

# Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



## SPI Project on Consumer Education

Background Note Prepared by SPI Secretariat

February 19, 2007

### I. Purpose of the Note and Executive Summary

The present note, which gathers relevant information on the international experience with consumer education aims at providing the project working group with background information on issues that should be considered when elaborating the national strategy for consumer financial education.

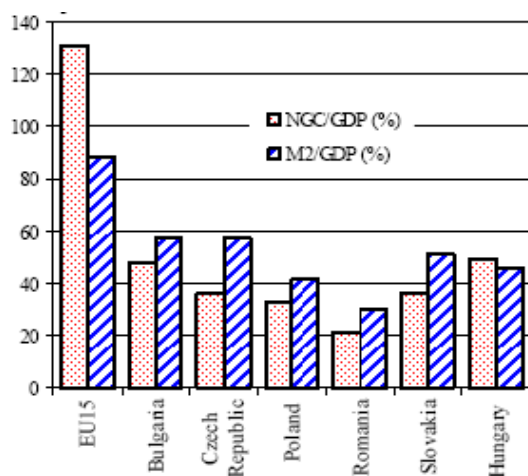
The document is structured as follows:

- **Context:** describing the Romanian environment and the potential benefits for all stakeholders from promoting consumer financial education;
- **Recent OECD findings and recommendations on financial education:** outlining the main findings of the recent OECD initiative for promoting financial education and the set of best practices in this area, addressed to the main stakeholders;
- **International experience with consumer financial education:** summarizing relevant international experience of public and private stakeholders in promoting financial education through the dissemination of information on financial products and services and through financial training;
- **Questions for project working group discussion:** issues that could be discussed by the working group as it progresses in defining the national strategy for promoting consumer financial education.

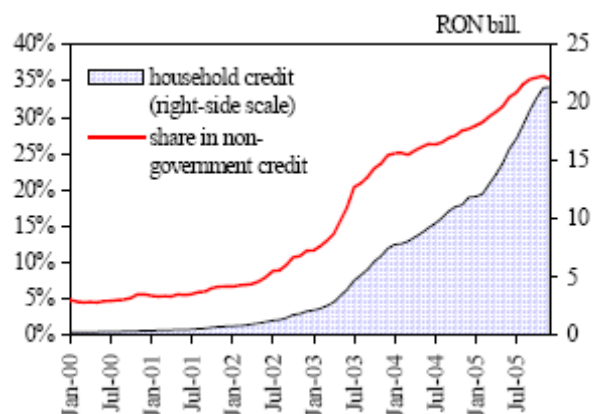
## II. Context

At present, the penetration of financial services in Romania shows modest levels compared to other European countries (Chart 1), but the retail financial services continue to grow at a fast pace (Chart 2), in a favorable context provided by sustained growth and declining inflation and interest rates, keener competition among credit institutions and an increase in disposable incomes and optimistic expectations of population. This effervescence of the Romanian financial market offers increased opportunities for both consumers and providers of financial services.

**Chart 1. Financial development ratios (2005)**



**Chart 2. Developments in household credit**



Source: National Bank of Romania, Financial Stability Report, 2006.

In this context, the education of financial services becomes very important for:

- **consumers of financial services** as it helps them to budget and manage their income, save and invest efficiently, and avoid becoming victims of fraud;
- **providers of financial services** as it can constitute a marketing tool for financial institutions to build robust client relationships and promotes competition among financial intermediaries;
- **authorities** as is a policy instrument for authorities to contribute to a sustainable growth in financial intermediation and ensures the smooth functioning of financial markets and the economy.

## III. Recent OECD findings and recommendations on financial education

In a recent publication (“Improving Financial Literacy”, July 2006), OECD stressed the importance of consumers’ financial education in both developed and developing countries. A survey performed on a representative sample of countries outlines that the following benefits of financial education:

- it helps individuals in better understanding the risks they are exposed to and the related need for protection;

- it provides individuals with information on new financial products and services and how to evaluate and compare these new products and services;
- it helps individuals with dealing with issues of credit, investment, savings, and insurance;
- it provides workers with information about their pensions and how to invest their savings for retirement.

Likewise, OECD outlined a set of best practices in this area, addressed to the main stakeholders in financial education: public authorities, financial institutions, employers, trade unions, and consumer groups. Among these, the most important are:

- all concerned stakeholders should promote unbiased, fair and coordinated financial education;
- financial education should start at school, for people to be educated as early as possible;
- financial education should be part of the good governance of financial institutions;
- financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed;
- financial institutions should be encouraged to check that clients read and understand information;
- financial education programs should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions;
- national campaigns, specific Web sites, free information services and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.

#### **IV. International experience with consumer financial education**

There are a variety of initiatives undertaken by both public and private organizations to provide financial education to consumers. In practice, financial education can be promoted through:

##### **A. Dissemination of accessible, relevant and plain information on financial products and services**

The disseminators of such information can be:

- authorities (financial supervisors, central banks, associations of relevant public authorities, inter-governmental bodies);
- banking associations;
- financial institutions;
- non-profit organizations;
- international organizations (including EU bodies).

The concrete ways of disseminating the information are:

- web sites (most common);
- distributing pamphlets, booklets, and / or reports;
- events (exhibitions, etc.);
- TV and radio campaigns;
- consumer telephones where individuals can call to learn about financial issues;
- computer consultation centers.

## **B. Financial training**

Financial training can be promoted:

- in school (through school curriculum);
- out of school (through dedicated financial education programs, courses and / or seminars, discussion meetings, mentoring, etc.).

## **A. Dissemination of financial information for consumers**

### **1. Authorities**

In some cases, consumer education is among the statutory objectives of the financial authorities and therefore the dissemination of information for consumers is at the center of their mandate. However, most central banks and supervisory authorities publish information for clients of financial institutions, even though consumer education is not specifically included in their objectives (see below).

#### **Case studies:**

#### **United Kingdom - Financial Services Authority**

The UK Financial Services Authority has the consumer protection among its statutory objectives (besides market confidence, public awareness, and reduction of financial crime). Therefore, the dissemination of information for consumers of financial services and products is at the center of the financial supervisory authority's mandate. Financial services information activities are roughly classified by FSA into: (i) nation-wide activities; and (ii) local activities.

#### **(A) Nation-wide Activities**

- **(a) Newspapers, videotapes**

The FSA Central Council actively supplies to the press and magazines a variety of information related to financial services. It also produces videotapes designed to relate social education and better living.

- **(b) Publications**

The FSA Central Council compiles various publications and reference materials that give an easy access to financial and economic information.

- **(c) Website**

The FSA Central Council provides following financial services information through its dedicated Consumer information – web page

(<http://www.moneymadeclear.fsa.gov.uk/home.html>) featuring the following useful tools:

- **“Compare products”** - impartial tables for consumers to compare similar financial products from different companies, such as pension annuities, mortgages, savings accounts, investment bonds, savings endowments;
- **“Free booklets”** - the consumer booklets and factsheets cover a wide range of topics – such as pensions, mortgages, financial advice and how to make a complaint; they are written in plain English and are a good starting point for general information;

- **“Products explained”** - basic information about bank accounts, credit cards, insurance, investment, loans, mortgages, pensions, retirement options, etc.;
- **“Guides”** - tailored to respond to financial needs “the basics”, “life events”, “getting older”.

- **(d) Life Planning Computer Consultation Service**

To assist the public in drafting individual life plans or to judge how appropriate a plan is, a free computer consultation service is available.

- **(f) Survey**

In order to ascertain the actual situation, "Public Opinion Survey on the Financial Assets of the Households" is regularly conducted.

## **(B) Local Activities**

- **(a)** To foster and strengthen local life planning and financial services information activities

The FSA Local Committees designate "Study Group on Financial and Economic Matters" as grassroots organizations comprising 50-100 persons and provide guidance through discussion meetings and the distribution of financial services information materials.

- **(b)** To foster "Study Adviser on Financial and Economic Matters" and to cooperate with related groups Local Committees appoint "Study Adviser on Financial and Economic Matters" to be at the forefront of financial services information activities, requesting them to: (i) foster Study Groups and give guidance, and (ii) guide the public in their life planning and pecuniary education. Additionally, in close cooperation with government offices and leaders of various organizations responsible for social education, Local Committees seek to expand the financial services information activities.
- **(c)** Activities for youth and children  
Local Committees hold discussion meetings for the young to promote life planning and a healthy view of money and goods. For children, model schools for pecuniary education (given in model schools for kindergartens, elementary and junior high schools) are designated to promote a healthy view of money and goods.

## **Spain - Bank of Spain**

Although it does not have specifically a customer protection function, Bank of Spain disseminates useful information for consumers of financial products and services through its **Bank Customer's Portal** (<http://www.bde.es/clientebanca/home.htm>).

“The Bank Customer's Portal” is intended to inform bank customers about their rights and offer them broad guidance in their dealings with banks and on typical banking products. The portal is organized as follows: institutions, customer rights, fees and commissions, useful links, Central Credit Register, complaints and claims.

## **Poland - National Bank of Poland**

The central bank of Poland also has an **“Economic Education Portal”** (<http://www.nbp.pl/>). The portal aims at providing and deepening knowledge about the economy and the banking system and at supporting other educational activities of the NBP. The portal features, among other items, the following sections:

- **“Distance learning”** - comprehensive multimedia e-learning courses, including basic banking courses, accompanied by illustrations, animation clips, and films;
- **“Teacher's Centre”** - a service designed for teachers of economics or economics-related subjects at lower and upper secondary schools in Poland. It contains teaching aids in the form of ready-to-use lesson plans, and practical tips on efficient and unconventional methods of conducting lessons;
- **“Fun”** - numerous decision-making quizzes, skill-enhancing and strategic games, crossword puzzles, and jigsaws. This part of the portal has been created for those who want to acquire basic information on finance and economics while having fun;
- **“Knowledge Mines”** - made of two parts: the Virtual Library, and the glossary of economic terms;
- **“News”** - both business headlines and larger articles and papers, presenting current economic and business issues in an intelligible way.

## United States

In the US, each regulator publishes comprehensive information for consumers of financial services and products as follows:

- see “Consumer Information” portal of the Federal Reserve Board at <http://www.federalreserve.gov/consumers.htm>;
- the “Consumer” portal of the Federal Deposit Insurance Corporation at <http://www.fdic.gov/quicklinks/consumers.html>;
- the “Consumer and Community” portal of the Office of Thrift Supervision at <http://www.ots.treas.gov/main.cfm?catNumber=5&catParent=0>, and
- the “Consumers Complains and Assistance” web page of the Office of the Comptroller of the Currency at <http://www.occ.treas.gov/customer.htm>).

Likewise, at the initiative of the financial supervisors and regulator, the Financial Literacy and Education Commission (composed of Federal Reserve, US Treasury, FDIC, OCC, SEC, OTS, and other governmental departments such as the Department of Education, Department of Agriculture, etc.) has been set up with the purpose of improving the financial literacy and education of persons.

To reach the widest number of people possible, the Commission established a website (<http://www.mymoney.gov/>) and a toll-free telephone number to coordinate the presentation of educational materials from across the spectrum of federal agencies that deal with financial issues and markets.

Likewise, the US authorities support financial education through Financial Education Grants, such as:

[U.S. Department of Education: Excellence in Economic Education](#)– This program promotes economic and financial literacy among all students in kindergarten through grade 12 through the award of one grant to a national nonprofit education organization that has as its primary purpose the improvement of the quality of student understanding of personal finance and economics;

[U.S. Department of Health and Human Services: Assets for Independence](#)– Assets for Independence is a Federal grant program that enables community-based nonprofits and State, local and Tribal government agencies to implement and demonstrate an asset-based approach for giving low-income families help out of poverty;

[Department of Housing and Urban Development: Housing Counseling](#)– This program provides grants to approved counseling agencies that in turn provide counseling to citizens about financial literacy, home buying, how to avoid foreclosure and avoid fraud, among other financial education topics;

[National Credit Union Administration: Community Development Revolving Loan Fund Program](#) – The National Credit Union Administration's Community Development Revolving Loan Fund was established by Congress to support credit unions that serve low-income communities by making loans and Technical Assistance Grants available to qualifying institutions. The Office of Small Credit Union Initiatives is responsible for the administration of several programs designed to establish, strengthen, and improve the operations of small and low-income designated credit unions.

## 2. Banking Associations

In many countries, the banking associations are active promoters of financial education since this can constitute a marketing tool for financial institutions to build robust client relationships.

### Case Studies:

#### British Bankers' Association

The British Bankers' Association (BBA) has a dedicated “*Consumers' Portal*” containing useful information for banks' clients. In particular, BBA publishes some leaflets that offer basic information on issues of great interest for consumers, such as:

- “*Financial Inclusion: Access to advice, banking & credit*” - The leaflet outlines that banks recognize that they have a wider responsibility to the communities in which they work and that they have therefore embarked on an ambitious program to improve financial inclusion and financial capability, working closely with the Government and voluntary organizations. This document provides a varied snapshot of initiatives to demonstrate just how much banks are putting into the communities which they serve.
- “*Dealing with debt: a partnership approach - The Common Financial Statement*” – The leaflet outlines that helping customers to run their finances smoothly in a complicated world is core business for banks. Therefore, it is important that banks work with customers and their money advisers to help customers through their difficulties when people experience an unexpected change in their circumstances that can upset their financial plans and make it difficult to pay back money they have borrowed.
- “*Proving Your Identity - How money laundering prevention affects opening an account*” - The leaflet is meant to raise banking customers' awareness of the threat of identity fraud and includes ID&V requirements reflecting the risk-based approach to anti-money laundering.
- “*A Statement of Principles - Banks and businesses working together to manage borrowing*” - The Principles stress the importance of the bank-business partnership when managing borrowing and finance. They reinforce for customers the importance of keeping banks up to date with the way things are going so that, if problems arise, both parties can work together to sort them out quickly and in the best interests of the business.

## **French Banking Association**

The French Banking Association also has a dedicated *Portal for Banks' Customers* [http://www.lesclesdelabanque.com/Web/internet/cibsite.nsf/\(Home\)/Launch](http://www.lesclesdelabanque.com/Web/internet/cibsite.nsf/(Home)/Launch).

The portal includes practical information for banks' customers on bank accounts, credit cards, checks, consumer credit, mortgages, savings, fiscal issues, etc. and a banking lexicon with a useful set of banking terms.

## **Association of German Banks**

The Association of German Banks publishes on its web site useful information for banks' customers. The association has a "fokus:verbraucher – *Information for consumers from the German private banks*" series, which presents all the information specifically targeting consumers in a recognizable format, as follows:

- *"Banks and consumers – The comprehensive consumer policy scheme of the German private commercial banks"*;
- *"Ombudsmann der privaten Banken – Tätigkeitsbericht 2005"* - Ombudsman's Report 2005;
- *"Online banking security – Information for online banking users"*;
- *"Credit Scoring – Part of modern lending"*.

In addition, on 30 January 2007, the Association of German Banks has published an English-language version of the private commercial banks' comprehensive consumer policy scheme, presenting a blueprint for a forward-looking consumer policy at both national and European level. The Association points out that in the consumer credit sector, for example, customers today are being denied the opportunity to reap the benefits of a truly integrated internal market and that a single, appropriate EU-wide legal framework is essential for both consumers and banks. "Appropriate" also means in this context not telling consumers what to do but allowing them to make decisions for themselves and this should be taken into account in the amendment of the Consumer Credit Directive.

## **Italian Banking Association**

In September 2003, the Italian Banking Association created a project called "PattiChiari" with the purpose to strengthen dialogue between banks and customers (both households and firms) on the basis of larger trust, understanding and transparency. Therefore, PattiChiari produces standards and programs designed to help consumers compare more easily different financial products and services so as to make educated choices.

PattiChiari was established as a consortium, independent of ABI, composed of 167 banks and applied to more than 26,200 banking units (accounting for 83% of all Italy's banking units). The project consists of the following 10 initiatives falling into one of the three categories: services, investment and credit.

### **I. Services**

- **FARO**: it enables 3 million customers a day to find the nearest ATM in real time via the Internet or by calling the PattiChiari call center;



- **Bank accounts compared:** it helps customers understand and compare the characteristics and costs of around 500 different current accounts;
- **Basic banking service:** it is an inexpensive, simple and easily accessible product for those who do not have a current account;
- **Check availability:** it provides precise details on how many days it takes for funds deposited by check to appear on the beneficiary's account;
- **Switching bank accounts:** it gives clear and simple instructions on how to close one account and transfer the services to a new one.

## II - Investment

- **Low risk/Low yield bonds:** it offers an easy-to-evaluate list of more than 1,500 bonds selected each day for their low risk profile;
- **Structured bank bonds:** it provides detailed information to help investors understand more sophisticated financial products;
- **Financial investments compared, for informed financial choices;** it aims at helping investors understand their risk profile and the characteristics of different financial products.

## III- Credit

- **Criteria for assessing SME creditworthiness:** it helps firms understand better parameters and criteria for creditworthiness assessment;
- **Average response time to SME loan applications:** it gives firms a clear idea of how long it takes for a bank to answer their requests.

Another ABI initiative refers to the "Handbook on Savings". Within a permanent working table between Italian Banking Association and 12 Consumers Associations, in January 2007 a "*Handbook on savings*" was presented. This represents the first of several handbooks addressed to households aimed at providing practical advices and suggestions about the social importance of savings, financial education and bank-customer relationship. With regard to the *Handbook on savings*, it deals with how to manage household's budget as well as "dos" and "don'ts" when investing savings.

It should be also mentioned that Italy has a Consumer Code, aimed at regulating all relationships falling into commercial activity towards consumers in order to acknowledge and protect consumers' rights within general trade activity. Part II is called "Education, Information, Advertisement" and is aimed at fostering the awareness of the customers on their rights and interests. Also, Title II called "Information to customers" states the minimal set of information that has to be indicated to the consumer.

## American Bankers Association

The American Bankers Association (ABA) has a dedicated Consumers' Portal (<http://www.aba.com/Consumer+Connection/default.htm>) which provides useful information on bank products and services and on other topics of interest for consumers (identity theft, predatory lending, check fraud, skimming and scamming, etc.). In addition, the website provides helpful tips on finding banks, interest rate calculations, privacy and opting out.

In addition, ABA has established the **American Bankers Association Education Foundation**, which provides leadership and banker resources to help consumers take control of their personal finances. During the more than eight decades of existence, ABA's Education Foundation has supported the banking industry to teach personal finance skills in schools and communities across the country. The programs are specifically and uniquely developed for young children, teenagers and adults to provide them with the skills they need to budget, save and manage credit.

### 3. Financial Institutions

Some big financial institutions are involved in consumer education actions, such as publishing basic information for consumers on their web sites, initiating financial education programs and/or financing events that promote consumer education. One of the most complex programs developed by financial institutions is the **Citigroup Financial Education Program** (<http://financialeducation.citigroup.com/citigroup/financialeducation/index.htm>), which includes:

**Citigroup's Curriculum & Facilitator's Guide** Designed for almost any audience, the Citigroup Financial Education Program's Curriculum offers basic lessons in personal finances. The Curriculum and accompanying Facilitator's Guide are available in Spanish and English, and can be used with audiences from students to senior citizens.

**Citibank Small Business Guide** Citibank Small Business Guide, entitled "Becoming an Entrepreneur," is a series of informational guides designed to provide a wealth of information on starting and running a business to those seeking an opportunity to become entrepreneurs. This series of ten guides includes activities, worksheets, self-assessments, glossaries and valuable additional resources to consult along the way. Citibank worked with a team of small business owners to develop, write and produce this series.

**Primerica's How Money Works** This program shows people how to make well-informed decisions, how credit works and how to get the best out of the money they spend.

**Smith Barney's Young Investors Network** Designed to promote financial literacy among middle-school and high school youth, the Young Investors Network features learning tools to teach the fundamentals of saving, investing and enhancing fiscal responsibility. The site also includes activities to increase comprehension such as a virtual portfolio function, goal and budget tracking pages and a college expense calculator. Highlights of the site include Smith Barney's national in-school financial curriculum and stock portfolio contest.

**Citi Cards' Use Credit Wisely** Use Credit Wisely provides consumers with the latest resources to help them achieve peak financial health. The site includes information on topics such as "Gaining Financial Control" and "Fraud Prevention." It also includes calculators to help plan a budget and links to other helpful information.

**Citi Cards' Use Credit Wisely for Business** The Use Credit Wisely for Business site offers business owners an essential resource to address the unique aspects of owning a business.

**Citi Cards' Credit-ED** The Credit-ED Web site offers college students the essential resources they need for life-long sound financial health. The Web site provides students with the latest information and tools to manage their credit responsibly.

A basic research on the websites of the top ten banks operating in Romania reveals the fact that while banks publish detailed information on their own products and services, there is little information that can qualify as consumer education. Among the consumer education publications / actions are the SME Raiffeisen School addressed to young graduates in order to improve their knowledge of SME financing or the HVB-Tiriac “Practical Guide to Legal and Regulatory Issues for Commercial Real Estate in Romania”.

#### **4. Non-profit Organizations**

One of the most relevant examples is given by the US, where around thirty non-profit organizations have been set up for improving individuals’ financial education. The non-profit organizations help people of all ages improve their spending, increase their savings and use credit more wisely and support employers make personal finance programs (home study or instruction) available to employees and their families as part of an employee assistance program (see Institute of Consumer Financial Education <http://www.financial-education-icfe.org/>).

#### **5. International Organizations**

Some major international organizations have financial education programs that support the countries’ efforts in promoting financial literacy and education. Some of the most important programs initiated by international organizations are mentioned below.

##### **Case Studies:**

##### **OECD Financial Education Program**

The importance of financial education has been recognized by the governments of a number of OECD member countries. In response to this increased emphasis on the importance of financial education, the OECD has established a Financial Education Project to study financial education programs in OECD member countries and selected non-member countries. The first phase of this study will describe the types of financial education programs that exist, analyze the effectiveness of these programs, and develop a methodology that policymakers can use to compare strategies and programs for improving financial literacy (this analysis was based on a survey).

The second phase of the Financial Education Project will focus on the production of guidebooks designed for regulators and policymakers to assist with the effective implementation of financial education programs and to assist individuals with retirement planning decisions. As part of this second phase, there would be an in-depth survey of the financial literacy of individuals in a few selected pilot countries.

The expectation is that interested countries will volunteer to conduct a survey of their consumers and share the results with the Financial Education Project. These surveys will be extremely useful to both the countries conducting them and to others in terms of providing information on how to effectively implement and target financial education programs. The lessons learned from these surveys will be collected in a handbook for policymakers.

## **B. Financial training**

### **a) In school financial training**

The evidence of financial training in different countries through school curriculums is poor and very few countries have performed an assessment of the efficiency of the financial education carried out in schools. Among these, the UK has recently published a benchmark study on the “Personal finance education in schools” (<http://www.fsa.gov.uk/pubs/consumer-research/crpr50.pdf>).

The results of a survey conducted in the UK provide five main themes:

- The majority of schools attach a high level of importance to personal finance education. However, the topic has a relatively low profile in the school curriculum and therefore steps need to be taken to enhance its status.
- Schools believe that a main barrier to the delivery of effective personal finance education work is an already stretched school curriculum. The policy implications driven were the need to teach schools to appreciate that personal finance education supports and enhances pupils' learning experiences and is complementary to other curriculum components.
- The relatively narrow range of personal finance education topics covered, and the infrequency and inconsistency with which they are delivered, are areas for concern. While some teachers have confidence in delivering personal finance education, this is by no means universal. Therefore, it is important to ensure that all teachers who are going to deliver this subject feel ready and able to take on this most important task.
- The majority of schools do not have assessment policy and practice in place for personal finance education. It is important to know whether measures taken are effective and long term, hence the need for good assessment methodology.

### **b) Out of school financial training**

The means of promoting out of school financial training are numerous as all the promoters of financial education mentioned above (authorities, banking associations, non-governmental organizations, international organizations, and financial institutions) are involved to different extents in organizing courses, seminars, workshops, discussion meetings, and/or mentoring aimed at promoting consumer financial literacy and education. The advantages of this method of financial training are its flexibility and the possibility to tailor it to various needs and circumstances.

## **V. Questions for project working group discussion**

The following issues could be discussed by the project working group, in order to determine the issues, priorities, and a possible road map for promoting financial education in Romania:

- How important is financial education in Romania? Is financial education a growing issue for public authorities and financial market players?
- What are the most important issues in financial education in Romania? How these could be ranked in terms of importance?

- What are the main obstacles to financial education in Romania?
- What are the major initiatives underway and the organization(s) in charge of these programs?
- Who should be the main promoters of financial education and what would be the role that each of them should play?
- What would be the concrete means for promoting financial education?
- Would it be opportune and feasible to introduce financial education in the school curriculums?