credit.

In Poland, the IGTE, an authority which represents 12 open pension funds, has also launched dedicated initiatives using various media. The purpose of this campaign is to reassure the public on the pension system and raise awareness on the importance of financial education in future reforms that would increase households' responsibility in managing pension investment.

In the UK, the TPR has significantly increased communications activity to ensure employers and trustees understand how the system can operate in the light of the new challenges stemming from the financial crisis

In Turkey, the Treasury has asked pension funds early 2008 to send their plans on how to inform participants about market volatility. An information campaign on television has also been initiated at the beginning of 2009 to reemphasize the long term benefits of pension savings.

Long-term coordinated national strategies

Despite all their negative implications, the crisis and its consequences have notably contributed to raising awareness on the need for structured and systematic financial education approaches, in conjunction with an appropriate consumer protection regulatory framework. In this context, as sketched out in Box 3, many countries have launched dedicated national financial education strategies in the wake of the crisis or earlier in 2008[23]. The main promoter of the development of such strategies is in most cases the financial regulator(s), which ensures the consistency of the overall financial framework. But they also involve or plan the cooperation of various public bodies including other financial regulatory authorities, relevant ministries and sometimes other concerned stakeholders such as financial providers and social partners.

[23] See also OECD/INFE recent project on National Strategy on Financial Education; more information upon request at www.financial-education.org.

Box 3. More coordinated approaches to financial education

Selected recently planned national strategies

Since 2008, an increasing number of countries started to consider financial education in a more strategic way through the launching of national strategies. It is noteworthy that this worldwide trend coincided with the beginning of the crisis or its immediate aftermath and, in some cases, can be considered as one of its consequences. The following, none exhaustive, series of illustrations offers a snapshot of this ongoing evolution.

In **Belgium**, a report issued in September 2008 is suggesting the development of a more coordinated national plan in respect of financial education issues. **Brazilian** authorities (including the CVM – the securities' regulator and supervisor-, the Central Bank the SUSEP- the insurance regulator and supervisor and the private pension supervisor) launched a national strategy at the beginning of 2008. In the framework of its strategy, the FCAC in **Canada** has designed a roadmap for 2009-2015 identifying main goals and expected outputs and results. In Iceland, a committee was established in September 2008 to assess financial education leading to the elaboration of a report due for January 2009. This undertaking could, depending on the government's decision, result in the setting up of a more coordinated action plan. The **Indian** government, in the framework of the High-Level Coordination Committee on Financial Markets comprising all Indian financial regulators, is considering a more coordinated strategy on financial education and awareness. In this respect, a dedicated subcommittee is expected to shortly devise a long-term strategy involving the various concerned stakeholders. **Italy** is also planning to develop a more coordinated national strategy relative to financial education, which would encompass the various initiatives currently being carried out by various public institutions and the government (e.g., mainly Bank of Italy, COVIP, ISVAP, the ministry of finance and the ministry of education), as well as possibly the private sector. A strategic committee has also been set up to coordinated measures relative to consumer education at a national level. In the **Philippines**, various initiatives undertaken by the Banko Sentral ng Pilipinas (BSP) and other government agencies could be coordinated and brought together under the umbrella of a comprehensive national financial education strategy. In **Serbia**, the National Bank elaborated a report which is expected to be the basis for a future National Strategy on Financial Education. In the **Slovak Republic**, steps are also being taken in the same direction with the elaboration of a conceptual framework including a financial education component aimed to build a dedicated national strategy. In **South Africa**, the Financial Services Board has recently revised its consumer financial education strategy and is suggesting the introduction of a structured and coordinated national strategy construed on a 5-year timeframe starting in 2009. Lastly, **Spain** launched its Financial Education Plan at the beginning of 2008 and set up a roadmap running until 2012.

III- LESSONS FOR THE FUTURE

Role and limit of financial education in the prevention and mitigation of future crisis and their effects

As respondents pointed out, financial education is not a panacea and cannot, by itself, prevent the occurrence of major crises such as the one we are going through. As far as this crisis is concerned, on the one hand, its genuine causes are still difficult to delineate and weight and, on the other hand, the lack of financial literacy is only one of the contributing factors and not the main one.

Yet as evidenced above, the lack of financial literacy has to some extent contributed, together with other factors, to the onset of the crisis and to the worsening of its consequences. Conversely, the crisis has helped raising public and policymakers' awareness on the importance of financial education as an essential life skill contributing to households' long-term wealth and well-being. Most respondents also agree that individual financial capability has become a vital component of national and global financial stability. In these respects, enhanced individual financial skills could play a positive role in limiting the development and effects of possible future crises.

Any spill over effects of the current crisis, in the form of consumers' improved financial literacy, will not be observable on the short-term. Financial literacy levels are currently worryingly low and financial education is a long-term process which results can be evidenced only after some time. Still, as illustrated in the previous sections, proper information and communication on the crisis and on remedial policy measures can make a difference and help renew public confidence and smoothen economic recovery.

Countries also stressed that financial education, through its positive effects on a wide range of stakeholders and economic levers, could help reducing the risk and impact of future financial crises. As highlighted by some of the respondents[24], higher levels of financial literacy would allow consumers to be better aware of (financial) risks, better understand and compare financial products, become more empowered to make informed financial decisions, have the confidence to seek appropriate financial information and advice and be more willing to challenge and monitor financial service providers. In return, more responsible consumers' behaviours in respect of financial issues could also contribute to financial stability through fewer inappropriate choices of products and services leading for example to lower loan default rates and more appropriate level of saving and investment. These could lastly allow for the development of more transparent, accountable, competitive and sound financial markets.

At a more global scale, financially skilled and confident individuals would better grasp economic and financial developments, markets and regulation. For example, they would be aware of the existence and functioning of deposit insurance, and/or better understand the rationale for the introduction of particular reform. Therefore, in times of financial difficulties, they would be more likely to react in a rational stance, avoiding detrimental panic behaviours and the amplification of the crisis. As mentioned above, this may prove critical in countries, which implemented or will establish a pension reform involving a transfer of investment risks and management to individuals. In this context, increased financial capability would help consumers appreciate the implication of the long-term nature of saving for pension and offer them the ability (possibly through appropriate advice) to best invest their assets. This in return would provide

[24] This is also reflected in the OECD definition of *financial education* developed in OECD (2005a).

reassurance that, at the time of retirement, households will receive an income in accordance with their needs and expectations. Highest financial capabilities and degree of confidence of individuals would also be instrumental in restoring economic growth in a smoother way as individuals would be more likely to reinvest in the economy and to consume.

However, it should also be stressed that financial education is a potentially rewarding but complex and challenging process. Surveys and research conducted in the last years on economic behaviours reveal that it is particularly difficult to predict and modify individuals' behaviour in respect of financial issues. Even when provided with sufficient and transparent information, and after receiving proper education and training, there is no clear evidence that individuals will be more knowledgeable about financial issues and, more importantly, that they will act in a more responsible way. Major hurdles to financially capable behaviours appear to lie in the psychological habits, culture, family and social and economic background of individuals as well as on their related perceptions of risks and financial issues. This combination of factors, which may not be easily overruled, often results in myopia, procrastination and inertia *vis-à-vis* financial issues.

These observations certainly call for better and more systematic identification of efficient ways to inform consumers and influence their behaviours and for the development of in-depth research on individuals' behaviours relative to financial issues. In this area, similar and successful campaigns and programmes aimed at changing for example health-related habits could be helpful[25].

Identification of efficient policy measures and strategies

Against this background, based on the results of the survey, the following section provides a set of remedial and more far-reaching policy measures relative to financial education, which may be particularly highlighted in the context of the crisis.

Remedial policy measures

The introduction on the short term of a series of corrective actions in the areas of financial education and awareness aimed at restoring public confidence and facilitating economic recovery has proved useful.

a) Coordinated public action and message

These policy measures include the elaboration and efficient dissemination of a coordinated and consistent message among the various involved public authorities. This communication should explain in a simple way: the main elements of the crisis and its likely consequences on households, as well as on the regulatory and consumer protection framework in place and the remedial policy measures taken by the government. With a view to strengthening trust in the financial system, it should also focus on the efficient provision of information on deposit insurance guarantee funds and their functioning.

[25] See for example Lyons, A. and Neelakatan, U. (2008).

b) Efficient communication tools and means

In the development of this communication and to ensure that the message is understood, governments should consider the most appropriate delivery channels and disseminators (such as key policymakers, main social, economic and civil leaders, the media, financial institutions themselves, but also any agents who can play a disseminating role). Wide multi-media national and targeted campaigns, such paper materials as tailored leaflets and guides, as well as dedicated websites including online calculators, Q&A sections, blogs as well as products' comparison tools should be considered as particular relevant means in this area.

The devising and improvement of means to increase awareness and provide information and advice is however not sufficient. These activities should also be adequately publicized in order to make sure they effectively reach their audience. This can be done through complementary awareness campaigns or using appropriate and widely used channels (e.g., national newspapers and TV, etc).

c) Targeted initiatives

In order to prevent consumers and in particular vulnerable groups to make additional inappropriate financial decisions out of fear or panic, some targeted measures can also be recommended. These encompass targeted national-wide warnings concerning the careful use of credit cards or credit products, and/or broad national campaigns concerning the functioning of pension products and of the new pension system, where relevant.

The development of initiatives particularly targeting affected groups or vulnerable consumers is also important. In this respect, the development of dedicated call centres and the creation of counselling and advisory services is particularly relevant in order to respond to specific consumers' concerns and/or to better address individual financial difficulties; Other initiatives should probably be tailored to specific segments of the population and in particular the youth, the elderly and potential disseminators of financial information and learning.

Development of consistent and structured national financial education strategies

The crisis has further encouraged the development of coordinated and structured national financial education strategies[26], which are considered as one of the pillars of a sound global financial landscape. The review of the main elements of these recently formulated national strategies, as well as the views of experienced countries provides some relevant insights on effective ways to address financial education issues through a global approach. The major components of these (planned) strategies may vary according to the countries' particular circumstances. Most of these features were also already stressed in the OECD Recommendation issued in 2005. However the crisis and current financial and economic situation has shed a sharper light on some of these aspects. In this context, keeping in mind countries' particularities, the following list gathers the main components of strategic programmes put in place recently as well as those of more mature plans:

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[26] See above box 3 section II and also OECD/INFE recent project on National Strategy on Financial Education; More information upon request at www.financial-education.org

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a) Coordination and planning at the national level, including:

- Identification of a leading public authority (e.g. financial regulator, the Central Bank, ministry of finance, etc);
- Identification of reliable co-promoter and partners – public bodies but also private, social and civil partners and possibly definition of each others' responsibilities;
- Development of a precise roadmap, mandate and time-span on the short, medium and long term;
- Setting of precise objectives (including improve financial awareness, knowledge and/or change behaviours relative to financial issues) on the short and longer term and related concrete outputs/target;
- Determination of needed/available financial and human resources to ensure the sustainability and credibility of the programme;

Box 4. Importance of baseline surveys and evaluation[27]

The development and establishment of national baseline surveys on the level of financial literacy and inclusion of the population and the publicity made around their results are generally considered as instrumental in raising awareness of the public and policymakers and in the launching of national strategy. Some respondents mentioned that the purpose of surveys conducted was first to evaluate the gaps in, and needs for, financial education in their countries. But they also indicated that the expected evidence of the low levels of financial literacy revealed by this undertaking could also pave the way to the formation of a broader national consensus on the need for further improving financial literacy and for introducing related programmes. Moreover, the regular assessment of the level of financial literacy of consumers and of main difficulties relative to financial products also permits to track changes, to gauge the effectiveness of financial education programmes in place, to identify most efficient tools and ultimately to better adapt national strategy on the long-term.

Going further, countries have also underscored that developing dedicated evaluation of financial education programmes showing their efficiency could also help foster policy willingness to devote (more) resources and energy to these initiatives.

[27] The importance of these key tools is perfectly mirrored in the OECD and INFE programmes of work for coming years. They both mention as one of their top priorities the development of methodologies for assessing the level of financial literacy of the public at a national level and for evaluating the efficiency of financial education programmes.

b) Assessment of needs, gaps and means and evaluation of initiatives (see box 4)

- Assessment of the gaps in financial literacy, capability and inclusion preferably through baseline surveys;

- Identification of main financial concerns with a focus on pension, credit and investment products and access to financial services;

- Identification of target audiences: e.g., vulnerable groups, youth and potential disseminators of the financial education message such as the media, the teachers, etc;

- Development of method to evaluate and monitor the effectiveness and relevance of the plan and of more specific measures;

- Research, identification and development of appropriate and efficient means to raise awareness and financial capability widely and in more targeted groups. These may encompass paper materials, dedicated websites, self-evaluation toolkit for consumers, awareness and media campaigns, specific training and events, contests, financial education day or weeks, as well as tools or channels tailored to specific target audiences and specific financial issues or products (e.g., pension, credit).

c) Financial education and school programmes (see box 5)

- Introduction of financial education, preferably as *a mandatory component* of school curriculum at an early stage and later in post –graduate curriculum. Financial education can be dealt with either as a standalone subject or included in a related subject. Required complementary measures involve adequate training of teachers and the development of objective and adapted materials.

Box 5. Introduction of financial education in school programmes[28]

In the context of this survey, many countries (including Estonia, Germany, India, Ireland, Japan and Malaysia) have reasserted that the mandatory inclusion of financial education, if not as a stand-alone subject, but at least as part of the school curriculum is a key pillar of national financial education strategies. This measure can play a fundamental role at various levels: raising public awareness on the importance of financial education as a life skill[29], enhancing decisively the level of financial literacy and capability of the population and effectively reaching a nation-wide audience including most vulnerable groups on the long-term. In order for this programme to be relevant and operational, most respondents stressed that the development of appropriate and dedicated teaching material is vital. It is also critical to provide necessary resources to teachers to ensure they are in the best position to understand the importance of financial education and to enable them to successfully play their role in this area. Besides, the more systematic introduction of financial education classes or themes (in other related classes) for post graduate students could that future policy and decision leaders in the society will be mindful of the importance of improving financial capability.

d) Improving financial disclosure (see box 6)

- Development of more transparent and simplified information on financial products and institutions, as well as tools to ease comparison between financial products and services;
- Better dissemination of information on consumers' protective regulation and available redress mechanism, mediation and counselling services.

Box 6. Reducing financial information asymmetry while avoiding information overload

The enhancement of financial disclosure at large on products, institutions, markets and regulation seems to be one of the important lessons stemming from the crisis. There is certainly a vast room for improvement towards simplified, objective and more comparable information on financial products and in particular complex and more frequently used ones such as credit, pensions and investment products. This can be achieved through the development of additional regulation and/or self-regulation by private actors. However, these measures should strike the right balance between appropriate and useful financial information addressed to consumers and information overload, which could result in consumers' inertia regarding financial issues. Besides, the development of tools and, in particular, dedicated websites by trusted (possibly public) sources to compare products and provide credit and pension estimations should also be encouraged to ease consumers' choices and their adequacy.

[28] For more information on financial education schools programmes, see section III of this note and the OECD report on *Financial Education School Programmes* published in OECD (2008b). See also the OECD Guidelines on financial education at schools and related report to be released shortly.

[29] This is also highlighted in the OECD recommendations (2005b, 2008c and d, and 2009).

e) Enhancing financial institutions' accountability and role in the financial awareness and education process

- Promotion of the establishment of good practices for financial service providers and intermediaries to ensure they adequately inform and advise consumers, and that they are sufficiently accountable in that respect. These may include recommendations on the provision of transparent and simple information on products and related risks, on the institutions' financial situation, the regulatory framework (including the existence of insurance guarantee schemes) and consumers' rights and obligations, the correct assessment of consumers risk exposure and the provision of adequate and commensurate advice and offer of relevant financial products;

- Promotion of the development by the industry of financial education initiatives or of its involvement in existing programmes.

f) Introduction of default options and mechanisms

- Possible introduction of default options in combination with financial education to take account of the difficulty in predicting individuals' behaviours. These would notably be aimed at better securing the financial situation and future of most vulnerable groups.

- Areas were these measures can be considered include in particular the pension and credit fields. This is already the case in many countries in the pension sector with the development of pension DC schemes in many countries[30]. In the area of credit, default measures and stricter rules for the purchase of credit could also be envisaged, introduced and enforced[31] (e.g. ceilings on indebtedness level for the subscription of new credits, enforcement of credit scoring rules, stricter rules for the purchase of credit cards and/or automatic rules for debt repayment).

International co-operation

Alongside this enhanced consciousness of the necessity to consider financial education issues and purpose in a more holistic way, most surveyed countries have highlighted the importance of also addressing this issue at a more global scale through increased international cooperation.

Most surveyed countries have mentioned that international co-operation could first be a powerful tool in further promoting awareness on the importance of financial education for the public and policymakers. Second, this internationally coordinated approach would well match the global nature of the financial crisis as well as the search for a global financial regulatory response, which is called for by many stakeholders. In this respect, a majority of countries have stressed that reinforced co-operation leading to the possible elaboration of common guidance would help to restore global confidence, help households seizing the importance of the crisis and eventually assist policymakers in the development and implementation of national policy measures.

[30] See OECD(2008a), Pension chapter for more detailed information on the introduction of default options

[31] See also OECD Recommendation (2009, forthcoming).

In these areas, they advocated the organisation of regular and publicized events, the establishment of dedicated websites, the development and sharing of good practices and the dissemination of a global and coordinated message on the importance of financial education. In this respect, most respondents have supported the INFE and OECD work relative to financial education.

Moreover, many countries have pointed to the usefulness, relevance and policy impact of OECD and the INFE's activities aimed at sharing experiences and practices on financial education. In this regards, they particularly emphasized the importance of the development of guidelines and principles and of their implementation.

OECD actions and future work

The lessons drawn from the survey have clearly confirmed the importance, timeliness and potential impact of the OECD and of its INFE's work on financial education and, in particular, of its standard-setting activities, as well as its analytical work on particularly topical areas and its global awareness activities. They also permit to identify areas of research or activities which would deserve some more focused endeavours. These ongoing and future projects include:

- Development of methodologies to assess financial literacy and inclusion at national level and to *evaluate the efficiency of financial education programmes.*

- Work on *financial education school programmes.* In this area, the work and in-depth data collection conducted by the OECD through its INFE with a view to developing a comparative report and good practices is particularly timely and relevant. The introduction of a financial literacy option in the Programme for International Student Assessment (PISA) exercise for 2012 should prove especially relevant and impactful.

- Reinforcement of the role and activities and broadening scope of the *International Network on Financial Education* in particular in respect of its standard-setting, as well as global and regional outreach activities.

- Development and enhancement of the *International Gateway on Financial Education* as a key and unique global source, database and platform of exchange of information on financial education issues.

- Some particularly challenging financial areas which call for more in-depth research in addition to work already carried out by the OECD. This is certainly the case for *credit*[32]. But it is also relevant in respect of *pension awareness and education* issues[33], complex and long-term investment products, as well as access issues;

[32] In this respect, the OECD Recommendation on Good Practices for Financial Education in relation to Credit Issues provide a good basis for future work to be undertaken in this area.

[33] Work conducted on financial education relating to pension includes the OECD (2008d) Recommendation and report included in OECD(2008a) and two consultant reports included in OECD(2008b) on Pension awareness and financial education and annuities.

- The importance of better *identifying target, vulnerable and underserved groups* and of exploring best means to provide them with better access to regulated financial services and to raise their awareness and literacy on financial issues is also certainly an area that would call for reinforced efforts and research.

- In all these fields, there is a great need to conduct more research on *consumers' behaviours and on most efficient ways to raise their awareness* and incite them to become more mindful and responsible as regards risk and financial issues has clearly materialized.

- Lastly, the responses to the questionnaire also reveal a *global willingness to further reinforce international co-operation on financial education and awareness*. In addition to traditional means, this could require the elaboration of a global *message* on the importance of financial education in the wake of the financial crisis.

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