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BRIEFING NOTES ON CONSUMER FINANCIAL EDUCATION

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Summary of briefing papers on Financial Education

On the request of the Committee on Internal Market and Consumer Protection five briefing papers have been prepared by a panel of experts to serve as a background to the Public Hearing on Financial Education and to an expert panel discussion on the same topic. Hereunder a summary of the main findings of the papers.

Financial education is beneficial both for the individual and society

Financial education allows consumers to better understand complex financial products, to develop ability to compare offers, to weigh up major financial decisions and it helps them to acquire a realistic view of their ability to meet financial commitments.

On the level of society, financial awareness leads to less problem debts, an increased level of savings, the appropriate use of insurance products, adequate provision for retirement and could prevent poverty.

More research is needed to identify how financial education schemes help raise the level of financial literacy

Evidence regarding the effectiveness of financial education schemes in improving financial literacy is hard to come by because changes in financial behavior emerge only over a long period and external factors (e.g. provision of private financial education by friends and family, credit crisis, rise in unemployment) also affect outcomes.

Some surveys have been carried out showing a low level of financial literacy, but no EU overview exists.

Financial education should be provided for everyone, but certain groups require specific attention

The target audience of financial education will vary from one Member State to another and should be identified based on survey of financial capability. Most likely all sectors of society are in need of some form of financial education, but certain groups (low income, low education, young persons, pensioners, inhabitants of remote regions, people with disabilities, ethnic minority groups) require special attention.

In the long run financial education should focus on children and young adults in order to instill a culture of being informed, prudent and reliable consumers for all kind of financial services. It is important to build a critical mass of population who adopts new behaviors as in this way a self-sustained and-reinforcing process is triggered. Social role models like parents or teachers can help facilitate this process.

Information should meet the needs of target groups both in terms of content and delivery

Financial education programmes should be developed at national or regional level to tackle specific target audiences and identified needs. They need to take into account the local characteristics and structure of financial markets, the legal system, the social and economic conditions, schooling system, culture, etc.

The content should be designed in a way to help develop practical skills needed for everyday life and to aid making major financial decisions.

The information provided should be unbiased, clear and jargon free, and needs to be clearly distinguished from commercial advertising.

A variety of channels need to be used when disseminating information, the most appropriate channels will vary according to target group

A variety of channels of communication are needed to ensure that the right people get the right information at the right time. The most efficient channels are probably classroom teaching, television, internet, radio and newspapers, brochures and small group seminars. The use of non-financial channels (e.g. women's magazines, parenting websites) should be promoted and particular emphasis should be given to education at school. Financial education should be included in school curriculum, integrated in main subjects, like mathematics or reading.

Financial literacy comes as a result of the coordinated efforts of different actors

Effective consumer education schemes require the cooperation of all the relevant stakeholders, including government, regulators, the financial services industry, employers, schools and universities.

EU action should focus on coordination of activities and dissemination of best practice, but a number of other steps could also be envisaged

The EU can best contribute to the process by providing information and support to Member States, disseminating information on best practice and encouraging the sharing of information and experience between Member States (e.g. online database on financial education schemes). Other possible initiatives identified are:

- Support for "teaching the teachers" initiatives,
- Financial education linked to cross border trade of financial services,
- Organisation of a "European Financial Education and Planning Day" that brings together all stakeholders,
- Financing information campaigns,
- Publishing indicators on financial education in the Consumer Markets Scoreboard,
- Assessment of financial literacy of consumers at EU level,
- Preparation of a Commission recommendation regarding promotion of financial education,
- Research directed to best practice in financial education.

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CONSUMER FINANCIAL EDUCATION

BY ZITA CEPONYTE

1. Introduction

In recent years, the problems of financial education of consumers have been constantly discussed at various conferences, a large number of studies[1] have been conducted on this topic, and important documents[2] have been adopted by EU institutions. All of them emphasise the significance of financial education of consumers in the present-day society and point out that increased activity in this field would provide consumers with more opportunities to develop understanding of increasingly complex financial products and would improve their skills.

[1] Financial Inclusion: A topic report from the Scottish household survey, 2007, 103 p.; Survey of financial literacy schemes in the EU (2008). http://ec.europa.eu/internal_market/finservices-retail/capability/index_en.htm;

[2] A single market for 21st century Europe. http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0724en01.pdf; Financial Services Policy 2005-2010: White paper http://ec.europa.eu/internal_market/finances/docs/white_paper/white_paper_en.pdf; Green paper on Retail Financial Services in the Single Market . http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0226en01.pdf; Communication from the Commission. Financial education. COM(2007)808.
European Parliament resolution on financial services policy (2005-2010) - White Paper (2006/2270(INI)) http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2007-0338+0+DOC+XML+V0//EN

2. Why is the financial education of consumers necessary?

Consumers play an important role in all markets, and their economic conduct shows the efficiency of functioning of one or another market. This efficiency is usually reflected through the relations of supply and demand. One of the key aspects in these relations is provision of information to consumers and the ability to understand it and make use of it when making decisions. Several key points can be made regarding a consumer:

1. Problem of asymmetry of information about financial services. Studies[3] show that a considerable *information asymmetry*[4] exists in relation to financial services, when a consumer is aware that the provider of financial services possesses a much better knowledge of the product it sells than the consumer. In fear of buying a poor quality product, this consumer may choose not to use or exit a certain market. Financial education could reduce the distrust placed by consumers in a market and help it to attain its full potential.

2. Inability to assess the quality of financial services. We should also note the inability of a consumer to *assess the quality of financial products*, and compare them even when the provider of a service reveals the entire information. For instance, a Eurobarometer survey[5] conducted in 2003 showed that understanding about the way mortgages work and the risk involved for an individual consumer proved to be difficult for the majority of EU consumers. Understanding the information given by providers of services about mortgages was difficult for 59 per cent of the respondents living in the EU countries. A very similar situation is in individual EU Member States. A study conducted in Hungary showed that the residents lacked sufficient information (48 per cent) in order to be able to invest successfully and understanding of economic news: only 6 per cent of the respondents were convinced that they understood it fully, and 41 per cent claimed that their understanding was minimal, and 28 per cent – that it was difficult to understand.

[3] Czech Republic. Technical note on consumer protection in financial services. Survey of the World Bank. http://www.worldbank.org/eca/consumerprotection. (Downloaded on 11 May 2008).

[4] Asymmetry of information is related to a well-known problem of economic efficiency, because sometimes economically beneficial transactions may not be concluded. A consumer is aware that he possesses less information than the provider of a service and is certain that the provider of the service may take advantage of this. Even in the case when a consumer economically benefits from the service, he may simply reject it, because he is certain that the provider of the service is aware that he is not capable of distinguishing a good quality service from a poor quality one.

[5] Financial services and consumer protection. Eurobarometer 2003.5 http://ec.europa.eu/public_opinion/archives/cceb/2003/cceb2003_5.pdf (Downloaded on 11 May 2008).

3. Which social groups are most in need of financial education?

An analysis of data of various studies about consumer awareness in the field of financial services as well as about consumer skills enables to draw two conclusions: one of them is related to the fact that the level of financial literacy in society is rather low, which is proved by the data presented above. On the other hand, we can claim that there exist certain social groups of society which lag behind considerably in respect of their financial literacy.

The majority of studies show[6] that the lack of information about financial services and skills is typical of low-income persons. Such persons may include the unemployed, representatives of ethnic minorities, etc. Another indicator of importance when speaking about low awareness and lack of skills is age. Young persons under the age of 20 and persons of the pensionable age usually lack information about financial services and do not possess sufficient skills. Lone parents should also be attributed to those lacking information and skills. One more aspect which should not be forgotten either is a regional perspective. The consumers living away from the centre, i.e., in villages and small towns, are less informed than those living in cities.

[6] Financial services provision and the prevention of financial exclusion. http://www.fininc.eu/gallery/documents/overview-paper/financial-exlusion-overview-paper-0307-1.doc; Better access to financial services for people experiencing poverty and social exclusion. http://www.schuldnerberatung.at/public_html/ecdn12bf/index.php?option=com_docman&task=cat_view&gid=62&Itemid=27(Downloaded on 11 May 2008).

4. Financial education – an opportunity to make informed decisions

A study[7] about financial literacy recorded 154 schemes, whose analysis allows to conclude that financial education programmes vary to a large extent in different EU Member States both in terms of content and delivery. The majority of schemes were identified in the United Kingdom, Germany and Austria, a large number of schemes deal with the education of children and young adults, the Internet forms of financial education prevail, every sixth programme is implemented by private providers of financial services, and programmes focus on the development of basic skills.

An analysis of various sources concerning financial education makes it possible for us to conclude that the most efficient schemes are those which ensure that:

1. Information meets the needs of target groups both in terms of content and delivery. The content of information is adapted to meet the needs of the target groups and is presented in a form comprehensible and most acceptable to them. Taking into consideration the knowledge and skills of target groups, information is presented in various languages. For example, migrants who do not have a fair knowledge of foreign languages are usually provided with information in the language which they understand.

2. A variety of information channels is used. Various channels for the delivery of information are combined: printed material, Internet sites, seminars, and information campaigns. A study generalising the experience of the United Kingdom[8] shows that the persons whose level of financial knowledge is very low benefit considerably from work in small groups, when a tutor is able to devote more time to individual (one-to-one) teaching.

3. Education is carried out by various actors. They may include state institutions, non-governmental organisations, and private companies. Studies[9] show that when information is presented by private companies, it includes advertising and inducement to purchase certain products. Therefore, it is a matter of paramount importance to ensure the independence of information.

The conducted studies indicate that the implemented financial literacy schemes positively affect the possibilities of consumers to make informed decisions. For example, by conducting trainings at workplaces and assessing their effectiveness, the Financial Services Authority (UK) concluded that 86 per cent[10] of attendees of the trainings made use of the knowledge received and took specific action. Moreover, two thirds of attendees of the trainings claimed that such trainings had provided knowledge and skills in managing own funds.

Therefore, in light of the good practice of the previously applied financial schemes, we believe that implementation of financial education should take account of the needs of target groups (young adults, lone parents, persons of the pensionable age, persons living in regional areas, etc.), and it is these groups that the education schemes should be adapted to. The media, such as television, internet, radio, and newspapers, could serve as the most efficient channels for supplying information.

[7] Survey of financial literacy schemes in the EU (2008). http://ec.europa.eu/internal_market/finservices-retail/capability/index_en.htm

[8] McMeeking, S. et al (2003), Evaluation of the community development programme in financial literacy and basic skills. http://www.nfer.ac.uk/publications/pdfs/downloadable/fcd.pdf

[9] Improving financial literacy: Analysis of issues and policies. OECD. 2005.

[10] Making the most of your money: Financial capability in the UK http://www.fsa.gov.uk/financial_capability/pdfs/workplace.pdf (Downloaded on 11 May 2008).

According to the studies conducted in the USA[11], 71 per cent of consumers pointed out to television, radio, magazines and newspapers as the most attractive and most beneficial means of information about personal finances. The United Kingdom's practice shows that the seminars which are organised in communities and at workplaces and during which attendees work in small groups and tutors are able to work individually with each attendee of a seminar are fairly efficient. We believe that the channels of information provision should be diversified.

Particular emphasis should be placed on the importance of financial education at school. On the one hand, it is at school that pupils as a target group may be reached the best. On the other hand, the financial education initiated as early as on a school bench gives best results. They show that those who start learning the basics of finances at school possess a larger amount of savings and are better at managing their personal finances.[12] Financial education is closely related to the teaching of basic skills (mathematics and reading). Therefore, it is believed that the most effective way is to integrate financial education in these main subjects. This type of approach provides a context for understanding of financial issues, enhances teaching of mathematics and reading, and makes financial education less susceptible to elimination because of budgetary reasons or scarce resources.

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[11] Czech Republic. Technical note on consumer protection in financial services. Survey of the World Bank. http://www.worldbank.org/eca/consumerprotection. (Downloaded on 11 May 2008).

[12] Bernheim Douglas et al. Education and savings: The long term effects of High School Financial Curriculum Mandates, 1997.

5. Financial education: actions at the EU level

The EU Member States must be those in charge of implementation of financial education. Article 153 of the Treaty establishing the European Community provides that the Community may also contribute to "promoting the consumers' right to information and education and their right to organise themselves in order to safeguard their interests."

Creation of a common tool of financial education applicable to all EU Member States is a highly problematic task for the single reason that it must meet the needs of target groups of each country and must be properly adapted taking into consideration not only the practice and traditions of provision of financial services as common in a country, but also its law. The difficulty is witnessed also by the DOLCETA project, which, in my opinion, is not highly successful in some countries.

The role of institutions of the European Union in the financial education of consumers could be as follows:

Financing of information campaigns about financial services in the EU Member States. We are of the opinion that EU institutions could finance the information campaigns informing consumers about the consumer protection offered in the Member States in the field of financial services. The European Commission currently finances information campaigns about consumers' rights in the new Member States, which cover provision of cross-border services and purchase and sale. A package of such information campaigns often includes also financial services, for instance, consumer credit. Such measures force to "pull up" also the national governments and to allocate a larger amount of funds for consumer education.

Publication of comparative results of the consumer environment in the Member States. The European Commission decided to publish a Consumer Markets Scoreboard, which would present the indicators defining the consumer environment in the Member States. Indicators should be determined to help to evaluate the situation in respect of financial education in a Member State and compare it with other Members States.

Promotion of a dialogue between different stakeholders implementing financial education. A Communication from the European Commission on Financial Education points out the prospective creation of an online database which will contain financial education schemes. Such a step should be seen as a positive one, because this will allow stakeholders to familiarise with the financial literacy schemes under implementation and to take advantage of best practices. The funding of various conferences about financial education would greatly contribute to promotion of the dialogue.

Assessment of the financial literacy of consumers at the EU level. Using a uniform methodology, EU institutions must initiate a study on financial literacy at the EU level, which would provide a better view of the actual situation and the needs of target groups.

Preparation of recommendations regarding promotion of financial education. It would be expedient to prepare a recommendation for promotion of financial education, which would encourage the Member States to develop financial education strategies and specific measures of their implementation.

6. Conclusions

Studies show that consumers lack financial knowledge and skills. The principal problems which consumers need to deal with in the field of financial services are asymmetry of information and inability to assess the quality of services. It should be noted that the general level of financial literacy is low, however some groups of society are more financially excluded: low-income persons, young adults, persons of the pensionable age, single parents and inhabitants of remote regions.

By analysing various sources concerning financial education schemes, we could draw a conclusion that the most efficient are those which ensure that information meets the needs of target groups, a variety of information channels is used, and education is implemented by various actors (state institutions, non-governmental organisations, private companies). In implementing financial education, television, Internet, radio, newspapers, brochures and also small-group seminars providing for a possibility of individual work should be considered as the most efficient information channels.

If started as early as at school, financial education is fruitful in preparing children to become consumers. The greatest effect would be achieved by integrating financial education in key subjects, that is, mathematics and reading.

Ensuring of financial education is the responsibility of each EU Member State. However, in light of provisions of Article 153 of the Treaty establishing the European Community, the EU could contribute to promotion of financial education through financing information campaigns in the Member States, determining and publishing financial literacy indicators in the Consumer Markets Scoreboard, promoting a dialogue between the stakeholders implementing education (financing of conferences, creation of a database of financial education schemes), initiating assessment of consumers' financial literary at the EU level, and preparing a recommendation in respect of financial education.

FINANCIAL EDUCATION
THE CHALLENGE TO TRIGGER CULTURAL CHANGE

BY DR. WILHELM RUPRECHT,
with contributions from **DR. PETER SCHWARK AND DR. BERNHARD GAUSE**

EXECUTIVE SUMMARY

The improvement of financial literacy generates beneficial effects for the whole society. While it contributes to consumers' capability of positively shaping their lives, it may also decrease costs for providers and disburden tax payers. In order to attain this objective, expert knowledge e.g. on specific products is not needed but rather orientation knowledge on product types and possibilities for further information. The contents of financial education are, in principle, comprehensible by almost everybody.

Initiatives aimed at the improving the level of financial education have to take a normative position. They have. to presume that funded pensions are necessary components of the Member States three pillar retirement provision systems - at least for those aiming at maintaining their current standard of living in retirement. Accepting responsibility for one's own financial affairs and the awareness of the opportunity to shape the financial aspects of life are preconditions for the willingness of potential recipients of financial education to invest in the search for further information. Both insight and acceptance are influenced by the corresponding cultural and social context of the diverse groups in a society. This cultural context is, of course, subject to change. Due to the lack of role models in certain sub-populations there is a tendency towards making poorly thought out decisions with regard to financial affairs and, maybe even worse, towards self-exclusion from the access to certain financial products.

For members of these groups the active shaping of the financial aspects of life is an innovative behaviour. From the rich body of research on diffusion of innovative behaviour it is well known that the dissemination of novelty usually spreads throughout a (sub-) population according to an s-shaped curve. When a *critical mass* of population members has adopted the new behaviour, a self-sustained and –reinforcing process is triggered. The reason underlying the self-sustainability of the process is that the probability for a person to adopt certain behaviour is a function of the relative frequency of this behaviour in a (sub-) population. This frequency-dependency-effect is the consequence of social reinforcement by peers. By an adequate design and organisation of financial education initiatives the critical mass required for cultural change taking place can be lowered. This is the case, for instance, when effective role models and social multipliers such as school teachers engage in the improvement of financial literacy.

In some Member States, different regional actors using various media already provide a variety of group-specific material aiming at the improvement of financial literacy. Against this background, activities at European level, therefore, should concentrate on

- organising and moderating best practice exchange between Member States. A particular focus should be on measures aiming at "teaching the teachers", especially for precarious groups;
- financial education issues linked to cross border trade of financial services.

The introduction of an annual “European Financial Education and Planning Day” could be of further added value. Such an event that would require the joint efforts of all stakeholders (consumer associations, associations of financial product providers, media representatives, representatives of national or local governments being in charge of school education) could build on the existing tradition of the “World Savings Day” (31 October).

It could be coordinated by the European Commission and organized under the auspices of the European Parliament.

“If a thing is to become a good, or in other words, if it is to acquire goods-character, all four of the following prerequisites must be simultaneously present:

1. A human need.

2. Such properties as render the thing capable of being brought into a causal connection with the satisfaction of this need.

3. Human knowledge of this causal connection.

4. Command of the thing sufficient to direct it to the satisfaction of the need.”

(Carl Menger 1871/ 1950: p. 52)

1. PRELIMINARY REMARK

The particular focus of this contribution is on financial education with regard to retirement provision. Referring to the financial situation in the future this issue complements the topic "indebtedness" which often predominates in discussions on financial education. The paper is mainly based on experiences in Germany.

2. IMPROVEMENT OF FINANCIAL LITERACY: A WIN-WIN-WIN-SITUATION

Improvement in financial education is beneficial to consumers, financial service providers and tax-payers. Given the increasing importance of own financial provision for maintaining living standards for citizens and consumers in the near and more distant future, a sufficient level of financial education is meanwhile a necessary precondition for their ability to cope with their everyday life. Beyond that, financial knowledge grants individuals options to positively shape their future. From the financial industry's point of view, a client base with good financial knowledge is essential for the efficiency of the financial advice process, to decrease costs in the case of conflicts emerging due to unnecessary misunderstandings between client and provider and to improve the chances for success of new products. The enhancement of the level of financial knowledge in society, finally, disburdens tax payers by alleviating and/or eliminating poverty in the present and in retirement.

For the US, a positive correlation between the level of financial literacy and the extent of active retirement planning is empirically confirmed.[1] Likewise, there are significant empirical indications of a positive influence of participation in academic financial education programmes and actual financial behaviour such as the saving rate. This influence seems to be effective in the medium term.[2]

3. RATHER ORIENTATION KNOWLEDGE THAN EXPERT KNOWLEDGE

With regard to financial education, the ambition to qualify a whole population as financial experts would be mistaken. The recipients of financial education should be rather enabled to gather, to select and to assess the available information on financial services in a sovereign way corresponding to their needs. The propagation of orientation knowledge on product types, on basic consumer rights and duties and on sources for current information is a more reasonable objective than the transfer of detailed factual knowledge, e.g. on specific products.

In this respect, the OECD deserves credit for defining financial education as "the 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."[3]

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[1] Lusardi, A./ Mitchell, O. (2007).

[2] Bernheim, D. et al (2001). This investigation dating from 1995 is based on a data base a query of 2000 persons in the age between 30 and 49 years. Exploiting the fact that some US states have included financial education topics in the high school curricula, but others not, a control group approach is applied. A significant positive correlation between exposure to financial education programmes and the saving rate was found. The results of the study were controlled for potentially biasing influences of cultural specificities of the corresponding states so that the latter can be excluded as explanatory factors.

[3] OECD (2005): Improving Financial Literacy: Analysis of Issues and Policies.

4. FINANCIAL EDUCATION INVOLVES A STRONG NORMATIVE COMPONENT

Fostering people's willingness to shape the financial aspects of one's life and not to rely on family members or the general public necessarily involves taking a normative position. According to the rich body of scientific literature on individual and cultural learning processes a sufficient motivation is a precondition for learning and subsequent action.[4] In the case of learning to plan for retirement this motivation is nothing else than the basic insight in and acceptance of the fact that due to the demographic development in Germany and other European countries a three-pillar-system including occupational and private pensions is replacing a monolithic system only consisting of the statutory PAYG system. In the light of the decade-long certainty on the life-standard-securing function of the statutory pension system which was widespread throughout the population, in this field a fundamental change of expectations is required with regard to the way the responsibility is distributed between government and individuals.

The willingness to shape one's own financial affairs in a sovereign way does not have to be a result of an individual learning process. It is shaped to a considerable extent by the cultural context of an individual. This context is subject to change which occurs, however, with a different pace in different subgroups of society.[5] There are still social groups opposing the transition to a three-pillar system. Presumably, representatives of these groups are not very receptive for financial education initiatives and would not engage in actively searching information on funded pension products.

5. THE CHALLENGE: TRIGGERING CULTURAL CHANGE

Learning from social role models is essential for the success of financial education. This is suggested by a study on the financial planning behaviour in Germany tendered 2006 by the German insurance association.[6] According to this study a talk with relatives and friends is the most often stated inducement to deal with one's financial situation in retirement. A similar *peer effect* with regard to retirement planning is confirmed by an empirical economic experiment conducted in the US. A random sample of university employees was promised a monetary reward when attending a retirement seminar. As a result, not only the participation rate of directly rewarded individuals increased but also the participation rate of employees working in those departments where some individuals were rewarded was significantly higher than in departments where nobody had been rewarded.[7]

From the rich body of diffusion research[8] it is known that the dissemination of an innovative behaviour such as actively shaping the financial aspects of one's life usually spreads throughout a (sub-) population according to an s-shaped curve (**figure 1**). When a *critical mass* of population members has adopted the new behaviour, a self-sustained process is triggered. The underlying reason for this self-sustained process is that the probability for a person to adopt a certain behaviour is a function of the relative frequency of this behaviour in a (sub-) population (**figure 2**). This frequency-dependency effect is the consequence of social reinforcement by peers.[9]

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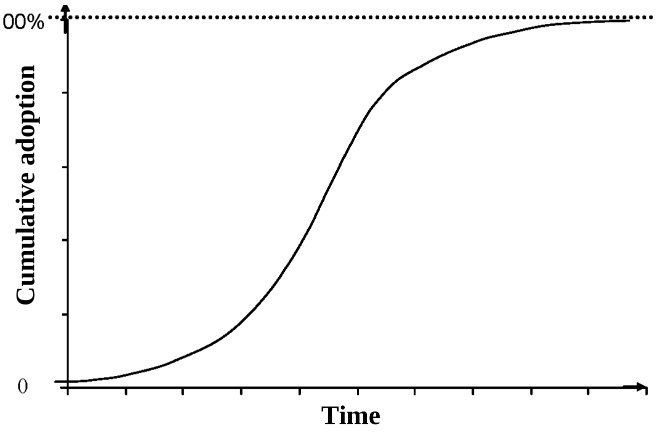
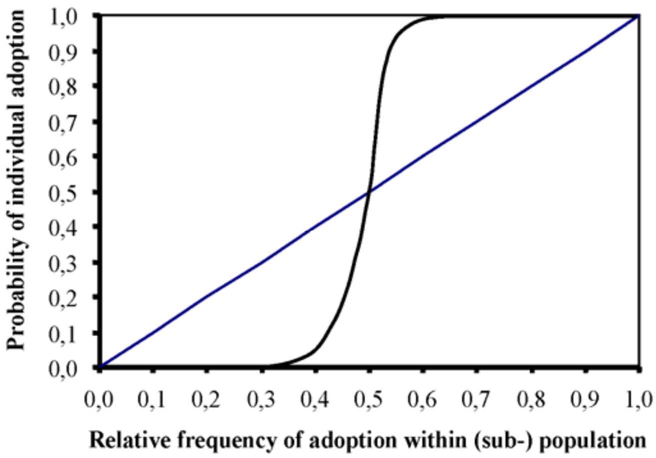
[4] See also Carl Menger's first condition for a thing to become a good.
[5] For a theoretical discussion on collective learning processes and their preconditions see Ruprecht (2007).
[6] Institut für Demoskopie Allensbach (2006).
[7] Duflo, E./ Saez, E. (2002).
[8] See e.g. Rogers (2003)
[9] Moreover, if certain individuals were speculating for benefits financed by tax payers rather than providing for old age on their own their expectations will change once a critical mass of citizens has adopted the new behaviour. Now, it will be rational for them to participate as well because later redistribution by political means has become less likely.

Figure 1: Typical diffusion process of innovative behaviour



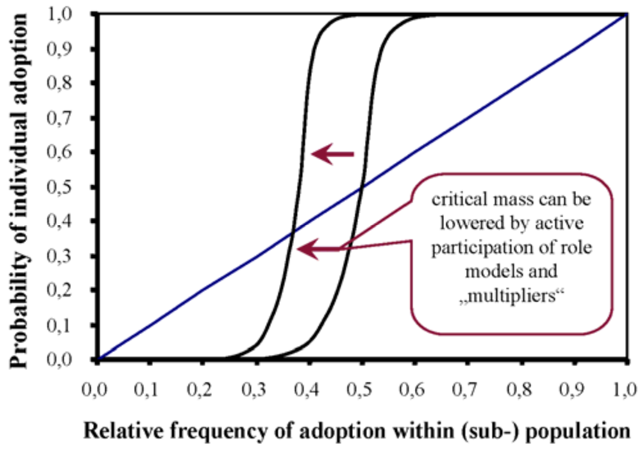
Source: Rogers, E. (2003).

Figure 2: The concept of critical masses: the "frequency – dependency effect"



Source: Witt, U. (1997), pp. 753 - 773.

Figure 3: Efficient financial education contributes not only to attain but also to lower the critical mass



Source: Own compilation on the basis of Witt, U. (1997).

Providers of financial education implicitly have understood the following mechanism: If role models acting as social multipliers engage in the supply of financial education this may lower the critical mass in the corresponding subpopulations (**figure 3**).

6. LIKE ROAD SAFETY EDUCATION FINANCIAL EDUCATION STARTS ALREADY IN KINDERGARTEN

Notwithstanding the fact that basic socialisation with regard to financial affairs may take place in adolescence[10] financial education involves life long learning. Early experience of living within ones means (even if those means are pocket money) give a sound basis for a constructive and responsible attitude towards money management.

During the life cycle specific questions according to the corresponding phase are raised: How to finance a school trip, a driver's licence, a car? How to insure against the disability risk? What to take into account with regard to the purchase of a flat or a house? How to prevent over-indebtedness? Which aspects have to be taken into account when becoming self-employed? How to plan for the own and for the partner's retirement? How to insure against the financial consequences of dependence on long-term care?

7. FINANCIAL LITERACY IS THE RESULT OF ALIGNED EFFORTS OF DIFFERENT ACTORS

The life cycle perspective implies that different actors play their role in financial education at different points in time and in different contexts and situations:

- By giving their children pocket money, parents can provide them with a first flavour of how to cope with money. When frankly talking about the financial aspects of the family's daily life, in addition, they allow them to learn from their model.
- Schools and teachers can be important role models as well, the more so as parents sometimes are not able to fulfil this task.
- It is true that financial education has to be distinguished from financial advice. In contrast to the former the latter refers to concrete products and product providers as individual solution for concrete problems. Nevertheless, financial advisers can and must pinpoint gaps in the financial planning of their clients.
- Additionally, consumer protection organisations providing e.g. general information via the internet can be contacted. Likewise, consumer information centres run by the financial services industries' associations may offer pre-competitive information, consumer hotlines and internet-based tools for financial planning.[11] Of course, cooperation and network building between these actors can be beneficial.[12]

8. EFFECTIVE FINANCIAL EDUCATION INITIATIVES

At the systemic level, well-functioning financial education (whether at local, national or European level) can be characterized by:

- an orientation towards the concept of life-long learning: a single contact with the contents of financial education is insufficient. Instead, it has to be ensured that the recipients of financial education are addressed in a way that is specific to their individual life situation.

[10] Groth (2002), p. 30.
[11] For a German example see www.vzbv.de, www.kursraumgeld.de.
[12] For a German example see www.unterrichtshilfe-finanzkompetenz.de.

- a variety of schemes, actors, materials and media formats. This will ensure a broad dissemination of financial education among the population and a pluralism of its contents.

In particular, a mandatory incorporation of the contents of financial education into high school curricula seems to be indispensable for the following reasons:

- Notwithstanding the beneficial effects for consumers stemming from the improvement of their financial literacy it is highly unlikely that a broad "market for financial education" can be established. The information asymmetry being typical for the relationship between teachers and students will prevent the development of such a market. Therefore, a mandatory approach is reasonable.
- If it is true that socialisation with regard to financial affairs takes place during childhood and adolescence, schools should be the principle environment for encouraging financial education.
- Incorporating the contents of financial education into school curricula on a mandatory basis ensures a proper balance between the ambition to address a sufficiently broad range of people on the one hand and simultaneously doing so in a sufficiently group-specific way on the other.

The introduction of a proper school subject "economics" including a comprehensive unit on "finance" into the school curricula would be highly desirable, the more so as this would involve a systematic training of teachers on this issue. However, this is not necessarily the only way to proceed.

Example 1: Towards an interdisciplinary approach in school curricula

In Germany, the states (Länder) are responsible for organising and financing education. Highschool curricula of all 16 Länder include more or less topics relevant for becoming financially literate. The contents associated with "pensions education" are typically distributed over different subjects such as mathematics (interest calculation), social studies and economics (social security system) and religion/ ethics (intergenerational justice). As a consequence of this fragmentation, there might exist shortcomings regarding the "integratedness" of the overall conception. Against this background, the German insurance association has donated an award for teacher colleges in general schools for the best multidisciplinary conception of pensions education in cooperation with the foundation "Jugend und Bildung" and under the auspices of the German minister of economic affairs and technology. Members of the jury included a former federal minister of labour and social affairs, a Länder minister of culture and education, representatives of two federal ministries as well as teachers secondary schools (Gymnasium, Realschule and Hauptschule).

In total, 17 concepts were submitted covering the following subjects: German, politics, social studies and economics, religion/ ethics, history, biology, mathematics, English, French and even sports. The majority of the submitted concepts is already approved in practice. The criterion "transferability to any school type" was heavily weighed in the selection of the awarded concept. The award ceremony took place in February 2008 at the education fair Didacta in Stuttgart. A publication making the concepts available for broader application is forthcoming.[13]

[13] For adults, pension education is provided in Germany e.g. by the initiative "Altersvorsorge macht Schule" (www.altersvorsorge-macht-schule.de) which is run by Deutsche Rentenversicherung, the social partners, a consumer association (vzbv) and Deutscher Volkshochschulverband.

Example 2: Provision of regular pension information

Another example of a tool for improving financial awareness and education in general and pension education in particular is the provision of regular and well-structured pension information. In Germany, legal foundations to provide annual pension information exist for the statutory pension system as well as for private providers.[14]

Introduced in 2005, all people aged 27 and older receive an annual pension information (Renteninformation) from Deutsche Rentenversicherung provided they have paid contributions to the pension insurance for at least five years. The letters inform the insured about the pension account's current state. The information also includes a projection of the expected (potential) pension benefit on the basis of the corresponding past social insurance careers and of alternative scenarios as to annual indexation rates (0%, 1% and 2%). Moreover, a simple sample calculation is added illustrating the effect of inflation on purchasing power up to the point in time the respective person reaches the official retirement age.

A query among recipients during the pilot phase confirmed the acceptance of this pension information by the insured, as well as its significance for planning individual additional funded pension arrangements. According to the 2006 Allensbach query on retirement planning in Germany a share of 28% of those who had already dealt with their financial situation in retirement had been induced by the reception of the annual pension information.

Clients of occupational and private pension providers receive annual surplus statements informing them about the guaranteed benefits and their surplus benefits they can expect after the contract has expired. In addition to legal requirements, the German insurance industry has started introducing the so called "Eigenvorsorge-Report" (transl.: report on own provision) in 2006 as a complement to the annual surplus statements issued by providers of occupational and private pensions. The Eigenvorsorge-Report is a simple scheme that allows users to get a quick, individual and comprehensive overview of their projected monthly retirement and disability benefits from the statutory pension system, occupational pension entitlements and private pension contracts. This concept builds on the existing elements of the pension information of the statutory system and the annual surplus statements provided by insurance companies. Recipients of this report are able to compare their total benefits with an individually chosen benchmark for their retirement and disability income. In order to provide the insured with an idea of their projected benefits' purchasing power the impact of inflation is taken into account. On this basis, pension gaps can be recognised and closed. The Eigenvorsorge-Report is supported by an electronic pension calculator www.eigenvorsorge-report.de, which is available also to persons who have not yet effected a private or an occupational pension contract.

9. HOW TO ASSESS THE EFFECT OF FINANCIAL EDUCATION SCHEMES ON FINANCIAL LITERACY?

There are empirical studies investigating the effect of financial literacy on financial planning[15] or the relation between the exposure to financial education programmes and financial behaviour.[16]

[14] In the case of the statutory pension system the legal source is §109 Sozialgesetzbuch VI. In the case of insurance-like occupational and private pension systems the legal sources are § 7 (3) insurance contract law (Versicherungsvertragsgesetz) and § 6 (1) para 3 of the Regulation on information disclosure (Informationspflichtenverordnung).
[15] Lusardi, A./ Mitchell, O. (2007).

However, the author is not aware of the existence of a comprehensive empirical investigation in the causal relationship between the availability of schemes supporting financial education on the one hand and the level of financial literacy on the other. Additionally to overcome the usual problem of distinguishing causal relations from statistical correlations, the following aspects would have to be taken into account:

- The mere availability of institutions aiming to systematically improve financial literacy is certainly a necessary but not sufficient condition for the achievement of a certain level of financial education in a population. With regard to increasing the awareness of the necessity to deal with one's own financial affairs the general attitude and culture of the population will at least be of equal importance.
- When interpreting the results of empirical investigations confirming poor levels of financial literacy for parts of the EU population the influence of a culture of private provision or of its absence should be taken into account. In particular, it should be recognized that a non-negligible part of financial education takes place on an informal basis within families and circles of friends.
- If it is true that financial education is a life long process the analysis of the effectiveness of specific financial education scheme requires a longitudinal study taking into account the various contacts a person had with different financial education schemes during its life cycle.

10. FINANCIAL EDUCATION INITIATIVES AT EU LEVEL

Although it is true that the primary responsibility for financial education remains with member states there are fields in which action taken at EU level could be an added value:

- Given the EU Member States' heterogeneity with regard to the organisation not only of education but also of their pension systems a European one-size-fits-all approach in this field would not be appropriate. The extension of the Open Method of Coordination to the field of financial education – as announced in the European Commission's 2007 communication which already includes a list of principles - certainly is a more adequate way to proceed. Particularly, an exchange with regard to the different practices of Member States on "how to teach the teachers" promises to increase the effectiveness of existing financial education schemes. The creation of an online data base on existing national and regional schemes has already alleviated exchange and mutual learning. A link to this database should be added to the DOLCETA website in order to provide visitors with local partners.
- Present efforts of the European Commission to increase consumers' awareness of the benefits of a single European market for financial services - a genuine competence at EU level - could be further intensified and developed. Given the already existing variety of national financial education schemes in many EU Member Countries the proper added value of the DOLCETA website is to give information on consumer rights with regard to cross-border business of financial products.
- Public awareness of the importance of regularly engaging in financial planning could be raised by introducing an annual "European Financial Planning Day". The European Financial Planning Day could build on the existing tradition of the World Savings Day (31 October). The focus, however, could be broadened from mere saving to fostering one's financial competences and to financial planning in general.

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[16] S. Bernheim, D et al (2001).

The realization of such an informal institution would certainly require the collective efforts of all stakeholders (consumer associations, associations of financial product providers, media representatives, representatives of national or local governments in charge of school education etc.). Due to the frequency-dependency effect a strong mutual reinforcement effect of these simultaneous efforts can be expected. The campaign could be coordinated by the European Commission and organized under the auspices of the European Parliament.

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CONSUMER FINANCIAL EDUCATION

BY CHRISTOS GORTSOS

Executive summary

As financial services become increasingly more complex -a tendency amplified by the introduction of new distribution channels and the globalization of the financial markets- financial education becomes crucial for all the consumers, almost without exception. However, not all consumers have the same needs. In order to delimit the extent of the need for financial education, the main point of this paper is that we have to divide between several categories of consumers, depending on four criteria:

- the services provided to them on the basis of the functions of the financial system (see below, under 1.1.1),
- their age (under 1.1.2),
- their educational level (under 1.1.3), and
- their income (under 1.1.4).

Disabled persons should also to be taken into account as a distinct category due their specific needs mainly in the case of certain financial services to which access should be facilitated (e.g. the use of ATMs from blind persons).

1. Benefits and target audience of consumer financial education

1.1 General remark

As financial services become increasingly more complex -a tendency amplified by the introduction of new distribution channels and the globalization of the financial markets-financial education becomes crucial for all the consumers, almost without exception. However, not all consumers have the same needs. In order to delimit the extent of the need for financial education, we have to divide between several categories of consumers, depending on:

- the services provided to them on the basis of the functions of the financial system (under 1.1.1),
- their age (under 1.1.2),
- their educational level (under 1.1.3), and
- their income (under 1.1.4).

1.1.1 Financial services

According to the economic theory, the financial system has two main functions, i.e. the financial intermediation (under a) and the realization of payments without use of cash (under b).

(a) Financial intermediation

The intermediation takes place between positive and negative savers of the economy for the channelling of monetary capital and is being realized through two channels: direct and indirect financing.

- The first channel of intermediation, i.e. **direct financing**, are regulated money and capital markets. In the framework of direct financing, negative savers are addressed for the draw-down of financing directly to the positive savers by issuing equities and securities, which are obtained by the latter from capital markets (primary market). These financial instruments issued by the negative savers are traded in capital markets, where their current value is formulated on a continuous base (secondary market).

- The second channel of intermediation, i.e. **indirect financing**, is activated on the basis of the services provided from several categories of financial intermediaries, who are divided, mainly, in three categories:

✓ Credit institutions: in the case of banking intermediation, the positive savers offer their savings in the form of deposits to credit institutions, and the latter finance the negative savers though borrowing.

✓ Companies granting credit on a professional basis, such as factoring and leasing companies, which finance this activity by issuing loan capitals. The receipt of deposits is excluded for these companies.

✓ Insurance companies: in the case of insurance mediation, the positive savers channel their savings to the insurance companies, which undertake the obligation to return to them in the future the capitals that they pay regularly incremented on the base of a determined performance rate.

(b) Realization of payments without the use of cash

This function provides the possibility of the transfer of funds between individuals, companies and the state, mainly, but not exclusively, for the settlement of debt arising from private and commercial transactions (financial transactions included), as well as from monetary obligations arising from legislation or judicial decisions, under the condition that they have agreed not to use cash for the settlement of the debt.

1.1.2 Age criteria

Consumers could be divided depending on their age to five main categories:

- Children,
- Young adults,
- Adults,
- Pre-retirement people,
- Retirees.

1.1.3 Educational background

On the base of this criterion, consumers could be divided between those with:

- high,
- medium, and
- low

educational background. [This category does not apply for children.]

1.1.4 Income

Here again, consumers could be divided between those with:

- high,
- medium, and
- low

income. [This category does not apply for children]

1.2 The extent of the need for, and the benefits which can accrue from consumer education schemes

1.2.1 The extent of the need for consumer education schemes

According to the abovementioned categories of consumers, the extent of the need for financial education of every specific category is differentiated. The analysis that follows demonstrates how and to what extent financial education should be differentiated.

(a) Financial intermediation

(aa) Direct financing

With respect to financial services provided in the framework of direct financing, it is evident that for consumers participating in the financial markets, it is crucial to understand how money and capital markets function, the specific categories of investment services and their characteristics, the risks affiliated to each investment service and fundamentals of asset management.

However, differentiations have to be made with respect to financial education for these services, first of all depending on the *age* of consumers.

It is evident that on the one hand, children are not in a position to understand easily this kind of information and on the other hand, retirees do not belong to the category of the average investor. However, young adults are potential investors and they should understand at least how capital markets function, the alternatives provided in the framework of direct financing and the risks to which they could be exposed. Pre-retirement individuals and adults seem to be the category that potentially needs more financial education in this field.

It is also evident that financial education needs to be differentiated depending on the *educational background* of its addressees. Consumers with high educational background are in a better position to understand the characteristics and the functions of capital markets and investment, while consumers of medium and even more consumers with low educational background need another level of education with regard to the same services.

Last but not least, consumer education schemes should be adapted according to the *income* of consumers. In fact, consumers with high income have more alternatives to invest their savings and could undertake more risks than consumers with low income who should be more prudent and careful with respect to their asset management. Consumers with medium income should also understand very well the risks that they undertake each time and the alternatives they have accordingly. All consumers should understand the notion of the risk – return trade off in order to be in a position to take conscious and informed decisions.

(ab) Indirect financing

Positive savers need to know first of all the alternatives they have with respect to the savings they offer to credit institutions or insurance companies, the main risks and the potential returns in each case.

Negative savers, on the other hand, need to know the different types and categories of credit and their main features, the obligations that they undertake under the conclusion of a contract, the different kinds of interest rates and the mechanisms of their determination, and, of course, their rights for any kind of financing, such as home ownership or the purchase of a car.

Depending on the *age* of consumers, financial education should again be differentiated. For children it is of course very important to understand the basic notions of deposits and borrowing, but also the notion of insurance. For young adults, beginning their financial life it is even more crucial to understand the mechanisms, the obligations that they undertake, their rights, how to plan their budget and the need to assess the financial adequacy of their current public and private pension schemes in order to cultivate the culture of informed, responsible and reliable consumers.

This kind of financial education is also extremely important for adults, the main users of these services. On the other hand, for both pre-retirement consumers and retirees, what is very crucial is to understand the limitations they have with respect to the access to borrowing and the functions and mechanisms of the pension schemes and insurance programs.

An example of financial education for pre-retirement age people with respect to pension schemes. The purpose of these schemes is to inform people about the national pension system and help them build up the relevant knowledge and skills to take actions in order to secure their income for retirement age.[1] *The purpose of such a financial education scheme is to help individuals to get better personal finances. This can be achieved through:*

- *thorough analyses of all factors that affect the personal finances: e.g. laws, regulations, the functionality of the markets,*
- *development of down-to-earth information and advice –material like books and articles, web-content and lecture material,*
- *direct knowledge-transfer in lectures, and*
- *maintaining a neutral position adverse bank and political interests.*[2]

Financial education needs also to be differentiated depending on the *educational background* of its addressees each time. Consumers with high educational background are in a better position to understand the characteristics and the services provided through indirect financing, while consumers of medium and even more consumers with low educational background need another kind of education for the same services.

Consumer education schemes should at last be adapted according to the *income* of consumers. In fact, consumers with high income have more alternatives and could undertake more risks than consumers with low income who should be more prudent and careful with respect, especially, to borrowing. Consumers with medium income should also understand very well the risks that they undertake each time and the alternatives they have accordingly. On the other hand, for consumers with low income financial education in this field should be focused especially to borrowing.

(b) Realization of payments without the use of cash

Consumers should be able to understand at least the different alternatives they have with respect to payment instruments, such as credit transfer, direct debit, the advantages and disadvantages of the services provided and the cost related to them in order to be able to decide whether it is useful for him to make use of them and under what circumstances and to make profit of them.

Differentiations of financial education should again apply depending on the age, the educational background and the income of its addresses (see above under ab).

1.2.2 The potential benefits accruing from consumer education schemes

Benefits from consumer education could be very important at various levels, depending of course on the issues covered by consumer education schemes and on of its addressees each time according to the abovementioned categorisation. In general, financial literacy is a very important part of consumer protection, according to the needs of each category, especially with respect to the following issues:

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[1] Survey of Financial Literacy Schemes in the EU 27 (2007), p. 91.
[2] *Ibid*, p. 92.

- it could ensure that all consumers are able to use constructively the information provided to them according to the provisions of the existing legislation, in order to be able to make conscious decisions and compare offers before taking decisions; in this sense, financial education becomes indirectly a means to render the disclosure of information - in the framework of the regulatory intervention in order to reduce or correct information asymmetry between the consumer and the financial provider - more efficient. Consumers need more than just information; they need the necessary skills to be able to make use and compare this information in order to make informed choices;

- it could help all consumers to understand the role and the functions of the financial system, a prerequisite for being able to evaluate the products and services provided to them, and

- especially with respcet to borrowing, it could help them to understand the need for prudent and adequate evaluation of their needs and financial capacity, reducing thus indirectly the risk of overindebtedness.

In any case, for competitive markets to work, they need informed customers. Of course there can be very efficient banks in any market condition, but poor financial literacy at least prevents financial services playing their full potential for individuals and, consequently, for the national economy[3].

1.3 Target audience for financial education schemes and social groups that are in most need for education

As already mentioned, financial education has a different role to play depending on the:

- category of financial services provided,
- the age of the consumer,
- the educational background, and
- the income.

In this respect, financial education schemes concern for different reasons and to a different extent (see above under 1.2) the whole range of financial services and all consumers of every age, educational background and income. It should be differentiated depending on the financial services, start in primary school and continue lifetime.

However, even if financial education concerns all the consumers, it is evident that certain social groups, such as lower income customers and poorer educated customers are in most need for education.[4] Lower income consumers have to be very prudent with respect especially to borrowing and poorer educated consumers are exposed to greater risks than the average.

Moreover, at a long-term perspective children and young adults are the target groups on which financial literacy should focus in order to build up the culture needed for being informed, prudent and reliable consumers for all kind of financial services.

[3] *Ibid*.
[4] However, the way to apply financial education programs to these categories of population efficiently is another difficult issue to be addressed.

2. Financial literacy and financial education schemes

2.1 Correlation between the availability of financial education schemes and the level of financial literacy

The level of financial literacy depends heavily -although not exclusively- on the availability of financial education schemes. The existence of a variety of financial education schemes targeted to the characteristics of financial services and to the specific needs of every category of consumers (see above under 1), raises highly the possibility to achieve financial literacy. The more consumer education schemes are focused the more financial literacy corresponding to every category of consumers will be achieved.

However, it should also be mentioned that financial education –even of the highest standards- is not a panacea.[5] If adequate financial education schemes have been ensured, the absolute necessary condition to be fulfilled in order to achieve the objective of reaching an adequate level of financial literacy is that consumers can make profit of it. This means that, provided that they are available, consumers should follow up the corresponding sessions and exploit the possiblity they have. Otherwise, the provision and availability of financial education schemes becomes useless.

For this purpose, financial education schemes should be strongly supported and marketed in order to get known from the consumers and to help them realise their need for their daily life.

2.2 The underlying factors influencing financial literacy of consumers and the availability of schemes

The underlying factors influencing financial literacy of consumers and the availability of schemes are the following:

- Efficient marketing activities (advertising campaigns, organization of conferences), that ensure the disclosure of any existing programs to their addresses and the realization from the part of consumers that they are useful for them

- Creation of several categories of programs designed to meet the specific needs of each group of consumers (see above under 1.)

- Adoption of education schemes to which their addresses have easy and low cost access.

[5] See *Cartwright* (2004), p. 61.

3. Characteristics of best practice financial education schemes

3.1 Characteristics of best practice in financial education schemes

The characteristics of best practice in financial education schemes can be the following:

- Governments and all concerned stakeholders should promote unbiased, fair and coordinated financial education.
- Financial education should be clearly distinguished from commercial advertising and codes of conduct for the staff of financial institutions should be developed.
- Financial education programs should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions.
- Programs should be oriented towards financial capacity building, targeted on specific groups and "personalized" where appropriate.[6]

3.2 EU or national level

Financial education schemes should be developed both at an EU and at a national level. At an EU level, the general framework and best practices to be followed should be adopted (in this respect the Communication of the European Commission provides a series of means that can be launched), while at a national level, the adaptation to the specific particularities of the national market should be made. Moreover, at an EU level a model for the context of each specific education scheme according to the above categorization could be designed in order to be used as a minimum standard from member states.

3.3 Channels to be used when disseminating information

The choice of the most appropriate channel depends mainly on the group of consumers concerned each time and on the culture of the citizens of each member state, especially with respect to internet, which is not expanded to the same extent in all member states (e.g. Greece and Sweden).

Precisely, for financial education programs that are addressed to children more appropriate would be to use either TV or brochures, taking into account the fact that internet is more complex for children. However, there exist countries where the use of internet is much expanded even to children.

For young adults internet would be the most appropriate means considering that more or less the majority of young adults in all member states seem to have easy access and be used to it. Of course, TV could be even more appropriate due to the fact that it is undoubtedly the most popular means of communication for almost all the consumers.

For adults the use of internet is highly recommended, depending however on the expansion of internet in each country. The main advantage of internet being its accessibility at any time, it seems to be the most appropriate channel to use –apart from TV- for adults who normally have limited availability.

On the contrary, pre-retirement age people and retirees it is less probable that they use internet, so TV would definitely be the most appropriate means.

[6] See Donald J. Johnston.

In any case, under the condition that it is sufficiently expanded to the member state in which it will be applied, internet is one of the best of all core schemes using channel. The schemes can be set up as web-only services or the internet can be employed in combination with printed handbooks, leaflets or brochures, which may not happen with TV. Computer games can be also used in some cases.[7] Moreover, it is a relatively low cost channel, easily adaptable to the different requirements of each specific program. On the contrary, with the exception of children, pre-retirement people and retirees, TV would not be strongly recommended taking into account that it is not an appropriate means for educational purposes.

3.4 Appropriate format

Most of the existing schemes are set up in classrooms or universities. Undoubtedly this scheme is very efficient with respect to children and young adults. In this way, the participants have the possibility to make exercises, play games etc. Moreover, class-room education promotes competition between the participants, which renders education more efficient.

However, class-room type education could not be very appropriate for adults and pre-retirement people, having limited availability because of professional and family obligations, or for retirees who may not have the possibility of moving around.

3.5 Who should carry out consumer education?

Consumer education should be carried out by national authorities, who should have the responsibility of the project, in cooperation with industry which can efficiently provide the necessary know-how. Consumer organizations can also play an important role by notifying weaknesses or shortcomings of financial education schemes. A crucial point is that the content of financial education schemes has to remain impartial without regard to who carries them out.

In general, national authorities, financial services providers, consumer groups, educators and other stakeholders should be encouraged to co-operate in the design and delivery of financial education. This can help in streamline objectives, result in greater coverage of different target groups, rationalize and prioritize resources and promote greater learning from experience. Similarly, at an EU level, co-operation and networking between practitioners could highlight those areas where greater attention should be focused and facilitate an exchange of best practices.[8]

With regard in particular to young generation, financial education should definitely be included in the secondary schools curriculum and inserted as a compulsory course. By this way, it will be ensured that children and young adults will have access to financial education and follow up their programs in the appropriate way. It is clear that the decision to include financial education in the secondary schools curriculum should be the responsibility of Member States. However, industry and consumer organizations could also play an important role with respect to the formation of the programs.

[7] Survey of Financial Literacy Schemes in the EU 27 (2007), p. 21-22.
[8] COM (2007) 808, p. 8.

4. Financial education: actions at EU level

First of all, financial education is a very important issue to be tackled urgently in order to ensure consumers' confidence, which is indispensable for the growth of the Internal Market.

Therefore, all the abovementioned types of action, i.e. supporting financial education schemes, coordination, dissemination of best practice examples and non-binding recommendations would be highly recommended in the field of consumer financial education. However, legislative action should be avoided taking mainly into account the differentiations existing between Member States with respect to their culture, policy and needs of their citizens.

Although the primary responsibility for financial education remains with Member States, non-profit agencies and financial services providers, and the EU organs can be instrumental in providing as a matter of priority the following:

- the creation of a network of financial education practitioners,
- providing sponsorship to Member States and private actors in the organization of national/regional conferences on financial education,
- the publication of an online database of financial education schemes and research in the EU and
- development of training modules on financial literacy.[9]

A very interesting initiative could be the creation of an Office of Financial Empowerment, which would try to use the powers of government to promote both financial education and better design of financial products. By creating an Office of Financial Empowerment one can crack down on firms that exploit financial literacy, and educate the public at the same time.[10]

Another initiative could be the use the city's system of helping people to apply for the earned income-tax credit as a chance to encourage them to open a bank account. In order to explain to applicants the importance of saving, any stakeholder offer carefully designed accounts. By connecting financial education to something real that is happening, it is much more effective.[11]

The project "*Generic financial advice*" which has been identified as one of the priorities of National Strategy for Financial Capability in the UK could also be recommended to apply to more countries.[12] Under "Generic Financial Advice" is understood a set of services and tools that use information about individuals' circumstances to help them to identify and understand their financial position and their needs and to plan their finances accordingly. Generic financial advice helps consumer identify:

- their current financial position and, therefore, the choices and possible priorities for action appropriate to their needs,
- how to take next steps in addressing their priorities, and

[9] COM (2007) 808, p. 8-9.
[10] The Economist (2008).
[11] The Economist (2008).
[12] FSA (2005).

- how to access other relevant sources of information and advice.[13]

Generic financial advice will be defined in a way that means it can be offered on its own, completely distinct from any sales process.[14]

A National Consumer and Financial Literacy Framework can be developed by the relevant authorities in order to inform and provide guidance to developers of support materials and the professional development of all teachers of consumer and financial literacy[15].

[13] Ibid.
[14] Ibid.
[15] http://www.curriculum.edu.au/mceetya/national_financial_literacy_framework_homepage,14429.html

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CONSUMER FINANCIAL EDUCATION

BY JANE WELCH

EXECUTIVE SUMMARY

- National and international surveys of financial literacy demonstrate a low level of understanding and awareness of financial matters on the part of consumers
- Improving consumer understanding of the basics of personal finance is an immediate priority for EU Member States as the level of household debt rises, the need to make adequate pension provision increases and the effects of the credit crisis begin to bite.
- The range and complexity of financial products and services available in the EU continues to grow, but consumers lack the basic skills to assess competing products and consequently may be making inappropriate and expensive decisions.
- Consumer education programmes need to address identified gaps in understanding ; this can only be done following a detailed survey of the level of financial capability of various age groups and social profiles
- The UK has targeted a number of specific groups, such as school children, students in higher and further education, employees in the workplace, the socially excluded and new parents.
- A variety of channels of communication are needed to ensure that the right people get the right information at the right time. Web sites, printed material, CD ROMs, face-to- face presentation, classroom teaching are all used at different times.
- Effective consumer education schemes require the cooperation of all the relevant stakeholders, including Government, regulators, the financial services industry, employers, schools and universities
- Evidence about the effectiveness of financial education schemes in improving financial literacy is hard to come by, because changes in financial behaviour emerge only over a long period and consumers may be equally affected by events such as the credit crisis and rise in unemployment.
- Financial education programmes should be developed at national or regional level to tackle specific target audiences and identified needs.
- The EU can best contribute to the process by providing information and support to Member States, disseminating information on best practice and encouraging the sharing of information and experience between Member States.

1. WHY IS CONSUMER FINANCIAL EDUCATION NECESSARY AND WHAT ARE THE BENEFITS?

Surveys of financial capability generally indicate a low level of consumer awareness and understanding of the financial facts of life. This means that many consumers have difficulty in managing their finances, in matching income and expenditure, and in planning for the future. Far from saving a proportion of their income to deal with unexpected financial shocks, the recent credit crisis has highlighted the fact that many consumers are over- borrowed and are now experiencing real difficulty in keeping up with repayments. In a world where the burden of pension provision is increasingly falling on the individual, the evidence available in the UK shows that a significant proportion of people below retirement age recognise that the State pension will not provide them with the income they would like on retirement but have, nevertheless, not made any additional pension provision.

Globalisation of financial services means that an ever-greater array of products and services are available, not only from national providers, but also from cross-border providers, both within and outside the EU. But too many consumers do not take advantage of the greater choice available: they are unwilling or unable to shop around for the most suitable products and services for their particular circumstances, with the result that they may be exposed to unnecessary risks and may be paying far more than they need to. Many financial products are inherently complex and in the case of long-term savings products, several years may elapse before their performance can be adequately assessed.

But even in the case of simpler products, such as general insurance, consumers fail to survey the market properly and to work out exactly what protection they need. A Financial Capability Survey carried out in the UK in 2006 on behalf of the Financial Services Authority found that 33% of people who had bought a general insurance policy, had bought it without comparing it with even one other product.

Financial awareness and understanding the true cost of borrowing has not kept up with the virtual explosion in the availability of credit. Consumers need to be able to understand and compare the relative cost of borrowing from a bank on overdraft or personal loan, from a credit card company or buying goods on a in- store credit card.

Nor do consumers necessarily have the ability to weigh up major financial decisions such as taking out a mortgage to buy a house or apartment. It is clear in the aftermath of the credit crisis and downturn in the mortgage market that many consumers do not fully appreciate the implications of fixed and variable interest rates. Many borrowers were able to take out 100% mortgages at a rate fixed for two years or less, without any serious consideration apparently being given to their ability to keep up with repayments if interest rates were to go up at the end of the two year period, if property prices were to decline, or if there were an economic downturn and they were to lose their job or have to cope with a drop in income. While lenders must shoulder some of the blame, borrowers also need to take a more realistic and balanced view of their ability to meet future commitments. That requires a programme of financial education to counteract the all too prevalent attitude of "live for today and let tomorrow take care of itself".

It is important to recognise that failure to plan ahead or to save for contingencies is not necessarily due to the fact that consumers simply do not have the money available. The UK Financial Capability Survey, referred to above, found that many consumers at all income levels were not planning ahead, but it also found examples of people with very low incomes who did so.

There is also a need to educate consumers so that they are better able to distinguish between the honest and the fraudulent. Today anyone with an e-mail address can be targeted by fraudsters operating from anywhere. Retired people can be cold-called by phone at home and persuaded to part with their life savings in return for promises of instant wealth. By the time they realise that something is wrong, the money has been transferred out of the jurisdiction and the police and regulatory authorities can do little to help. Boiler rooms continue to operate in the EU and there appears to be a never-ending supply of victims. Consumers need to be better informed, so that they can exercise a degree of healthy scepticism when assessing the claims of salesmen.

The cost to society of financial illiteracy can be significant. Failure to plan for retirement means that the taxpayer may have to make up the shortfall. The costs of sorting out excessive levels of debt are significant. The cost of borrowing is going up to cover the cost of defaults. Taxpayers invariably have to fund any increase in the number of people relying on state benefits. There may be a cost too in the form of more stringent regulation of financial services. The latter can , however, be counter-productive if it simply results in the consumer being bombarded with more disclosures and risk warnings, when what he needs is a simple guide to the basic characteristics of each financial product or service.

Consumer financial education programme are not a substitute for consumer protection measures laid down at EU or national level. They can however inform new measures and lead to a reassessment of existing measures to see whether they require appropriate information to be provided to consumers.

Consumer financial education programmes need to be distinguished too from financial inclusion programmes. The latter focus instead on providing access for the socially excluded to financial services such as affordable insurance and bank accounts. A financial education programme, on the other hand, should enable consumers to assess the relative merits of different current accounts, the cost of different forms of borrowing, and to understand various bank services such as standing orders, direct debits and overdraft facilities, as well as getting to grips with various types of insurance and investments. And when consumers are better able to make informed choices, regulation may be necessary to enable them to exercise those choices, e.g., by switching bank accounts.

The benefits of raising the level of financial awareness can be equally significant. The European Commission, Member States and international organisations such as the OECD are agreed that the long-term benefits should include reducing the level of problem debt, increasing savings, making appropriate use of insurance products and making adequate provision for retirement. Financial services providers should also benefit in the long term from a better informed customer base, who are more likely to save and invest and less likely to default on their commitments. The European Commission has argued that active consumers drive competition and help firms to become more efficient, innovative and globally competitive. This in turn will help to develop a genuine single market in retail financial services, which has hitherto lagged behind the wholesale market.

2. WHO IS THE TARGET AUDIENCE?

The target audience will vary from Member State to Member State and ideally should be established only after a survey of financial capability has been carried out. There is however, likely to be a need in all Member States for financial education from school to retirement , but the priority and focus given to each age group or social grouping may vary. The UK has found that there is no single magic solution but rather that a "sustained, broadly-based programme is necessary" if progress is to be made. It was a particular concern in the UK that younger age groups had the lowest level of financial awareness, despite the greater demands being made on them.

In 2006 the UK Financial Services Authority (FSA) embarked on a five year programme to improve the financial capability of UK consumers. To date the FSA has reached three million people, which is in line with its overall target of 10 million people by 2011. The programme targets schools and young adults, but also provides financial education in the workplace. New parents are another group singled out for advice. The programme also seeks to draw in the socially excluded, young people who are not in education, employment or training, and offenders on probation or in prison.

2.1 Schools

Early financial education is seen as vital in equipping young people with the necessary financial skills to meet the demands they will face in later life. Financial capability is due to be included in the national schools curriculum in 2008 as a part of the teaching of maths- a core subject in the national curriculum. The FSA funds a programme called "Learning Money Matters" through an independent charity - the Personal Finance Education Group - which provides schools and teachers in England with access to a range of materials, tools and training. Over 2100 schools have so far signed up to the initiative, which is on course to meet the long-term target of 4000 schools by the end of the programme in 2011. The FSA is also supporting similar initiatives in Scotland, Wales and Northern Ireland.

2.2 Higher Education

The "Money Doctors" project is designed to improve the financial capability of students in higher education. It encourages students to take control of their finances before they get into difficulties. The programme works through student money advisers at Higher Education Institutions across the UK and the FSA works with and supports the student advisers in taking steps to improve student financial capability. The FSA currently works with 50 UK universities and aims to double this figure by the end of the 2008-2009 academic year.

2.3 Young People Not in Education, Employment or Training (NEET)

The FSA launched a training programme "Young People and Money" in January 2008 and aims to train 20,000 people working with NEET young adults by 2010.

2.4 Workplace Financial Education

"Making the most of your money" is another FSA initiative to provide employees with financial education at their place of work. It involves trained presenters visiting places of work, free of charge, to deliver seminars dealing with budgeting, managing debt and long-term planning for the future (including pension provision). A CD -ROM and information pack covering the same ground is also provided. Since the programme was launched in 2006, it has reached over 1.3 million employees.

2.5 New Parents

The FSA's Parent's Guide to Money aims to reach over 1.5. million new and prospective parents by 2010/2011. It seeks to help new parents deal with the additional financial responsibilities of parenthood, by giving them information about benefits, taxation, saving schemes, budgeting etc. Over the next year, over 500,000 parents should receive a guide through their midwife or health visitor.

3. WHICH CHANNELS AND FORMAT SHOULD BE USED TO DISSEMINATE FINANCIAL EDUCATION?

It is clear from the above that in the UK at least, there is no single channel of communication which is capable of getting the right information to the right people at the right time. Each target group requires different treatment and a different format. What is common to all groups is the need for clear, jargon-free impartial information. This may need to be provided in the form of classroom teaching materials aimed at secondary school children, face -to-face presentations in the work place, followed by question and answer sessions, CD-ROMs that consumers can study at home, user-friendly web-sites with interactive tools and printed guides. The FSA website "Money made clear" aims to provide clear, impartial information to help consumers make more informed decisions about their finances. The site received 2.8 million visits in 2007.

To complement existing work with intermediaries and the "Money Made Clear" website, the FSA is launching a tailored website for young adults in May 2008 - a one- stop for 18-24 year -olds on money.

There is a need for continuous evaluation of the channels and format used in education programmes to ensure that the message is getting through, and that resources are being used effectively. The FSA has found that it is necessary to use an increasing number of non-financial channels to promote its materials, ranging from major internet service providers to parenting and dating websites, and women's magazines.

The Thoresen Review of Generic Financial Advice , commissioned by the UK Government , published in March 2008, recommends a Money Guidance Service, to be made available by telephone, internet and face-to-face. The UK Government has set up a pilot scheme to be led by the FSA to test the recommendations over a two year period before deciding to roll out the programme nation-wide. The pilot scheme could reach up to 750,000 people.

4. SHOULD THE GOVERNMENT, FINANCIAL INDUSTRY, OR CONSUMER ORGANISATION BE PRINCIPALLY RESPONSIBLE FOR FINANCIAL EDUCATION?

This is a matter for each Member State to decide in the light of its own circumstances, drawing on the resources available, but it is likely that a successful education programme can only be delivered with the help and cooperation of all the relevant stakeholders. It was inevitable in the UK that the financial regulator should play a leading role since one of the regulatory objectives of the FSA under the Financial Services and Markets Act 2000 is to promote public understanding of the financial system, which includes the provision of appropriate information and advice. In 2003, the FSA established a partnership of key people and organisations in government, the financial services industry, employers, trade unions and the education and voluntary sectors.

Some caution needs to be exercised, however, when employing financial professionals to convey generic financial information. Consumers may be justifiably sceptical about the impartial nature of the information provided. They want to understand financial products; they do not want to be sold financial products under cover of an education campaign.

5. IS THERE A CORRELATION BETWEEN THE AVAILABILITY OF FINANCIAL EDUCATION SCHEMES AND THE LEVEL OF FINANCIAL LITERACY?

A European Commission study concluded that it is difficult to evaluate the effectiveness of financial education programmes, because behavioural change is only perceptible over the longer term. In the UK the FSA has emphasised that building financial capability is about long-term change and the inherent difficulty of measuring outcomes and changes in behaviour has been recognised by the UK National Audit Office in its 2007 Review of the FSA.

It is obvious that it is crucial to establish the level of financial literacy in any Member State before embarking on an education campaign. The FSA's financial capability survey, which was undertaken in 2005 and the results of which were published in 2006, established the profile of the overall financial capability of the UK population, using measurements in five key areas: making ends meet, keeping track of money, planning ahead, choosing products and staying informed.

A follow up survey is scheduled for 2010 and in the meantime the FSA is working to understand how specific financial capability interventions by the FSA, by Government and others across the public, financial and private sector affect levels of financial capability. This complements existing evaluation of each financial capability project in gauging their effectiveness in reaching and making an impact on the target group.

6. SHOULD FINANCIAL EDUCATION SCHEMES BE DEVELOPED AT A NATIONAL, REGIONAL OR EU LEVEL?

Available evidence suggests that financial education programmes are best established as close to the identified target audience as possible. This means adopting a “bottom- up” as opposed to a “top-down” approach. Within a national framework, programmes should be targeted at a regional or local level. Financial education aimed at school children must obvious adapt to the way in which secondary school education is organised in each Member State. Consumer education programmes must take account of the characteristics and structure of the financial markets in each Member State. They need to adapt to the social and economic conditions prevailing in particular regions. For example the education needs of a socially-deprived region with a high level of unemployment are going to be different form those of a more affluent area where the majority of the population are retired. Similarly there is little point in focusing on mortgage credit and the mortgage market if the majority of the population lives in rented accommodation and does not aspire to buy their own home. If there is no tradition of private investment and the capital markets are under-developed, educating consumers about investing in stocks and shares as a means of long term saving may not be a priority.

7. WHAT EU ACTION WOULD BE APPROPRIATE?

Article 153 of the Treaty provides that the Community shall contribute to promoting the right to information and education of consumers in order to safeguard their interests and adopt measures which support, supplement and monitor the policy pursued by the Member States in this field. Consumer financial education also plays a role in underpinning the Single Market in Financial Services.

Respondents to the Commission’s Green Paper on Retail Financial Services suggested that Commission should play a role in collecting and disseminating information on best practice and developing a set of non-binding principles. Some concern was expressed that financial education was a complement to but not a substitute for robust consumer protection measures.

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CONSUMER FINANCIAL EDUCATION

BY MANDRED WESTPHAL

Executive summary[1]

- It is important to develop a definition of good financial education/literacy/ capability. How do different approaches vary in general, what can they achieve? From this best practice models can be developed, in the direction of giving critical and user-oriented knowledge, understanding and social decision-making skills and responsibility concerning behaviour in the area of financial services.
- Financial education is not a one-way street; also providers need to be considered, and it is important to analyse and evaluate consumers' information needs and demands (see the Commission's Focus Group concept / consumer testing / behavioural economics). Financial education should be a process of mutual learning in the market, not only consumers learning from teachers and programmes, but also providers and governments learning from consumers,
- Financial education is no panacea, strengthening of consumer rights, independent advice and clear, short and comparable consumer information is also important.
- Governmental initiatives, incentives and investments are needed and a firm basis of consumer education in school curricula, not forming a new subject, but integrating it into several subjects and designed to encourage and develop the skills needed for every day life. Teachers must be trained to tackle these new tasks.
- When the quality of school books in Germany was evaluated, it was noticed more than once that the facts included were mostly abstract (money in the stone age etc.), outdated or not at all linked to practical life skills needed for coping with financial situations. At least one German State has now admitted that it has no influence on school book contents in relation to educational publishers.
- Apart from schools, the concept 'train the trainers' should be enhanced. If it is the case that many consumers don't feel self-reliant enough to tackle financial decisions all on their own they need independent advisers to help them. Quality of advice and an adequate infrastructure must be provided for.
- Important is the work on an online database showing reliably what the financial education programme is like and why and for whom it is valuable, and evaluating the programme to give a clue in what surroundings it can work.
- In order that projects can achieve sustained success they have to be evaluated on their concrete benefits so that their value for a specific target group can be perceived.
- Synergy effects between different education organisations are not used enough; cooperation and networks should be strengthened.
- However, even well-founded financial education cannot overcome the obstacles that some consumers under the given conditions of the market don't have fair access to suitable and cost-efficient financial services. And education doesn't necessarily save a consumer from a loss due to a bad advice.

[1] For the main findings see also chapter 3

- Financial services are sold – by intermediaries - more often than they are bought. Their quality must also be cared for; liability and commission charging are keywords in this context. If one aim of financial education is that consumers don't purchase so easily products they do not need, be tied into products they do not understand, or take risks that could drive them into financial difficulty; providers and intermediaries have the responsibility as well as every consumer, in offering simpler products, treating every consumer fairly and according to his needs and demands.
- One of the best practice principles should be developing practical skills with relation to money, be it learning what questions to ask intermediaries before contracting, consider risks and opportunities, learn and practice budgeting and saving, be fit for certain lifetime events (e.g. managing and repaying a student loan), know whom to ask for help.
- There is the danger – and there are examples - that financial service providers combine their efforts for consumer education with advertising their own products and services, e.g. in schools. This must be prevented by all means.
- How can specific groups that are in need to be trained or educated be reached better (like ethnic minorities or low-income groups)?
- The German Chancellor Angela Merkel recently expressed an interesting idea: German TV has been showing "The programme with the Mouse" (for ages now. It explains production chains (How is a pencil made?) and everyday phenomena; children are the main target group. Why not start – Merkel proposed - a "Finance Mouse" that explains financial things in a very depictive and lively manner?
- An intelligent mix of education offers, effective consumer protection, focused and comparable consumer information and professional independent advice can prevent financial education from becoming an alibi activity.

1. Latest Activities on the European level

a. Conference "Increasing Financial Capability" in March 2007

In March 2007 the Commission hosted a conference on financial capability. Amongst others the progressive stages in a consumer's life were covered at which financial education is especially needed and 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 (especially important in view of the weakening of state pensions). It got clear that Member States have a key role to play, particularly with regard to inclusion of financial issues in the education curriculum. A strategy must not be solely aimed at consumers directly, but also look at the point of sale to ensure advice is appropriate, and that there must be comparability between products, also through harmonised implementation of information documents across Member States. There were several wishes to the Commission, e.g. for a strategy for the market players to become more responsible when selling and support for the network of institutions involved in delivering instruments for financial education and to Member States to promote financial education throughout a person's life stages.

It was mentioned that the interests of consumers primarily have to do with financial consequences and different following steps and not necessarily with financial products as the industry sees it. Consumers won't never be professionals and therefore need professional advice. There are different approaches to the subject depending on the different objectives: knowledge, capability or education. These terms that are often are thrown together should be defined and clarified first. It was also stated that financial education should first teach consumers how they should use their income.

b. Consumer Strategy 2007 – 2013 / Green Paper on Retail Financial Services and others

The Commission's Consumer Strategy 2007 – 2013, adopted in March 2007, follows three main objectives: to empower Europe's consumers, to enhance their economic and non-economic welfare in terms of price, choice, quality and affordability, and to protect them effectively. Financial capability is supposed to fit into all three objectives; one concrete aim was the adoption of a Communication (see. d. below).

The Green Paper on Retail Financial Services (May 2007) also deals with Financial Education as it suggested that more could be done to encourage it. In the following consultation many respondents stated that education should remain a matter for national authorities, and proposed that the Commission should play a role in collecting and disseminating information on best practices and in developing non-binding principles to aid financial education providers. Others argued that the benefits would only be seen in the long term, and that attention should not be diverted from robust consumer protection provisions in financial services legislation.

Finally the importance of good financial education has been acknowledged in the White Paper on Financial Services Policy 2005 – 2010, the Single Market Review (November 2007), the European Parliament resolution on financial services policy, adopted in July 2007, and in the ECOFIN Council conclusions in May 2007, in which the Council invites Member States "to significantly step up their efforts to raise households' awareness on the latter's need to obtain proper information and education, in combination with the financial industry's own responsibilities and initiatives as appropriate, so as to increase households' preparation whilst maintaining adequate investor protection".

c. Survey of Financial Literacy Schemes in the EU and Commission Communication on Financial Education

In December 2007 a Commission study was presented which mapped out financial education schemes in Member States. The survey carried out by Evers & Jung, covered 180 schemes and initiatives and thus presented an overview of the financial literacy schemes for the majority of the Member States. It also presented a list of general literature on financial literacy as well as literature on single schemes. The study showed that financial literacy is a growing priority, both for the EU institutions and for the market players. The data was sorted by scheme provider country, provider status and target group. In the course of 2008 the results of the study are supposed to be used as the basis for an online database and updated regularly.

d. Commission Communication on Financial Education

Also in December 2007 the Commission adopted a Communication on Financial Education which presented the benefits of and underlined support for the provision of financial education delivered as close as possible to the citizens that need it, namely through Member State, national and regional authorities, non-governmental agencies and the financial services sector.

The purpose of the Communication was to assist stakeholders in the development of financial education schemes by

- raising awareness of the need to address low financial education,
- encouraging the provision of high-quality financial education within the EU, including the sharing of best practice,
- developing certain practical, facilitating tools to achieve these aims.

The Communication presented eight basic principles to guide providers of financial education, based on existing best practices and considering that it is useful to define some principles that could aid stakeholders in their efforts to launch and run financial education programmes. The Commission also announced planned initiatives in the area and identified the following initiatives as a matter of priority:

- the creation of a network of financial education practitioners (see e.),
- providing sponsorship to Member States and private actors in the organisation of national/regional conferences on financial education,
- the publication of an online reference database financial education schemes and research in the EU,
- enhancement of the existing Dolceta online education tool and training module to help teachers to incorporate financial matters into the school curriculum.

e, Expert Group on Financial Education

The Commission has opened a call for applications to private and public stakeholders for this new Expert Group that will be composed of practitioners and aim at promoting exchange of ideas, experiences and best practices. The group is also supposed to advise the Commission on its policy-making in the area of financial education.

2. What is needed to combat poor understanding of financial services?

If consumers want to act effectively on financial markets they need financial capability as basic equipment for getting in touch with financial services and with intermediaries and advisors more confidently. Furthermore, providers getting in touch with these consumers need to act in a responsible way: they have to treat their customers fairly. Moreover, consumers must be supported by good quality information and advice: Information on products must be clear, comprehensible, focused on the key features of product and contract and easily comparable with other offers what also means standardised and short. Advice should be as independent as possible; a corresponding infrastructure must be built up, maintained or extended or in the Member States. Last but not least the EU and each Member State should have to offer a legislative frame with which to protect consumers' fundamental rights and interests.

The Commission is right in saying that not financial education alone, but only a sum of policies can contribute to empowering consumers to make the best decisions for their financial circumstances. Financial education is a complement to measures aiming to ensure the appropriate provision of protection, information and advice to consumers.

Financial services are complex products. Consumers in their everyday lives and in times of growing deregulation in many areas (like telecommunications and energy) are supposed to behave more and more responsibly and pick out a provider and product among the fast growing number of providers and products. Besides they are expected to check the contract terms before deciding for a concrete contract whereas in earlier times supervision or competition authorities were involved in checking those contractual conditions.

Taking into account

- the time-consuming effort needed to get all this new information and education in many areas (time that often is not available in a big amount),
- the high and growing complexity of financial services products and contract terms,
- the information asymmetry between the supplier and the buyer side manifesting in a missing comparability between products and offers, the information overload and the sometimes missing will or capability of providers and provision-oriented distribution channels to professionally inform and advise consumers,
- tricks and efforts of providers and intermediaries to sell products cost-effectively on a large scale,
- the fact that some financial services are only bought once in a lifetime by a household like old-age pension or mortgage credit and
- the fact that consumers don't think and learn that effectively by single products than by household necessities like managing the budget or by certain lifetime events like starting a professional education, the first apartment or job, marriage or divorce, having children, getting out of work or seriously ill, or retire,

it becomes clearer that there are borders and limitations to the ideal of having financially mature consumers or financial professionals in the future.

3. Analysis of questions

a. Benefits and target audience of financial education schemes

Good financial education can enable consumers to improve their understanding of financial situations, concepts and products. And it can develop practical skills necessary to improve their financial capability, to be aware of financial risks and opportunities and to make informed decisions choosing financial services. In Germany there is the saying: "Über Geld spricht man nicht" (talking about money is taboo); so the issue has to be brought out of the dark as decisions concerning pension, insurance and credit are of big importance for most households and must not be left to providers and intermediaries. As shown above financial education is one of several modules in this context; others are an effective consumer protection, focused and comparable consumer information and professional advice, especially by independent advisers. The benefits are clear if good decisions are made and concepts chosen that are sustainable and adapted to the needs and demands of the consumer.

As to the target groups not only consumers should be taken into focus, but also providers, intermediaries and advisers. They should listen, see the needs of consumers and behave responsibly. Providers should for example try to make products, contract terms and consumer information easier. At the moment those pieces of information are hardly read in many cases.

Many consumers can be reached in certain lifetime situations where they are in need of help or developing financial skills (moving away from parents, taking up a study, marriage, having a family, divorce, getting close to retirement). Migrants, ethnic minorities and low-income people also are an important target group, bur not easy to reach.

b. Financial education schemes and the level of financial literacy

The correlation between the availability of financial education schemes and the level of financial literacy does not seem to be proved sufficiently. Moreover many education programmes are not intended or designed to reach the masses. Financial education in schools lags behind. One correlation, though not a proof in the scientific sense, stems from the Evers & Jung study which comes to the result that some Member States seem to care more for the issue of financial education than others (Germany and UK belonging to those Member States also being the countries with the most education programmes listed in the survey). One could say that a Member States that doesn't bother for education programmes being installed doesn't bother too much about education itself. The availability of schemes seems to be influenced quite a bit by public and governmental support and investment.

c. Characteristics of best practice financial education schemes

Schemes first must be funded, well designed and targeted (what contents for what target group with what needs with what instruments of presentation), actively promoted, timely and easily accessible. They should be available to specific target groups (like young people, ethnic minorities, people taking up their first job, people planning for a family, retirees as examples) and to address concrete financial challenges associated with real life events in consumers' lives, not so much to the general public. Bigger groups can for example be reached by means of TV or broadcast. It seems advisable to identify early what issues need to be addressed in particular and what the awareness of the target group is like. Programmes should first of all be carried out on the national and regional level to be close at the target groups. As soon as a certain format is appropriate to be used it should be used. All stakeholders should carry out programmes; partly this will be a financial problem to be solved; partly it will be a problem of conflicts of interest.

When financial service providers contribute to the development of financial education there should be a clear distinction made between education, advice on products and advertising for products or for the provider as such. Financial education should be included in the school curricula, but should be no extra subject.

d. Financial education initiatives at EU level

Most important is the building of an online database with practical, descriptive information on a large number of financial education programmes plus the evaluation of national and regional financial education schemes (not included in the Evers & Jung survey), the work on disseminating best practice examples, the installation of an expert support center to provide help and support for stakeholders, the supporting and funding of suitable model projects and research directed to best practice in financial education. Whereas a Commission recommendation also seems imaginable, legislative action is not at the moment.