

## Investor education – some policy issues

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## OECD savings and investments project: background

- \* Savings are vital to individuals and families and help drive economic growth
- \* People are bearing more risk for their own financial futures
- \* The marketplace is complex, and more products are being sold over the internet and using mobile phones, bringing greater risk to consumers
- \* Behavioural factors have a big influence on whether and how people save
- \* The financial crisis has increased saving but it has also damaged confidence in financial markets

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## National policy issues

- \* OECD questionnaire on savings and investments: 25+ countries responded
- \* Insufficient saving, particularly long term
- \* High variability
- \* Savings behaviour
  - \* Informal saving
  - \* Financial assets concentrated in bank deposits
  - \* Reluctance to take on investment risk
  - \* Over-reliance on property

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## Barriers to saving and investing

- \* Low levels of financial literacy
- \* Little disposable income/financial exclusion
- \* Behavioural influences
- \* Market complexity
- \* Lack of trust in financial institutions

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# Who invests in the stock market?

## Countries

Australia  
Sweden  
US  
Canada  
UK  
France  
Germany  
Italy  
Spain



## Individuals

Income  
'Generalised' trust  
Trust in financial institutions  
Men  
Knowledge about risk  
Lower loss aversion

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# Policy levers

## Can do

- \* Incentives for investment
- \* 'Automatic' investment
- \* Consumer protection regulation
- \* Better transparency
- \* Investor education
- \* Increase trust in financial institutions (a bit)

## Can't do (easily)

- \* Increase 'generalised' trust
- \* Overcome behavioural biases

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## Some aspects of investor behaviour

- \* Loss aversion
- \* Hyperbolic discounting
- \* Overconfidence – excessive trading and fraud risk
- \* Sell winners, hold losers
- \* Not taking account of fees and charges
- \* 'Home' bias
- \* Herding
- \* Failure to diversify
- \* Naive diversification

Summarised in *Behavioural Patterns and Pitfalls of US investors*. US Library of Congress. August 2010

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