



## **Recommendation on Principles and Good Practices for Financial Education and Awareness**

### **RECOMMENDATION OF THE COUNCIL**

*These Principles and Good Practices were adopted by the OECD Council.*

**July 2005**

## **RECOMMENDATION ON PRINCIPLES AND GOOD PRACTICES FOR FINANCIAL EDUCATION AND AWARENESS**

THE COUNCIL,

Having regard to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14th December 1960;

Considering that, as financial education has always been important for consumers in helping them budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud;

Considering that as financial markets become increasingly sophisticated and households assume more of the responsibility and risk for financial decisions, especially in the field of retirement savings, financially educated individuals are necessary to ensure sufficient levels of investor and consumer protection as well as the smooth functioning, not only of financial markets, but also of the economy.

Considering that surveys of financial literacy conducted in recent years in OECD countries show that consumers have low levels of financial literacy and lack awareness of the need to be financially educated;

Considering that governments and relevant public and private institutions (at national and sub-national level and including regulatory and supervisory bodies) in OECD and non-OECD countries may benefit from international guidance on principles and good practices for financial education and awareness;

Considering that their implementation will have to take into consideration various economic, social, demographic and cultural factors and, thus, will vary from country to country and that there are also numerous methods to develop successfully financial education for a particular audience;

Considering also that the implementation of the good practices related to financial institutions needs to take into consideration the diversity of financial institutions, that these guidelines do not prevent relevant commercial activities and that national associations of financial institutions are expected to be the main players for this sub-set of good practices;

On the proposal of the Committee of Financial Markets:

**RECOMMENDS** that Member countries promote financial education and awareness and in this respect that governments and relevant public and private institutions take due account of and implement the principles and good practices for financial education and awareness which are set out in the Annex to this Recommendation and form an integral part thereof.

**INVITES** Member countries to disseminate these principles and good practices among public and private (profit and not-for-profit) sector institutions that are involved in financial education and awareness.

**INVITES** Non-Member economies to take due account of this Recommendation and to disseminate these principles and good practices among public and private (profit and not-for-profit) sector institutions that are involved in financial education and awareness.

**INVITES** Member countries, through their work in the Committee on Financial Markets, the Insurance Committee and its Working Party on Private Pensions, to identify further good practices respectively in financial, insurance and pension education field.

**INSTRUCTS** the Committee on Financial Markets to exchange information on progress and experiences with respect to the implementation of this Recommendation, review that information and report to the Council within three years of its adoption, or sooner, and, as appropriate, thereafter.

## **ANNEX**

### **PRINCIPLES AND GOOD PRACTICES FOR FINANCIAL EDUCATION AND AWARENESS**

#### **I. PRINCIPLES**

1. *Financial education can be defined as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. Financial education thus goes beyond the provision of financial information and advice, which should be regulated, as is already often the case, in particular for the protection of financial clients (i.e. consumers in contractual relationships).*
2. *This financial capacity building, based on proper financial information and instruction, should be promoted. Financial education should be provided in a fair and unbiased manner. Programmes should be co-ordinated and developed with efficiency.*
3. *Financial education programmes should focus on high priority issues, which, depending on national circumstances, may include important aspects of financial life planning such as basic savings, private debt management or insurance as well as pre-requisites for financial awareness such as elementary financial mathematics and economics. The awareness of future retirees about the need to assess the financial adequacy of their current public or private pensions schemes and to take appropriate action when needed should be encouraged.*
4. *Financial education should be taken into account in the regulatory and administrative framework and considered as a tool to promote economic growth, confidence and stability, together with regulation of financial institutions and consumer protection (including the regulation of financial information and advice). The promotion of financial education should not be substituted for financial regulation, which is essential to protect consumers (for instance against fraud) and which financial education is expected to complement.*
5. *Appropriate measures should be taken when financial capacity is essential but deficiencies are observed. Other policy tools to consider are consumer protection and financial institution regulation. Without limiting the freedom to contract, default mechanisms, which take into consideration inadequate financial education or passive/inert behaviour, should be considered.*
6. *The role of financial institutions in financial education should be promoted and become part of their good governance with respect to their financial clients. Financial institutions’ accountability and responsibility should be encouraged not only in providing information and advice on financial issues, but also in promoting financial awareness clients, especially for*

*long-term commitments and commitments which represent a substantial proportion of current and future income.*

7. *Financial education programmes should be designed to meet the needs and the financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial information. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information.*

## **II. GOOD PRACTICES**

### **A. Public action for financial education**

8. *National campaigns should be encouraged to raise awareness of the population about the need to improve their understanding of financial risks and ways to protect against financial risks through adequate savings, insurance and financial education*
9. *Financial education should start at school. People should be educated about financial matters as early as possible in their lives.*
10. *Consideration should be given to making financial education a part of state welfare assistance programmes.*
11. *Appropriate specialised structures (possibly embedded within existing authorities) in charge of promoting and coordinating financial education should be encouraged at the national level and regional and local public and private initiatives as close to the population as possible should also be promoted.*
12. *Specific websites should be promoted to provide relevant, user-friendly financial information to the public. Free information services should be developed. Warning systems by consumer, professional or other organisation on high-risk issues that may be detrimental to the interests of the financial consumers (including cases of fraud) should be promoted.*
13. *International co-operation on financial education should be promoted, including the use of the OECD as an international forum to exchange information on recent national experiences in financial education.*

### **B. Role of financial institutions in financial education**

14. *Requirements to specify the types of information (including where to find information and the provision of general comparative and objective information on the risks and returns of different kinds of products) that financial institutions need to provide to clients on financial products and services, should be encouraged.*
15. *Financial institutions should be encouraged to clearly distinguish between financial education and financial information and “commercial” financial advice. Any financial advice for business purposes should be transparent and disclose clearly any commercial nature where it is also being promoted as a financial education initiative. For those financial services that entail long-term commitment or have potentially significant financial consequences, financial*

*institutions should be encouraged to check that the information provided to their clients is read and understood.*

16. *Financial institutions should be encouraged to provide information at several different levels in order to best meet the needs of consumers. Small print, abstruse documentation should be discouraged.*
17. *Financial education provided by financial institutions should be regularly assessed to ensure it meets consumer needs. This may be achieved through partnerships with independent, not for profit financial advisory bodies that may have better connection with consumers, particularly those facing disadvantage in their participation in financial markets.*
18. *Financial institutions should be encouraged to train their staff on financial education and develop codes of conduct for the provision of general advice about investment and borrowing, not linked to the supply of a specific product.*

#### **C. Financial education for retirement savings**

19. *For individuals in private personal pension plans, the provision by financial institutions of the appropriate financial information and education required for the management of their future retirement savings and income should be promoted.*
20. *Concerning occupational schemes, (for which the related information and education should be provided in a consistent way across the schemes) financial education and awareness of employees and related policy tools should be further promoted, both for defined contributions and defined benefits schemes.*

#### **D. Financial education programmes**

21. *Financial education programmes that help financial consumers find the facts and understand the pros and cons as well as the risks of different types of financial products and services should be promoted. Further research on behavioural economics should be promoted.*
22. *The development of methodologies to assess existing financial education programmes should be promoted. Official recognition of financial education programmes which fulfil relevant criteria should be considered.*
23. *Financial education programmes that develop guidelines on study content and accomplishment level for each financial education programme and for each population sub-group should be promoted.*
24. *In order to achieve a wider coverage and exposure, the use of all available media for the dissemination of education messages should be promoted.*
25. *In order to take into account the diverse backgrounds of investors/consumers, financial education that creates different programmes for specific sub-groups of investors/consumers (i.e. young people, the less educated, disadvantaged groups) should be promoted. Financial education should be related to the individual circumstance, through financial education seminars and personalised financial counselling programmes.*

26. *For those programmes which favour use of classrooms, proper education and competence of the educators should be promoted. In this respect, the development of programmes to “train the trainers” and the provision of specific information material and tools for these trainers should be encouraged.*