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Financial Capability Conference

Minutes of the Meeting of 28 March 2007

Summary

On 28 March 2007 the European Commission hosted a well-attended conference on financial capability. The conference featured a wide cross-section of specialist speakers on financial capability, who covered the progressive stages in a consumer's life at which financial education is especially valuable: from school days through to major life events for which consumers need credit, insurance and mortgages, and on to making provisions for long-term savings and pensions.

The conference highlighted that Member States have a key role to play, particularly with regard to inclusion of financial issues in the education curriculum. The presentations illustrated the various and significant achievements in the EU to empower consumers to make appropriate financial decisions, although there was wide acknowledgement much more is required in this area. In developing its policy on financial capability, the European Commission will draw both on the feedback given at this conference as well as on the findings of the study it has commissioned to map out financial education schemes in EU Member States.

Opening of conference

1. Introduction and welcome by David Wright (DW), Director, Financial Services Policy & Financial Markets, European Commission

DW welcomed participants to the conference, observing that the number of people involved testifies to the wide recognition of how important this issue has become. DW noted in particular that the Financial Services Committee committed to putting this issue on the agenda of one of its next meetings.

2. Welcome Address by Ms Pervenche Berès (PB), Chairwoman of the Economic and Financial Committee, European Parliament

PB explained the importance of education so that consumers understand the underlying principles of financial services products and judge whether they are appropriate to their needs. PB stressed the importance of financial capability in view of the weakening of state pensions. She observed that there is a need to look at the point of sale carefully to ensure advice is appropriate, how a clear and transparent value chain should bring more competition, and that it is important for there to be comparability between products, not solely through cross-sectoral/cross-border cooperation, but also through harmonised implementation of information documents across Member States. PB thanked DW the Commission for organising the conference.

3. Opening address by Prof. Hans-Helmut Kotz (HK), Member of the Executive Board, Deutsche Bundesbank, Germany

HK briefly stated that there is a transition of responsibility for financial affairs moving towards households, whilst the capacity of consumers to cope with these challenges is, on average, not up to the task. HK explained the role some central banks have taken from a consumer welfare perspective, and some of the various initiatives he is aware of. He explained the need to start early in education, noted the life-cycle approach the conference's agenda took and described the need to enlighten consumers on some common financial issues that are not understood: that markets are weakly efficient and you cannot beat the market, that stocks are still risky in the long-run, and that consumers are irrationally optimistic. HK observed that this conference can significantly contribute to this area, and stated his hopes that it would spark a series of exchanges.

Discussion:

DW asked both speakers the one thing they would like to see advanced if they were the Commission. PB advised that she would like to see a Commission strategy for the market players to become more responsible when selling; and Member States to promote financial education throughout a person's life stages. HK advised he would like to see support from the Commission for the network of institutions involved in delivering instruments for financial education.

Panel I – Laying the foundations: Financial education of young people

4. Mr Shaun Mundy (SM), Financial Services Authority, UK: Building Financial Capability

SM advised that the FSA launched its strategy on financial capability. The national strategy has now entered the vocabulary; it provides focus and reduces overlaps. He explained the aim to not only make consumers financially capable and able to take responsibility for their own actions, but also for consumers as a group to be able to influence the market. The first action the strategy took was to gain a better understanding of where the population stands today, outline the main themes, and

set a baseline to measure progress (the survey will be repeated every 4/5 years). SM explained the approach that is being taken through seven priorities: Schools, Young Adults, Workplace, New parents, Consumer Communications, Online Tools and Money Advice. SM mentioned that the "Money made clear" website: impartial information, no selling, no jargon, just facts from the "watchdog" has been a very useful tool. He concluded that there are ambitious targets: to reach 10 million people over 5 years, and concluded that enhanced financial capability is a win-win situation.

5. Mr Ottó Gecser (OG), Foundation for Financial Self-Reliance, Hungary: Public Awareness Campaign

OG gave an overview of the ways in which the Foundation for Financial Self-Reliance is teaching young Hungarians to use their money in a smart way, which was an important insight into the ways in which a more recent Member State has been active in this area. He explained that students feel finance is an important subject and are afraid of the issues due to lack of knowledge. He presented some of the findings of a study undertaken by the Foundation for Financial Self-Reliance. OG noted that some of the steps to its strategy included finding partners in the industry to support its initiatives, launching a media campaign to increase awareness (e.g. through soap operas and popular TV shows), convincing politicians to take this issue up (particularly in education), launching an interactive website that includes digital finance modules, and making these available to schools. He concluded that they are about to launch modules in the national curriculum, with a final objective to incorporate finance studies as an exam in the secondary education system.

6. Dott. Masimo Roccia (MR), Italian Banking Association, Italy: PattiChiari

MR provided an example of how a range of public and private stakeholders have worked hand-in-hand to improve financial capability through the Patti Chiari network. PattiChiari is a consortium of over 164 banks that are involved in a multi-stakeholder action plan for financial education. He explained that the consortium covers around 84% of the industry, and PattiChiari is involved with promoting standards of best practice and communication with clients. The action plan uses a variety of media (web, newspapers, radio, tv), direct information campaigns, outside alliances and alliances in education in order to achieve its objectives. MR gave an overview of some of these initiatives, and highlighted that over the next three years they are working on a joint programme for high schools with the Ministry of Education.

7. Ms Anne-Françoise Lefèvre (AL), European Savings Banks Group, EU: European Stock Market Training initiative

AL demonstrated one of the ways in which innovative solutions can also be found, in this case the European Stock Market Trading initiative. She explained that the programme was aimed at pupils in secondary education who manage a virtual portfolio of securities over 10 weeks. Her presentation outlined how the training worked, the range of schools across Europe that are involved and the numerous benefits that the training brings. Her presentation was supplemented by a video demonstration of students who have participated in the project.

8. Mr Dirk Staudenmayer (DS), DG Health and Consumer Protection, European Commission: Current EU initiatives on consumer financial education

DS gave an overview of what DG Health & Consumer Protection are doing in this area, which underlines that financial education is primarily a matter for Member States. He referred to the 2005 EU barometer study on financial services that explained that more than 40% of people had difficulty with loans, over 50% had difficulty with bank account features and charges, and over 60% with mortgages. DS mentioned one approach taken to better educate consumer was the Consumer diary available to students aged 15-18 in 20 different languages, that features a section in financial services. He also highlighted the Dolceta programme (www.dolceta.eu) that benefits from a single technology platform which can be used by all Member States as a basis for developing national applications. DS also made participants aware of the focus group they are conducting on pre-contractual information which should give feedback on what works well and what not so well, and welcomed contributions to the consultation when it is open.

Discussion:

DW asked for a show of hands on two questions: Is enough being done in MS for young people in terms of increasing financial capability? (no hands were raised). Should financial education be compulsory in secondary schools? (overwhelming support).

One participant asked whether there would be any move towards convergence on pre-contractual information. DS advised that many DG SANCO and DG MARKET directives involve pre-contractual information obligation. He advised that the White Paper (2005-2010) announced a cross-sectoral check of the consistency of information requirements.

One participant commented that a lot of pre-contractual information is often given verbally. She asked what could be done to put together evidence of what people are being told when they are sold financial products. DS noted that it was an interesting point not currently dealt with at the moment. MR advised that it is a very important aspect and could imply more investment in IT. MR also mentioned that quality certification could be a solution. SM mentioned that mystery shopping is also a useful tool.

One participant questioned whether we should be teaching financial skills at primary level. SM advised that this is an important aspect, and the UK Financial Services Authority will be developing a programme this year. He also advised that in the UK the existence of the Child Trust fund sponsored by the UK Treasury also helps as it is a long term savings account started at the birth of the child. AL advised that there is a role for public authorities here, as firms cannot enter schools on their own. MR explained the importance in this regard of having a multi-stakeholder network.

Panel II – Important Life Events: Forewarned is forearmed

9. Introduction by Elemer Tertak (ET), DG MARKT, European Commission

ET highlighted that the European Commission will publish a study later this year that will map out financial education schemes in EU Member States, and encouraged attendees to contact the contractors to share their experience on what is being done across Member States.

10. Ms Marloes van den Heijkant (MH), Ministry of Finance, the Netherlands: Centiq – Platform for Financial Competence

MH gave an overview of Centiq, another example where government, industry and the non-profit sector are working together in the area of financial competence and have experience of dealing with the financial decisions of Dutch consumers. CentiQ's objective is that financial consumers to be well informed, educated, and interested; play an active role in the financial markets and make well-considered financial decisions. She explained the various project groups that are involved: research, communication, education, provisions for the future and budgeting. She concluded that cooperation between government and market participants is indispensable.

11. Mr Rob Goedhart (RG), Consumentenbond (Dutch Consumers' Association), the Netherlands: Consumers' View of Financial Education

RG provided a consumer association's insight. He explained that consumers' primary interests are: food, clothes, their household, means of transportation and their vacations. They like to have/do something with financial consequences, not necessarily a "financial product" as the industry sees it. He outlined that from a consumer's point of view mortgage credit, for example, is not one simple product, but something which consists of many steps (getting a loan, analysing interest rates, making repayments, managing risks, taxes). In terms of education, he pointed out that the consumer does not have to be (and won't be) a professional, and therefore needs professional advice. RG concluded that he would appeal to industry to change its perception of selling products to one where it renders a service, and to government to support the consumer through basic education.

12. Prof Udo Reifner (UR), Institute for Financial Services, Germany: Working to achieve responsible credit

UR spoke about the strategy for financial capability, and in particular in the area of responsible credit, that the Institute for Financial Services in Germany is pursuing. He introduced three different concepts of this topic depending on translation: knowledge, capability or education. He questioned what kind of knowledge is needed, and who should teach whom? (that banks are to listen to the client and not to teach them). Financial education should teach the consumers how they should use their income. It has to be based on questions and answers: students learn to ask good questions – and bankers learn to answer them.

13. Ms Dara Duguay (DD), Citi, US-EU: Financial Education Strategy

DD outlined Citi's Financial Education Strategy, and gave an insight into what some industry members are doing in this area. She highlighted some of the current issues that we are facing: that 43% of Americans spend more than they earn, and a negative trend in savings is also apparent in Canada. In Asia, the number of people living in extreme poverty (on less than US\$1 per day) is almost 690 million – representing almost 21.5 percent of developing Asia's population. In Columbia, less than 28% of the population has a savings account, and less than 4.5% has a checking account. 85% of Brazilians spend more than they earn. In the United Kingdom, two in three consumers feel that financial matters are too complicated for them to understand. She explained that in April 2004 the Office of Financial Education (OFE) was created. It operates a \$200 million grant commitment towards financial education programmes globally. DD spoke about its three focus areas - personal, institutional and small business. She concluded that there is awareness of the need to financially educate citizens, but that the “how” remains to be answered. An educated consumer is better customer - more confident, concerned about credit rating and more loyal.

Discussion:

ET asked for a show of hands as to who thinks that providers of financial education are focusing their attention well enough on consumers' needs? (very few hands were raised).

One participant asked what the role of the financial advisor might be once consumers are educated. MH answered that in the Netherlands the Financial Services Act adopted in 2007 focuses on providers of financial products where their liability is clarified. If it brings no results the law might be refocused in the future. RG stated that there are less and less advisors as financial intermediaries **sell** products, and that there is a need for consumers to realise that they pay for advice. DD stated that the experience of companies moving from pensions to voluntary retirement schemes in the US shows that employees who are advised contribute more to these funds. UR stated that advisors play an important role in Germany (over 2000 debt advisors). They need to know the most common problems very well (this way they are able to help even those clients who can't define their problem). UR also mentioned that the Institute for Financial Services in Hamburg evaluates the cases used by advisors, and highlighted that contact between customers and advisors need to be interactive (based on questions and answers).

One participant mentioned that a lot of these initiatives are long term, but that funding for programmes is mostly given on a short term basis, and therefore there is a real need for short term gains. He asked for thoughts on how to bridge the gap between long term endeavours and short term funding. UR Agreed that advice in financial services should be funded on a long- term basis. DD mentioned that a number of their initiatives last over decades (such as the Junior Partnership). She advised that there is no data on achievements available over the long term and that continual evaluation over the short term is essential. RG queried whether short term gaps could be bridged through industry involvement. MH advised that CentiQ is a 5 year project with deliverables although it may take longer to increase knowledge.

Panel III – Looking ahead: Financial education on pensions, investment and long-term savings

14. Introduction by Mr André Laboul (AL), Head of Financial Affairs Division, OECD

AL stressed the close ties between the Commission and OECD on consumer education work, symbolised with his presence in the conference. OECD's work on financial education is not only about education also about raising awareness, among consumers and policymakers alike. Recently, AL stated that finance ministers in the major industrialised countries stressed the importance of consumer education and long term saving, and that this is an issue with international dimensions. The meetings organised in India and Russia by the OECD is one example. He mentioned the panel's focus on pensions, investments and long-term savings, and stated that if the situation remains as it is, consumers may face a very nasty surprise in terms of pensions; so there is a need for action here. AL stated that the OECD is working on designing financial education programmes for both young people in schools and adults, and activities in this field also include emerging countries. He stressed that the most urgent target group is the middle aged. AL reiterated that financial institutions have an important responsibility to promote the awareness of their clients, and must ensure that information given is read and understood. AL summarised his opening remarks by stating that financial education must complement, but cannot substitute, financial regulation. This means that financial education may not be sufficient but is instead a basic, "must" requirement.

15. Mr Philippe Herzog, Director (PH), Institute for Financial Education of the Public, France: Developing a national policy on financial education

PH gave an overview of the financial education policy developed by La Finance Pour Tous. He stressed the importance of ethics (that financial education enhances individual freedom), of knowledge and skills and of developing a policy through co-responsibility in considering the approach to financial education. PH also outlined the various approaches taken towards building financial education on retirement needs (including the use of employee savings schemes) as well as the role of education and the liabilities of the market. He concluded that this is not only a national policy but also a European one, not only because much of consumer protection is European in scope, but also because the European institutions have a role in driving the policy issue further and reaching out to the general public.

16. Mr Jim Dredge (JD), FSA Workplace Programme Director, Lloyds TSB & Financial Services Authority, UK: Financial Education in the workplace

JD followed up SM's presentation earlier by looking at financial capability in the workplace in more detail. He gave a detailed overview of the positive evaluation that the programme has received, that it is financed by an FSA levy and is provided free to all participants. He described the type of experience the employee would go through in the programme. JD highlighted that innovation is important in this area, and one of the methods they are using in the workplace is pilot testing a DVD for those who are unable to attend the workshops. He explained how successful the programme has been, and that 60% of seminar attendees had turned intention into action during the first three months following the seminar. When providing examples of workshop slides, he explained the importance of keeping the material jargon-free, in terms that are identifiable to the consumer (e.g. "survival, paying for today"). JD briefly spoke about how to recruit employers to participate in this type

of initiative, and concluded that this type of programme helps people help themselves.

17. Dr Wilhelm Ruprecht (WR), German Insurance Association, Germany: Financial education in the field of pensions - the activities of GDV

WR outlined the shared values on financial education in the field of pensions with the OECD view. The empirical study conducted in Germany on pension planning highlighted that consumers' recent information on their current pension entitlements has a positive influence on their behaviour, as they become more engaged in the pension planning process. In helping people plan for their pensions, he made participants aware of the electronic pension calculator website as detailed in the slides. Other methods used include a service and information hotline, an interactive website as well as various booklets for various types of consumers. He underlined the importance of neutrality when distributing these types of products and stated that financial education can help in achieving critical mass in pension ownership.

18. Mr Per Karlberg (PK), The Confederation of the Nordic Bank, Finance and Insurance Unions, Sweden: Financial services industry employees' role in educating and informing consumers

PK gave an overview of a cross-border approach to financial education, and explained NFU's position on private economy as a compulsory school subject, that finance employees are the best teachers at the point of sale provided that a customer is willing to learn, and that employers are responsible for addressing the conflict between sale and advice. He summarised the various law provisions covering an advisor's role and competency requirements, and noted that although increasing requirements may have made advisors more competent this is not reflected in their remuneration. He concluded by stressing that finance industry employers need to take responsibility for the conflict between sales and advice; that employees should be remunerated for efforts to improve and that aggressive sales targets are counter-productive to consumer protection.

Discussion:

One participant mentioned that presentations are too focused on the pure financial long term savings for pensions. He stated that there is after all a trade-off between education and investment, e.g. investing for your children's future needs, and investing for your pension; and asked for a more balanced approach. WR stated that clearly there is an arbitrage between different saving forms, and agreed that a wide approach is needed. PK stated that at the end of the day the choice between saving for old age or for your children is also about making a more philosophical choice – egoism or altruism – an issue to which there is no general reply but where every individual must make his own choice. JD stated that research has shown that if you understand the basics of savings then any growth in future income will give you more options, especially if the consumer better understands his/her financial situation and the products he/she is using.

One participant queried whether there is any exit plan for failing pension plans. All presenters reiterated that that education is just one component, but regulation is also needed to protect consumers from major risks.

Closing of conference

19. Introduction by Mr Jörgen Holmquist (JH) - Director General, Internal Market and Services, European Commission

JH thanked all for their participation at the conference, mentioning in particular the high quality of thought-provoking presentations. He encouraged all attendees to share knowledge they had gained today, to look for partnerships and cooperation where this is possible and think of ways in which the area of financial capability can be improved. JH reiterated ET's earlier comment on the Commission study to map out financial education schemes across Europe, and encouraged all attendees to provide input to this.

20. Closing address by Ms Meglena Kuneva (MK), EU Consumer Protection Commissioner

MK gave an overview of the Consumer Strategy 2007-2013, briefly explaining its three main objectives: to empower Europe's consumers, to enhance economic and non-economic welfare of Europe's consumers in terms of price, choice, quality and affordability, and to protect consumers effectively. She described how financial capability fits into all three objectives, and the importance of having consumers who are both functionally and financially literate. She mentioned the role that the Dolceta programme plays, as well as outlined a possible idea for future work in terms of setting up a network of responsible national authorities to exchange and develop best practice. However, financial education should not replace consumer policy, and MK described the work being undertaken to set up a focus group on pre-contractual information. She concluded by stating that a sound consumer policy will help the EU to make a significant contribution to competitiveness and also help in the process of reconnecting Europe with its people.

21. Keynote speech by Mr Charlie McCreevy (CMC), EU Internal Market Commissioner, delivered by Martin Power (MP), Chef de Cabinet of Commissioner McCreevy

MP provided an outline of why the European Commission is interested in the area of financial capability; that it is in everyone's interest and goes hand in hand with its wider financial services policies. He briefly described the many benefits that greater financial capability can bring, how it benefits consumers, providers, employers and Member State Governments alike, but also how it helps drive the Single Market. The provision of financial education is a key element of consumer policy, and MP outlined how this is not an "either/or situation", and how consumer protection, empowerment and choice are at the very heart of financial services policies. MP highlighted in particular the Green Paper on Retail Financial Services that will shortly be published.

The role of the European Commission is to raise awareness of the issue and encourage best practice, and it will be drawing on the conclusions of this confidence as well as the study on financial literacy schemes previously mentioned in developing its policy. Some of the options that could be considered include the development of best practice guidelines, bringing practitioners together as it has done with this conference or backing an awards scheme for successful financial

education programmes. MP concluded that those Member States that take this issue seriously will be the ones that carve out a real competitive advantage, and that such policies are not add-ons, but are essential.