Special Address on Financial Education

By Mr. Mario Amano, Deputy Secretary-General, OECD

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Mr. Raed Charafeddine,

Mr. Mohamad Baasiri,

Ladies and Gentlemen, Dear Guests,

It is an honour and a great pleasure to be with you in this luminous city of Beirut to further advance the policy dialogue on individuals‘ financial empowerment. But before getting into this question, let me first start by thanking our host and co-hosts the Central Bank of Lebanon, the Ministry of Finance and the Ministry of Education of Lebanon for their hospitality, dynamism and valuable contribution to this important event for Lebanon, the region and stakeholders from over 45 countries who are present here.

Financial education is an increasingly important issue as we all strive for better policies and better lives and it has been at the core of OECD work for numerous years.

Yesterday, my colleague André LABOUL set the scene by highlighting both the importance of financial education in the global and regional contexts and the conditions for the development of effective programmes.

This allows me to concentrate my remarks on implementation issues which are of critical importance for policymakers and stakeholders in this room and which are the focus of this second day of the programme.

Once the importance of addressing low levels of financial literacy of the population is acknowledged, a series of more operational challenges needs to be addressed to ensure the efficiency of any intervention. Such challenges including the following:

1) What should be the respective roles and responsibilities of governments, financial institutions and other civil stakeholders?

2) What are the best ways of reaching out the whole population and especially vulnerable groups?

3) What should be the main objectives and priority areas of intervention?

My Organisation strongly believes in the virtues of sharing experiences amongst peers. In fact, thanks to this method and the active involvement of many of you as members of our network (the International Network on Financial Education), we have now developed widely recognized international instruments on financial education.

Together these instruments can be seen as a toolkit that offers flexible and adaptable solutions to support effective actions in the area of financial education. Let me highlight those which may provide relevant guidance in relation to our 3 concerns today.

1) First, the role of different stakeholders: the two morning sessions perfectly illustrated the variety of actions and possible sharing of responsibilities between public and private actors in order to make financial education a reality. They also highlighted one of the key recommendations of the 2005 OECD principles: the importance of the leadership and coordinating role of government and public authorities. Financial education can be considered a public good which requires an ongoing investment in human capital. Investment in education is always worthwhile : according to Franklin Roosevelt, it 'pays the greatest interest rate'. But the benefits may only be realised in the long run. Governments are thus best equipped to provide a sustainable, credible and inclusive roadmap for the efficient and fair implementation of financial education programmes. The importance of their role is reflected in the experience of many countries and by the presence of high level policymakers from the region today.

   That said, Governments involvement should not lead to a duplication of effort. Other stakeholders such as schools, Ngos, employers, trade unions are essential contributors to effective financial education. Last but not least, financial institutions have both a genuine interest and a social responsibility in being part of this process.

2) But let me now turn to my second point: applying fairness and efficiency criteria in choosing an appropriate policy intervention.

   When privileging a course of action, one should take into account two important findings in the area of financial education:

   a) In all countries, low levels of financial literacy disproportianately affect more vulnerable groups

   b) Young generations will have to bear more financial risks in the future than their parents and grandparents, and yet they are far less financially savvy.

   In this respect, the introduction of financial education in schools, supported by the OECD since 2005, is considered by many of you as one of the most efficient and appropriate types of intervention. 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 financial educational policies.

Yet, we also know that the introduction of financial education may be challenging: curricula are crowded; teachers are not necessarily appropriately trained; resources may be lacking; and the willingness of key stakeholders may be weak.

In order to address these concerns, the OECD and its network have developed an extensive project on financial education in schools. This rich and complex field will be the subject of an in-depth discussion later today. Let me just add that in order to provide some further impetus for intervention, the OECD has decided earlier this year to integrate a financial literacy assessment into the Programme for International Students Assessment (PISA) for 2012. This worldwide programme concerns 15 year old students as they are finishing their compulsory schooling. The results which should be available in 2012 will provide a first international benchmark on youth financial skills and a compelling argument for policy action in this area.

3) The last of my points relates to priority targets and efficient action. These will admittedly differ according to countries circumstances - including their economic and financial environment. This is why the OECD does not recommend a one size-fitsall strategy on financial education, but rather advises countries to first conduct an assessment of financial literacy gaps and related needs of the population through a national survey.

Most of these national surveys show that the gaps in financial literacy are particularly stark at exactly the points where individuals are most vulnerable to long term financial risks. Unfortunately, this fact has been exemplified recently by the role played by the take up of variable mortgage loans in the US subprime crisis; the insuffucent level of essential savings cover for retirement and health care needs in many countries is likely to become the next resounding case.

Let's concentrate for a moment on the latter aspect, as it is increasingly topical for this region. Dealing appropriately with increasing life expectancy and the related growing needs for pension savings is a critical – albeit not very popular- topic for our modern societies. Recent reforms in many countries, including this one, often result in a transfer of longevity and investment risks to individuals. However, evidence in most countries reveals that individuals are considerably less aware and knowledgeable on pensions than on other financial issues and do not have the skills to plan their finances in the long-term. In this respect, countries have vied in the development of efficient measures to improve pension awareness and ensure the sustainability of pension regimes. Innovative examples will be presented in the last session today so I can limit my remarks to the essential:

Evidence shows that financial education initiatives in this area work better if they engage individuals; and in particular if they offer them the possibility to take actions promptly. Some research also shows the limit of financial education and the necessity to couple education intervention with the introduction of default mechanisms in order to ensure that the population has at least some basic pension coverage.

> Influencing individuals' behavior is a challenging goal as demonstrated by experience in other policy areas like health prevention. In this respect, financial education is a relatively new field of work and more research and development still needs to be undertaken. The OECD and its network are particularly committed to the development of evaluation tools and principles to further refine policies. It is also engaged in the establishment of, so far missing, internationally comparable statistics and data to better inform policy and monitor progress. The OECD is drawing on various academic and research disciplines, including behavioral economics and social marketing to enhance the quality and effectiveness of delivery mechanisms.

We are conducting these far reaching projects and advancing the agenda on financial education together. Events like this one provide exceptional opportunities to identify further good practices and ground breaking areas for further work.

I am looking forward to future strong and fruitful co-operations on these important issues, including at a regional level.

Wishing you a successful conclusion of the conference and a fruitful afternoon.