



Financial education and awareness

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***Bruno Levesque, Principal Administrator, Financial
Education***

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outline

- **The Global Financial Crisis**
 - The policy response
 - The importance and role of financial education and awareness
- **OECD Financial Education Project**
- **Looking ahead**
- **Conclusions**

The crisis

- Multifaceted:
 - sales practices
 - securitisation
 - accounting rules
 - rating agencies
 - regulatory arbitrage
 - liquidity
 - deleveraging
 - solvency
 - etc...
- **But also clear recognition of lack of financial education and awareness of both individuals and institutions**

Responses

- Multidimensional:
 - Incentives
 - Corporate governance
 - Taxation
 - Business environment and competition policy
 - Consumer protection and education
 - Trade and investment
 - Macroeconomic, fiscal and labour market policies
- OECD particularity:
 - Consumer protection and education

*Why is financial
education and
awareness so
important?*

OECD Trends

We observe that individuals face increasing financial risks and costs due to:

- reduced public and/or corporate **pension** benefits
- increased **health** costs borne by ageing individuals in the framework of reduced public health generosity
- increased **longevity** (good news which can become a nightmare)
- increased frequency and magnitude of natural and man-made **catastrophes**
- increased **financial instability**

Past gains in longevity

Life expectancy at birth has increased an average of **2.2** years per decade over the last century in OECD countries.

Life Expectancy, 1900-2000
Increase in number of years per decade

| | at birth | at 65 |
|---------------------------------|----------|-------|
| <i>20th Century</i> | | |
| Canada (1921-2002) | 2.8 | 0.7 |
| France (1900-2003) | 3.3 | 0.9 |
| The Netherlands (1900-2003) | 2.9 | 0.6 |
| Italy (1900-2002) | 3.8 | 0.9 |
| Spain (1908-2003) | 3.9 | 0.9 |
| Sweden (1900-2004) | 2.7 | 0.6 |
| United Kingdom (1900-2003) | 3.1 | 0.7 |
| United States (1933-2002) | 2.3 | 0.8 |
| <i>1960-2000</i> | | |
| <i>EU15 Average¹</i> | 2.0 | |
| <i>OECD Average¹</i> | 2.2 | |
| Canada | 1.9 | 1.0 |
| France | 2.2 | 1.3 |
| The Netherlands | 1.3 | 0.7 |
| Germany | 2.0 | |
| Italy | 2.6 | 1.2 |
| Spain | 2.5 | 1.1 |
| Sweden | 1.7 | 1.0 |
| United Kingdom | 1.7 | 0.9 |
| United States | 1.8 | 0.9 |

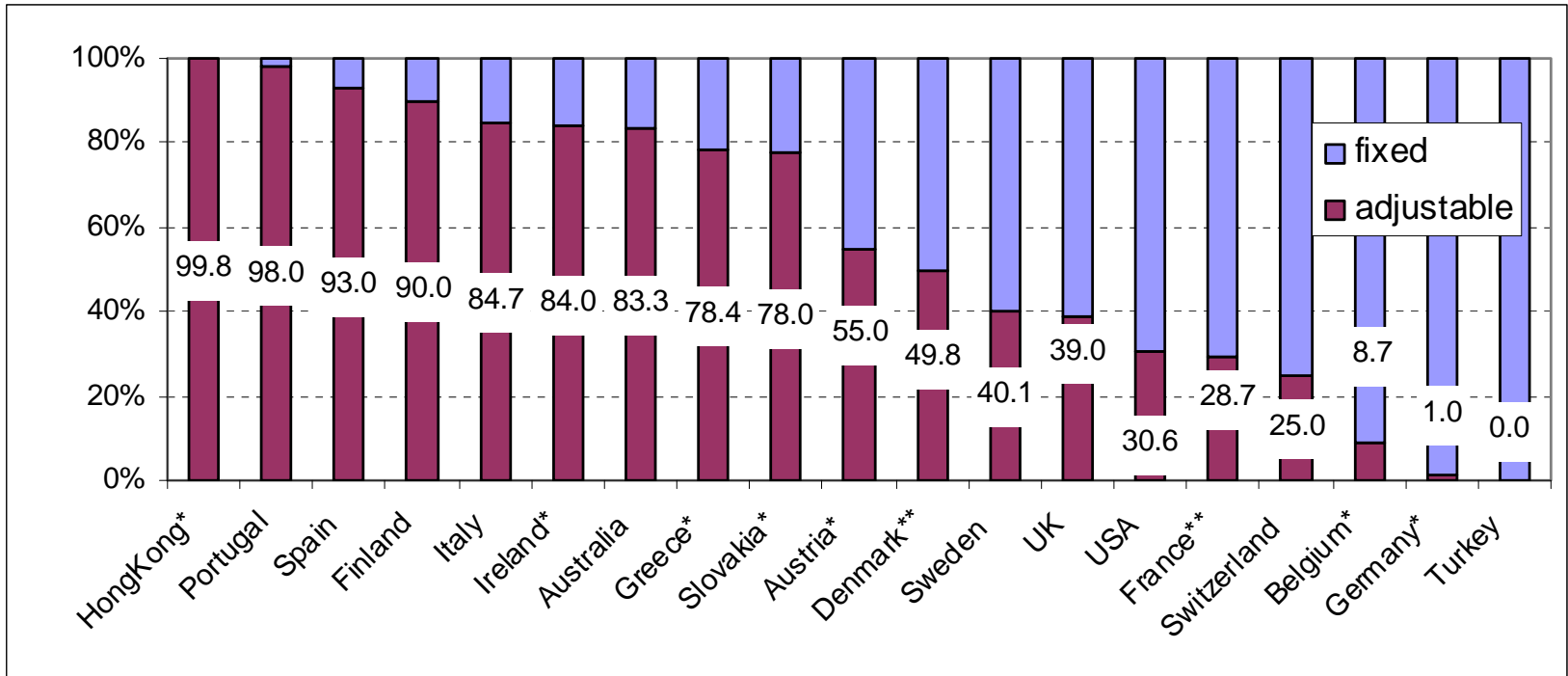
Financial risks are more and more transferred to individuals

- **Households** are taking on more financial risk and responsibility. This is true for both credit decisions and retirement savings.
 - The shift to **defined contribution pension schemes** transfers both investment and longevity risks to individuals. Will they make the right decisions?
 - The market for **adjustable, variable, interest only mortgage loans** (sometimes also in foreign currency) has exploded in several countries and transfer interest rates risk on households

Credit risks

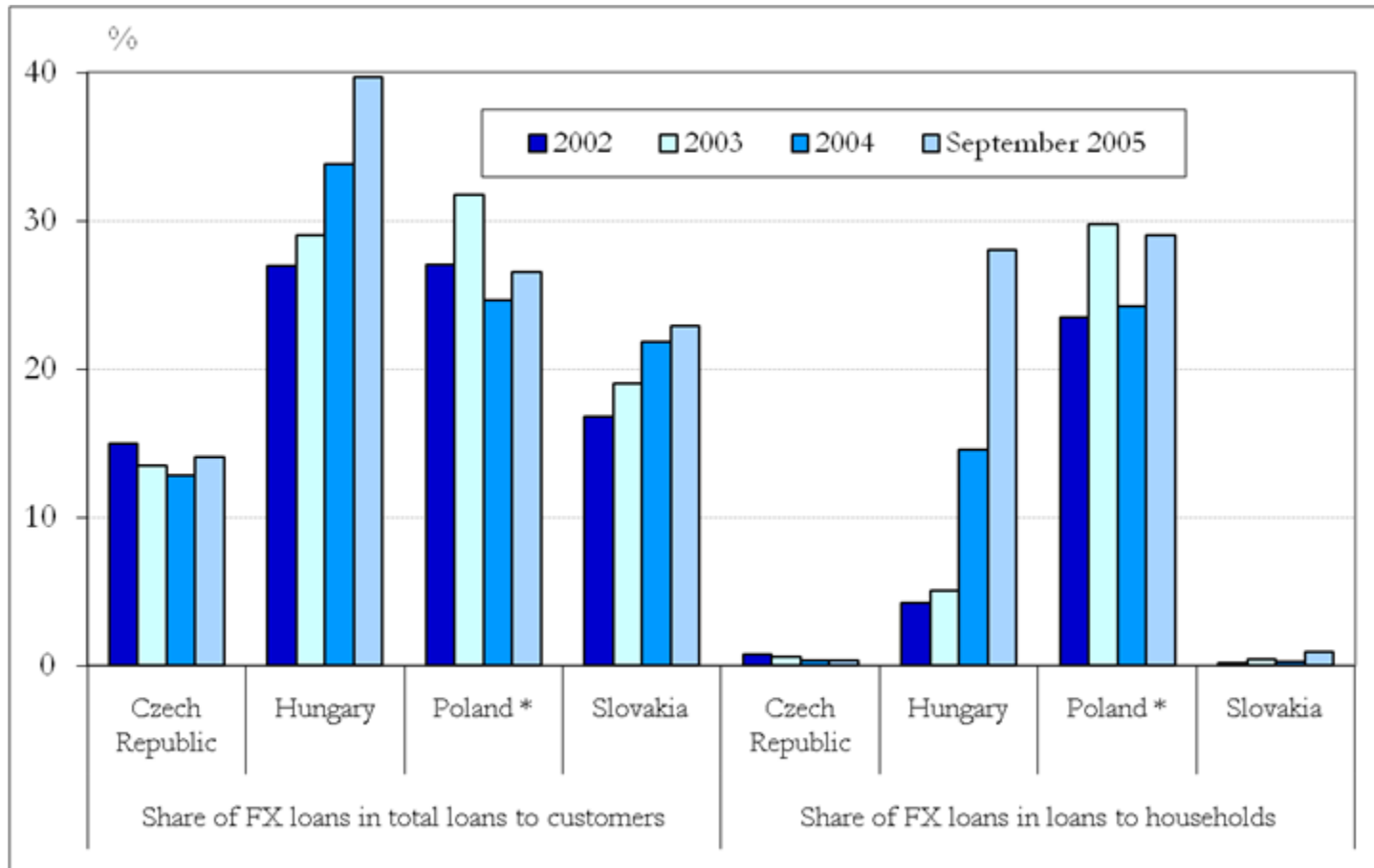
Share of mortgage loans on variable interest rates

Percent of mortgage loans with adjustable and fixed rates in percent of total mortgage loans



Credit risks

The share of foreign currency loans in selected CEE countries 2002-2005



Source: Magyar Nemzeti Bank, Report on Financial Stability, April 2006.

Consumers are clearly not prepared to face these challenges and risks

- Worldwide surveys show the level of financial literacy is low in all countries, including in developed countries.
- Worse: consumers often overestimate their financial understanding and thus do not seek to improve it

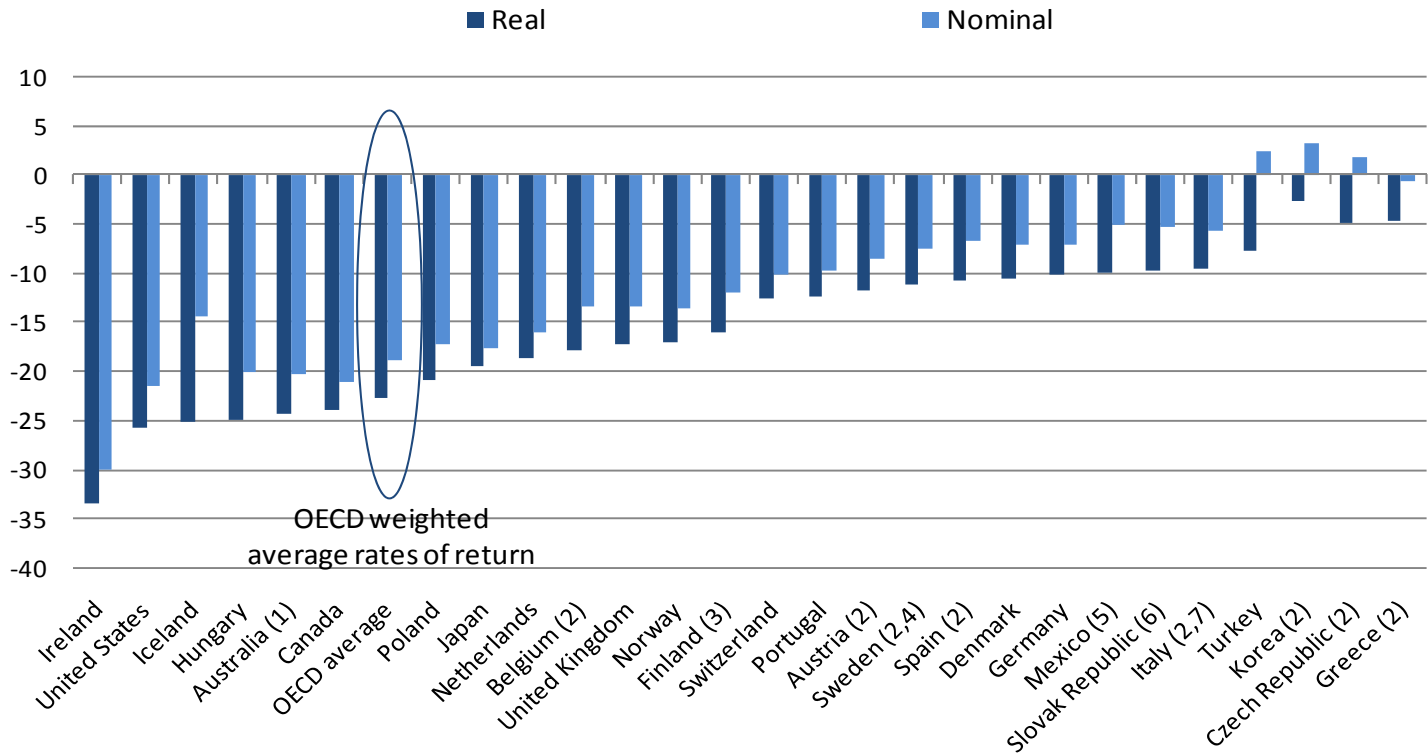
Consumer pressures exacerbated in the crisis context

Greater Insecurity

- Financial crisis evolved into a recession
 - Over 50 million jobs to be lost (according to the UN)
 - Revenue loss in many households
- Asset values going down
 - Decreased value of property
 - Plunging pension fund returns (> \$3 trillion in losses)

Pension fund losses

Nominal and real pension fund returns in selected OECD countries, January-October 2008



Source: OECD Private Pension Outlook 2008, p. 16.

Consumers are directly called upon in order to restore growth

- Stimulus packages :
 - Encouraging consumption and consumer expenditures (e.g., to revitalise the automobile industry)
 - Restoring consumers' access to credit
 - Facilitating access to housing
 - Etc.
- Hence the Paradox of Thrift
=> How should this be addressed?
- Consumers must be provided with the proper tools to make the right decisions.

Consumer protection

- This calls for a **new regulatory and supervisory approach**
- New focus on **market conduct** and not only on prudential regulation of financial institutions
- Focus on access, competition, consumer protection and **disclosure**
- **Awareness is key**

Financial Education

Financial education is a complementary process

- *“Financial education is the process by which financial consumers/investors improve their understanding of financial/insurance products and concepts; 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 take other effective actions to improve their financial well-being and protection”.*

Objective

Ultimate goal is to have financially literate consumers, who:

- Understand their rights and responsibilities as financial consumers
- Know where to go for information and recourse
- Understand their profile and needs
- Shop around for the best option and product, ask the right questions and make the best choice for their needs
- In other words, make the best use of the information disclosed/available to them.

Broader impact of financial education

- Financial education will help build more efficient financial markets by:
 - improving confidence
 - encouraging the development of new products and services
 - and thus increase competition, innovation and product quality
- Financial education can also help to reduce poverty and improve social cohesion
- Financial education can improve take up of government policies

Polycymakers awareness

- Momentum for financial education:
 - President Calderon “*estrategica nazionale del cultura finanziaria*”
 - President Bush advisory Council
 - G8 Finance Ministers ‘ call for improving financial education
 - OECD Council recommendations
 - Communication from European Union
 - Financial education 2008 year in Indonesia
 - Hungarian initiative for a national strategy
 - Canada’s call for a national strategy as a direct response to the crisis
 - Etc.

OECD programme on financial education

- Recognising the need for policymakers and other relevant stakeholders to meet the objective of improving financial education, the OECD launched in 2003 its “**international programme on financial education**”
- Under the aegis of the OECD Committee on Financial Markets and the OECD Insurance and Private Pensions Committee

OECD Financial Education Programme

--Tree pillars--

1. Analytical

- Surveys, reports and publications on a broad range of financial education issues and topics

2. Standard setting

- OECD Principles and Good Practices for Financial Education and Awareness (2005)
- Good Practices for Enhanced Risk Awareness and Education on Insurance Issues (2008)
- Good Practices for Financial Education Relating to Private Pensions (2008)
- Good Practices on Financial Education and Awareness Relating to Credit (Upcoming – 2009)

3. International cooperation

- Conferences and events
- International Network and Gateway



IGFE

INTERNATIONAL GATEWAY FOR FINANCIAL EDUCATION



This programme is developed by the OECD

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The International Gateway for Financial Education (IGFE) is established by the Organisation for Economic Co-operation and Development (OECD) as part of its overall comprehensive project on financial education.

The main objectives of the gateway are to:

- Launch and develop the first global clearinghouse on financial education which

- Events and conferences
- How to join
- Key material
- Your feedback
- Contact us



>> **OECD/US Treasury International Conference on Financial Education**

Current FE priorities and deliverables (in relation to the crisis)

1. OECD recommendation on good practices for financial education and awareness on credit (to be transmitted to the Council in the following months).
2. Report on the impact of the crisis on financial education policies based on a INFE survey conducted on OECD and non OECD countries.
3. OECD Stocktaking Report on Consumer Protection Regulatory Regimes in the Financial Services Sector: What has the Financial Crisis Taught Us? (released in the coming months)

Conclusion

- Although poor financial literacy cannot be pointed at as the cause of the current financial crisis, it may have exacerbated the effects.
- This crisis represents a unique teachable moment for all stakeholders on the importance of financial education and awareness.
- Financial education sits alongside effective regulation as a consumer protection measure and is not a replacement for a safe and fair market or for effective regulation.
- The OECD will continue to play a leadership role in informing policy development in the area of financial education and awareness.



THANK YOU

Bruno.levesque@oecd.org