



EUROPEAN COMMISSION

Internal Market and Services DG

FINANCIAL SERVICES POLICY AND FINANCIAL MARKETS

Financial services policy

SECOND MEETING OF THE EXPERT GROUP ON FINANCIAL EDUCATION

28th April 2009, Brussels

The financial crisis and financial education

Report

The main topic of the second meeting of the Expert Group on Financial Education (EGFE) was the impact of the financial crisis on financial education in the EU. The Experts exchanged views on the impact of the financial crisis on the work of financial education providers and on the relevant developments in the Member States. They also contributed a number of policy recommendations for the European Commission. The discussion was preceded by a presentation of the current OECD work related to the financial crisis and financial education¹.

1. IMPACT OF THE FINANCIAL CRISIS ON FINANCIAL EDUCATION IN THE EU

In this session Experts addressed the following questions:

- The crisis influence on the level of interest in financial education (from consumers, companies, public authorities etc.);
- Key issues / topics that should be addressed as a priority in financial education as highlighted by the financial crisis;
- Social groups which are most vulnerable and which should be targeted first;
- The notion of financial risk and the way to address it in financial education;
- Practical examples of beneficial impact of financial education on consumers / investors facing the crisis.

The discussion revealed two main trends. On the demand side (users of financial services / consumers), the crisis has increased the interest in financial education. However, on the

¹ Covering in particular the results of the OECD survey on financial education in the context of the financial crisis carried out in late 2008 / early 2009 among the members of the International Network for Financial Education, as well as the recent OECD *Recommendation on Good Practices on Financial Education and Awareness relating to Credit*.

supply side (public authorities, industry), the crisis has caused a crowding out effect, due to giving priority to the short term problems and to the budgetary constraints.

1.1. Recipients of financial education

Consumers often reacted to the problems caused by the financial crisis with anxiety and anger. The developments during the crisis have confirmed that financial education is not a substitute for consumer protection, but a key element of the consumer protection framework (product regulation – information disclosure – consumer education). The lack of consumer education is not the underlying cause for the crisis but it may have contributed to worsening the impact of the financial crisis in Europe in the autumn of 2008. For example, the unawareness of the rules on deposit protection in the EU could have been one of the causes of the bank runs in some Member States. In the US, irresponsible sub-prime mortgage lending practices combined with low level of financial literacy of the borrowers were one of the triggering factors of the crisis. In this respect, financial education is a relevant issue of financial stability and should be taken into account to preserve the stability of the global financial system from a broad perspective.

The Experts raised the following issues with regard to the crisis impact on recipients of financial education:

- **Teaching moment:** the crisis has been an opportunity for reaching out widely with financial education programmes. In usual circumstances it is not always easy to attract adult consumers to financial education. But the consumers who suffered from financial difficulties, or now had increased awareness of others in difficulty, generally wanted to understand the problems they were facing and they were seeking advice.
- **Core financial education:** the kinds of problems experienced by European consumers have shown that they need very basic skills and knowledge. The primary mission of financial education should be to teach basic economic concepts, such as budgeting or savings; and skills, such as planning ahead or searching for relevant information at the right source.
- **Confidence crisis:** in some countries one of the problems linked with the financial crisis was the general distrust towards the government. Severe troubles linked with the developments in the financial markets (low rates on savings; diminishing house values; falling pension values) undermined consumer confidence. Consumers need independent sources of information and advice on which they could rely.
- **Role of the media:** Experts observed increased interest in financial education from media. In some countries journalists were supporting massively the case for financial education of consumers and its inclusion in the school programmes (e.g. Germany). On the other hand, media were playing a paramount role in moving the markets further down thus aggravating the situation during the crisis (e.g. Spain).

1.2. Providers

The main issue for financial education providers has been the differentiation between short- and long-term priorities. During the crisis resources had to be geared towards solving short term problems, while financial education is by nature a long term endeavour. It is worth noting, however, that financial education may be also used as a tool to address short term problems, for example by fostering financial capability for unemployed people or immigrants.

The following remarks were made on the impact of the financial crisis on various providers of financial education programmes:

- **Governments and public authorities:** in most countries the government resources were occupied by supervisory and regulatory priorities. Nevertheless, the problems experienced by consumers highlighted the relevance of financial education. In the Member States with established national strategies financial education strengthened its foothold in terms of public policy making (e.g. Ireland). In other Member States the need for a national strategy has been better recognised – in order to align long-term activities of relevant stakeholders such as regulators, policy makers, central and local institutions (e.g. Italy).
- **Schools:** some countries have progressed in including financial education in the curriculum. For instance, in the UK, financial education is now a statutory element of the school curriculum. There are some positive indications that Personal Finance Education will be compulsory in English schools by 2011. Besides, schools and teachers are able to access information, support and guidance through a number of co-ordinated initiatives and programmes funded by Government, the FSA and the financial services sector.

In the Czech Republic, financial education will be effectively included in the School Education Programmes as from September 2009. Financial education was included as a topic in the general Czech curricula (General Education Programme) in 2007 with a 2-year period for transposition into the tailor-made curricula of each school. However, as this implementation timing was planned 3 years ago, it cannot be seen as a consequence of the current crisis.

- **Private providers: industry:** in many companies the crisis has changed the focus from shareholders to customers and from 'thinking short term' to 'thinking long term' (e.g. the Netherlands). Some experts reported no increased activity in the field of education from financial industry in their countries (e.g. France). Many companies noticed increased demand for guaranteed products and other kind of products regarded as safe (e.g. the UK). There are many pleas for new products to be easy to understand, standardised, with better information about risks. However, even simple products and explicit risk disclosures (e.g. fund ratings) require certain level of consumer education to be understood and to have the expected effect. It was also pointed out that financial intermediaries require education themselves as the first contact to consumers and the institutions of public trust. Agents working in financial intermediaries often did not understand products they were selling (e.g. Austria). In this context, incentive structures and the proper regulation of financial intermediaries are important.
- **Private providers: consumer associations:** some Experts suggested that consumer associations were prioritising product regulation and not financial education (e.g. France). In general, there is a tendency to mix financial education with consumer protection measures, which should be avoided. Consumer education is not a substitute for consumer protection, although it can improve the effectiveness of consumer protection policies. For example, consumer education can encourage consumers to read the "disclosure" information about products more carefully and give them a better chance of understanding what they read.

Experts concluded that despite many specific constraints the financial crisis opened a window of opportunity to promote financial education in the EU and deliver it to the

citizens. Strengthening education of consumers now, when they are willing to receive it, should bring benefits to the whole society in the long term. Therefore all providers should treat financial education as one of the post-crisis top priorities.

2. POLICY RECOMMENDATIONS FOR THE EUROPEAN COMMISSION

In this session Experts were asked the following questions:

- How relevant is the EU / national / local level for policy action?
- How to increase effectiveness of Commission initiatives in the area of financial education (Expert Group, Database, Dolceta, Patronage)?
- Which new initiatives should the Commission undertake in the short / medium / long term?

Experts recognised the relevance of the EU / Commission work in the area of financial education. The Commission role can be to urge Member States to tackle financial education issues and exchange best practice for doing so. A general point was made that financial education should not only be considered in the context of addressing the problems stemming from the current crisis, but more importantly as an essential tool helping into economic recovery and preventing future crises.

As regards the effectiveness of the Commission initiatives (the EGFE, the European Database for Financial Education, Commission Patronage and the Dolceta 'Financial Literacy – tools for teachers'), Experts advised to enhance communication about them as the level of awareness in the Member States seems to be low. For example, the Representations of the Commission in the national capitals could be used as information points on financial education initiatives taken by the EU. The same applies to all public authorities and to all initiatives taken to address the crisis, e.g. in the framework of the regulatory and supervisory reform. Without appropriate communication the effect of this work on restoring confidence and stability will remain suboptimal.

Experts made the following suggestions to the European Commission for possible **future policy directions and concrete initiatives** to promote financial education at the EU level:

- Continue the calls on Member States to design national strategies for financial education based on public–private partnership. Create and publish a comparative table to monitor the progress in various countries in this regard;
- Continue the calls on the Member States to include financial education in the school programmes;
- Try to insert a message on importance of financial education in the conclusions of the G-20;
- Strengthen the cooperation between the European Commission and the OECD to promote more effectively the importance of financial education with national governments, exploit the potential synergies and avoid duplication of work;

- Launch European surveys to monitor consumer behaviour, level of financial education (given the high public interest in the OECD Pisa study, it could be helpful to include a module concerning financial education and economics in the next such study); and studies aimed at mapping financial education programmes among Member States (like the 2007 Evers & Jung study);
- Launch EU-wide research on 'financial behaviour' of young people – to demonstrate the mounting problem to Member States and convince them on the need to take action;
- Organise a European day of financial education, e.g. under the auspices of the EC president. This would be an excellent opportunity to involve school teachers, national governments etc.; organise events, centralise communication through COM representations in the European capitals and substantially raise the general awareness of the need for financial education. Intense media involvement could contribute to achieving a mutually reinforcing impact of the different actions taken. Also, a European year of financial education was suggested;
- Promote a yearly conference on financial education (i.e. making the “Increasing Financial Capability” an annual event);
- Create a system of public acknowledgement at the EU level (e.g. award) for financial education best practices;
- Introduce a European driving licence for financial services – similar to the European computer driving licence – as a certificate of acquired financial literacy & skills;
- Propose periodical meetings for the governments of the Member States about ongoing financial education programs and policy agendas at the national level;
- Encourage governments and regulators in Member States to follow the example of countries such as the Netherlands, Ireland and the UK and undertake surveys of financial literacy/capability to inform national strategies and programmes of financial education. This could build on the work currently being undertaken by the OCED to develop guidelines for such surveys
- Check the possibilities for obtaining EU funding for financial education initiatives in the Member States. For instance, in the framework of the Life-Long Learning Programmes (the example was given of a cross-border FINALIS programme for financial education of adults);
- Encourage providers and funders of financial education to undertake robust evaluations of their impact, learning from the experience of the UK Department for International Development’s Financial Education Fund for Africa;
- Endorse by the Commission the Irish Financial Competency Framework for financial education, prepared by the National Steering Group, as an example of best practice or a template that can be adapted in other countries. The framework defines and lists what elements add up to make an individual financially capable, with focus on skills, attitudes and behaviour.

On behalf of the European Commission Martin Merlin thanked the Experts for their advice, encouraged them to send more proposals in the weeks following the meeting and informed that the ideas for future policy would be presented to Commissioner McCreevy.