newstatesman

Special Supplement

£inancial *literacy*

supported by

PRUDENTIAL

OECD

Introduction The Smith Institute, in association with the OECD, organised a round-table discussion in November 2005 to make international comparisons of financial education. Taking part in this meeting were senior international decision-makers and practitioners. Their breadth of experience offered a rare chance to develop a comparative overview of this increasingly important policy area. The event was timed to coincide with the launch of the OECD report on financial education *Improving Financial Literacy: principles, programmes, good practices*.

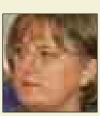
Participants

Sue Braybrook
Head of vocational strategy, Specialists Schools and Academies Trust

Tina Christou
Group head of corporate responsibility, Prudential plc

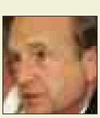
David Clementi
Chairman, Prudential plc

Jim Dredge
Programme director, Lloyds TSB Group and FSA Financial Capability Programme

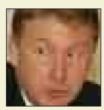


Brenda Gibson
Manager, Financial Capability Department, FSA Retail Themes Division

Howard Gannaway
Research fellow in financial education, Niace



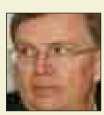
Richard Hecklinger
Deputy secretary general, OECD



George Hodgson
Director, Consumer Strategy, ABI

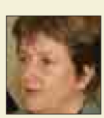
Dan Iannicola Jr
Deputy assistant secretary, Office of Financial Education, US Treasury

Shi Jianxin
Minister-Counsellor for Commerce, Embassy of the People's Republic of China



William Knight
Commissioner, Financial Affairs Consumer Agency of Canada

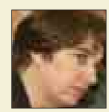
André Laboul
Head of Financial Affairs Division, OECD



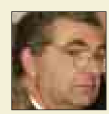
Sue Lewis
Head of Savings and Investment Products, HM Treasury

Ivan Lewis
Economic Secretary, HM Treasury

Paul Myners
Deputy chairman, Retail Financial Services Forum



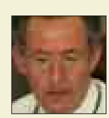
Teresa Perchard
Director of policy, Citizens Advice



Erik Pointillart
President, Directoire Ecureuil Gestion

Brian Pomeroy
Chair, Financial Inclusion Taskforce

Ambrogio Rinaldi
Chair, Working Party on Private Pensions, and Directoire, Commissione di Vigilanza sui Fond: Pensione



Wilf Stevenson (chair)
Director, Smith Institute

Wendy van den Hende
Director, Personal Finance Education Group

Design: Leon Parks Cover: Dan Murrell/Leon Parks
newstatesman subscriber services: **Stephen Brasher** Freephone: **0800 731 8496** E-mail: **sbrasher@newstatesman.co.uk**
Published by New Statesman Limited. A supplement to the **new**statesman issue 9 January 2006.
Registered as a newspaper in the UK and USA. Address: 52 Grosvenor Gardens, London SW1W 0AU

This supplement can be downloaded from the *New Statesman*'s website at www.newstatesman.com/supplements

Round-table discussion

Wilf Stevenson Thank you very much for coming. I am the director of the Smith Institute, a small think-tank named after the former leader of the Labour Party John Smith. He coined the phrase that informs our work: "Economic efficiency and social justice are two sides of the same coin" That allows us to work across a range of issues that combine the economic and the social, and we have spent a lot of time in the past few years looking at the social inclusion agenda in relation to financial matters, so it is very appropriate for us to be involved in this event.

Richard Hecklinger I am very pleased to be here today to present the Organisation for Economic Co-operation and Development's study on financial education, the first international study on this important issue.

Thank you to Prudential and the Smith Institute for supporting this event, and thanks, too, for the contributions of the OECD countries to the report. Representatives from some of the countries that provided valuable information – Canada, France, Italy, the United Kingdom and the United States – are here with us today.

There are three main reasons why financial education has become so important. One is that an increasing number of workers will have to rely on defined contribution pension plans and their personal savings to finance their retirement. This is because governments are beginning to scale back the benefits of state-supported social security programmes and the number of employers offering defined benefit plans is decreasing. The second is that consumer debt is at a record level and the deregulation of financial markets has led to increased competition for new credit card holders. As a result, many young people have been burdened with high debts at a time when they are trying to start a family and buy a home. And the third is that with the growth in the number of financial transactions taking place electronically, it is increasingly important that individuals have, at least, a bank account. Yet, in a number of countries, a significant percentage of consumers do not participate in the financial system. This percentage is even higher for minority consumers.

The OECD's Financial Education Project was launched in response to governments' concerns about what they could do to help consumers deal with increasingly complex financial decisions.

This year the project has produced two important documents. The first is a "Recommendation on Principles and Good Practices for Financial Education and Awareness", developed in collaboration with OECD countries and approved by the OECD Council last June. The aim of the recommendation is to help policy-makers design and

implement effective financial education programmes. The good practices include suggestions on how governments can increase both public awareness of financial issues and the dissemination of financial information; how financial institutions can provide objective and unbiased information on financial products; the role of employers in the provision of financial information on retirement saving; and the issues that providers need to consider in determining the content and delivery of financial education programmes.

The second document, and the reason for this seminar, is our study of financial education at the international level, entitled "Improving Financial Literacy". This study analyses financial literacy surveys in OECD countries, highlights the economic, demographic and policy changes that make financial education increasingly important, describes the different types of financial education programmes currently being offered in OECD member countries, evaluates their effectiveness to the extent possible, and suggests actions policy-makers can take to improve financial education and awareness.

The findings of this study are both sobering and encouraging. Sobering in that the financial literacy surveys which have been undertaken indicate that many consumers do not have an adequate understanding of either their financial needs or of financial instruments and products. For example, in Japan, a survey found that 71 per cent of respondents lacked knowledge of equities and bonds, 57 per cent lacked knowledge of financial products in general, and 29 per cent lacked knowledge of insurance and pensions. A survey in the US found that four out of ten American workers are not saving for retirement, which is shocking. A survey of Korean high-school students showed that they had failing scores – that is, they answered fewer than 60 per cent of the questions correctly – on tests designed to measure their ability to choose and manage a credit card, their knowledge about saving and investing for retirement, and their awareness of risk and the importance of insuring against it. You may remember that Korea has an OECD rating for the educational accomplishment of 15-year-olds that ranks very near the top with Finland and Japan.

A Canadian survey found that respondents considered choosing the right investments to be more stressful than going to the dentist. A British survey found that consumers do not actively seek out financial information. The information they do receive is acquired by chance, for example, by picking up a pamphlet at a bank or having a chance talk with a bank employee.

In the UK, as well as in the US and Australia, people are generally more confident about their knowledge than their knowledge would actually warrant. In Australia, 67 per cent of respondents indicated that they understood the concept of compound interest, yet when they were asked to solve a problem using the concept only 28 per cent had a good level of understanding.

The findings are also encouraging in that they show that countries are increasingly aware of the importance of financial education and that they are providing a variety of programmes, which are described in the OECD's report, ranging from websites to the distribution of brochures and pamphlets, to offering training courses or conducting media campaigns.

Another sobering find is that there have been relatively few evaluations of financial education programmes to determine what has worked well and what has not. This is, in part, due to the fact that programme evaluation is expensive and government budgets are limited. Equally important, however, is the difficulty of devising good indicators to assess whether the main goals of financial education programmes have been fulfilled. When financial information is provided through websites or brochures distributed in public places, for example, it is difficult to develop effective measures of whether it is having any impact.

Yet it is encouraging that the few financial education programmes which have been evaluated have been found to be reasonably effective. Research in the US shows that workers increase their participation in 401(k) plans (a type of retirement plan, with special tax advantages, which allows employees to save and invest for their own retirement) when employers offer financial education programmes, whether in the form of brochures or seminars. Mortgage counselling has been found to be effective in reducing the risk of mortgage delinquency. Consumers who attend one-on-one credit counselling sessions have lower debt and fewer delinquencies. Evaluations of adult education programmes for the "unbanked" have found that participants are satisfied with the training they received and are more confident about making financial decisions.

Financial education programmes are not the only approach to helping people manage their financial futures. Research in behavioural finance has shown that powerful psychological and behavioural traits such as inertia and lack of will-power reduce the effectiveness of financial education programmes. This has led some experts to argue for automatic enrolment in defined contribution plans along with default contribution rates and default asset allocation. However, these approaches also have their critics. Automatic enrolment has been criticised for resulting in low contribution rates and conservative asset allocations. Therefore, most experts acknowledge that financial education does have a role to play in providing advice and information to workers about their retirement plans.

The OECD governments have published a set of principles and good practices for financial education and awareness, based in large part on the findings of the study produced by the Financial Education Project.

The impetus for this set of principles and good practices was the growing sense of urgency about the widespread lack of understanding of financial markets among consumers. The combination of increasingly sophisticated financial products and growing individual responsibility for financial decisions means that individuals in OECD countries need a better understanding of how to deal with financial markets. OECD governments have recognised that they have a responsibility to help them do this.

This set of principles and good practices is designed to encourage financial services firms and organisations such as consumer groups and citizens advice bureaux to do more to educate citizens in this area. However, they are also aimed at individuals, who need to know how to manage mortgage and consumer debt and to save effectively for their retirement.

The key recommendations suggest, for example, that: governments and all concerned stakeholders should promote unbiased, fair, and co-ordinated financial education; financial education should start at school; financial education should be part of the good governance of financial institutions, whose accountability and responsibility should be encouraged; financial education should be clearly distinguished from commercial advertising and codes of conduct for the staff of financial institutions should be developed; financial education programmes should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions; and future retirees should be made aware of the need to assess the financial adequacy of their current public and private pensions schemes.

It is clear from the OECD study that we have much

to do and learn about financial education programmes and how to improve them. First, we have to increase consumer awareness of the necessity of financial education and how they can access it. They have to realise that financial education is not just for investors. It is just as important, if not more so, for the average family trying to balance its budget and save for the children's education and the parents' retirement.

Second, more needs to be learned about the financial education needs of consumers at various stages in their lives and how programmes can be best designed to address these needs. More needs to be learned about how consumers prefer to receive information on financial issues and how financial education can best be delivered to consumers who are busy with jobs and families.

Third, we have to develop objective measures for identifying programme success and we need to conduct more evaluations of programmes.

This project is the beginning of what I hope will be a feature of OECD work. In the next stage, we are planning to focus on financial education in schools. We will also look more closely at financial education relating to insurance and to both defined benefit contribution and retirement schemes. We hope to develop guidelines for the financial education for retirement savings.

Ivan Lewis Richard, I am delighted that you are here today to launch the report at the Treasury. I think the fact that the OECD has decided to do such a significant piece of work in this area of policy demonstrates how important this is now seen to be internationally. I would like to think that Britain – and, more specifically, the Chancellor – has been in the lead in recognising the importance of this issue. Certainly, the baseline global study is incredibly helpful.

We will never achieve the objective of any modern society, which is the creation of a dynamic, stable and successful economy, alongside, one would hope, a fairer, more just and more inclusive society, if we have whole swathes of our population who are cut off from basic financial skills, education and access to financial services. And if people do not have those things, it is very likely that the same will apply to their children and grandchildren, and inter-generational underperformance and underachievement will continue. This is not a minor issue or a side issue. It is absolutely integral to the kind of world we want to create in the context of a global economy.

Of course, it is crucial that we recognise, just as in any other area of policy, that the earlier we intervene the better. The difference we can make with young people is central.

My own view, having been an education minister for four years, is that the problem you often have is persuading the educationalists that this is part of their core business, and not some sideshow.

For this generation of young people, having financial acumen, confidence and knowledge is going to be crucial as their lives develop. So the idea that this should be regarded as separate from what a mainstream modern education system should be seeking to do is, frankly, nonsense. It is important that we do not create a separate subject called "financial literacy" or "financial education". There is a very strong case for integrating this into the mainstream. We can have a debate about whether it should be in maths or wherever, but it should be integrated into the curriculum.

We also have to recognise that there are large numbers of people who left school long ago and we cannot afford to leave them behind. We have to seek to educate as many adults as possible. We have set up the National Financial Capability Strategy, which the Financial Services

Authority (FSA) leads, seeking to provide consumers with the information, education and generic advice that is needed to make financial decisions with confidence. The FSA has commissioned a baseline survey on the financial capability of our population, which is due to report early next year.

We have what I regard as a world-class regulator for financial services and we have given it a statutory responsibility for these issues. In itself that is quite radical, innovative and imaginative. The jury is out as to whether it is going to work. I have to say that I believe it will, but I also believe that we need to focus and be absolutely clear about what we are trying to achieve. I think we have to recognise that the standard approaches will never work. If we simply use national TV, radio advertising or glossy magazines, we will never penetrate significant proportions of the people who are cut off from those media. An innovative approach is needed to make contact with those people. Of course, this impinges on the work of the Financial Inclusion Taskforce, with its focus on access to banking, affordable credit and face-to-face money advice.

Pension policy is a challenge facing most of the developed countries in the world

The other issue is that the state has a series of interactions, particularly with its most vulnerable citizens, whether it is through Jobcentre Plus, being a social housing provider or through, unfortunately, the criminal justice system. Are we sufficiently mainstreaming the centrality of financial skills and knowledge in the interactions that those state organisations have with people?

We also know that, in many communities, it is the voluntary sector, the grass-roots tenants and residents' associations that are more likely to be able to influence the people we most need to reach.

We want people to be in permanent employment, to be employable for life. But if they have no bank account, they have no knowledge of how to manage their finances, and that is going to be incredibly destabilising in terms of getting work and then holding on to it. So this issue has significant labour-market and welfare-benefit implications.

Finally, I would like to mention the Child Trust Fund, a great example of asset-based welfare, which is a massive opportunity to change culture. I met four mothers recently, at a SureStart children's centre (one of the initiatives that this government has created in mainly disadvantaged communities). They talked about how their lives had changed as a result of the childcare provided for them at the centre, about how they were training to be childcare workers as a consequence of attending the centre. And they also talked very eloquently about their Child Trust Fund vouchers. The vouchers have got them to think a little bit about finances, because there is a challenge in terms of converting those vouchers into accounts. But, more profoundly, they have started thinking about what they want for their kids, their ambitions, their aspirations, and about their kids having better life chances than they had. They saw the Child Trust Fund as being very, very important, particularly when I explained that there is a second payment at seven and, we hope, further investments later. I explained that parents, grandparents and friends had the opportunity of topping-up those accounts. It is really about, as I say, raising ambitions and aspirations. That is what this government is very much about in terms of people who have historically been denied basic opportunities.

I think the Child Trust Fund will generate long-term cultural change. It is also about empowering the consumer to feel able to make the right kind of choices.

I have spoken, largely, about the social exclusion and financial exclusion agenda, but there is also a mainstream reality. Pension policy is a challenge facing most of the developed countries in the world. There is the whole question about the nature of people saving in a modern society. Are we saving enough? How are we choosing to save? What is influencing us? The simplification of products. We have tried with the stakeholder pension and we have had some success, but nowhere near enough success. We need to address that whole agenda as well.

I think the OECD study genuinely moves this debate forward in a constructive and positive way. We, as a country, pride ourselves on what we have achieved so far, but we are certainly not complacent and we see this as central to creating the socially just and economic society that is the reason we are in government in the first place.

David Clementi Many thanks to Richard for the way in which he introduced his report. We feel strongly about this subject and are seeking to embed it in all of our businesses, not as an optional extra but as part of the way all our management teams are thinking about these issues.

In 2002, we approached the OECD to ask whether it would be interested in doing this study, since we recognised this as an international issue, and our own business is increasingly international. We are pleased with the report, not because we think it has some sort of lightning insight that we have never seen before – indeed, much of what we are all talking about is fairly straightforward – but because it puts the issues higher up the agenda for most governments and regulators. We think that the report is a useful way of raising the profile of the subject.

Our own reading of the report is that there are three key areas. It will not come as much surprise to anybody that the first is about investing and saving for retirement. That is already high on our political agenda here. And I'm sure we will hear from a number of countries represented here that it is also climbing the political agenda elsewhere. The statistics on the amount of people and the proportion of the population in China, for example, who will be in retirement in about 2040 is staggering – and Japan is reaching that level already.

The second area is about handling credit and debt. This is critically important and it is the one key to financial services that most citizens need to grapple with. This takes us on to the third area: the socially disadvantaged and those who are excluded. We think this is a big social issue, as well as an economic issue.

> The point is that the programme enthuses and excites kids. It certainly did for big kids like me

We worked out some time ago that the asymmetry of information between those of us who provide financial services and those of us who take them up, which one might have thought worked to the advantage of the providers, does not in fact do so. It might have done 50 years ago, but not today. In this socially just society that we seek to create, we have an absolute responsibility to make sure that those who buy the products understand what they are buying and understand the risks and rewards that go with them. We think that this is central to our proposition and it should be central to the proposition of all private sector financial services providers. We think it is essential also that governments and regulators share that vision and recognise their own responsibility in this particular area.

It is no coincidence, in our view, that the FSA has financial education as one of its four objectives. It was very carefully thought about in 1998 and 1999 when the financial services bill was being drafted. We certainly welcome the real emphasis that John Tiner put behind it when he became the managing director two or three years ago. John set up a task force to heighten awareness in this particular area. A number of people sitting at this table serve on that task force, as do I, and we believe that the FSA has done a good job over the past few years in pulling this issue together. It has statutory backing, but it also has the authority to do it. It raises money through the levy to do it and it has been very responsible in the way it raises that levy. After all, there is not much purpose in having everybody financially aware but, in the process, putting the private sector out of business. This is not of particular concern to Prudential, as we have encouraged the FSA to consider raising more. It is, however, an issue for some of the smaller firms who feel that the levy is not fairly spread. That is an issue which the FSA needs to grapple with.

The next thing I want to say is that we have concluded from our research that the most trusted organisations to take a lead in this, alongside the private sector and government itself, are many of the not-for-profit organisations, such as the Citizens Advice Bureau in the UK, and also the schools and educationalists. We believe that advice from the CAB has a very important role to play. For many members of our society this will be the first port of call when they get into trouble.

We believe that the Personal Finance Education Group (Pfeg), which is another of our partners, has an important role to play in schools. We have worked with Pfeg on the development of the pfeg quality mark and resources for teaching personal finance. As prevention is better than cure, Pfeg has a very important role to play.

Of course, financial literacy issues do affect lots of people who have already left school. This is why the National Institute of Adult Continuing Education has a very important role to play. We have worked with them to get financial education into a large chunk of the adult education programme.

But, back to the schools, we are rolling out a programme for 14- to 16-year-olds that will go to about 3,200 schools.

Ivan Lewis I think the important point is that it is also about enthusing and exciting kids. The programme certainly did that for big kids like me.

David Clementi Actually, we all know that the key audience in the first place is teachers. If the teachers themselves do not feel confident about their own financial knowledge, they certainly are not going to go into the classroom and start telling kids about it. When teachers are enthusiastic, the pupils start showing an interest.

I have two further points I would like to make. I have said

something about the domestic agenda, and that is very important, but I think one of the very good things about the OECD report is that it starts to internationalise the issue. We have representatives with us from some OECD countries and from other countries which are not members. For us, this is important. We operate in 12 Asian countries. Some of them are OECD members, such as Korea, and some of them are not.

We have recently started, and I wanted to say this with the Chinese counsellor Shi Jianxin present today, a programme in China in which we are also trying to roll out a greater awareness of the need for individuals to provide for their healthcare and for their retirement. It started in Beijing and we have extended it to Guangdong Province.

The Chancellor, Gordon Brown, was in Beijing quite recently, and we were very pleased that he took the time to go and see our programme operating. We are also about to roll this programme out in India and we already have a programme operating in Vietnam. So I am glad to have an opportunity to internationalise this debate because it certainly is an international issue.

The final thing I want to say is that, while the problems are universal, there is no single solution. Different channels will have to be used in different countries, so there is no one-size-fits-all solution. Nevertheless, from our perspective, we very much welcome the report and we think that it is another step in ensuring that this important subject rises up the political agenda in all the countries.

Wilf Stevenson We have been hearing largely from the British perspective but, as David said, it is not just a British, but an international issue. Can we get some comments now from our overseas participants?

Ambrogio Rinaldi Let me focus my brief talk on one of the issues which was mentioned in the OECD report, and that is pensions. Italy is going to enter a new phase of reform of the pensions system which will give much more room for decision-making by individuals. Pension education, therefore, will be very important.

Why is financial literacy in pensions so important? I will identify three reasons. The first is that the decisions are very long term. The second is that they are non-recurrent events, so that you cannot learn from your own experience. Third, it is very difficult to learn from the experience of others, because things are changing so much compared to the situation that affected former generations. That makes a very big difference with respect to other fields of financial education. In respect of having a bank account, you can learn from your father. When thinking about pensions, you cannot.

William Knight In Canada, we have been trying, not unlike other market economies, to move the citizenry from a traditional notion of entitlement to more of a notion of self-reliance. In typical Canadian fashion, we have a little of both. When we shifted to self-reliance, we forgot to give them the tools to do it. Quite frankly, this has been quite an eye-opener. One of the things that comes out of this report, which is important for us, is a verification that we are not alone, because if you look at the percentage numbers, we all have fairly consistent numbers around a lack of financial literacy and the challenge we collectively face.

In the Canadian context, we did combine all the roles of industry, NGOs and government, like anybody else, but we embarked on a little bit of a different approach by federally creating the Financial Consumer Agency of Canada (FCAC), of which I am in charge. Of our two mandates, the first is regulatory empowerment. Every Canadian has the right to have access to a basic bank account. Period. But from our data research, we can see

that 3 per cent of our population do not even have a basic bank account. The second component we found was that there were up to two million more people in an underbanked category who were not using the financial tools available to them as well as they could.

We have a programme similar to the UK Child Trust Fund, and we have had to come to terms with financial literacy needs to ensure that every person has the capability to take advantage of it. It is not good enough to create self-reliant asset-building plans if you do not back them up with a serious financial capacity regime. The FCAC has a mandate with considerable regulatory power. In my view, we do not need to use some of it because the industry has already caught up and is meeting parliament's standards. We have oversight of all of the codes that the industry commits itself to in terms of low-cost accounts, etc, and we can take retribution if somebody is off the mark.

The second component is a more generic mandate around consumer education. Here, we are working very closely both with NGOs, trade associations and others to try some creative methods around assisting people's financial capability. In this key area, we will steal any good idea that we can find. Our southern friends and neighbours have had some good projects with real successes. If it works, we want to put it on the table in our market. The markets internationally are more similar than we think.

Finally, I will make two comments which to my mind reinforce what makes following up on this subject area so important. One is that we are new. We started an international organisation of market conduct regulators. We had no idea of what would happen. Three years ago, we called a meeting and we had eight or ten countries show up. Now, three years in, we are up to 60 countries. If the trend of expanding market economies continues (as you may know, Russia is about to get into the mortgage business in a significant way; and in China they are rolling out tens of millions of credit cards), we might as well begin now to get a grip on financial capability and our regulatory regimes internationally and to minimise differences in terms of those standards, so as to make for market efficiency for international financial institutions. And finally, we are in an era of cheap money. But if we have to go through a period of tightening or adjustment in national economies, the fallout for our citizenry is something we cannot underrate, and the implications of a continuing lack of financial capability will be significant.

Dan Iannicola In the US, we found that the private sector is not just important to advance financial education; it is essential. We will simply not achieve financial literacy without them.

Let me talk about what we are doing. Looking at the small picture, we find that many of the best solutions come from the grass roots. We, too, look forward to a day where we are going to have a strong base of quantitative data sets and empirical evidence upon which to base decisions. We are not there yet. So we feel no shame, in the interim, in relying on anecdotes, on qualitative data. We have found that we are learning a lot through that.

We have made a point to search high and low across the country for good financial education programmes and I would encourage you all to do the same, if you have not done so already. You will be amazed at the number of great ideas that occur outside your nation's capital. We have compiled those ideas into a simple effective list of eight elements of financial education programmes, which we think are very useful. We have put those together from programmes across the country, some from the private sector including banks and credit unions and some from not-for-profit organisations, such as foundations. We now devote significant time and effort to telling other organisations across the country and around the world what we have found. Additionally, the United States Treasury has set up a helpline and a technical assistance centre for the providers of financial education. That has proved to be very helpful.

Turning to the big picture, let me hit upon an important distinction that will make our efforts easier. There is a considerable difference between co-ordination of existing players and consolidation of those players. Consolidation is not met with open arms. Frequently, many people and organisations have arrived at the topic of financial education organically, on their own, because they have certain constituencies that make them want to get into it. We should welcome that. These organisations got into financial education because they had an idea, a passion, and that is something we do not want to discourage.

The non-government organisation had a reason for getting into the financial education game. We in government need to find a way to make those organisations fit into our existing efforts, not the other way around. When it comes to financial education, it is important for government to realise that in most cases it is not "first on the scene". That is, others have been advancing the mission before the government got involved in the subject. These non-governmental organisations need to be brought into government discussions on expanding financial literacy because they can teach us valuable lessons from their experiences and can serve as powerful partners.

We in government need to avoid the temptation of imposing an imperative of centrality – of thinking that, if all financial education is not streamlined under one government office or department, it is ineffective and without merit. Indeed, the contrary is true. Here, making sure financial education actually reaches people is more important than the means of having an exclusive, central government bureaucracy. Today, around the world, people are learning a great deal about their finances from community-based, non-government sources, and we in government must all be careful not to consolidate those worthy efforts out of existence as we try to expand financial literacy in our nations. Partnering across sectors and across each of our countries is not just a good way to reach our goals; it is the only way.

And the idea of co-operation in lieu of consolidation is important, even within government. A recent experience we've had in the US illustrates this. A few years ago, Congress passed a statute that required the 20 different federal agencies that deal with financial education to work together. The Treasury was named lead agency on the Financial Literacy and Education Commission, and the commission was mandated to produce a national strategy. Another obligation of the commission was to put together a one-stop shop, as it were, for consumers to get all the financial education information their federal government produces, and we did that through something called MyMoney. Individuals can call 1 888 MYMONEY and receive a packet of material with some basic educational material. It is available in English and Spanish, as well. The website (www.mymoney.gov) is probably the better tool because we can put a lot more materials on a website than we can into someone's mailbox. The website, available in English and Spanish, has been well used since its launch a year ago.

Again, this is going along with the theme of co-ordinating and not consolidating. We did not produce new publications to stock MyMoney. We took publications from the different agencies, be it the Federal Reserve, the Securities & Exchange Commission or some of the other »

agencies which are in our organisation. We gave our people a more convenient vehicle to access this important information. Now, your average citizen need only know a very simple number and a very simple website to access all the information that they require. As I like to say to people in the States: "As you have already paid for these materials, you might as well get access to what you have already purchased."

Erik Pointillart I am the chief executive officer of Ecureuil Gestion, an asset management company in France, and I am in charge of selling to retail clients at my company, the Caisse d'Epargne Group, of which Ecureuil Gestion is a subsidiary.

In a survey, 75 per cent of people in France said they were not aware of financial matters. My job is not easy because people do not know about our financial services and we have to sell them. In France, too, we have a movement from defined benefits to defined contributions, and how can we manage this movement knowing that the people are not aware of financial matters? For my organisation, the solution is, first, to simplify our offer. I think that a lot of financial products are too complicated to understand. I also think that our regulation authority does not help us by publishing documents that are easy for people to understand. I think that this same problem also occurs in other countries.

Clearly, we are working hard to improve the training of our employees. For each savings bank it is a priority and the first step in improving the level of discussion with clients.

We also have a big programme to improve the level of knowledge of our clients, who are often shareholders of the Caisse d'Epargne. So, everywhere in France we have a lot of programmes of meetings with our shareholders and the topics are mainly how to invest in the equity market.

We are also trying to introduce financial lessons into schools. I am very interested by what I have heard today because, in France, the students are very strong on literature and mathematics but there is nothing on financial topics. I think we have a lot of work to do and that is the reason why I am very interested by the study managed by Prudential and the OECD, because I think it can be a tool to do something similar in France.

Wilf Stevenson Thank you for those international views. It is very easy to become parochial and to be obsessed with your own problems. It is comforting to feel that the problems are shared.

> If people have accumulated enough assets, then they care enough to want to get involved

Brian Pomeroy It seems to me that the important outcome of this project, or at least one important outcome, will be to give us better information about what measures work and what measures don't – about which, it seems to me, there is a shortage at the moment.

There is an interesting distinction between measures that require the active agency of somebody, whether it is a teacher, an adviser or some organisation or person, and those that are more passive, which involve, for example, putting material on websites, into the public domain, in the hope that people will use them. I mention that because the flavour I have drawn from this document is that it was focusing more on the latter than on the former. The point I want to make, and this picks up something that Paul Myners said, is that there are many people, and particularly people who are financially excluded – the people that the Financial Inclusion Taskforce is particularly concerned with – for whom active agency is required. And it will not be sufficient simply to make websites available or to hope that they will read literature such as brochures.

George Hodgson I would like to follow on from what Brian said in terms of this important issue of whether people will ever be sufficiently motivated to go to the material that is being provided? The Association of British Insurers has spent some time looking at the international experience, and has discovered that Australia comes through as a good example. The trigger factor there has been people, because of their pension system and other issues, getting to the point where they had accumulated enough assets that they cared enough to want to get involved. If people feel that they have ownership of a group of assets, they want to sort them out themselves. There has been, over the years, since the new Australian pension system came in, a significant movement up the scale in terms of people's engagement with financial issues.

That analysis then takes you to the question of how do we get people to accumulate assets? In this country, we have tried a lot of very innovative models, such as the basic bank accounts, stakeholders and Child Trust Funds. They are all very good and welcome. We just have to make sure that they work and knock out some of the features which prevent them working as well as they might have done. It's no good giving the average punter an eight-page leaflet because he is not going to read it. It has to be "two sides good, one page better", in terms of getting information out there and making matters relevant. That is where we need to be putting our priorities.

Teresa Perchard At Citizens Advice we have been absolutely delighted to work with Prudential over the past three years to put together a package of nine very different projects, working hard to reach people from prisoners to asylum-seekers, to people who are living in poverty in rural areas, to evaluate them and find out what works. We are a huge NGO in the UK. We engage 25,000 people delivering our service, 20,000 of whom do it for free, advising people on financial problems, relationship problems and all kinds of things. Our advisers are extremely hungry to do more preventative work. They feel they are spending too much time in the emergency room. That is why I find this international agenda which is emerging very interesting because we have CAB services in other countries and a recently launched Citizens Advice International to promote the development of citizens advice services in other countries. One of the things I would be interested to know is how the OECD framework might engage NGOs, including advice agencies like the ones we are sisters with in other countries.

Jim Dredge The FSA Financial Capability and the Workplace programme has just finished delivering its first phase of educational pilots to all the 20,000 employees in eight firms. About 1,200 employees have also attended a work place financial capability seminar and their feedback has been very encouraging. The message we are getting back from them is to keep the training simple. That is not necessarily around the products, although some financial products are inherently fairly complex, but to focus on the concepts of financial services, and how to use them effectively. Some of the issues with financial capability really boil down to a lack of understanding about the consumers' own basic income and expenditure. "Where does my money go each month, particularly the £50s I keep drawing out of the cash machine? What are my short- and longer-term financial goals?" Interestingly, when people get these basics right, one thing they would like to go and do is consider serious long-term saving or preparing for the future. So we have built our educational training on a foundation of helping the consumer get back to basics, by understanding their income and expenditure, and then defining their goals. Only when these building blocks are understood can the more complex concepts of borrowing, savings and investment, and retirement planning be sensibly addressed.

I have spent my entire career in the financial services industry, and started working on the FSA Financial Capability Programme, as the workplace programme director in March of this year. On appointment, I was staggered by how much consumer information was out there. But people do not know this, or understand how to use or access it. We have to remember that while we could take a horse to water and get it to drink, actually we want the horse to know that it has a need for water and to come looking for it. Consumers are no different and we, as a country, are not executing this aspect of consumer education as well as we would like. We need to work at reaching the consumers that need the most help in improving financial capability and then to measure their retention of knowledge and changing behaviour over time.

Wendy van den Hende I think that the adults can learn a lot from what happens in schools. I take Jim's point that you have to start from where people are, and that is what we do in schools. We make things easy for teachers. We do it in digestible bits. We also recognise that any resources we produce have to be engaging and fun. They have to relate to people's experiences. I am very much looking forward to part two of this exercise when you start

looking at schools, because I think that one of the problems about being a small charity is that you do not have the resources to know what is happening internationally, and it will be a great opportunity.

Financial literacy does needs to be integrated into the school curriculum and should not be a separate subject. In subjects such as mathematics, personal finance provides a marvellous context for teaching and the link needs to be made in primary schools. Secondary schools tend to be in subject silos, so it is more about joining the dots and understanding how it can engage people. Children are really interested in money. We all know that as parents.

Wilf Stevenson The problem is that everybody else who has a particular interest is saying the same thing to schools. Creativity, entrepreneurship and now money. You name it, there is a scheme and a set of teaching notes to go with it. How do you prioritise financial literacy?

Wendy van den Hende It is a selling job. There are no sanctions if you do not teach it, so you have to persuade, negotiate and demonstrate how it can work in ways that will actually meet the learning objectives. It has to be linked into the curriculum. It has to be mainstream. It is not just about reaching disadvantaged people. Everybody needs personal finance skills.

Sue Braybrook I have to echo what Wendy has said. I think we are in a unique position at the moment to make financial literacy happen and really embed it properly into education. With 14- to 19-year-olds, the enterprise agenda really gives us an opportunity.

The second bit is that there are other junctions where you can engage a wider group of people. We are delighted to be able to work with the Prudential on the "Adding Up to a Lifetime" programme, which has been structured so that there is an intersection between students and other groups. So, if you look at children who are thinking about becoming students, the programme is hugely influential for parents, and there is a point where, naturally, schools will be talking to both groups.

The other point concerns babies and what parents are going to do with their Child Trust Fund investments. Specialist schools all have a community programme, and certainly in the business and enterprise colleges an awful lot of work is done on financial literacy. So there is scope in the system to have some coherence and joined-up thinking across the school/education area.

Howard Gannaway I would like to follow-up on the point that Wendy has made and to congratulate her and her colleagues on introducing such a joined-up approach in schools, because there is no doubt that quite a lot of broad financial education is being put together there. I would like to make sure that this joined-up approach gets extended into any work that is done with the adult community. In some ways the situation facing the adult community is more complex, in that they are living all these things, whereas in school they are learning them in preparation for living them.

I think there is a virtuous circle that we can create here by making sure that, in the adult sector, we do not neglect other aspects of people's lives and, also, the work of other government departments as well. The entrepreneurship work being done in schools joins up very neatly with work on the consumption aspects of money. So we need to make sure that the Department of Trade and Industry is brought into this as much as the Treasury, in terms of issues to do with employment, the labour market and so on.

I saw one of those programmes on television the other evening where they do a make-over on a family which has got itself into dire straits. I was quite surprised because the guru who came to see them made them lay out all of their spending and the fact that they were massively overspending. There was a moment of silence when the family took all of this in. Then, I was expecting, as you would, for the guru to say: "OK, we need a spending budget", but, in fact, the head of the household turned to the rest of the family and said: "Well, we are just going to have to earn more." This emphasises the point that what we need to be looking at is a broad view of "the economics of everyday life". We need to understand that people's financial lives are broader than just spending and saving. Schools are presenting this wider agenda and we need to make sure that we also provide this for adult learners.

Ivan Lewis In this country we have hundreds of thousands of adults who are doing basic literacy and numeracy courses. It would seem to me, if we accept the principle of integrating these issues into the school curriculum, that the next challenge would be to look at that.

André Laboul This discussion has been extremely interesting and has certainly raised some questions for us all. We have a lot of input for further work. Let me just mention some ideas. One, for instance, concerns schools. David Clementi mentioned the issue of the teachers. I think this is something that is extremely important because the teacher can be very strong internally in developing proper financial education in the schools. That is something which needs to be considered.

One of the objectives of the OECD in phase two of the project for financial education would be to have some good information on the level of financial education, and to identify strengths and weaknesses in financial education at schools in the OECD countries, from which we could then develop proper principles and good practices. This work would be conducted in close co-operation with the OECD education committee. We could, for instance, consider including a module on financial education in one of the next OECD surveys on education.

The OECD committees on financial markets, and on insurance and private pensions, are also exploring specific issues in financial education such as insurance or pensions. Not only is there a need to develop financial education to deal with insurance or pensions services, but it is also crucial to raise awareness on the need to save, to insure and to be protected. This is related to the important role, which was also mentioned, of the private sector. It is very clear to the OECD that all this work has to be developed, and certainly the future of financial education should be developed in a close partnership between the private and public sector. Financial institutions should become more accountable and responsible for financial education. This is a win-win situation for both partners. I would also wish to address Teresa Perchard's question and confirm that the OECD intends to co-operate fully with all relevant stakeholders in the financial education field, using further the organisation as an international forum to exchange relevant experiences.

Wilf Stevenson Thanks again to the Prudential and to the Treasury for inviting us into these splendid premises and for enabling us to use these rooms to hold this useful event. But a special thank you to all of you for coming here and sharing your thoughts on financial literacy with us and the readers of the *New Statesman*.

Tin Christou
Group Head of Corporate Responsibility
Prudential plc
Laurence Pountney Hill
London EC4R 0HH
www.prudential.co.uk

Andre Laboul
Head of Financial Markets Division
OECD
2, rue André Pascal
F-75775 Paris Cedex 16
France
www.oecd.org

3rd Floor,
52 Grosvenor Gardens
London
SW1W 0AU
Tel: 020 7730 3444
Fax: 020 7259 0181