

Financial Education Prospects and Priorities



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An important aspect of financial education is that it emerged as a priority for developed and developing markets notwithstanding huge differences and diversities in the nature, scope and significance of financial markets. Financial Education and Literacy have assumed equal urgency and importance and are given great thrust and focus in numerous countries ranging from Russia to the United States.

According to an estimate, 150 million new consumers of financial products and services are added every year with most of these coming from the developing countries. Yet less than one percent of the population in the developing countries have access to products such as stocks, bonds or insurance.

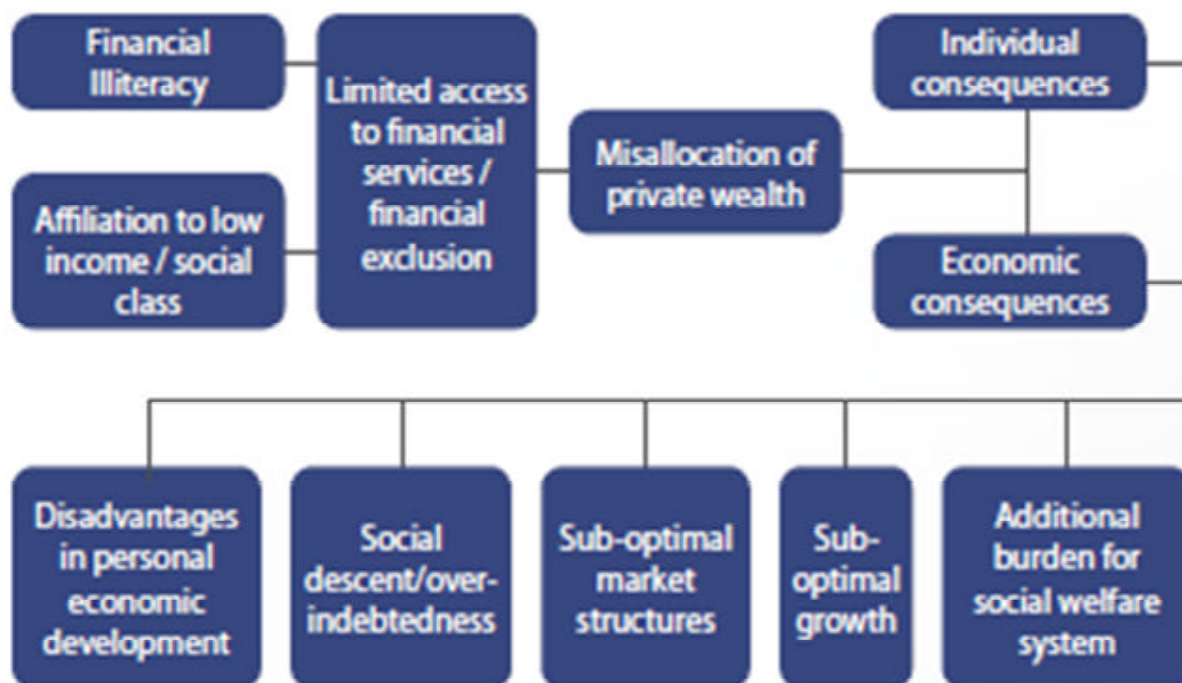
If extensive range and sophistication of products pose a challenge for consumers in the financial markets in the developed countries, lack of access to even basis products is a big concern for consumers in the developing countries. Thus the relevance of the financial education in both rich and poor countries alike.

1. Importance of Financial Education

Lack of financial education leads to several risks. It distorts orderly growth of financial markets, leads to information gaps and hinders pace of financial sector development. The repercussions from a system where consumers do not have

adequate knowledge and information on financial products poses more risks for the consumers as well as financial systems as could be explained in the chart below.

Chart: Risks from Financial Illiteracy



Source: Sue

2. Landscape of Financial Literacy

A number studies and surveys are conducted as a part of assessing the extent of financial literacy in various countries. Evidence from these studies and surveys reveal the following general trends.

- Financial literacy levels worldwide are very low
- Not much objective and comparable data exists on the levels of financial literacy

- Consumers rarely practice basic financial skills, such as budgeting, planning for retirement etc.
- Consumers also tend to overestimate their financial skills and knowledge
- Quite often consumers feel they know more about financial products than actually is the case
- Overconfidence sometimes leads to vulnerabilities
- Lack of financial literacy is often linked to lack of financial access
- Training and awareness can improve financial literacy
- Financial literacy should be developed from an young age
- Financial literacy programmes should be conducted on a sustainable basis
- Identifying optimal “teachable moments” is critical to absorbing messages of financial education

3. The Complexities

In addition, the complexity of the needs of the consumers as also the financial products and services is undergoing continuous change posing new challenges as the older concerns are overcome. The complexities of the individual needs extends to aspects such as growing instability of the working life, decline in social security, growing personal prosperity on one hand and indebtedness on the other hand etc., The complexities arising from the financial products and services include; product proliferation arising from financial markets deregulation and liberalization, surge in the information on financial products, new distribution channels including online and mobile etc.,

4. Global Initiatives

These complexities led financial education to emerge as an important agenda globally, that requires sound and sustainable strategies as an integral part of the financial markets development road map. The evidence of growing work with wider participation of international institutions in promoting financial literacy and designing appropriate national strategies could be evident from the following.

- Starting 2005, The World Bank initiated a pilot program conducting country reviews on financial education. The World Bank developed a set of Good Practices in Consumer Protection and Financial Literacy
- In 2005, OECD distributed a set of Principles Good Practices for financial education and awareness, for insurance and private pensions in 2008, and for consumer credit in 2009
- In 2008, OECD launched the International Gateway for Financial Education and International Network on Financial Education
- IOSCO has a Financial Education Committee
- The International Financial Consumer Protection Network (FinCoNet) was established in 2003 with an objective of being a standard setting body
- The G20 Summit in Pittsburg noted to further strengthen protection of users of financial services as a part of global financial architecture Initiatives underway to develop useful standards or benchmarks on consumer protection and financial education

5. National Strategies

In 2008, OECD created International Network on Financial Education (INFE), with an objective to develop and share the expertise and knowledge on financial education. More than 200 public institutions from over 90 countries participate in the network. In December 2009, INFE launched a project to help governments in regard to the development of national strategies on financial education and literacy. An Expert Subgroup on the National Strategies for Financial Education was set up in this regard. India is a member of the subgroup. INFE began to review the scope and extent of national strategies being evolved in various countries. As per the latest study of the OECD, Countries that have designed and implemented respective national strategies on financial education include; Australia (2011), Brazil (2010), Czech Republic (2010), Ghana (2009), India, (2006/2010), Ireland (2009), Japan (2005), Malaysia (2003), Netherlands (2008), New Zealand (2008, 2010), Portugal (2011), Slovenia (2011), Spain (2008), United Kingdom (2003) and the United States (2006, 2011) etc., Countries that have started considering and/or designing the national strategies include; Canada, Colombia, Estonia, Indonesia, Kenya, Latvia, Lebanon, Malawi, Mexico, Peru, Poland, Romania, Serbia, South Africa, Sweden, Tanzania, Turkey, Uganda, Russian Federation, Thailand, Zambia etc.,

National Strategies on financial education among others, include the following aspects

- Enhanced dialogue in the area of financial education
 - Better integration of financial literacy into financial sector development and education sector program
 - Integrated national approaches to tackling financial literacy; that is, national financial education strategies defining the roles and responsibilities of various stakeholders
 - More pilot programmes to test and refine financial literacy approaches, tools and materials
 - Rigorous evaluation to inform the priorities of current programmes, benchmark current levels of financial knowledge, and measure the impact over time of initiatives to improve financial capability
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- Identification of good practices and development of international guidelines
- One agency to deal with all complaints and inquiries
- Key facts statement that provide all key terms and conditions in plain and simple language
- Standard contracts for all retail financial services
- All financial institutions dealing with public should be registered with regulatory/supervisory institution
- All who solicit funds should be licensed
- Quick prosecution and stringent penalties for abusive products
- All sellers of retail financial products and services should be qualified and certified
- Ex-ante reviews of all financial products by regulators
- Personal data should be carefully protected
- Financial ombudsman to be set up
- Build financial literacy as a long term investment
- National strategies for financial education be evolved
- National financial literacy reviews to be conducted periodically
- Evaluate financial habits, products, and grievance mechanism

6. Key Stakeholders

Successful financial education strategy and programmes depends upon active involvement and the participation of a number of stakeholders, representing policy, regulation, market practice, academia, non-governmental organizations, independent professionals and related institutions and agencies. A cross section of stakeholders that will play an important role in leading the financial education initiatives to a meaningful and productive outcome will include the following.

GOVERNMENT

- Ministries (e.g. Finance, Economy, Education)
- Public agencies (e.g. consumer protection, data protection, competition)
- Councils (e.g. consumer protection. Education)

FINANCIAL SUPERVISORS

- Financial supervisory agencies
- Central Bank
- Financial consumer protection agency
- Compensation schemes

FINANCIAL INDUSTRY

- Industry association
- Training centers
- Financial institutions (incl. distributors)
- Financial infrastructure (e.g. credit bureaus)

CIVIL SOCIETY

- Consumer associations
- Debt counselling
- Investors
- Foundations
- Academia
- Media

REDRESS MECHANISMS

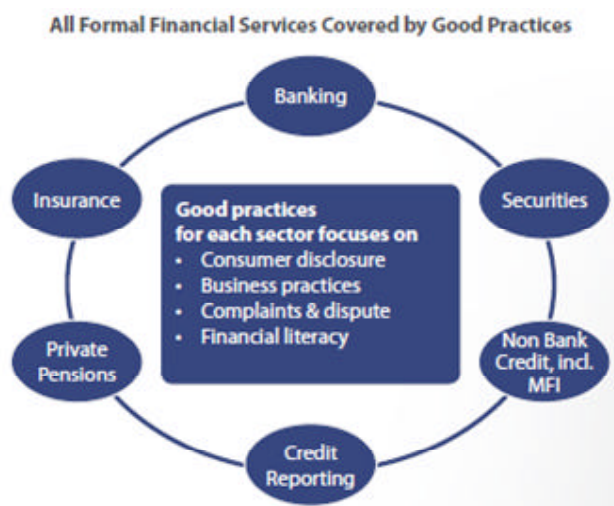
- Ombudsman
- Arbitration
- Mediation conciliation
- Courts

INTERNATIONAL COMMUNITY

- Donors
- Regional Organizations
- Standard Setters
- International associations

7. Good Practices

A set of good practices form the core of effective financial education initiatives. World Bank and OECD have evolved guidelines on good practices relevant while designing and promoting financial education. The good practices cover four major aspects relevant to the financial education namely; consumer disclosure; business practices, complaints and disputes and financial literacy. These areas are relevant to all the key segments of the financial sector.



8. Challenges

Financial education as an agenda and policy imperative and has gained greater importance and significance in domestic and global initiatives in financial markets development. The scope of financial education is now much more defined with several tools developed for various aspects including; design of various programmes including for investors, students and general public, country reviews; evolving national strategies; programme implementation, review and evaluation and research etc., Financial education conferences at the national level in association with international organizations such as OECD, World Bank have become more regular. Separately, work on development aspects of financial education and its strengthening is taking place in intense manner.

Notwithstanding these initiatives, to make any endeavor effective, it is important to underline major challenges of financial education. These include;

- Weak consumer protection and financial literacy in many Developing countries
- Financial services contracts are difficult to understand
- Disclosures are difficult to comprehend for common man
- Lack of a single agency to address consumer grievance
- Arbitration is difficult, costly and time consuming
- The need to further evaluation is increasing
- Complexity in measuring effectiveness of financial education
- Absence of reliable and comparable financial literacy data
- Lack of baseline survey that will enable comparisons
- Very few countries have nationally representative baseline Surveys on financial literacy and capability
- Financial education and literacy are a complement, not a substitute for financial regulation
- Public policy has a role to play in setting standards that help financial literacy and capability
- More efforts needed to enhance the quality of consumer protection
- Institutional structures required to monitor and enforce financial Literacy programmes
- Financial literacy should be pursued simultaneous with Increasing access to financial services
- Improving financial literacy programmes require better Integration of new insights from behavior economics and social Research

India has taken several initiatives in regard to promoting financial education. Reserve Bank of India has done extensive work in regard to financial education including promoting the concept of credit counseling centers to benefit the bank customers. Securities and Exchange Board of India, regularly conducts investor awareness seminars on its own and jointly with the exchanges. Exchanges have their own mandate of spreading financial education and investor literacy. National Institute of Securities Markets, a national institution of learning and research in capital markets, has a school (School of Financial Education) exclusively devoted to strengthening financial education. An International Conference on Financial Education jointly organized by Organization of

Economic Cooperation and Development (OECD) and the Securities and Exchange Board of India reflects the scope of cooperation that could be possible at bilateral level.

Notwithstanding these measures, the scope for promoting financial education in India is still huge and the challenge immense. A recent survey by the Visa International ranks India lower in terms of financial literacy and the investor base in India is still very small compared to population.

It is in this context, the imperative for continued thrust and emphasis on financial education India, through collaborative and cooperative approach among numerous stakeholders.

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