Consumer Financial Capability Workshop, 8 November 2005

Almudena de la Mata, (Chair of the Workshop and former ECRI Research Fellow), introduced the event by underlining the importance of Consumer Financial Capability in the context of the ongoing regulatory process in Retail Financial Services.

Elaine Kempson and **Sharon Collard** (Personal Finance Research Centre, University of Bristol, UK) presented the research methods they followed for an exploratory study (co-authored with Nick Moore) carried out for the Financial Services Authority. This study had three objectives: identifying the components of financial capability and their sensitivity to various factors; designing an adequate survey questionnaire; and designing a scale against which individuals' financial capability can be measured. A literature review, which helped building the conceptual model, also showed that none of the previous research studies had provided robust means of measuring and monitoring levels of financial capability in the population. Focus groups and interviews were then held in order to develop and test the draft questionnaires.

The conceptual model used here was based on the interrelation of the following main factors: knowledge/understanding, skills, experience/circumstances, confidence and attitudes, personality, behaviour. The focus groups showed that financial capability was perceived in behavioural terms by the respondents; it was seen as encompassing the three aspects of knowledge, behaviour and attitudes. Individual interviews confirmed that measuring financial capability is complex and lengthy, partly because of the necessity to adapt to individual specificities (e.g. income level, cultural environment, level of engagement with financial services). None of those interviews lasted less than an hour; a number of them, in particular those involving financially sophisticated people, took more than two hours to complete. Four domains were defined for the appraisal of the financial competency of consumers: money management, financial planning, the choice and use of financial products and lastly, the area of "information, advice, complaints and redress" which included the use of financial advisers.

A national survey was then undertaken all over the UK between June and September 2005, using the questionnaire developed during the previous phases. After two pilot surveys covering about 100 persons each, 5'328 persons were interviewed in the full survey, which included representatives of regional and minority groups. Many participants declared that they had found the process of answering those questions on financial issues both interesting and illuminating.

The next step, namely the design of a scoring system, is about to begin. Consequently, we can only present a broad overview of the chosen approach. First, the building of an overall, one-fits-all scale for the whole questionnaire is clearly not possible. The appropriate approach seems to develop separate scores for each of the four domains identified above. Secondly, it would be inappropriate to designate a clear-cut "pass-mark" under which people would be considered not capable. This survey, based on behavioural patterns, is anyway not compatible with that sort of approach. Five criteria have been adopted for the scoring system: reliability, validity, relevance, comprehensibility (to non-technical audiences) and longitudinality (should be replicable in the future). At the moment, it is likely that the method of choice for the scoring system will be similar to that used for the Index of Multiple Deprivation and Health indices. In this type of approach, factor analysis is applied to the results for each domain before ranking the scores from lowest to highest. This methodology seems best suited to this type of analysis, as it would allow for the building of a consumer financial capability typology describing individuals' strengths and weaknesses. It is also a robust, well-tested approach.

Catarina Frade and **Cláudia Lopes** (Observatory of Consumers' Indebtedness, University of Coimbra, Portugal) based their study of the social and psychological factors affecting consumer financial literacy on a series of face-to-face interviews with Portuguese consumers. The first aim of those interviews was for the Observatory of Consumers' Indebtedness to analyse the relation between unemployment and over-indebtedness. For the present study, the preliminary results obtained during the interviews illustrate the theoretical framework of values developed by the authors, as well as its implications for financial literacy.

In Portugal, consumer credit is a relatively new phenomenon that took off in the favourable socio-economic climate of the 1990s and rapidly developed. Nowadays, the Portuguese household indebtedness ratio is one of the highest in Europe (117% of disposable income in 2004), with the use of credit varying along socio-economic categories as well as from one geographic area to another. This swift evolution has challenged the local cultural values that often demonized borrowing.

Two groups of interviews were held: one with unemployed workers and the other with debtors who had sought the assistance of DECO (largest Portuguese consumer protection association). Besides the main investigation goal of clarifying the unemployment/over-indebtedness interdependence, those interviews also provided information about the interviewees' values and attitudes towards consumption, credit and indebtedness which provides a useful basis for the design of financial education programmes.

A recent formulation of human values system (Schwartz 1992, 1993) comprises ten core values aggregated in the following four dimensions: openness to change which opposes to conservation; and self-transcendence which opposes to self-enhancement. This system can be used to identify the determinants of financial attitudes and behaviours.

From the data collected during interviews it is possible to draw the general profile of each interviewed group, the unemployed being characterized as "the ants" and the over-indebted as "the grasshoppers". The ants were mainly factory workers, aged 40 on average, with low levels of education, low salary levels and strong informal solidarity networks. They had a rural or semi-urban lifestyle and tended to have longstanding employment relations. The grasshoppers had more various occupations, often in services industries. They were younger (25-35 years old mostly) and presented more job turnover. They had higher qualification and income levels. The relation to debt and consumption was very different from one group to the other: the ants had strong personal ethic regarding credit payments, while the grasshoppers, albeit intending to pay or repay, were less willing to make sacrifices and found it hard to establish financial priorities. Their financial behaviour also varied: the ants saved money on a regular basis (although through unsophisticated products) and showed an aversion to credit while the grasshoppers almost never saved and used credit products intensively, whether for housing or consumption purposes.

Financial education is an essential component of the vast field of consumer education. As many other types of good, financial products have become more diversified and complex: consumers need to be equipped with the basic skills that will allow them to make discerning choices and seek information/help appropriately. Although the results developed here cannot be extrapolated to social groups (due to the convenience sampling procedure used for the interviews), they give an indication of how divergent the value systems and the socio-economic environments can be between groups of consumers. Consumer financial education should take into account those specificities. Given that financial behaviour is related to certain group standards and values, it should be directed at both the individual and the whole community levels.

Johanna Leskinen (National Consumer Research Centre, University of Helsinki, Finland) presented a paper co-authored with Anu Raijas on the concept of Consumer Financial Capability. They based their approach on the economic role of consumers and consumption, using the life cycle approach (Deacon and Firebaugh, 1988) as a cornerstone for their interpretative framework. The most frequently used version of the family life cycle takes into account the ages of the children and their presence at home. The life cycle hypothesis then considers consumption as depending not only on the present income but also on the income expectations in later phases of life. This hypothesis draws on the idea that there is a “typical income development”: minimum income at the beginning and end of life and maximum at the middle. At the same time it assumes a relatively stable level of consumption. In this case, credit is used mostly when consumers are young (and their consumption expenditures exceed their income); while in middle age people repay their loans and save for old age.

Empirical applications do show a “Gaussian type” of curve for the development of income and consumption in life, which provides support for this framework. For this paper, the suggestion of the authors is that different financial capabilities are related to different life stages, as the decisions to be made by consumers differ along their life cycle.

The definition of financial capability given by the FSA is widely used and very useful. It is articulated around three dimensions related to individual characteristics: financial knowledge/understanding, skills/competence and financial responsibility. Consumers then need to be able to apply, in practice, the capabilities they have in each of those dimensions. Building on this definition, we can assume that there are various stages and expressions of consumer financial capability, varying with individual (i.e. sex, age, education, values and habits), household (i.e. phase of life, employment status) and with environmental characteristics. Those variables are in constant interaction with each other. Therefore, financial capability can be understood as a process evolving over a person’s lifecycle and influenced by social trends and circumstances. It can be considered a synonym of financial literacy, an equivalent concept more prevalent in US literature. Financial literacy can be then considered as a subset of consumer literacy. According to the understanding of the authors, it materializes in financial management.

Should we define what is “good” or “best” in terms of consumer financial capability? It may be impossible to define what kind of financial capability is sufficient and what is not. As we just saw, this concept is volatile, depending on situational factors that are difficult to observe or forecast. The scope of the present paper did not allow for the underlying questions (i.e. about the definition of “good” or “adequate” financial capability) to be fully explored. Empirical studies help reaching at least some first practical conclusions. Prof.

Leskinen presented here a short summary of the relevant empirical studies and surveys. She listed conclusions directly applicable to consumer policy, particularly underlying that information targeting consumers should be practical, understandable, connected to consumers' lives; it should be adapted to their environment and tailored to the phase of life they are going through.

Further empirical research is needed in order to understand the many dimensions of the complex, dynamic phenomenon of consumer financial capability. This research should also examine the cases of households that seem to have high levels of financial capability (comparative studies).

During the question session that followed, **Rosa-Maria Gelpi** (Cetelem, France) asked if, in the study presented by Catarina Frade and Cláudia Lopes, some results would suggest that some of the "grasshoppers" become "ants" later in life. **Catarina Frade** answered that the "grasshoppers" were often the children of "ants" but that most of them already had families and so were likely to keep the same financial behaviour throughout their lives. They used credit to take part in the predominant economic lifestyle. **Laura Rinaldi** (Centre of Economic Studies, University of Leuven, Belgium) asked Elaine Kempson and Sharon Collard about the validity of their conclusions for other countries. **Sharon Collard** explained that, even if the very distinct structure of UK financial services sector had to be taken into account, she expected fundamental results to be similar for other EU countries. **Arianna Mellini-Sforza** (European Banking Federation, Belgium) addressed a question to all speakers: how did they see categorization of consumers along their financial capability levels? In Portugal in particular, were there intermediary groups, people who were both "ants" and "grasshoppers"? **Sharon Collard** said that she expected categories to emerge through differences in the four domains examined, when the analysis of the results would be finished. **Catarina Frade** summarized the differences between the two types examined in Portugal for her study. **Elaine Kempson** argued that those characteristics were not necessarily clearly good or bad. For instance, the "grasshoppers" might use credit more readily during an unemployment period because they know that they will quickly find a job again, given their relatively higher qualification level. **Barbara Smith** (Financial Affairs Division, OECD) explained that in the US, her team found 3 categories while examining the saving behaviour of consumers: the dedicated savers, those knowing that they should save, and those who do not save at all (the majority). Those three attitudes were not necessarily correlated with age or income groups. **Elaine Kempson** added that saving habits are usually built in early childhood (age 7-8). In the UK, most people save, at least over short periods. **David Rees** (Provident Financial, UK) brought the topic of the impact of welfare systems into the discussion. **Catarina Frade** said that in Portugal, people receive help in rural areas, often in kind. The informal solidarity networks are significant. **Almudena de la Mata** mentioned to the audience that the ECRI Consumer Finance Network had recently examined the topic of over-indebtedness.

Gianni Nicolini (Università di Roma "Tor Vergata") presented a regulatory perspective on consumer financial capability. The focus here is whether we can help consumers to understand their financial capability through law. Consumers are a weak part in the financial market transactions, first because their need to borrow is higher than banks' need to lend, and secondly because of asymmetric information: the consumer does not have enough information. The regulator intervenes at this latter level: can we fill the information gap and therefore prevent asymmetric information from appearing? If we consider that we can, then we would adopt what will be called here an "information approach", part of which consisting in the set up of a consumer financial capability indicator. In the opposite case, an "invading approach" will be adopted, where we would try to control the relationship between credit institutions and consumers.

The current regulatory approach varies from one EU country to another. To give an example, in Switzerland, financial capability is directly mentioned in regulation. The problem is more about the quality and adequacy of the information than about its quantity. Consumers will be able to reach the right level of financial capability only if they receive the right information at the right moment. It will have an impact not only on the consumers themselves but also on the whole economy, because it will allow for a higher competition level between credit institutions. Informed consumers will select providers more carefully.

At the moment, the study is not finished, so the financial capability indicator being developed cannot be presented yet. This indicator would help consumers to have a clear overview of their financial situation, which would in turn allow them to take better informed decisions regarding financial products. It should take into account periodical cash-flows (i.e. income, costs) and the household assets. In its present state it would not consider the household situation in the area of mortgage and guarantee. Credit history would not be considered either.

Rosa-Maria Gelpi (Cetelem, France) expressed her disagreement with the view that consumers are the weak part in the retail financial markets for the reasons developed above. She underlined that lack of information available for consumers was not a current problem in that area. **Gianni Nicolini** insisted on his focus on the quality of information provided. He argued that we could do better, in terms of information, than what offered by the new Consumer Credit Directive proposal. In particular, we should consider the option of giving the consumer the possibility to choose what information they need. **Rosa-Maria Gelpi** agreed with that opinion. **Kate Taylor** (Policy Division, Citizens' Advice International, UK) asked if Gianni Nicolini would conclude that providers should have more obligations to provide information. **Gianni Nicolini** answered that in his views, it was the consumer who needed to know more about his/her own financial situation. The banks have access to information from credit bureaus. **Michel Van Lierde** (Eurofinas and Leaseurope, Belgium) advised Gianni Nicolini to examine the new draft Consumer Credit Directive in detail. The industry thinks that the wording of the regulation is quite complex, in particular in the requirements for pre-contractual and contractual information. It would be useful to examine if some of those requirements are not redundant.

Didier Noël (Observatory of Credit and Indebtedness, Belgium) presented a comparison of the responsibilities and obligations of lenders and borrowers in several EU legislative systems. In rare cases, it is possible to find a criterion for a consumer's financial capacity to borrow based on positive standards. An example can be found in the Swiss federal legislation, which stipulates in particular that the ability to borrow must be assessed on the basis of a repayment period of 36 months, even if the loan contract provides for a longer repayment period.

In French and Belgian law, the criteria are not defined in advance by the legislator, but the responsibility of the lender might be engaged. The principle of lender responsibility for having granted a loan 'lightly' was raised in France for the first time in the 1960s. In France, a justification for these requirements was sometimes sought in the nature of the public service involved in the lender's business. This thesis never held sway in Belgium, even if some jurisprudence decisions observed that bankers, through the exercise of their profession, fit into economic and social life and hold powerful resources that put them under an obligation to act in a perceptive, prudent way in their professional business.

Recognition of possible lender responsibility by the borrower itself in the context of a loan granted for non-professional purposes evolved in the same way in French and Belgian jurisprudences, albeit at different rhythms. The Belgian law moved from assuming that the link of causality between a fault of the lender and a loss encountered by the borrower could never be proved to considering the causality link as broken by the consent of the borrower at the signature of the loan. Recent jurisprudence no longer systematically dismisses the lender's pre-contractual responsibility relating to the borrower; however, cases of enforcing responsibility of this type are rare. In France, the jurisprudence of the Court of Cassation has evolved: in its ruling of 27 June 1995, it confirmed the general duty borne by the banker, whatever the purpose of the lending, of ensuring a reasonable possibility of repayment.

In contrast to common law, Belgian consumer credit law defines a clear breakdown and sequencing of the pre-contractual obligations that the candidate borrower and lender must fulfil in the context of assessing the capacity to borrow, e.g. consulting the Consumer Lending Centre for the lender or answering faithfully the information demands presented by the lender, for the borrower. The lender and intermediary are jointly and severally liable for performing their obligations. It is not necessary for the candidate borrower to demonstrate a fault on their part, a loss he may have suffered and a causality link between the fault and the loss.

Wlodzimierz Szpringer (Warsaw Business School and University of Warsaw, Poland) presented the institutional perspective on consumer financial capability.

Information obligations, related to the ex ante protection of consumers, have a crucial role in the prevention of over-indebtedness and in the concept of responsible lending and borrowing. However, it is difficult to decide the level and method of appropriate disclosure. In fact, excessive information levels may be particularly ineffective in protecting the most vulnerable consumers: as consumers' rationality is limited, more is not always better in this area. Information overflow of consumer is not in the interest of any party. Information needs to be proportionate.

Opinions concerning the optimal set of information requirements or the calculation and presentation of the annual percentage rate of charge vary from one country to another. When considering the issue of informational requirements we should take into account that people borrow either to finance the acquisition of consumer durables (higher income borrowers) or to make ends meet (lower income borrowers). It might be useful to examine the possibility of a targeted disclosure, which would be adapted to the type of borrower and its overall situation. This issue becomes more important as consumer credit markets develop, the range of available products widens and more consumers have access to credit.

Avoiding the extremes of over-regulation and non-regulation, the "third way" approach to consumer credit regulation would be to empower individual consumers and protect their autonomy, recognizing the importance of access to affordable credit for all households, while at the same time taking preventive and regulatory measures against over-indebtedness and draft regulations influencing (facilitating) market interactions rather than merely policing infractions. Regulation should focus on problem areas and take into account the insights brought by behavioural economics.

Protective legislation has to be effective. It must cover any form of credit that is linked directly to the lives of borrowers. Credit relations have to be transparent and understandable. Consumers should have access to both a standardized mathematically correct form of "one price" disclosure (the Annual Percentage Rate of Charge) and a standardized pre-contractual payment plan. Providing consumers with the right information at the right time, so they can make informed decisions, is the main regulatory and competitive issue in this area.

Prof. Szpringer then examined the issues of contractual and pre-contractual information from the consumer and the creditor sides. He observed the impact of the development of sophisticated credit scoring techniques and credit bureaus on the informational asymmetry characterizing the relation lender-borrower. Insisting on the role of trust in this relationship, he underlined the importance of the implementation of "responsible lending and borrowing" principle. He then examined and compared the two drafts Consumer Credit Directive with the perspectives adopted for the Unfair Business Practices Directive, the Misleading Advertising Directive and the Distance Selling Directive. He pursued with an overview of Consumer Credit Legislation in Central and Eastern Europe.

After the lunch break, **Barbara Smith** (Financial Affairs Division, OECD) presented good practices and institutional insights drawn from the first results of the OECD Financial Education Project. This project, established in 2003 with funding by Prudential plc, aims at describing existing financial education programmes, analyzing their effectiveness, and developing good practices. As part of it, a Recommendation on Principles and Good Practices for Financial Education and Awareness has been developed and is now available on the OECD website. Another major achievement has been the undertaking of the first major international study of financial education "Improving Financial Literacy: Analysis of Issues and Policies", to be published end of November 2005.

The interest of the OECD in the issue derives from the observation of parallel increases in credit product complexity, their use by individuals and the number of personal bankruptcies. The international study led to the conclusion that financial literacy is generally low among consumers. Furthermore, many consumers overestimate their knowledge. Consequently, consumers find financial information difficult to understand and discouraging; they make financial decisions based on inadequate understanding.

Financial programmes examined during the study have been shown to be generally effective. There are, however, lessons or "good practices" to infer from comparing them. First, it is very important to recognize the diversity of consumers and to adapt to their characteristics. This is probably a reason why one-to-one counseling and modular course schedules seems to be particularly effective. Consumers vary not only in their approach to financial decisions but also in their preferred media to receive information (i.e. internet for the young people). The mere availability of information is not enough. It is also important to take into account all the factors, apart from information, that will affect consumers' financial decisions.

Ms. Smith presented examples of financial education programmes in various countries. She added that benchmarks should be established to measure change, and that communication and coordination between financial education providers were a key issue. Financial education programmes will bring benefits not only to consumers but to supervisors, employers and governments.

Erich Paetz (Consumer Finance Department, Federal Ministry of Consumer Protection, Food an Agriculture, Germany) started by introducing his Ministry Division. In Germany, financial education is regarded as a task for society as a whole, and the responsibility for it is shared between the state, the economy, the family and the associative sector. The state provides financial support to consumer information measures, to the Federation of German Consumer Organisation, to Germany's premier product testing organization, to research projects and to various one-off projects related to financial education. Reforms are planned for the repartition of competences between Federal State and Länder regarding financial education.

The information of consumers is the basis of well-functioning financial markets and is therefore of high interest for the banking industry. Generally speaking, it will be easier for banks to fulfil their obligations in terms of "responsible lending" if consumers are well informed. In Germany there are examples showing that the industry has taken its responsibility in this area seriously. The responsibilities of families should not be forgotten, especially in the area of children and teenagers.

In general, financial literacy levels are not high, with consumers often making expensive mistakes because of their poor knowledge. At the same time, both household financial needs and the available financial services have become more complex. However, reaching adequately the different groups of consumers is often an issue.

Brenda Gibson (Financial Capability Department, Financial Services Authority, UK) presented the FSA's action in the area of consumer financial capability. The scope of the financial capability programmes in the UK is quite wide ranging and covers much more than credit and borrowing. In October 2005, the FSA proceeded to stocktaking in that area, which helped not only to evaluate current accomplishments but also to evaluate future funding needs. Two of the four FSA objectives are related to financial capability, namely: increasing consumers' awareness and ensuring adequate consumer protection. The goal of FSA's action in that area is to make a difference for consumers, who are then more likely to make better informed choices. This would lead to less need for regulatory intervention, by encouraging better product design and better providers' practices.

Seven working groups are active in that area, focusing respectively on Schools, Young adults, Work, Families, Retirement, Borrowing, Advice. They develop action plan proposals, run pilot projects, develop implementation plans and oversee the roll-out of the projects. Until now, some of their main findings are that one-size-fits-all approaches do not work; promising results have been obtained by reaching people through the workplace and through supermarkets; focusing on youth means that results take time to appear; there is a need for resource banks of educational/informational material. For the next phase, the FSA will focus on the following areas: Schools; Higher education; Workplace (public and private); Maternity leaver resources; Debt test (e.g. an interactive financial health check) and a Quality Assurance Scheme for generic advice. The FSA will also launch campaigns on financial capability issues.

Helga Springeneer (Federation of German Consumer Organisations - Verbraucherzentrale Bundesverband, Germany) asked why the FSA had developed this stocktaking and new initiative, given that financial literacy programmes already existed in the UK fifteen years ago. **Brenda Gibson** answered that a point had been reached where step-change, and not more incremental change, was needed. **Kate Taylor** (Policy Division, Citizens' Advice International, UK) added that its organization had asked for the development of a new national strategy in this area, and that this change was generally seen as good. **Michael Green** (University of Wales, Bangor) mentioned the household debt level in the UK as a reason for national institutions being interested in financial capability. Answering to a question of **Carolyn H.Welch** (Division of Consumer and Community Affairs, Federal Reserve Board of Governors, USA), **Brenda Gibson** explained that the FSA spent 8 millions of pounds per year on financial capability. More funding is expected soon. The FSA is considering the creation of a "financial capability brand". **Rosa-Maria Gelpi** (Cetelem) mentioned a project in financial education developed by Cetelem in association with other professionals and consumer organizations. **Elaine Kempson** mentioned the work of the UK association PFEG which specifically targets schools. **Karel Lannoo** (ECRI) asked all government representatives about the way they assessed the impact of their actions, and what were the implications for issues regarding housing markets. **Brenda Gibson** explained the difficulties related to such measurement, due to the interrelations of the variables considered. However, the FSA tries to operate individual impact assessments when possible. **Javier Arias** (Banco Bilbao Vizcaya Argentaria) reminded participants of the importance of pre-regulatory impact assessment, which prevents from adopting over-reacting measures. **Brenda Gibson** said that the FSA saw its action in financial capability as separate from its regulatory activities. **Rosa-Maria Gelpi** argued that the development of financial capability could be a way to avoid over-regulation. **Almudena de la Mata** asked about the cooperation between national regulators. **Jane Rooney** (Financial Consumer Agency, Canada) answered that the International Association of Financial Educators and Regulators was a useful platform for information exchange.

John Rossi and **Jane Rooney** (Financial Sector Policy Branch, Department of Finance and Financial Consumer Agency, Canada) presented the Canadian perspective on enhancing Consumer Financial Capability. They first presented an overview of the State level activity in terms of consumer protection, regulation and education. In Canada, financial consumer protection, which includes consumer capability enhancing in all financial areas, is the responsibility of the Federal Department of Finance. In this context, they ensure that consumers receive enough information about both products and rights/obligations to feel secure and make informed choices. The Financial sector consumer regulator is the Financial Consumer Agency of Canada (FCAC), which among other tasks is assigned a broad consumer education mandate. Consumers can also contact FCAC if they are encountering problems. Issues can then be raised by the FCAC to policymakers when necessary.

The FCAC developed innovative programs and user-friendly products to help consumers: for instance, their website contains an interactive tool helping consumer to shop around by allowing them to find the cheapest banking package adapted to their situation. Plain-language publications are also available. All consumers are targeted by FCAC projects, with an emphasis on low-income, low-literacy Canadians. The institution has developed partnerships with organisations having access to lower-literacy groups; one example is its collaboration with Credit Counselling Canada. FCAC staff also established direct contact with such groups, through a presence at various events and direct mail operations. The goal is then to inform those consumers about their rights.

The Financial Capability Symposium, held in June 2005 with national and international participants, explored the concept of financial capability while identifying existing projects and future needs. On this occasion, the following definition for consumer credit was elaborated: “Develop the skills and confidence to be aware of financial opportunities, to know where to go for help, to make informed choices, and to take effective action to improve financial well-being”. FCAC plans, among other projects, to do further research, build more partnerships, and create a database of existing programs and organisations in the area.

Carolyn H. Welch (Division of Consumer and Community Affairs, Federal Reserve Board of Governors, USA) presented the USA perspective on the improvement of consumer financial capability. She gave an overview of the consumer credit market in the USA, which is vast and highly complex. From 2000 to present, consumer debt increased by 26%, with bankruptcy filings doubling over the last 10 years. Technology developments have allowed for increased lender capacity and efficiency, while the deregulation of the financial services industry has resulted in an increased number of non-bank lenders, as well as increased levels of competition and a very large range of products, terms and features. Until now, Federal disclosure laws and regulations aiming at reducing the information asymmetries inherent to this market have been the primary policy responses adopted. Currently, consumer advocates seek a reform that would provide more information in plain English instead of legal jargon, while the creditors seek a reduction of the regulatory burden linked with disclosure obligations.

Research done in 1975 on disclosures in credit contracts showed that they did not generally increase consumers’ “shopping around” behaviour, while actually benefiting high-income/high-education consumers the most. Research led by the Federal Reserve showed more encouraging results, with disclosures increasing consumer confidence and their awareness of APR in credit card pricing, increasing competition and decreasing consumer loyalty. However, the advantages of the disclosure-based approach to consumer education are balanced by the risk of information overload, the need for frequent amendments and the inability to protect consumers against fraudulent practices.

Ms. Welch also developed the benefits and limitations linked to a complex regulatory structure. In the US, there are regulatory bodies at several levels: federal, state, and local. However their action seems insufficient to prevent unfair practices. Furthermore, the complexity of the system makes it difficult to understand for consumers; coordination among supervisors can be challenging; and non-banks lenders are often excluded from the regulations, which creates a competitive advantage for them. Given the limits of the disclosure and the regulatory approaches, consumer capability and consumer financial education have a critical role. One big challenge in this area is to provide information to people when they need it.

The research on the effectiveness of consumer financial education is limited, but some studies have demonstrated that financial education can improve consumer credit behaviour. One-to-one counselling was found to have a particularly positive impact. Financial education should be seen as a public good and a long term goal.

Elaine Kempson asked participants about their views regarding the concept of "financial education replacing financial regulation" that she perceived as emerging from the debates. Should financial capability be regarded as a bonus or a replacement? **Carolyn H.Welch** said she definitely saw it as a complement. **John Rossi** added that this type of argument did not seem, from his point of view, to significantly influence the current debate. **Brenda Gibson** expressed the view that the optimal level of consumer protection has to depend on the actual level of financial capability. **Karel Lannoo** (ECRI) asked if the frictions between the national and federal levels in Canada were comparable to those between the Union and the national level in Europe, as it is a real issue for consumer protection in the EU. **John Rossi** answered that Canadian institutions have one advantage: they have a federal jurisdiction for financial services. Regulation in this area is therefore created at the federal level. But they allow for local legislation to be developed within that framework. There is strong collaboration with the provincial institutions. **Hans W. Grohs** (ASB Schuldnerberatungen GmbH, Austria) asked about the issue of unbanked consumers. **Jane Rooney** indicated that approximately 3% of Canadians were in that situation.

Kate Taylor (Policy Division, Citizens' Advice International, United Kingdom) presented the Citizens' Advice prospective for England and Wales. Citizens' Advice is the largest independent charity in the UK. It reaches many communities, including prisons and house care centres. It works with sister organisations in various countries. Relying on volunteers for its functioning, it provides free advice and information on legal, financial and other problems and plays an advisory role towards policy makers.

At the moment, evidence points towards a growth in debt problems and requests for debt advice; the organisation's bureaus are being asked to deliver programmes to the community. It also receives many requests for advice in the general financial area: e.g. banking, social state benefits and insurance. Therefore it sees a need for action in the area of financial capability. Interest in the same area has also been expressed by external agents such as the FSA and the general government.

In the context of its Community programmes, Citizens' Advice organises small group sessions with young people and adults at key lifecycle stages (young people leaving home, for instance). They observed that one-to-one programmes were very effective, especially with people with low literacy or low English language skills. In other situations, those groups lack the necessary confidence to participate efficiently. In general, community programmes are built by adopting a bottom-up approach and operated through partnerships.

In 2002, Citizens' Advice launched its National Financial Capability Project in partnership with Prudential. This programme supported local bureaux programmes and piloted a range of face-to-face programmes in order to establish best practices. An external evaluation of those pilots will be published in early 2006. In general, the following lessons emerged: effectiveness of partnerships; reaching people at the right moment is key; it is better to stress the benefits of the programmes and to keep it practical, building on existing knowledge and skills; trust is crucial in this process.

Carolyn H. Welch asked if Citizens' Advice would exchange information with providers about unsuitable products. **Kate Taylor** answered that her institution participated in the collection of information by public bodies, and that a separate department dealt with product issues. **Almudena de la Mata** proposed to start a debate on the border between financial capability and regulation. **Elaine Kempson** started by saying that regulation could help making it easier for consumers to understand financial products. **Almudena de la Mata** asked if it was possible to simplify financial products. **Carolyn H. Welch** asked if it was desirable to simplify them at the probable expense of choice. **Jane Rooney** said that the consumer and industry side were complementary. Consumers need to receive adequate information and the industry players should provide it, preferably in plain language. There is a project ongoing in Canada with a credit card provider about the issue of the language used when providing information to consumers. **Rosa-Maria Gelpi** reminded the audience that better protection against risk necessarily involved higher sophistication levels for financial products, taking the example of mortgages. Therefore higher sophistication has both good and bad aspects.

The debate turned then towards regulation issues. **Jane Rooney** emphasised the role played by codes of conduct. **Rosa-Maria Gelpi** explained that on average, regulation increased costs and reduced the access to credit, which made it often a disadvantage for consumers as a group, even if a subset of them benefited from it. **Brenda Gibson** underlined the importance of cost-benefit analysis for regulation. **Almudena de la Mata** intervened to redirect the discussion towards the concept of "average consumer" which is important in the current regulatory context. **Jane Rooney** explained that in Canada, the approach is to look first at average consumers, then to establish comparisons with disadvantaged groups. **Rosa-Maria Gelpi** argued that it is not possible to regulate the market at the margins. **Elaine Kempson** acknowledged that financial exclusion is often caused by good-intentioned legislation which increases regulatory requirements for the industry, thus resulting in the companies which were dealing with vulnerable consumers being driven out of the market (an example being the insurance-selling policies that requested insurance products to be sold by trained people). **Almudena de la Mata** wondered which combination of protection and inclusion or exclusion was better. **Elaine Kempson** said the regulation that would work best for the average consumer could make the marginal ones worse off. **Kate Taylor** mentioned that the choice between educating or regulating often appeared in the work of Citizens' Advice, when it had to decide whether to raise some issues to policy-makers or not.

Almudena de la Mata presented a wrap-up of the presentations and discussions. She thanked the participants for their presence and interest. **Daphne Luchtenberg** (Corporate Communication, Visa Europe, Co-Sponsor of the workshop) thanked the participants and said that the workshop had been a welcome opportunity for dialogue between academics, industry players, consumer representatives, policy-makers and government agencies.