



***OECD FINANCIAL EDUCATION
PRINCIPLES
AND BEST PRACTICES***

***OECD-IOPS MENA WORKSHOP ON
PENSION REGULATION AND
SUPERVISION 2/3 February 2009***

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AGENDA

- I. Why the OECD launched a far-reaching project on Financial Education**

- II. Main achievements and key lessons drawn**

- III. Outstanding challenges and main future projects**

- IV. Concluding remarks**



I.

***Why the OECD launched
a far-reaching project on
financial education***

Greater transfer of risks to households

- Decline of welfare policies
- Growing range of risks affecting households at macro and micro levels
- Impact of increased life expectancy
- Enhanced individual responsibility in financial and pension risk management
- More households investing more income in financial assets

Evolution of the financial landscape

- More financial products
- More complex products
- More providers
- New technologies
- More flexible regulation
- Overload of financial disclosure
- Recent financial crisis

- ➡ Key impact of households' financial decisions
- ➡ Power imbalance between market players and households

OECD governments' concerns

Adverse-effects

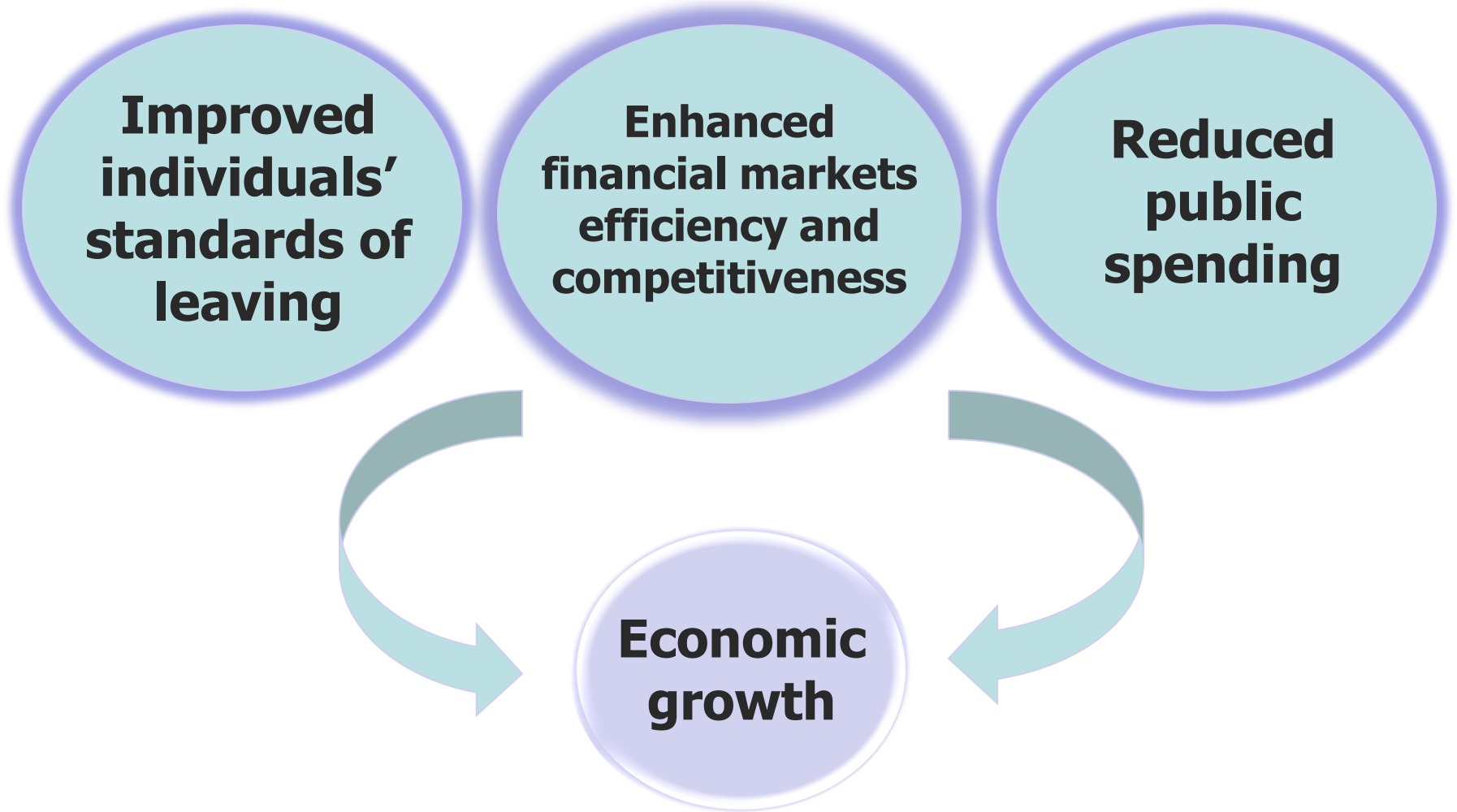
- Massive rise in consumers' **indebtedness**
- Financial issues related to **retirement**
- **Misselling** for particular complex products
- **Undercoverage** of risks with severe consequences
- **Higher costs for disadvantaged groups**
- **Lack of trust in financial institutions**

Low level of financial literacy and capability

- Low level of **financial understanding**
- **Underestimation of needs**
- **Lack of self-awareness of low financial education**
- **Vulnerable and disadvantaged groups**
- **Little shopping around**
- Resilient **passive behaviours**

Expected Benefits of Financial Education

A “win-win” situation



⇒ 2003-OECD launched a comprehensive horizontal project on financial education serviced by two OECD Committees

(the Committee on Financial Markets and the Insurance and Private Pensions Committee)



II. Main achievements of and lessons drawn from the OECD project on Financial Education

Main outputs

1. International analytical framework on financial education
2. Principles and good practices for financial education and awareness
3. Dedicated work on financial education relating to private pensions and insurance
4. Enhanced international awareness, co-operation and policy dialogue

1. First international analytical framework on financial awareness and education

Definition of financial education

"Financial education is the process by which financial consumers/investors :

- a) **improve their understanding of financial/insurance products and concepts;** and,;*
- b) 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,*
- c) **take other effective actions to improve their financial well-being and protection"***



1st issue of the
OECD
International
Financial
Education News 10



Key messages(1)

DESIGNING PROGRAMMES

- ✓ **Adapt to national circumstances**
- ✓ **Assess the needs and gaps in financial education**
- ✓ **Identify clear and realistic policy goals**
- ✓ **Prioritize target audience**
- ✓ **Assess efficiency and effectiveness**

Key messages(2)

STAKEHOLDERS' ROLE

- ✓ **Governments as coordinators/facilitators**
- ✓ Specific requirements for **financial institutions**:
 - **Financial education is part of good governance**
 - **Accountable and responsible** for:
 - Provision of 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)

Key messages (3)

APPROPRIATE TOOLS

- ✓ Focus on **"quality disclosure"**
- ✓ **Start as early as possible and at school**
- ✓ **Ongoing, life-time and continuous process**
- ✓ **Teach the "teachers"**
- ✓ Use a **variety of channels and medias**
- ✓ Use **simple and engaging messages**

3. Dedicated work on financial education and awareness for pensions and insurance

- Complement the OECD general framework on financial education
- Developed by the OECD Insurance and Private Pensions Committee and Working Party on Private Pensions
- Involved **wide public consultations**
- **Adoption by OECD Governments in 2008**
 - 2 Recommendations on Good Practices for :
 - **Financial Education relating to Private Pensions**
 - **Enhanced Risk Awareness and Education on Insurance Issues**



Publication of
**Improving Education and Awareness
on Insurance and Private Pensions**

3. Good Practices on Financial Education relating to Private Pensions (1)

Rationale:

- **Unique nature of the pensions products** makes financial education particularly important...
 - Long-term nature of contract and complexity of products (longevity, inflation, investment, fiscal policies, assumptions on future income)
 - Wide social coverage and low risk tolerance
 - Large number of pension schemes and potential impact on financial markets and economy

-Combined with **demographic and systematic trends**:
 - Increased longevity and shorter working lives in most countries
 - Decline in public pensions
 - Shift from DB to DC schemes
 - Increased individual choice

- **Lack of financial knowledge relating to pension:**
 - **Lack of understanding of :**
 - **The changing retirement environment**
 - **The need to save and level of saving required to meet expectations**
 - **Investments and other key elements (e.g., inflation, interest rate, longevity implication, fiscal policies)**
 - **Pay-out phases options and modalities (lump-sum, annuities)**
 - *Chile –lack of basic understanding of pension system 25 years after launch*
 - *USA – around 50% workers do not participate in occupational pension scheme, even when employers match contributions – blaming lack of information on the scheme or the importance of saving*
 - *UK – survey (Barclays) showed people expecting \$32,000 retirement income – savings actually deliver \$11,000*
 - *Australian survey found only 37% had determined how much they need to save for retirement*
 - **Learning from behavioural economics : passive behaviours**
 - **Lack of trustee and fiduciary capability**
 - *UK_Myner’s report highlighted “ amateurism” amongst pension fund trustees as “the true governance hole at the heart of our investment industry”*

3. Good Practices on Financial Education relating to Private Pensions (2)

Key messages

- **Role of governments :**
 - Develop and coordinate wide public awareness campaign
 - Explain the interaction between public and private sources of retirement income
 - Inform on pension reform and increasing individual responsibility
 - Ensure the provision of sufficient, practical and simple information on pension issues and on pensions projection
 - Establish dedicated school programmes
- Specific needs of members of **DC schemes**
- **Role of key stakeholders** : plan sponsors, pension funds, fiduciaries, intermediaries and social partners
- **Limits of Financial education**: regulation of pension scheme
 - Importance of appropriate disclosure on pension products
 - Automatic enrolments and default options, framing and limiting choice

Example and experiences:

- ***Development of Pension awareness campaign to launch and explain pension reform:***
 - *Italy (COVIP), Ireland, Poland, Slovak republic, Finland*
- ***Informing on future pension income:***
 - *Sweden - the orange envelop*
 - *Chile – receiving pension statement raises knowledge of system from 28%-44%*
 - *Germany- Pension calculator proposed by the insurance association*
- ***Reinforced disclosure requirement in respect to DC schemes – UK- FSA (key fact sheet)***
- ***Reinforced disclosure –HK – code of disclosure on investment options***
- ***Automatic enrolment and default options -401(k) schemes in the US***

Good Practices for Enhanced Risk Awareness and Education on Insurance Issues (1)

Rationale:

1. Demographic and modern social and economic trends imply:
 - Greater individual responsibility for coverage of an increasing range of risks
 - Emergence of a “risk society”
 - Reduced welfare and solidarity benefits and protection
 - Increased importance of insurance mechanisms to cover social, economic and large-scale risks

2. Complexity of insurance markets, products and regulation
 - Sophisticated and tailored products; products implying greater individual choice (unit-linked)
 - Large variety of providers and intermediaries
 - Regulatory responses are not sufficient

3. Poor level of risk awareness and of insurance capacities
 - Lack of awareness of most important risk-exposure and needs for coverage
 - Insufficient understanding of the insurance mechanisms
 - Lack of awareness of the lack of knowledge
 - Passive behaviours as regards insurance issues : cultural issues, myopia and procrastination

Examples and experiences: Poor level of risk awareness and of insurance capacities of individuals

- *Korea- only a quarter of consumers understand the terminology of home owner insurance adds*
- *US- After Katrina most households did not know that damages caused by flood were excluded from their homeowner insurance policies*
- *Australia- 65% of consumers claimed good knowledge of their insurance options,
70% of consumers expressed difficulty in understanding their particular insurance policy*
- *UK- only 10% of policyholders of life insurance products personally considered more than one policy and around 60% followed the advice of a distributor*

Good Practices for Enhanced Risk Awareness and Education on Insurance Issues (2)

Key messages:

- Role of governments in promoting risk awareness and basic insurance understanding and in assessing issues relative to coverage and products
- Importance of national campaigns and school curriculum
- Key role and responsibility of insurance market players and intermediaries
- Development of engaging and efficient tools
- Possible introduction of compulsory insurance for severe risks
- Tailored products for vulnerable groups

Examples and experiences

Government's role:

Awareness and Education Campaign

- Italy- ISVAP: launching of national campaign website, newspaper campaign
- India- IRDA : radio and television programmes in 11 languages
- US - NAIC : "InsureU"

Regulation- default mechanisms

- Turkey: mandatory earthquake insurance
- Japan: tax deductible on household earthquake coverage
- India: more flexible regulation on micro-insurance products

Market players' role:

- **Development of codes of conduct** for selling insurance products by association of insurers and intermediaries in many OECD countries – assessment of customers satisfaction – ABI in the UK
- **Risk awareness campaigns:** General Insurance Association of Japan: earthquake risk and insurance campaign, car safety prevention and eco-safe driving (use of the media)
- **Elaboration of training material** : German Insurance Association, Belgian Insurance Association, Turkish insurance and reinsurance association

Examples and experiences (cont) development of tailored and efficient tools

- *Specific **guides developed by branches of business and in particular life insurance** – unit-linked- products and long-term care in most OECD countries and in Israel*
- *More emphasis **on quality information** : development of information note -summary profile of main conditions of life insurance products (e.g. France, Belgium, Italy, Spain)*
- ***Take advantage of teachable moments:***
 - *US, large media (TV, newspapers, etc) campaign on large-scale risks and floods after Katrina*
- ***On-going training** : UK-FSA different life stages (school, young adults, parents, workplace, online, consumer communications, etc)/ US (NAIC)*

4. Raising awareness : High-level international events

***G8 Financial Ministers* recognised OECD work on financial education, in June 2006**

- ❖ International Conference on Financial education in **India, 2006**
- ❖ **G8** conference on Improving Financial Literacy in **Moscow, 2006**
- ❖ International Seminar on Risk Awareness and Education on Insurance Issues, **Istanbul, 2007**
- ❖ **OECD- US Treasury** International Conference on Financial Education, **Washington D.C., 2008**
- ❖ **OECD- Bank Indonesia** International Conference on Financial Education, **Bali, 2008**

FORTHCOMING EVENTS

3rd meeting of the OECD International Network on Financial Education, Spring 2009

OECD-Brazil International Conference on Financial Education, Brazil, Fall 2009

4. International Gateway for Financial Education (cont.)

First global clearinghouse on financial education
www.financial-education.org

The screenshot shows the website interface in a Windows Internet Explorer browser window. The title bar reads "International Gateway for Financial Education - Windows Internet Explorer provided by OECD - 11 April 2007". The address bar shows the URL "http://www.financial-education.org/pages/0,2987,en_39665975_39666038_1_1_1_1_1,00.html". The browser's menu bar includes File, Edit, View, Favorites, Tools, and Help. The toolbar contains various icons for navigation and search. The website header features a globe icon, the text "IGFE INTERNATIONAL GATEWAY FOR FINANCIAL EDUCATION", and the OECD logo with the text "This programme is developed by the OECD". A left sidebar contains a "Home" menu with options like "About", "By Country", "By Sector", "By Theme", "Tools & Programmes", "Targeted Groups", "Methods & Evaluation", and "Research & Statistics". Below this is a "Members only area" with a "Sign in" link. The main content area has a large photo of a diverse group of people holding hands in a field of yellow flowers. Below the photo, text states: "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:" followed by a bulleted list of objectives. On the right, there is a navigation menu with links for "Events and conferences", "How to join", "Key material", "Your feedback", and "Contact us". Below this is a "Public Consultation" box with the title "Draft Good Practices on Financial Education and Awareness Relating to Credit: Public Consultation" and a deadline of "16 January 2009". At the bottom right, there is a "News" section titled "International Financial Education News" with a link to "International Financial Education News". The Windows taskbar at the bottom shows the Start button, several open applications (12 Mic..., 7 Micro..., 2 Micro..., Internet..., Fine Ed..., 2 Micro...), the system tray with "Search Desktop" and "3:51 PM".

+50 countries covered

+100 programmes summarised

+150 articles, research

+150 weblink and ressources

4. Raising awareness and enhancing international co-operation (cont.)

➤ **International Network on Financial Education**

- Public experts on financial education from 50 countries and more than 80 public bodies
- 2 first meetings held this year
- 2009 meetings : Paris 19/20 May ; Rio de Janeiro in the Fall
- All Public experts interested in financial education are welcome to join

➤ **Co-operation with**

- Relevant international partners: the EC, the IMF and the World Bank
- OECD and Emerging economies' governments
- Selected market players and NGOS



***III. Outstanding challenges
and projects ahead***

Ongoing and Future OECD projects: A comprehensive roadmap

- 1. International method to evaluate the effectiveness of financial education programmes**
- 2. International method to assess the level of financial literacy and inclusion**
- 3. Survey and best practices on financial education programmes at schools**
- 4. Role of financial institutions and intermediaries**
 - Conflicting goals of promotion/selling and education
 - Conflicting interests : shareholders/consumers
 - Better educated consumers are of interests for the industry?
- 5. Projects on specific challenging issues**
 - Focused studies and good practices on specific pensions issues (annuities; pension awareness)
 - Focused studies and good practices on vulnerable groups

A lot has been done.. much remains to be done

Financial education is higher on policy makers and market players agenda but ...Financial education goals need to be stepped up further:

From enhanced knowledge to responsible financial behaviours

Ongoing long-term

Peer learning and **iterative** process

Top-down and...

Bottom-up approaches

⇒ **The OECD is looking forward to fruitful and constructive co-operation on these key challenges**



***THANK YOU
FOR YOUR ATTENTION!***

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www.financial-education.org