

**OECD/ADBI 7th Round Table on
Capital Market Reform in Asia**

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SESSION 3: INVESTOR EDUCATION

Ms. Barbara Smith,
Principal Analyst (Financial Education), OECD

Financial Education: What Can Policymakers and Supervisors Achieve?

Barbara Smith
Principal Analyst

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Highlights

- Brief description of OECD's Financial Education Project.
- Context/background: Why are we concerned about financial education?
- What have we learned about financial literacy and the effectiveness of financial education?

OECD's Financial Education Project

- Established in 2002 to study financial education programmes in OECD countries and selected non-OECD countries, with funding from Prudential plc.
- Purpose: describe existing financial education programmes, analyze effectiveness, and develop methodology to enable comparison of programmes.
- Activities to date: set up website, established a research database, circulated questionnaires and conducted literature review, written a book based on our findings. First major international study of financial education.

OECD's book on financial education

- *Improving Financial Literacy: Analysis of Issues and Policies*

- *Identifies financial literacy surveys.

- *Highlights economic, demographic, policy changes affecting financial education.

- *Describes existing financial education programmes.

- *Evaluates effectiveness of programmes.

- *Suggests actions for policymakers.

- *Focuses on retirement saving, use of credit, bringing the unbanked into financial system.

Why are we concerned about financial education?

- Increase in the number and complexity of financial products.

*Then: checking account, savings account.

*Now: huge variety of bank accounts, savings vehicles, equities, mutual funds, bonds, etc.

*Because of long term nature of some products, difficult to assess quality.

Why are we concerned about financial education?

- Baby boom and increases in life expectancy.
 - *Large number of people approaching retirement at a time when both private and public DB pension schemes facing difficulties.
 - *People are living longer and will spend a longer time in retirement.

Why are we concerned about financial education?

- Changes in pension arrangements—increasing personal responsibility.
 - Some countries, such as the U.S. and the U.K., have experienced shifts in employer-provided pension coverage from DB plans to DC plans.
 - Australia has both compulsory employer superannuation contributions and voluntary superannuation savings. As of 1 July 2005, workers covered by the compulsory superannuation scheme are able to select superannuation fund.
 - Japan passed legislation in 2001 that would replace the old occupational plans with new DB and DC pension plans, the latter modelled after 401(k) plans in US.
 - Germany and Ireland have encouraged voluntary participation in personal pension plans.

Implications of these developments

- Increase in the number of individual investors—need better financial understanding for personal well-being and more efficient securities markets.
- Transfer of risk, implicitly or explicitly, to households.

Low levels of financial literacy

- Japan—71% of respondents lack knowledge of equities and bonds; 57% lack knowledge of financial products in general; 29% lack knowledge of insurance and pensions.
- Australia—37% of those with investments did not understand that investments can fluctuate in value.
- Korea—High school students had failing scores on test measuring ability to choose and manage a credit card and to save and invest for retirement and awareness of risk and insuring against it.
- United States—50% of adults and 66% of high school students fail basic economics test. United Kingdom—fewer than 40% of respondents confident about making financial decisions.
- Many consumers overestimate their knowledge of financial issues.

Why financial education is necessary

- Retirement saving/investing

- *Four out of ten American workers not saving for retirement (EBRI, 2005).

- *Choosing right investments more stressful than going to the dentist (Canadian Press, 2005).

- *Consumers make financial decisions based on inadequate understanding (FSA, 2004).

- *Two-thirds of respondents to a 2001 Hong Kong survey of investors stated that they had insufficient understanding of investment basics. (SFC, 2001)

Providing effective financial education programmes—behavioural issues

- Attitudes toward saving—will affect content and delivery of financial education programmes.
 - *Consumers/investors fall into one of three savings groups.
- Role of behaviours such as inertia and procrastination—influence effectiveness of financial education programmes.
 - *Can these behaviours be used to improve saving? (automatic enrolment, SMT programme.)
- Effects of too much choice on decision to invest.
 - *Is more always better than less? (two-tiered approach)

Examples of financial education programmes

- Workplace programmes.

- *Employer-provided financial education seminars increase participation rates of workers.

- *Employer-provided written information also increases participation rates of workers but evidence is mixed.

- *One-to-one counselling increases participant investing.

Examples of financial education programmes

- Programmes offered by supervisors.

- *Websites—*Investors' Corner*.

- *Notifications about frauds.

- *Suggestions for dealing with financial intermediaries.

- *Information on investment risks.

- *Brochures

- *Basic guides for beginner investors.

- *Advanced guides for sophisticated investors.

- *Other activities

- *Seminars and workshops.

- *Articles in the media.

- *Toll-free consumer help lines.

Implications for design and implementation of effective financial education programmes

- No such thing as a one-size-fits all financial education programme that meets needs of all consumers.
- Method and content must be appropriate for target audience. Personal contact important.
- Behavioural characteristics must be taken into account.

Benefits of financial education programmes

- Benefits to supervisors: financially educated consumers might facilitate supervisory activity and allow for lower levels of regulatory intervention; improve functioning of financial markets.
- Benefits to individuals: greater confidence in making financial decisions and improved financial situation.
- Benefits to employers: a more productive workforce.
- Benefits to governments: more successful pension programmes, increases in savings rates, and reduction in costs of investigating and prosecuting fraud.

Further information

- Financial education website—
www.oecd.org/daf/financialeducation
- Contact for specific questions—
Barbara.Smith@oecd.org