BI-OECD REGIONAL ASIAN SEMINAR ON FINANCIAL LITERACY
TOWARDS A NATIONAL STRATEGY ON FINANCIAL EDUCATION

Complementarities between financial inclusion, financial consumer protection and financial education

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INTRODUCTION

Good morning, I’m delighted to be here today speaking at the BI-OECD Regional Asian Seminar on Financial Literacy: Towards a National Strategy on Financial Education.

The theme for my presentation is important to us all today: it concerns the complementarities between the three pillars of support for consumers of financial products and services also just referred to by Mr. Boucher’s in his opening remarks, namely: financial inclusion, financial consumer protection and financial education.
I shall begin by describing the context to why these pillars are important, discuss each in turn, in a little more detail, provide you with an overview of the work of the OECD in the area of financial consumer protection and use local regional examples to highlight innovative practice, to illustrate what I’m discussing with you.

**CONTEXT**

Can I start with a general observation; one of the outcomes of the global financial crisis has been the need for more effective financial consumer protection. As globalised financial markets, prone to great extremes, have transferred incalculable risks on to consumers, policies and regulation frameworks that protect the interests of consumers have become all the more important as they contribute to the functioning of effective, efficient and stable financial markets.

We all know that consumers are facing a more sophisticated and ever more complex market for financial services and products, the information that consumers require to process has grown in quantity and complexity, the pace of change, in terms of new product developments and the introduction of innovations, technological advances has increased dramatically, and the pressure from the transfer of financial risks to individual households, can be overwhelming for consumers.

Increased risk transfers to individuals and households requires consumers to have a better understanding of the pricing of risk and other aspects of financial risk management, which in turn has direct implications for how these issues are communicated to the consumer. This is why the OECD has been working in this field since 2002.

Vulnerable consumers, those who have low levels of financial education and awareness, those who are on the margins of society, unbanked and low paid, can be exposed to unsuitable offers and unfair sales practices and as a consequence purchase inappropriate products or be the victim of fraud and abuses.

It is important to recognise that consumers are not homogeneous; consumers are influenced by a range of behavioural factors and they possess varying degrees of financial knowledge, capability and sophistication. This is why work on behavioural
economics provides us with interesting insights and new perspectives on how policy interventions can be developed or modified.

Thus, an important policy issue for both advanced and emerging economies alike is to overcome the barriers that inhibit consumers from making informed choices and understanding their own financial responsibility.

THE TRILOGY

Financial consumer protection is a necessary condition of financial market efficiency. However, to maximise the impact of financial consumer protection, it should not be seen as a standalone policy.

Financial consumer protection is one part of a tri-partite approach that seeks not only to protect consumers but also to empower them in the market place. To support financial stability, consumers should have the necessary information, knowledge, skills and confidence and where appropriate security and protection when dealing with financial services providers, intermediaries and financial advisors.

This approach requires the integration of financial education and literacy to help consumers make more informed choices, alongside actions to promote access to affordable and appropriate financial products and services that meet the needs and expectations of all consumers, while supported by a framework of consumer protection, providing security, confidence and trust in the financial system.

All of this requires coordination at the national level to be effective; key lessons can be learnt and good practices can be shared through improved international coordination, but in the end, it is the delivery of these three components that counts.

Different agencies may be involved in the delivery or have direct responsibility for one or more of the key policy strands, which means that without integration and coordination, the beneficial impact for consumers can be reduced.
It is in the interest of all stakeholders including Governments, regulators and policy makers to make a sustained effort to join-up these important elements. This would help not only to secure positive outcomes for consumers but would also lead to improved efficiencies through better knowledge, clear lines of responsibility and the sharing of information and knowledge between agencies and service providers.

**ACCESS TO FINANCIAL SERVICES**

Access to financial services and products is a necessary driver for economic growth in both advanced and emerging economies. Moreover, access to financial services is a key condition for poverty alleviation, social progress and sustainable development.

As Vice-Chair of the OECD Committee on Financial Markets, I should note in this context that questions of access are not limited to individuals per se, but also include small to medium-sized enterprises. In terms of numbers of enterprises, SMEs constitute the dominant form of business organisation worldwide, accounting for over 95% and up to 99% of the business population depending on the country. New firms in general, but innovative SMEs in particular, play an increasingly important role as drivers of growth and job creation in the economy. For example, data in the US show that firms less than 5 years old accounted for nearly all the net job creation in the country between 1977 and 2005. There are differences across countries, but similar evidence exists for other OECD countries. For example, in France, Italy and the Netherlands, the 10 per cent most rapidly growing enterprises created between 50 and 60 per cent of gross employment gains over a 5-10 year period. Nearly half of these high-growth enterprises had started out as SMEs.

Figures such as these certainly suggest that the SME sector is important for job creation and growth and raise questions as to how authorities can develop frameworks supportive for the growth and development of a viable SME sector in an atmosphere of budget stringency. The CMF will be investigating these issues in
the near future as part of a broader project on the evolving financial landscape and growth.

For individuals more generally, the ability to access financial services in a modern day society is a basic right as it encourages economic and social participation and the inclusion of individuals in civil society.

A key component of financial consumer protection is to ensure and to protect this right of all consumers to basic, affordable and appropriate financial products and services.

Certainly in recent history, financial markets have failed at times to provide essential products and services to all consumers, including vulnerable groups. In addition to basic banking services, other products and services need to be designed and distributed to meet the real needs of excluded consumers, while fees and charging structures need to be transparent and related to cost.

The role of public authorities is of critical importance both in combating financial exclusion as well as providing advice services to vulnerable groups.

The first session of the day will provide us with important insights on ways to address financial inclusion particularly through coordinated financial education strategies. In this respect, I would like to stress that Asian economies are particularly active and successful in this area and largely contribute to elevate and shape the global debate in this field.

**FINANCIAL EDUCATION**

In our modern and fast evolving societies, many of the choices consumers need to make in financial markets differ from choices in other areas of everyday life and are even new experiences for vulnerable groups of the population. Choices regarding purchase of appropriate saving and investment or pensions products, for example, or debt obligations under mortgages and other loan contracts involve risks. These choices leave little scope for learning by ‘trial and error’, but are nonetheless essential for individuals and their family future well being.
In order to participate actively to economic life and make savvy choices for their financial protection, individuals have to be equipped with a range of competencies including awareness, knowledge, understanding and confidence to appropriately handle financial risks and opportunities, to make informed financial choices, to seek help whenever necessary and to protect themselves from fraud, scams and market abuse.

In practice, however, all available national surveys conducted in developed and emerging economies show that a majority of the population have a low level of financial literacy. And this level is even lower for disadvantage groups of the population and those who do not have access to financial services.

To address these shortcomings, the development of financial education initiatives has become an important policy priority in many countries, especially in the aftermath of the financial crisis. In recent years, both advanced and emerging economies have decided to develop and implement more comprehensive and robust national strategies, including the introduction of financial education in schools to enhance public awareness and decisively improve individuals’ financial skills.

Since 2008, the OECD through the International Network on Financial Education (INFE) has effectively contributed to the sharing of experiences and expertise through its wide membership (80 countries), developing key analytical tools and policy recommendations, as well as methodologies to identify policy priorities in this important area. We will hear more about this essential contribution in the next three sessions.

Let me just highlight for now that to be effective, financial education initiatives should be combined with improved access to suitable financial products and services and complemented by an effective framework for financial consumer protection.

This allows me to turn to the last aspect of this trilogy:
FINANCIAL CONSUMER PROTECTION

Consumer financial protection contributes to the functioning of effective, efficient and stable financial markets.

Financial consumer protection is part of a holistic approach to empowering consumers in the market place and should be fully recognised in regional, national legal and regulatory frameworks and be consistent with existing international rules, guidelines and standards.

When they are empowered, consumers can improve economic performance by helping to drive competition and business innovation. Such empowerment requires an effective consumer policy regime, one that protects consumers from unfair deceptive and abusive market practices; supports consumers in making well-informed decisions; ensures both service providers and consumers are aware of their rights and responsibilities and makes sure that consumers are capable, knowledgeable, protected and secure in their dealings with financial services providers.

Enforcement and regulating market conduct are essential for addressing the unequal position of financial institutions relative to their customers. A key policy concern is how to balance responsibilities in the financial market place; for instance, policy makers need to devise a better balance between consumer rights and responsibilities through innovative consumer protection measures and effective financial education initiatives.

THE WORK OF THE OECD

The OECD views financial education as a necessary condition for financial market efficiency but financial education alone is not sufficient; it is only one part of an effective policy response to empower consumers in the financial market place, one which includes consumer financial protection and regulation.
While recent efforts to strengthen consumer financial protection have intensified, the OECD believes more can be done in terms of learning from international best practice; adopting agreed principles and outcomes for consumer financial protection; and monitoring and evaluating the role and design of consumer financial protection instruments and frameworks.

The aim is to utilise the knowledge and experience of individual countries that are members of the OECD International Network on Financial Education (INFE), to develop guidelines, disseminate best practice, set standards on instruments and frameworks to enhance financial education and consumer protection.

As part of the Strategic Response to the financial crisis, the OECD undertook a stock taking exercise of financial consumer protection regulatory regimes, reporting to the Committee on Financial Markets (CMF) in April 2010. As a result of the discussion the CMF agreed to establish a Taskforce on Financial Consumer Protection.

The G20 Finance Ministers meeting of 18-19 February 2011 in Paris called on the OECD, the Financial Stability Board (FSB) and other relevant international organisations to develop common principles on financial consumer protection.

This mandate complements the call from the G20 heads of state and governments at their Seoul meeting, in November 2010, to the Financial Stability Board (FSB) to issue a report in collaboration with the OECD and other international organisations on options to strengthen consumer protection in the area of financial services. The FSB has decided that this report will concentrate on aspects linked to consumer credit and related to -but not exclusively- issues of financial stability.

As confirmed by the French Presidency and agreed with the FSB, the OECD is leading the work related to the development of the Financial Consumer Protection Principles.

The Principles will be high level and will rely as much as possible on existing international instruments. They will address both financial consumer protection and financial education. The principles will be applicable across the financial services sector; they will have to reflect a consensus within the G20.
The OECD work on the Principles will mainly be channelled through the new Taskforce on Financial Consumer Protection, which is open to all G20 and FSB members, and through the International Network on Financial Education (INFE).

The Task Force held its first meeting on 6 April 2011 in Paris. At that meeting the OECD introduced the report entitled *Financial Consumer Protection and Education Principles: Issues for Discussion*. The report outlined a range of topics for consideration and was circulated for written consultation to the Task Force members and other relevant parties. The responses to that consultation and previous discussions by the Task Force formed the basis of a new draft of the principles, which was discussed at the second meeting on the Taskforce, held recently on 17 June. The principles are now in the process of undergoing a round of multiple consultations.

Let me here highlight briefly the 10 draft principles which have been identified so far ([note for Mr Sogano: you may want to expand on some of them if you deem it relevant]):

1. Legal and Regulatory Framework
2. Authority of Oversight Bodies
3. Non-discriminatory and Fair Treatment of Consumers
4. Disclosure and Transparency
5. Financial Education and Awareness
6. Responsible Conduct of Business of Financial Service Providers and Intermediaries
7. Protection of Consumers Assets
8. Protection of Consumer Data and Privacy
9. Complaints Handling and Redress
10. Competition
Steps have been taken to ensure that the views of all stakeholders – global organisations, international standard setters, consumer organisations and industry representatives – are taken into consideration. Relevant OECD Committees have been consulted -- the Committee on Financial Markets, the Insurance and Private Pensions Committee, the Competition Committee and the Consumer Policy Committee.

The plan is for a final draft version of the principles to be available by the end of June, to be ready to be presented at the 9-10 July G20 Deputies meeting. The final draft Principles will undergo further revisions and consultations before being validated by the Task Force in September ahead of the final submission at the beginning of October.

At the request of the French Presidency and planned to be back-to-back with the October meeting of the G20 Finance Ministers and Central Bank Governors, the G20 and the OECD will co-host a joint seminar on financial consumer protection.

The OECD is at the very centre of international work to promote effective financial consumer protection, working with key international stakeholders not only in the delivery of these important work streams for the G20 but more generally in the effort to ensure competitive markets for financial products and services, via the integration of financial consumer protection, financial educational and awareness and financial inclusion.

**EXAMPLES**

Let me now take a few moments to provide you with, what I believe to be, and innovative examples of best practice from the region. I should stress that these are my own choices but ones which I believe have merit and should be highlighted.

First can I commend the Bank of Indonesia for its work. Back in January 2004 the Bank of Indonesia launched the Indonesian Banking Architecture (API) as a comprehensive basic framework for the Indonesian banking system, outlining the direction, outline, and structure of the banking industry for the next five to ten years.
The Vision of API is to build a sound, strong, and efficient banking industry in order to create financial system stability for promotion of national economic growth.

- Transparency: Improved transparency of information on banking products
- Education: Promoting public education for customers and encourage banks to educate customers regarding financial products
- Complaints: Formulation of standards for customer complaints mechanism (including monitor and evaluate the compliance to regulations governing customer complaints mechanism; and
- Mediation: Formulation of standards for customer complaints mechanism (including monitor and evaluate the compliance to regulations governing customer complaints mechanism.

**Thailand**

In January 2011 the Bank of Thailand set three key policy priorities for 2011:

- To preserve the soundness of the financial institution system
- To enhance the efficiency of financial intermediation
- To place emphasis on consumer protection

Note that the third core policy element is consumer protection. According to the Bank of Thailand, consumers of financial services have the right to good quality of services and fair protection.

The Bank of Thailand encourages financial institutions to disclose all relevant information, including fees, to consumers, and provide financial services that are suitable both in terms of business and risk management capability of the customer, followed by dedicated after-sales services. Improvements along these lines will further strengthen growth inclusiveness.
CONCLUDING REMARKS

In conclusion, I would to point out again that since the global financial crisis we are living in a different world. We know that we must not return to the way things were before. Promoting efficient markets that work for all – business, consumers and governments is paramount. To achieve positive outcomes for consumers requires the integration of three key policies – financial consumer protection, financial education and literacy, and financial access. We see these components as being vital for all economies. The OECD is working to develop guidelines and best practices on financial education through its Network (INFE). The Organisation is also playing an important role in the development of G20 work streams and is supporting efforts to enhance financial access. Above all else, real advances will be made for all concerned through close co-ordination and development of best practice at the national level and compliance with international standards.

Thank you