

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



TERMS OF REFERENCE

Project: Improving consumer financial education

Project Owner: Petre Tulin (on behalf of RBA)

Project Manager: ... (a bank's manager)

Deputy Project Manager 1: Mihail Meiu (Director, NACP)

Deputy Project Manager 2: TBD (NBR)

Technical Anchor: TBD

I- Background

Financial education is a very important decision tool for consumers living in an increasingly sophisticated and globalized financial market, enabling them to budget and manage their income, save, borrow and invest efficiently, understand and protect themselves against specific risks and as well as avoid becoming victims of fraud. This is particularly relevant for young financial markets, like Romania, which are growing at a fast pace and where both consumers and providers of financial services started interacting from a low base of financial knowledge just about a decade and a half ago. In this respect, consumer education is a policy instrument for authorities to contribute to a sustainable growth in financial intermediation activities and a marketing tool for financial institutions to build robust client relationships.

Financial education promotes competition among financial intermediaries and ensures the smooth functioning of financial markets and the economy.

In a recent publication (“Improving Financial Literacy”, July 2006), OECD stressed the importance of consumers’ financial education in both developed and developing countries and 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.

Given the utmost importance of consumer financial education, the SPI Committee decided at its second meeting held in December, 2006, that this issue deserves a particular attention and it should be separated from the SPI project on establishing the bank Ombudsman. The latter could be regarded as a component of the institutional support to improve customer education in Romania

II - Project Objective

To prepare a strategy for a nation-wide financial literacy campaign, including specific guidelines for relevant stakeholders (authorities and financial institutions) to promote customers' financial education.

III – Intended Strategy

The project management group (Project Owner, Project Manager, Deputy Project Managers, supported by the SPI Secretariat) acts based on the mandate received from the SPI Committee to prepare a “white paper” presenting the strategy for a nation-wide financial literacy campaign, including a set of specific guidelines for relevant stakeholders to promote customers' financial education.

To inform the deliberations of the project working group on the possible options for improving financial literacy, SPI Secretariat and the TA will prepare a compilation of the international practices used to improve consumer education.

Also, in order to achieve a comprehensive perspective on the benefits of financial education, a document will be prepared including the views of consumers, financial market authorities, and financial market players. This document will be based on the individual contributions prepared by the relevant members of the working group (NACP, NBR and banks).

Based on these elements, the project working group will decide on a set of feasible guidelines for promoting financial education, applicable to the Romanian context, and will outline the elements of a strategy for a nation-wide financial literacy campaign.

In order to achieve a broad acknowledgement of the benefits of the financial literacy, the SPI Secretariat may organize, with the support of RBA and NBR, an exhibition on how bankers' associations and central banks actively promote financial education of the public.

Finally, the SPI Committee should make a public endorsement for a nation-wide financial literacy campaign.

IV- Methodology: from kick off to the accomplishment of the project

Preparatory Work (January 30 – February 14)

NACP, NBR, banks: prepare individual contributions on the benefits of financial education from their own perspective. SPI Secretariat centralizes the individual contributions and prepares a consolidated document on the benefits of financial literacy.

SPI Secretariat and TA prepare a compilation of the international practices used to improve consumer education to be provided to the PWG at the first meeting.

1st meeting (April 2 - 6)

1. PWG discusses the document on the benefits of financial education;
2. PWG discusses the background study prepared by the SPI Secretariat/TA, outlining a set of possible options for improving financial literacy based on the international experience and the local context ;
3. PWG prepares the outline of a white paper on the benefits of financial education;
4. PWG endorses the TORs prepared by the SPI Secretariat.

Homework:

PWG members: finalize the specific set of guidelines for relevant stakeholders (authorities and financial institutions) to promote customers' financial education and draft specific sections of the white paper.

PMG: outlines the elements of a strategy for a nation-wide financial literacy campaign.

SPI Secretariat: collects individual contributions and sends the centralized document before the 2nd PWG meeting. SPI Secretariat prepares project status report for SPI Committee meeting.

Late April (Third Meeting of SPI Committee): SPI Committee receives the project status report and provides guidance to the project working group.

2nd meeting (May 14 – 18)

1. PWG discusses and approves the white paper, including the proposed strategy for a nation wide financial literacy campaign;
2. PWG discusses about the proposed structure and the logistics of the exhibition on how bankers' associations and central banks actively promote financial education of the public.

Homework:

SPI Secretariat: prepares the actionable SPI Committee document;

NBR/RBA start preparations for the exhibition.

June (Fourth Meeting of SPI Committee): SPI Committee endorses the white paper and the proposed strategy and makes a public endorsement for a nation-wide financial literacy campaign.

(June 2007)

RBA and NBR, with the support of SPI Secretariat, organize an exhibition on how bankers' associations and central banks actively promote financial education of the public.

V- Output

PMG 1st meeting

- PMG analyzes the findings of the background documentation;
- PMG prepares an outline of the proposed white paper.

PMG 2nd meeting

- PMG approves the white paper and the strategy for a nation-wide financial literacy campaign;
- SPI Secretariat sends SPI Committee Actionable Paper to Convergence.

VI - Project Team

The team will be chaired by the Project Manager and co-chaired by the Deputy Project Managers. PM/DPM have to report to PO at least after each meeting of the PMG.