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The OECD work on Financial Education & Consumer Protection - for whom and for what?

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Executive summary

Since 2003 the OECD has issued several policy recommendations on financial education of workers and households. Its work has gained international recognition including at the G20 level.

The need for greater financial education, particular in the current post-2008 crisis period, is a direct consequence of the growing complexity and sophistication of financial markets and products, which in turn are by-products of past de-regulation and privatisation policies. The case of pension privatisation reforms is telling in this regard. It is also a consequence of the change in the business model of banks, shifting pre-crisis from a "creditor culture" to an "equity culture". If financial products and services have become more complex and less transparent from a consumer perspective it is perhaps first and foremost because of the trend toward evermore "financial innovation" by banks and other financial services.

Trade unions are key stakeholders of financial education. Educating workers about their rights – including their financial rights – is central to their mission. They are also active in national policy debates on financial education and consumer protection-related issues. Trade unions should promote an alternative approach to financial education based on the experience and expertise accumulated by their members.

A few guiding principles are suggested in the paper. First, financial education should aim at triggering policy and regulatory change to redress, and not support, the current trend toward individualisation of financial risks (credit consumption, mortgage, pensions, other saving schemes). Second, financial education should be treated as a means to achieve community empowerment, including in the informal sector, and to help reduce gender inequalities. Finally trade unions should support greater role and responsibilities for consumer associations, NGOs and other civil society organisation in the delivery of financial education. This is all the more needed given the overwhelming lobbying power of banks and their influence in current international forums on financial education.

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The OECD work on financial education

1. Financial education became a stand alone policy issue at the OECD in 2003. The first initiatives were conducted by the Insurance Committee and its Working Party on Private Pensions, as well as the Committee on Financial Markets, all of which fall under the responsibility of the Financial Affairs Division of the OECD Secretariat. In its first major study on financial education – "Improving Financial Literacy, Analysis of Issues and Policies" published in 2005[2] – the OECD defines financial education as a "*process by which financial consumers/investors improve their understanding of financial 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 to take other effective actions to improve their financial well-being.*" That same year the OECD issued its first policy guidance instrument on financial education, the "Recommendation on Principles and Good Practices for Financial Awareness and Education".

Policy guidance since 2006

2. In 2006 the OECD work on financial education was acknowledged internationally in a statement by the G8 finance ministers: "*We acknowledge the importance of better financial education and literacy for improving the ability of people to use financial services and to make effective decisions with respect to their present and future welfare. We welcome the ongoing work in the OECD on the Financial Education Project and call for further development of financial literacy guidelines based on best practices*"[3].

3. Since then the OECD has developed further policy guidance on specific aspects of financial education. In June 2008 – weeks before the fall of Lehman Brothers – the OECD issued two sets of recommendations respectively on Financial Education relating to Private Pensions[4] and Enhanced Risk Awareness and Education on Insurance Issues[5]. 2008 was also the year of the launch by the OECD of the International Network on Financial Education

[2] Improving Financial Literacy: Analysis of Issues and Policies, OECD 2005 10.1787/9789264012578-en
[3] Official Website of the G8 presidency of the Russian Federation in 2006 http://en.g8russia.ru/news/20060610/1153885.html
[4] http://www.oecd.org/insurance/privatepensions/40537843.pdf
[5] http://www.oecd.org/insurance/insurance/40537762.pdf

(INFE[6]) which has since gained recognition by the G20. In addition, the OECD has held several global and regional conferences on financial education and has integrated the topic in its parallel Programme for International Student Assessment (PISA)[7].

4. In sum, and until the fall out of the financial crisis end-2008, the OECD approach to financial education was to a large extent focussed on raising awareness and promoting communication tools to that end. The centre of gravity was on households' capacity to understand, and arguably to accept the trend to ever more complexity of financial services and products. Particular attention was brought to insurance and private pensions.

The post-crisis shift

5. Following the 2008 crisis, the OECD approach somewhat shifted toward greater attention to consumer *protection*, not just education. And for cause. The subprime crisis in 2007 exposed widespread abusive and deceptive sales practices by banks and their middlemen, the opacity of lightly regulated credit mortgages and the lax consumer protection legislation that prevailed in some of the most crisis-hit OECD economies. Lack of financial education suddenly became a threat not only to individuals and to households but to the financial system as a whole. In 2009 the OECD released a new set of recommendations which to some extent reflect this change of approach: the Recommendation on Good Practices on Financial Education and Awareness relating to Credit[8].

6. The OECD policy framework was broadened further in 2010. It is now based on a three-pillar model combining (i) financial education with (ii) consumer protection and (iii) financial inclusion. It also gained further recognition at the international level when the Korean Presidency of the G20 selected the topic for its Summit in Seoul in November 2010. The OECD was then tasked to develop new G20 Principles in partnership with the Financial Stability Board. The OECD Task Force that was created early 2011 developed a set of High level principles on financial consumer protection which were disclosed and approved at the G20 Summit in Cannes in November 2011[9]. In August 2012 the OECD released High-level Principles on National Strategies for Financial Education[10] which have also been by the G20.

Engaging with business groups

7. Within the OECD framework stakeholders of financial education span a broad spectrum: ministries, central banks, other supervisory authorities, arms length agencies, as well as final services and consumer associations. The role of trade unions by opposition is ignored.

8. Banks and business groups in particular have shown great interest in the OECD work on financial education. They took part actively in the OECD negotiations on the above G20 High Level Principles that took place in March-July 2011. Consumers International (CI), the London-based confederation of consumers organisations present in 115 countries, was also

[6] including a web portal, the International Gateway for Financial Education : www.financial-education.org
[7] OECD PISA Financial Literacy Assessment http://www.oecd.org/document/5/0,3746,en_2649_15251491_47225669_1_1_1_1,00.html
[8] http://www.oecd.org/finance/financialeducation/43138294.pdf
[9] Financial Consumer Protection http://www.oecd.org/document/2/0,3746,en_2649_37463_48455682_1_1_1_37463,00.html
[10]http://www.oecd.org/daf/financialmarketsinsuranceandpensions/financialeducation/OECD_INFE_High_Level_Principles_National_Strategies_Financial_Education_APEC.pdf

consulted by the OECD during that period. TUAC came in at a later stage during a public consultation phase preceding the Cannes Summit in November 2011.

10. There is of course nothing wrong in involving business groups and banks in policy dialogue forums on financial education. After all, financial service providers have a responsibility to be fully transparent about the potential risks associated their financial products and services. In turn, that responsibility might require some active communication to facilitate education and informed decisions by their clients. But the risks for conflicts of interest are real as well.

Consumer groups and NGOs

11. NGOs and consumer associations are very active in the field of financial education. NGO projects are often about local and regional capacity building initiatives on management of household savings and debt, specific services such as money transfers and remittances, insurance products and consumption-related credit. They are addressed at a broad population or they can be targeted at populations deemed to be particularly vulnerable to abuse such as migrants, the young, the elderly, women, or at very specific groups such as people with learning disabilities or ex-convicts.

12. The Latin American region provides for good examples of NGO financial education projects. CI recently published a "counsellor's handbook"[11] for Latin American consumer associations to help them monitor banking sector activities. The project was implemented with the support of the UK Financial Education Fund. CI also develops communication tools in Latin America, via internet, radio and TV, such as "Dealing with Debt", "Creating a financial plan" and "Maintenance of credit under control"[12]. And as mentioned above CI is also very active in developing global policy advocacy in forums such as the G20, the FSB and the OECD itself[13]. Another example in Latin America is Habitat for Humanity– an NGO that is co-funded by Citi Group Foundation – has several regional programmes in Latin America through which more than 17,000 low-income families have received courses on household finance.[14]

13. US-based NGOs are particularly active in the field of financial education. For example the Global Financial Education Program, a joint initiative by US-based Microfinance Opportunities and Freedom from Hunger, offers a broad range of services and education tools for local NGOs in the developing world[15]. US NGOs are also active domestically through numerous not-for-profit foundations and partnerships with public education organisations to assist vulnerable groups as well as over indebted poor households. Example is given by the "Jump$tart" Coalition for Personal Financial Literacy and the National Endowment for Financial Education. Academic research programmes are also active in the field of financial education such as the Financial Literacy Centre, which is hosted by the RAND Corporation and supported by the Dartmouth College.

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[11] Consumers International - Guía de Monitoreo de Bancos e Instituciones Financieras http://es.consumersinternational.org/news-and-media/publications/gu%C3%ADa-financiera-ci-stgo

[12] Consumers International - Nuestrotrabajo - Finanzas – Educación http://es.consumersinternational.org/our-work/financial-services/key-projects/financial-education

[13] Consumers for fair financial services - Consumers International http://www.consumersinternational.org/our-work/financial-services/key-projects/g20-campaign

[14] Financial Education -- Habitat for Humanity Int'l http://www.habitat.org/lac_eng/participate/financial_education.aspx

[15] Global Financial Education Programme http://www.globalfinancialeducation.org/index.html

Why financial education matters

14. Consumers are facing a larger variety of products and services than they used to regarding consumer finance, housing and even pensions. Greater competition is itself the result of past market liberalisation reforms. There is no doubt that liberalisation has made access to credit and to savings more easy for individuals and households. But when combined with a broader policy framework that favours lax supervision (or even de-regulation) of financial markets or that compress household solvent demand (through cuts in social transfers and wage growth policies) there are good reasons to fear that liberalisation leads to growing complexity, and opacity for consumers and to un-sustainable rise in household debt financing.

Rising complexity and opacity fuelling abusive practices

15. The growing complexity and sophistication of financial markets and products is a key factor in fuelling greater demand for household education and awareness. The times when households were offered simple products and services to finance their needs are long gone. As a result of both market liberalisation and privatisations of previously publicly run collective insurance schemes – such as pensions – individuals face growing responsibilities in the management of their personal financial balance sheet. The risks rise exponentially for credit and savings products that have long maturity and for which individuals may find challenging to accurately assess the consequences of decision and investment choices over periods that span 10-20 years.

16. Credit and savings liberalisation may also leave households and individuals facing a greater risk of being caught by "predatory sales" practices. The 2007 'subprime' crisis in the US exposed the extent to which households could be poorly informed or misled in purchasing financial products that clearly were unfit for their personal financial solvency situation. Lack of transparency may concern different aspects of servicing, such as the levels of fees taken by the sellers, and the exposure to variable interest rate risk, to exchange rate risk and to default risk. Beyond the opacity of services and products, market liberalisation and de-regulation has also fuelled a rise in outright abusive practices, whereby inadequate or incomplete information or advice is delivered to purportedly mislead individual and households. Abusive practices include: deceptive advertising, abusive collections practices, high-pressure selling techniques, breaches of client confidentiality, post-sale barriers preventing consumers from changing products or switching providers, or from submitting claims or making complaints.

The changing business model of banks

17. The rise of product opacity and of deceptive sales techniques should be contemplated in the broader context of a changing business model of banking and of financial services. There is evidence provided by the OECD itself, that banks changed business model in the run-up to the 2008 crisis, shifting from a traditional "credit culture" – i.e. what banks need to do: giving priority to creditors and to customers – to an "equity culture" – one that prioritise the interest of shareholders of the banks[16]. This shift in the banking culture, and the rise of traders in the top management organisation of banks (as opposed to "real" bankers doing deposit and loans activities) have laid ground to short-termist sales strategies, seeking quick gains for the banks to the detriment of the long term interest of consumers. This is the assessment shared by unions in the banking and insurance sector. UNI Finance for example deplores a changing working environment that has become less conducive to equitable and fair treatment of

[16] The elephant in the room: The need to deal with what banks do – Adrian Blundell-Wignall, Gert Wehinger and Patrick Slovik, OECD, January 2010 http://www.oecd.org/dataoecd/13/8/44357464.pdf

consumers, with insufficient time for advice to customers, insufficient training as well as increased “management pressure to sell products or services that are against the interests of the consumer”.

18. The cultural shift pre-crisis in the banking sector is also exemplified by the trend to “financial innovation” – always creating new complex products to supposedly improve market efficiency and risk management. Rather than holding the loans on their balance sheet until maturity, banks have engaged in originate-and-distribute model whereby debt is re-packaged and transferred to less regulated shadow banking system. There is evidence however that the prime motivation for financial innovation was not efficiency of the markets, but rather short termist speculation. Academic research has shown that – at a minimum – one-third of financial innovations that took place in the 2000 decade was at least partly motivated by tax and accounting arbitrage and/or regulatory arbitrage, rather than by efficiency improvements.[17]

Risk transfers from the community to the individuals

19. As noted above, the OECD work on financial education in part has been driven by the growing importance of pension pre-funded systems, and of individualised defined contribution (DC) schemes in particular. The rise of these individualised DC schemes should be seen in the context of past pension privatisation reforms that the OECD – together with the World Bank and IMF – have been pushing for since the 1990s and 2000s, particularly in Latin America and in Eastern Europe. Most often these policy recommendations have consisted in substituting pre-funded schemes to tax financed and to pay-as-you-go schemes and, within pre-funded systems, shifting from defined benefit (DB) schemes to DC schemes.

20. These reforms have been far from neutral in terms of the risk sharing between government, employers and workers. While tax financed and PAYG schemes are most likely to see the government retain the “pension risk” (the uncertainty about the level pension income at retirement arising from political, investment and longevity risks), pre-funded schemes transfer that pension risk onto employers and to workers. Within pre-funded schemes, DB schemes ensure that the pension risk is collectively managed and is borne primarily by employers. DC schemes by contrast transfer the pension risk onto the individual worker.

21. Unlike DB schemes, DC schemes hence require a fairly good level of understanding by the individual workers of his or her exposure to investment risks and of pension asset allocation. Under a DC scheme individual workers are the ones who most likely will have to take decisions about how and when to invest and how and when to change the portfolio composition of his/her pension plan. They also need to factor the ‘uncertainty’ regarding their own life expectancy after retirement, as well as current and future earnings potential, and any likely changes in their personal professional career. In reality this is far from being the case in most OECD economies as the OECD admits. DC workers in fact often fail to manage plan assets before retirement in a “rational way”[18].

[17] A Financial Precautionary Principle: New Rules for Financial Product Safety – James Crotty and Gerald Epstein, 2009 http://www.wallstreetwatch.org/working_papers/workingpaper1.pdf
[18] OECD (2011), Improving Financial Education Efficiency: OE CD-Bank of Italy Symposium on Financial Literacy, OECD Publishing. http://dx.doi.org/10.1787/9789264108219-en

The gender dimension

22. Finally financial education can also be seen in the context of rising disparities and inequalities within societies and the widening gap between income groups, exposing specific groups of population higher risk for financial delinquency. The gender dimension of financial education is particularly important to bear in mind. Evidence suggests that on average women have lower levels financial literacy than men. Also women tend to be paid less than men and have shorter job tenure, higher frequency of career disruptions, lower access to labour markets and family issues such as childbearing. They are more likely to be lone parents, and in some countries they are disadvantaged in terms of legal property rights and access to financial services. Increasing financial education of women would not only make sense to protect and promote women rights, and their economic power *within* the household, it would also from a pure economic growth perspective because it would most likely help increase female participation in the labour market.

A Trade Union perspective

23. Trade unions should be considered as an essential stakeholder in the delivery of financial education of workers and households. By definition trade unions' role is to protect and uphold the rights of workers and to increase their bargaining power within the company, at sector, national and international levels. Educating workers about their rights is a central pillar of that mission. Examples abound of trade union led communication and awareness campaigns and programmes on all occupational matters that affect workers. Financial issues are no exception.

Trade unions are key stakeholders

24. Many trade unions across OECD and emerging economies have established education programmes to inform and educate workers on various financial management issues, such as pension management and occupational savings schemes. They are partner of consumer protection associations, and of course they are a key stakeholder in the education system at large through the unionisation of teachers and other education workers. They are a key stakeholder at the other end of the spectrum, in the banking and insurance sector, which is also highly unionised across major OECD and emerging economies. As mentioned above, UNI Finance is campaigning for working conditions in the banking and insurance sector that are conducive of "responsible sales practices" and adopted a "Model Charter" in 2010 to be signed by financial groups individually and in which consumer protection is a central objective[19].

25. Trade unions have also been active in national policy debates on financial education-related issues. A good example hereof is the South African "Charter of the Financial Sector" in 2004 which commits banks, insurance companies and brokers to attaining specific objectives with regard to the provision of financial services to households and access to bank accounts and insurance as well as financial education[20]. More recently, the American labour movement has been instrumental in ensuring consumer protection remain a centrepiece of the post-crisis financial reform process in the US. The AFL-CIO has been running a public campaign in 2011 to support effective implementation – including appropriate funding – of the newly created federal-level Consumer Financial Protection Bureau (CFPB). At the

[19] http://www.uniglobalunion.org/Apps/uni.nsf/pages/finance_orgEn

[20] Trade Unions and Financial Inclusion The case of South Africa, Cédric Ludwig, Working Paper No. 51, Social Finance Program, Employment Sector International Labour Organisation, Geneva, 2006 http://www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_106330.pdf

international level, financial education and protection is a recurrent topic raised by Global Unions in their statements to the G20 and to the Financial Stability Board (FSB). Writing to the FSB in May 2012, trade unions stated that workers and households need to be better protected against predatory sales practices.

A critique of the OECD Principles

26. Trade unions have been fairly critical of the new OECD High Level Principles on consumer finance protection. Following the adoption of the text by the G20 in Cannes in November 2011, the TUAC stated that "*at best the Principles will have very limited impact on the ground and, at worst, they could serve to undermine efforts to strengthen financial regulation and supervision by giving uncritical support for self-regulation and voluntary approaches*". The weak requirements contained in Principles "*do not meet the public's expectations*" regarding "*the power of sanction, disclosure and transparency of products, working conditions within credit and insurance institutions and their sales agents, and the role of civil society in promoting financial consumer protection*"[21]. The text lacks ambition in ensuring proper protection for consumers and is filled with caveats in favour of bankers' interests. According to the Principles, bankers and mortgage sellers should "*endeavour to avoid*" conflicts of interest.

27. Together with the ITUC and UNI, the TUAC called upon the text "*to be reviewed and improved to effectively empower consumers and ensure financial services providers adopt responsible sales practices*"[22]. Specific trade union proposals to rebalance the OECD text were made, included:

- Enhancing the powers of regulators, including the power of sanctioning;
- Developing higher standards for disclosure and transparency of financial products and services to customers;
- Ensuring that working conditions within credit and insurance institutions and their sales agents are conducive to equitable and fair treatment of customers;
- Recognising the role of trade unions in promoting financial consumer protection;
- Committing G20 countries to support independent and representative civil society consumer groups;
- Ensuring that the Principles are binding on G20 regulators, banks and insurers[23].

Educating for rights and for empowerment

28. Moving beyond the critique of the OECD framework, we can identify a few guiding principles. First, financial education makes sense if it leads to effective empowerment of workers, households and their communities. Empowerment in turn helps rebalance the bargaining power in their favour, be it with employers or with their banks and other financial service providers. Second, financial education should aim at triggering policy and regulatory change to redress and not support, the current trend toward individualisation of financial risks at large and their transfer onto the shoulders of individuals and households.

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[21] Trade Union Statement to Financial Stability Board Plenary Session, Basel, 10 January 2012 http://www.tuac.org/en/public/e-docs/00/00/0A/57/document_doc.phtml

[22] Statement by the ITUC, UNI & TUAC to the Plenary Session of the Financial Stability Board (FSB) - Hong Kong, 29-30 May 2012 http://www.tuac.org/en/public/e-docs/00/00/0A/FF/document_doc.phtml

[23] Joint contribution by the TUAC, the ITUC & UNI Finance to the OECD public consultation on Draft G20 High-Level Principles on Financial Consumer Protection, 30 August 2011 http://www.tuac.org/en/public/e-docs/00/00/09/77/document_doc.phtml

29. These two principles – financial education for rights and empowerment of workers and households, financial education to oppose individualisation of risks – are of key importance in the current policy debate on pension reforms as discussed above.

30. Financial education as a means to community empowerment also has special bearing in the informal sector and the development of microfinance in developing and emerging. It can help bring vulnerable groups back into the formal economic system. And it could prove to be an important aspect of future gender policies, including reduce the gender wage gap. Trade unions have in place many programmes on equal opportunities but also on development and decent work, where women are a central focus[24]. On that there surely is considerable room for improvement at the OECD. It is as late as in 2010 that the OECD's INFE created a subgroup on empowering women through financial awareness and education to review existing literature and to "*better understand the causes and consequences of differing levels of financial literacy by gender*"[25]. The OECD G20-endorsed High Level Principles adopted in 2011 do not sufficiently address the case of vulnerable groups[26].

Promoting civil society-led financial education

31. Trade unions should also push and support greater role and responsibilities for consumer associations and other civil society organisations in the delivery of financial education. By definition they are in close contact with communities and consumers which is essential for assessing the particular financial education needs of individuals and vulnerable populations.

32. The promotion of independent and well-funded consumer associations is all the more needed considering the overwhelming lobbying power of the banks. Private sector groups are well represented and vocal in international forums on financial education. Making the case for free of conflict civil society-led financial education programmes is particularly important given the rising interest for increasing financial literary in schools. Private sector representatives should not be able to participate or influence in any way the design of didactic materials aiming at financial education which should firmly rest in the hands of teachers themselves.

Moving forward

33. The fact that financial education has become a global policy issue is to be welcome. But policy discussion on financial education should be inclusive and involve consumer groups, trade unions and other independent civil society organisations on equal footing with banks and business groups. This is all the more needed considering the potential conflicts of interest of banks and financial service providers in the delivery of financial education as well as the power of their lobby groups.

34. On substance, it is essential to make the link between education and empowerment and from there, to help rebalance the bargaining power of workers and households in their favour.

[24] Gender, Development and Decent Work: Building a Common Agenda – ITUC & TUAC http://www.ituc-csi.org/tuac-gender-development-and-decent.html

[25] Empowering Women Through Financial Awareness and Education – Hung, A., J. Yoong and E. Brown, Working Paper No. 14, OECD 2012 http://dx.doi.org/10.1787/5k9d5v6kh56g-en

[26] An early draft version of the Principles included a stand-alone principle calling for vulnerable groups to be granted special access to education and protection. The proposal however was opposed by business groups and bankers – on the ground that any such special treatment could weaken the "level playing field" and run counter to free competition – and the text disappeared in the final version adopted by the G20 at the Summit in Cannes.

Education programmes should be designed in a way that help oppose, not support pas trends toward individual of risks .

35. To be effective financial education needs to go hand in hand with strong consumer protection legislation but also with a change in the business culture of the financial sector. If delivery of financial education and protection is becoming a challenge for policymakers it is in a large part due to the past decade drive toward financial innovation fuelled by short-termist speculative objectives. Banks need to go back to the basics of what banking is about: embracing a “creditor culture” that gives primacy to customers, not to shareholders. It also requires financial services providers’ remuneration structure, working environment and sales policies to be consistent with financial education objectives.