

## **Plenary Panel Discussion: What Have We Learned? The Future for Financial Education after the Financial Crisis**

### **Summary:**

As the world moves towards economic recovery, there is growing interest and demand for programmes that increase financial capability. Yet there is also some concern that previous financial education interventions may not have been as effective as people had hoped. Distinguished panellists consider what the financial crisis has taught us about what needs to be done differently in the financial education field to create more financially sustainable societies around the world.

### **Key takeaways:**

- Government, financial service providers and consumers should be aligned and working together in order to achieve responsible finance
- Everyone has a role in financial education - regulators, financial institutions and consumers
- Investing without knowledge is a gamble. There is a need to educate investors on understanding their own position and risk profile, understanding complex products and diversifying strategies so that they minimise risk and maximise returns
- Consumers should be matched with products that fit their needs. As product complexity increases, so should a person's financial capability.
- We need to take advantage of the 'teachable moments' and also embed education in school curriculums so that people are reached when they are younger

### **Presentation synopsis:**

Moderated by **David Pilling, Asia Editor, Financial Times**

#### **David Gerald, President and CEO, Securities Investors Association Singapore (SIAS)**

The SIAS was formed in 1999 when many Singaporeans who were investing in Malaysian stocks found their investments suddenly frozen by the Malaysian government. SIAS has been implementing financial education programmes for investors since 2000 and have attracted 60,000 to these programmes.

The philosophy is that investing without knowledge is a gamble. There is a marked change in programmes before Lehman and after Lehman. Before the collapse of Lehman Brothers most investors were focused on equities and most had not heard of other forms of investments such as structured products. At this time, SIAS were hosting investment clinics where a financial planner would teach investing and discuss why stocks go down and up etc. The theory was around teaching how to invest for the long term.

With the collapse of Lehman Brothers, people lost a lot of money as they had purchased products they had no knowledge of. Since then SIAS has begun to enhance investor knowledge by providing product information, risk management, investment strategies and diversification strategies.

SIAS focuses on three dimensions of investing:

1. Know yourself - what is your position and risk profile.
2. Know your products - give investors 10 questions to ask their advisors about the product they may be purchasing, help investors look for guidance and information.
3. Know the strategies - the effective way to diversify so as to minimise risk and maximise returns.

**Margaret Miller, Senior Economist, Consultative Group To Assist The Poor (CGAP)**

CGAP is an organisation housed within the World Bank. To achieve their goals they need to strengthen the skills of low income earners.

Do we need to be Einstein to understand the financial markets? Some financial products are just so complicated. There are many products that could be simplified and information provided in a more straight forward manner.

In addition, how do you incorporate 15-24 year olds in emerging markets? In most cases, their families are also not familiar with financial products.

Responsible finance can be likened to a 3 legged stool -- the legs can be slightly different in length but it still should not wobble -- the 3 groups just have to be aligned and working together, that is government, providers and consumers.

Financial capability -- are we blaming the victim? Think of the three legged stool and it is clear that this is not so. Financial capability is a joint effort.

What works:

- Need to communicate what is working in the financial education community
- Need leadership by a public body
- Communication methods should be clear and diverse
- Need to take advantage of teachable moments and diverse partners
- Need to have education in schools which is embedded in the curriculum – there are long term benefits of getting to children younger, but we also need some additional work on impact as results are quite mixed
- Need to focus on the learning agenda and communicate results to make a compelling case

**Diana Taylor, Managing Director, Wolfensohn & Co, and Member, Board of Directors, Citi**

The recent global financial crisis has made the need for an emphasis on financial education very clear. Citi is in the process of reviewing all of our financial education initiatives. Our commitment to date has yielded results but there is still more to be done. In the last year we made an investment of US\$28 million in financial education programmes around the world.

The Citi financial education curriculum was introduced in 2003 with the aim to help individuals to develop skills to make informed financial decisions. A website for small business owners has also been developed.

The Office of Financial Empowerment was created in New York in 2006 and 13 centres have so far been established. The overall approach is changing from a standalone strategy to a financial capability framework. There is a focus on driving behavioural change so people can learn to choose the right product and can say no if they don't understand it. Consumers should be matched with products that fit their needs. As product complexity increases, so should a person's financial capability. You need to assess the core competencies you need at each level.

Going forward we will test innovations. Our goal is to help individuals and families move up the financial ladder and the financial capabilities ladder. We need to work together to do this as no one can work alone.

**Session Q&A:**

***What role do regulations play in increasing financial capability? Are people able to make decisions for themselves or are they being told?***

- An example of having a 3 day cooling off period after applying for a first mortgage was discussed. There is a fine balance between people having choices and being able to do what they want and making sure products are right for a person's capability.

***Should we be able to buy what we want?***

- Margaret Miller responded using mobile banking as an example. The regulators aren't necessarily familiar with this product -- so do you allow it to be developed? You also need to consider social goals and the need to reach the unbanked. Some products are being grossly mis-sold. If 80-90 percent of the population don't understand a product, maybe there is a role for the regulator. CGAP are looking at a consumer protection diagnostic tool.
- David Gerald commented that it is very difficult to be a regulator as they are always blamed when things go wrong. In Singapore, the process of selling is closely monitored by the regulators.
- Mis-selling is very hard to define. For example, if you buy a television or computer, you are not expected to be an expert or to understand how it works, but you buy it on the assumption that it does work. Products sold direct to consumers should do what they advertise or say they will do. So if you buy a television and it doesn't work then you can return it.
- Everyone is happy when everyone is making money but it becomes a terrible thing when people start to lose money. Human nature is that people will take risk so there obviously needs to be a correlation between risk and return.
- There is a whole lot of emotion and psychology around finances, finance penetrates so many aspects of life.

***There is an assumption that the customer is responsible for losses and damage. In the banking sector profits are privatised and losses are public. What is the role of the industry? It's not just about putting risk on to the customer.***

- People get bailed out when something goes wrong but then they take higher risks and there is no recourse. In a low interest environment, the industry needs to look at how best to serve its clients. Where the issue became a problem was that the industry went too far with risky products that were sold in a retail environment.

***Choice -- the complexity of the choice combined with the volume of choices on offer in the market. Who should be in charge of choices -- regulators or private industry?***

- It has become very complicated. The regulator's role is to ensure sufficient disclosure and this depends on the market you are operating in. Regulators should set the standards.
- We also need to be realistic around what to expect from consumers; some products are complex and it is wrong to blame consumers. Regulators and the industry have to take some responsibility as well.