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OECD International Project on Financial Education

Financial Literacy: Implications for Retirement Security and the Financial Marketplace

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Outline

I- Financial education: a growing policy priority in the new financial landscape

II- Addressing policy and stakeholders' concerns: The international OECD financial education project

III- OECD and its INFE's main messages

IV- Challenges ahead ongoing and future endeavours

What is financial education?

OECD 2005 Definition: A Capacity Building 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”.*

I- Financial education: a growing policy priority in the new financial landscape

- 1) An overlooked premise of the sustainable development of financial services and their regulatory framework and its reform**
- 2) A critical individual skill in the framework of changing equilibrium and financial landscape**
 - **Increasing transfer of more risks to individuals**
 - **More consumers have access or should have access to financial services**
 - **More complex and sophisticated financial landscape**
 - **Prudential regulation and disclosure is not enough**

⇒ Asymmetry of information, knowledge and power
⇒ Importance of individuals' financial decisions but...

Financial education: a growing policy priority in the new financial landscape (cont.)

3) OECD/INFE 2010 report on 26 baseline surveys on financial literacy:
All show a **worryingly low level of risk and financial :**

- Knowledge and Understanding
- Awareness and Confidence
- Attitude and Skills
- Responsible Behaviours

⇒ Lack of Care

⇒ Only “good news” from the crisis: the public is interested in financial issues: A **“teachable moment”** ?

4) OECD 2009 & 2010 surveys on the outcomes of the financial crisis :
Financial education has become one of the pillars of the new financial regulatory framework

- Increasing number of dedicated financial education policies and strategies
- Financial education policies go hand in hand with a shift towards reinforced consumer protection

***Efficient financial education* should benefit
all involved stakeholders ...
but should be integrated in a *holistic approach***

Which includes:

Financial
inclusion and
access

Financial
education
and
awareness

Behavioural
economics

Financial
consumer
protection

Competition
governance
and prudential
regulation

II- OECD Project on Financial Education

Started in **2003**

Purpose: respond to the objective of policymakers and other stakeholders to **improve financial literacy**

Serviced by 2 OECD committees

- The Committee on Financial Markets
- The Insurance and Private Pensions Committee

3 pillars :

1. Data collection, research and international analytical framework
2. Internationally recognised standard setting objectives
3. International dissemination and co-operation

Extensive programme of work involving different sectors

1) Reference international research and analysis

2005 – OECD issued the first international publication on financial education

2008 – First analysis on:

- Risk awareness and insurance education
- Private Pensions and saving for retirement

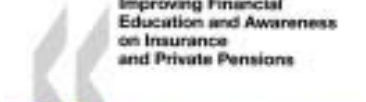


Improving
Financial
Literacy
ANALYSIS OF ISSUES
AND POLICIES

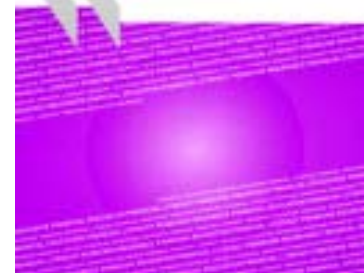


2008 – Several reports on specific issues:

- Credit
- National pension awareness
- Annuities and FE
- Risk awareness on large-scale risks
- FE at schools
- Evaluation of FE programmes



Improving Financial
Education and Awareness
on Insurance
and Private Pensions



2) OECD : the international standard-setter on financial education and awareness : 4 sets of recommendations

Principles and Good practices for Financial Education and Awareness
(endorsed by OECD Council in 2005)

Good Practices for Financial Education Relating to **Private Pensions**
(endorsed by OECD Council in 2008)

Good Practices for Enhanced **Risk** Awareness and Education on
Insurance Issues (endorsed by OECD Council in 2008)

Good Practices on Financial Education and Awareness Relating to
Credit (endorsed by OECD Council in 2009)

⇒ More to come notably on the role of financial institutions

3) International Dissemination and co-operation

Series of international events since 2006 and forthcoming 2010 :

- OECD-Bank of Italy International Symposium on Financial Literacy, Rome, 9 June
- OECD-Central Bank of Lebanon International Conference on Financial Education, Beirut, 20-21 October

International Network on Financial Education

- Public experts on financial education from 60 countries; 150 institutions
- 2010 meetings: Rome, 8 June; Beirut, 19 October

Creation of regional fora: e.g., Central Banks in Asia (March 2010)

Co-operation with international stakeholders

- International organisations : world Bank, ILO, EC, IMF
- Major global economies (through MOU)
- Selected market players and NGOs

International Gateway for Financial Education (IGFE)

- www.financial-education.org

III- Key messages for more efficient financial education

1) FRAMEWORK

- ✓ **Complement but not substitute to the regulatory framework and market conduct**
- ✓ **Assess the needs and gaps in financial literacy and map existing programmes**
- ✓ **Identify clear and realistic policy goals**
- ✓ **Earmark long-term and sustainable resources**
- ✓ **Prioritize target audience**
- ✓ **Design evaluation at the outset of programmes**

2) STAKEHOLDERS' ACTIONS AND ROLES

- ✓ **Coordination of initiatives :**
 - Establishment of national strategy
 - Setting responsibilities and roles
- ✓ **Governments as coordinators/facilitators**
- ✓ **Specific requirements for financial institutions:**
 - Financial education is part of good governance
 - **Accountable and responsible** for:
 - Provision of suitable information and advice
 - Promotion of financial awareness
 - Enhanced requirements for long-term products
- ✓ **Involvement of a variety of partners**
NGOS, private and local networks and actors

3) APPROPRIATE and ADAPTED TOOLS

- ✓ Identify **target audience** and their preference
- ✓ **Ongoing, life-time and continuous** process
- ✓ **Start as early as possible and at school**
- ✓ Take advantage of **windows of opportunities**(life cycle)
- ✓ Use a **variety of channels and medias**
- ✓ **Teach the “teachers” or disseminators/multipliers**
- ✓ **Develop relevant resources**
- ✓ Focus on **”quality disclosure ”**
- ✓ Use **simple, engaging and tailored messages**

4) FINANCIAL EDUCATION'S LIMITS

- ✓ FE is **no panacea** and is a **long-term process**
- ✓ FE has **limits**: links between financial knowledge and behaviours are not obvious
- ✓ FE is a new policy priority: more **evaluation** on efficiency of various programmes **needed**
- ✓ **Consumers are not rational** :
 - ✓ Passive behaviours even if they are properly informed
 - ✓ Numerous psychological/behavioural biases
- ✓ Solutions to counter these limits at least on the short-term should be considered where necessary
- ✓ Appropriate regulation to prevent notably fraud & bankruptcies and offer easy redress


IV- OECD/INFE ongoing work: Responding to challenges ahead

4 INFE Expert Subgroups:

- Evaluation
- Measurement
- Schools+ PISA
- National Strategy

Other Projects:

- Research on behavioural and psychological economics
- Roles of financial intermediaries (insurance)
- Focusing on major policy priorities: pensions, credit, savings, risk
- Project on vulnerable groups
- Work in complementary fields:
 - consumer protection
 - financial inclusion



Financial education is still
a relatively new policy area which
should be further informed
by intensive research

Looking forward to
a fruitful discussion
THANK YOU!



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