

# How to optimise financial education in France to improve household purchasing power

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## Visa Europe and financial education

As one of the main payment systems in Europe, Visa Europe has for many years made a significant contribution to the financial education debate across the region. Visa Europe acts as a catalyst for debates between governments, consumer associations and the financial services industry. In this way it has contributed to several European workshops on the subject of financial education and the various ways to implement specific programmes. In October 2005, a workshop in Brussels together with the Centre for European Policies Studies (CEPS) and the European Credit Research Institute (ECRI), was held for policy advisers, consumer associations and financial institutions. Since then, other workshops have been organised (in Brussels and Istanbul in 2006, 2008, 2009 and Rome in 2007).

In addition, Visa Europe has added to this educational effort via its website ([www.visaeurope.com](http://www.visaeurope.com)) that provides consumers with useful information about the use of payment cards and the best practice for budget management.

In an effort to add value to this debate in France – on both a national and international level – Visa Europe has commissioned a study from subject matter expert, Nicolas Ribiere, to provide an overview of current programmes in place in France; provide an analysis of these programmes; and to put forward recommendations to optimise these. Nicolas Ribiere is a lecturer at the Institute of Demographic Studies of the University of Monestequieu-Bordeaux IV and a member of the European Credit Research Institute (ECRI). He has contributed to and collaborated on a number of academic studies.

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## Introduction

Learning how to manage a budget and make financial forecasts, understanding loans and the financial vocabulary used by insurance companies, banks and consumer credit organisations. Financial education helps individuals to understand financial products and concepts better and to take in the basics of finance, as well as manage their money better and feel more able to deal with their everyday lives.

In France, the consumer credit reform bill could have provided the opportunity to create a public debate around the topic of financial education, yet this has not been the case. However, the ongoing economic crisis and the increase of household debt have brought financial education into sharper focus, particularly as many European countries have already developed real strategies to improve financial capability.

This study has been conducted by Nicolas Rebière, specialist on the topic of over-indebtedness, and was commissioned by Visa Europe, a global leader in electronic payment systems. The study<sup>1</sup> evaluates the needs for financial education in France, and provides a summary of existing programmes, as well recommending some further action.

### 1. Financial education in France : a real need

Do the French really need financial education? Five years ago, defenders of the 'No' camp would have had strong arguments on their side: for a start, the French saving rate was among the highest in Europe, in 2002 - 16.7% as against 12.8% on average. In terms of outstanding balances to households, the French rate was also lower than the ones of many Nordic countries.

Today, the situation has changed. Indeed, the French saving rate is going down (15.3% in 2008).

On the contrary, the number of cases submitted to over-indebtedness commissions went up by 6% a year between 2002 and 2006<sup>2</sup>, while more than 2 million households cannot pay their rent, taxes and various invoices in a timely manner every year (Rebière, 2006). Nevertheless, the French consumer credit market continues to have the potential for substantial growth, with the average outstanding balance per capita being far lower than the European average (Sofinco, 2008). In fact, in spite of the economic crisis, the French seem eager to go on consuming and are willing to accept any means that could help them increase their purchasing power.

The problem is that a good number of them are incapable of making choices that could best serve their interests: they generally opt for less expensive financial products and services or for those offered by the biggest banks, considered to be more reliable (European Parliament, 2008). It has to be said that these products and services become 'more and more varied and advanced' (CCSSF, 2006), a trend confirmed by the first results of the Finalist project (see box below). At the same time, the French level of financial capability is low: in 2004, according to a survey conducted by the TNS-Sofres polling agency on behalf of the Autorité des Marchés Financiers (AMF), 75% of the respondents admitted to not understanding financial products. These products were considered to be "complex" and "made for the initiated". The survey entitled 'Young people and money' and conducted by the CSA (the Conseil Supérieur de l'Audiovisuel, in charge of the regulation of various electronic media such as TV or radio in France) confirmed these results in 2007: the majority of people aged 15 to 20 is considered to be insufficiently informed about topics such as saving and preparing for retirement or how to choose the best credit offer. A lot of them also own savings products but do not care about what these products really are or mean.

<sup>1</sup> This document is a synthesis of the study 'How to optimise financial education in France to improve household purchasing power.'

<sup>2</sup> 188,485 cases were submitted in 2008 (source: Banque de France).

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### **Finalist: an ambitious project**

Supported by the European Union and financed through the Grundtvig – Lifelong Learning Programme, the 'Financial Literacy Stimulation' (Finalist) project is based on a partnership with ten organisations and institutions coming from five different European countries (Greece, Bulgaria, Germany, Cyprus and France) and aims to identify new ways to improve financial and economic education, inform citizens better and provide enlightened consumers with strong financial advice and material.

A questionnaire was issued to contribute to the first international comparative analysis of general knowledge in terms of financial culture and the needs of training for consumers.

Results in France?

- More than 50% of the French think that financial products are difficult or even very difficult to understand.
- 24% of them do not search actively for information because they consider finance to be too difficult to understand.
- 45% think that a majority of the generated financial information only serves the interest of financial institutions.

To find out more about project go to: **[www.finalist-project.fr](http://www.finalist-project.fr)**

Two aspects specific to France could partly explain these gaps: for a start, the importance of social welfare seems to have reduced the need for financial literacy for previous generations. As benefits have been a way for households to cushion long-life risks related to their budget over time, they were hardly encouraged to think about and create their own financial capability. The ambiguous relationship the French have with money could also be a cause: talking about money with children, telling people how much money you make, or suggesting that you have enough money to invest have always been taboo subjects. (Pointillart, 2007).

Given this backdrop, developing financial education could certainly help consumers make better choices (OECD, 2005), to anticipate unexpected situations, to increase their resources by taking advantage of the financial support they are entitled to, to invest in an appropriate way,

to save money for retirement, to fight efficiently against fraud attempts and to pay more attention to regulators' warnings (European Commission, 2007). As far as over-indebtedness is concerned, the implementation of specific and high quality programmes could probably reduce the level of outstanding balances and the reported cases of over-indebtedness (OECD, 2005) – though it would not entirely solve the problem, as unexpected life incidents can always happen. What's more, financial education could even favour well-being and personal fulfillment, stabilise the ambiguous relationship people have with money and improve independence and freedom (Beaujouan, 2009).

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## 2. Financial education programmes in France can be improved

It would be difficult to list all the financial education programmes that are currently undertaken in France. Indeed, most of the bank, finance and insurance players are very active: they give general information about their products and services using all kind of techniques (internet, leaflets, etc). Their websites also contain features that help consumers to choose a credit card, insurance product or loan offer that meets their personal situation. For instance, the French Banking Federation (FBF) created a website called 'Les clés de la banque' ('The key to banking' in English) in 2004 ([www.lesclesdelabanque.com](http://www.lesclesdelabanque.com)), to present in a very simple way bank products and

services. Cetelem, subsidiary of the BNP-Paribas group, created an educational website [www.moncreditresponsable.com](http://www.moncreditresponsable.com). Some financial establishments even developed support systems for clients in a predicament – of particular note is the partnership between Laser-Cofinoga, subsidiary of the Galeries Lafayette group, and the Cresus association (see box below), which aims to prevent over-indebtedness by offering a range of specific consumer training. The Crédit Agricole du Nord-Est also created the Passerelle system in 1997 in Reims. With this system, bank employees are available to give advice to people facing financial difficulties.

### **CRESUS: portrait of an association unlike any other**

The Chambre Régionale du Surendettement Social (CRESUS) in the French region of Alsace (Regional Chamber of Social Over-Indebtedness in English) is recognised as a public utility organisation with 43 volunteers coming from the financial and bank industries and five employees.

Over the past 15 years, 13,500 households experiencing financial difficulty have benefited from personalised advice thanks to this association. Crésus Alsace also takes action in other ways:

- An awareness campaign on financial independence for trainees and students from the health and social services sector with the support of the Alsace Regional Council.
- Social microcredit – so far, around 500, 000 euros have been loaned.
- An internet radio programme about money concerns.
- A dedicated phone line to answer all questions related to budgetary control and a partnership convention with several landlords to take care of tenants after they missed their first payment. These initiatives received support from the Délégation Interministérielle à l'Innovation, à l'Expérimentation et à l'Économie Sociale (DIIESES). (French Inter-ministerial Delegation for Innovation, Experimentation and Social Economy in English).

CRESUS Alsace's principles spread like wildfire: so far, 14 associations named after CRESUS have been created in France.

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Consumer and family associations have also got down to the heart of the matter: indeed, Consommation, Logement et Cadre de Vie (CLCV) (Consumption, Housing and Living Environment in English) lists bank fees every year and distributes booklets about credit and over-indebtedness. In turn, the Union Nationale des Associations Familiales (UNAF) (French Union of Family Associations in English) coordinated, with several associations, the development of a CD-ROM entitled 'Gérer son budget sans dérapier' ('Managing your budget in a good way') with the support of the European Commission, etc.

There are also a few institutional and governmental initiatives: the Ministère de l'Économie, de l'Industrie et de l'Emploi (the French Ministry of Economy, Industry and Employment) created the Conseil pour la Diffusion de la Culture économique (CODICE) (the Council for the Diffusion of Economic Culture) in 2006. It aims to explain to the French in a simple and non-partisan way the economic mechanisms on the website [www.kezeco.fr](http://www.kezeco.fr). On the website [www.ctaconso.fr](http://www.ctaconso.fr), dedicated to teenagers and young adults, the Institut National de la Consommation (French Institute for Consumption) broadcasts videos entitled 'Vivre avec ma banque' ('Living with my bank'), 'Obtenir un prêt' ('How to get a loan') or 'Gérer son budget' ('Managing your budget')

Among all these initiatives, how many could be considered real financial education programmes? Considering the topics discussed by a group of experts gathered under the authority of the European Commission within the framework of a specific study (Evers & Yung, 2007), real financial programmes present several characteristics: their name and description explicitly allude to personal finance, with global themes (it is not limited to a particular type of financial product), they do not require high levels of competency (accessibility), their approach is didactic and includes examples, they offer information about the possible consequences of choices made by individuals, they imply long-term action and finally, they include a minimum of marketing in order to spread information to most people. Based on

these criteria, only four French organisations (compared to 60 in the UK for instance) have been selected by the experts of the European Commission:

- Les clés de la Banque ('The keys to banking') launched by the French Banking Federation.
- Finances et Pédagogie ('Finance and Pedagogy'): created by the Caisse d'Épargne (a French bank) in 1957. This association provides training to social intermediaries, vulnerable groups (60% of the total activity) and gives conferences in schools (25% of the total activity, 700 actions conducted in 2007). 75,000 people took part in 2008 and 4,200 training sessions were given by a team of 31 trainers nationwide. The multi-dimensional nature of the programmes and the diversity of methods used to reach a wide audience were highlighted in the Evers & Yung report. Thus, Finances et Pédagogie is part of the 17% of European programmes that use more than six methods for mass distribution (internet, training, booklets, etc).
- The Institut pour l'Éducation Financière du Public (IEFP) (Institute for Public Financial Education) – see box below.
- The Association Nationale des Fonctionnaires Épargnants pour la retraite (ARCAF) (The French Association of Civil Servants Investing for Retirement).

### **Institute for Public Financial Education (IEFP in French): a key player**

Created in 2006 by the Autorité des Marchés Financiers (AMF) and Euronext, the IEFP plays a major role in spreading financial education in France and is in charge of the worldwide promotion of the national strategy.

It is aimed at 'making finance accessible to all by providing the French with the basic knowledge to manage their budget, understand and choose their financial projects better, and feel more at ease with their day-to-day environment'.

Thus, the IEFP equipped itself with a website ([www.lafinancepourtous.com](http://www.lafinancepourtous.com)) on which advice and educational aids adapted to all kinds of audiences are available (young people, the working population, the elderly, teachers and trainers, children). The institute also produces conferences to promote financial education in France and publishes works on the subject such as 'Vos enfants et l'argent' ('Your children and money') and 'La Finance pour les nuls' ('Finance for Dummies'). Finally, the institute collaborates with teachers to implement financial education tools in schools. The goal would be to make financial education part of existing subjects taught (Maths, Economics, etc) and not to create a specific discipline.

The Autorité des Marchés Financiers (AMF), NYSE Euronext, the French Banking Federation (FBF), the Association Française des Sociétés Financières (ASF), the Banque de France, the France Mutualiste, BNP Paribas Personal Finance France and Gaipare are members of the IEFP's board of directors, whose chairman is Erik Pointillart, strategic advisor to the CEO of the CNCE (Caisse Nationale des Caisses d'Epargne).

It must be said that the current financial education initiatives in France present several drawbacks. First of all, the information-spreading methods used are often limited to the internet, are cheap and have no mass communication strategy. According to Daniel Kosicki, head of the group of European experts in charge of financial education, the internet is not an efficient tool to improve the competencies of the population. Second drawback: some types of financial education – such as retirement planning and financing, or savings – lack information about the creation of a personal budget or how to deal with over-indebtedness. Finally, some target audiences are not really taken into account (employees and those of retirement age for instance), with most programmes being targeted at young adults or people with limited financial means who are already deeply in debt.

Of more concern is the fact that those educational programmes that can be considered real financial

education programmes, lack support and coordination. For instance, the Institute for Public Financial Education (IEFP), considered the international focal point for the promotion of the national financial education strategy, currently only relies on the contributions of its founding members. However, in its report, the Autorité des Marchés financiers (AMF) – that created the IEFP in 2006 – clearly mentioned that this contribution "would not be sufficient to finance all of the actions required, in particular those related to communication". Back then, the AMF recommended that the French public authorities create a budget drawn from a number of sources such as local authorities, Chambers of Commerce and European funding, to support the IEFP as well as to assess fees according to the number of transactions or total transaction amount, to be decided by the AMF. So far, these recommendations have been disregarded.

So, how efficient are these programmes? This is hard to tell. First of all, the evaluation of these programmes is technically complex to implement: How is it possible to know if the information spread through several methods has been read, understood and has changed behaviours? Actually, the only way to evaluate the efficiency of these programmes would be to organise big surveys to measure at regular intervals the improvement of financial competencies among the entire population and some targets in particular. There are no such surveys in France at the moment: not only are the polls conducted under the authority of the AMF and the IEF based on sample sizes that are too limited, they are also not conducted at sufficiently frequent intervals.

### 3. Potential improvements

Four improvements could be considered to optimise financial education initiatives in France.

Firstly, by defining a **real national policy** on the subject, inspired of the good practice in France's European neighbours. In October 2008, in Brussels, the experts of the European Commission identified several key elements that were common to all efficient financial education policies (European Commission, 2008):

- **Coordination.** It can be entrusted to regulatory authorities – until the end of 2009, it was the case in the UK where the Financial Services Authority (FSA) was at the centre of the system.<sup>3</sup> If such a strategy was implemented in France, this mission would be assigned to the Autorité des Marchés Financiers (AMF). It could also be entrusted to an external organisation – in Ireland the government created the 'National Steering Group on Financial Education'.

- **Clear identification of needs.**
- **Action planning.** Spain developed a five-year programme running from 2008 to 2012, with an evaluation of conducted initiatives at the end of the period.
- **Creation of programmes adapted to target audiences.** In the UK, for instance, children are considered to be a priority target. Thus, the regulatory authority decided that financial education would be a specific subject taught in secondary schools.
- Focus on **direct assistance.** For example, in Ireland, the 52 'Money Advice and Budgeting Services' (MABS) offices created by the government and set up all over the country, offer a free and confidential service for the over-indebted, people with outstanding debts or those who cannot manage their budget. Advisors, who work in collaboration with social workers and hospital staff draw on available resources and act as a go-between with creditors and generally try to rebalance the budget of the people they advise.
- **Communication.** The Irish regulatory authority launched a promotional campaign in the national mass media. In Poland, financial topics and discussions are integrated in general public radio-broadcasting on the National Bank's initiative. A financial quiz game with a star is also part of a famous TV show.
- **Financing.** For instance, in the UK, the government made £11.5 million – 13.17 million euros – available to finance the 2008-2011 financial education programme in schools.
- **Evaluation.** Working groups were created in Ireland and in the UK on that subject.

<sup>3</sup> In November 2009, the British government announced the creation of a consumer education agency supported by banks.

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A second potential initiative could consist of putting financial advisors employed by the banking networks at the centre of a system. Indeed, unlike their European counterparts, the French do not tend to call for competition between banks and usually maintain good and strong relations with financial advisors. In a survey conducted in 2004 by the AMF, 54% of the polled people considered that their banker (or financial advisor) helped them to 'discover the Stock Exchange and the different existing investments, to understand their interest and principles'. Because they have access to bank accounts and operations, the bank employee is also one of the first individuals who can advise customers about risky financial behaviours. The geographical distribution of bank branches would be an asset to help spread the material published by the IEFPP for example.

A third initiative would consist of making financial education part of a common set of competencies defined by the French Ministry of Education. Indeed, it would be better if the teaching of financial education to young people was based on an upstream and long-term collaboration with the French Ministry of Education with a real educational project (CCSF, 2005). To do so, the creation of a foundation dedicated to the teaching of consumption and financial services. One of its goals would be to provide teachers with accurate financial material that could be integrated into their lessons. The IEFPP also considered this issue: after several policies implemented abroad were analysed (IEFP, 2008), the institute handed in a report presenting a methodology to integrate financial education in a common set of competencies to the French Ministry of Education. The Ministry is therefore aware of this issue.

Finally, it would seem necessary to mobilise the research and statistics sector. Thus, going further into the details of some topics: for instance, the way the French behave with money - in the wake of Janine Mossuz-Lavau's<sup>4</sup> work -, financial literacy and the economic and social indicators that help measure the efficiency of public policies

in terms of financial education - the volume of credit and savings transactions, the number of outstanding payments and unauthorized bank overdrafts are indicators that highly depend on the economic and social situation. This is the reason why they could only be used as additional evaluation techniques.

Actually, public statistics could provide researchers with useful data in terms of financial education investigation. The French National Institute of Statistics and Economics Studies (INSEE) already conducted periodic household surveys including questions about people's expenses, their resources, the way they feel about their financial means, etc. (eg: surveys about 'Family budgets', 'Household estates' and 'The statistics system on household incomes and living conditions'). By adding specific questions related to financial education, the INSEE could help evaluate competencies on that matter among the population (just like in the UK) to develop more targeted programmes.

The French National Research Agency could also be mobilised. For instance, a request for proposal on financial education could help to finance scientific investigations through a partnership with organisations - private or associative - that are already doing research on that subject.

This way, the implementation of measures to promote financial education to improve household purchasing power would not be too expensive. The State would then have to provide the impetus for action by showing its commitment, just like in other European countries.

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<sup>4</sup> Janine Mossuz-Lavau is the author of 'L'Argent et Nous' (Ed. La Martinière, 2007) and a CNRS project leader at the CEVIPOF, the political research center of Paris Political Studies Institute (IEP Paris).

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He contributed to and collaborated on a number of academic studies including:

- 'L'Analyse démographique: un outil pour la politique européenne de lutte contre le surendettement des ménages' ('Demographic analysis: a tool for the European policy to fight against household over-indebtedness'), 21st International Congress on World Population, 2009.  
<http://iussp2009.princeton.edu/abstractViewer.aspx?submissionId=91816>
- 'Activité, pauvreté, surendettement des ménages : des relations complexes' ('Activity, poverty, household over-indebtedness : complex relations'), in Bernard Yvars, Enjeux et défis de la coopération euro méditerranéenne (Stakes and challenges of the Euro-mediterranean partnership), Sfax, L'Harmattan, 2007
- 'Définir et dénombrer les surendettés' ('Defining and counting the over-indebted'), in Christophe Bergouignan, Chantal Blayo, Alain Parant, Jean-Paul Sardon, Michel Tribalat, La population de la France, évolutions démographiques depuis 1946 (The French population, demographic changes since 1946), 2005

'Analyse des difficultés financières et du surendettement des ménages au moyen du panel européen des ménages 1994-2001 et du dispositif SRCV (EU-SILC) 2004-2005' ('Analysis of financial difficulties and household over-indebtedness through the 1994-2001 European panel of households and the SRCV system (EU-SILC)'), meeting with the group working on households' income and living conditions), INSEE, Paris, October the 23rd 2007.

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