



Second Consumer Financial Capability Workshop

Minutes

27. June 2006 – Venue: CEPS, Place du Congrès 1, 1000 Brussels

In a market place with increasing variety and complexity of financial products, the consumer's information and education are essential. Empowered European consumers will be able to better compare products and to make better informed financial choices. This is echoed by the European Commission in a White Paper on the Financial Services Policy (December 2005): "As the public sector gradually withdraws from financing some aspects of social systems, there is a need for increased awareness and direct involvement of citizens in financial issues (...) it is essential (...) to help consumers understand financial products." Following the successful first Consumer Financial Capability Workshop at the European Credit Research Institute (ECRI) that took place in November 2005, the Second Consumer Financial Capability Workshop will be held on 27. June 2006. Building on the contributions made at the former workshop, we will focus on how the guidelines that emerged from that debate can be put into practical financial capability programs. We draw the speakers and the audience from a wide range of interested parties: Policy-makers, academics, industry representatives and consumer associations are invited to present their views and contribute to the development of policy recommendations.

The Chief Executive Officer of Centre for European Policy Research (CEPS), **Karel Lannoo**, welcomed all participants on behalf of the CEPS and the European Credit Research Institute (ECRI).

The Chair of the workshop, **Professor Umberto Filotto (University of Tor Vergata, Rome, Assofin)**, opened the workshop by stating that there has been a long and intensive discussion on how to best protect the consumer in credit markets. This workshop at ECRI, he stressed, would have the intention to discuss how this can be achieved through knowledge and education with the final goal of making the credit market more efficient and fair at the same time. **Fiona Wilkinson, Senior Vice President, Corporate Communications, Visa Europe** and co-sponsor of the workshop emphasized that only a well informed consumer would be a well-protected consumer. In this area consumer education would be helpful as well as cooperation among banks and banks and governments.

The first session included policy makers from different institutions. Chair of this session was **Professor Elaine Kempson** (University of Bristol, Personal Finance Research Centre). She explained that research in the UK identified four distinct sets of skills associated with consumer financial capability: day-to-day money management, financial planning, choosing products and keeping informed. As consumer could potentially be competent in some but not others, a single measure of financial capability is inappropriate. In the UK the majority of the population could be regarded as fairly competent at day-to-day money management, only a minority was not and

showing signs of over-indebtedness. Levels of capability with regard to financial planning were much more variable, with at least half of the population achieving low scores. Competence with regard to choosing financial products was “shockingly low” among UK consumers – with the majority getting low scores. This last finding has implications for regulation as well as consumer education Professor Kempson said.

The first speaker in the panel, **Ginette Nabavi (Health and Consumer Protection Directorate, European Commission)** stressed that markets would be more and more competitive which also increased the choice of financial products for consumers. While consumer financial education is confined to actions on the national level, there are also cross-border aspects of it. In this sense, the European Commission would work with multipliers and national teams to promote its DOLCETA project. This project provides consumer education on topics such as contracts, price labelling, management of a family budget, consumer credit and mortgages. These tools are tailored to the national context.

Jurga Stančiūtė (DG Markt, European Commission) stated that in future, citizens would rely less and less on provisions from the state. The question would be what the adequate role of the European Commission could be in the field of consumer financial capability. For 2007, she informed the audience, there is a conference planned on the topic to gather information and also to promote different views on the European level. The third speaker, **Hugues Feltesse (DG Employment, European Commission)** presented the topic “Combating Financial Exclusion – Promoting Access to Financial Services and Tackling Over-indebtedness.” He informed the participants of the workshop on the steps taken by the Commission to tackle these problems through the open method of coordination, where European member countries pursue action plans in this field. One important matter was the access to essential services such as financial products. The absence of such access could harm participation in economic and social life (for instance in the case of payment of wages or subscription of a telephone line). He referred to a tender on financial exclusion published by the Commission as well as the efforts within the European Statistical System to include a module on financial exclusion and overindebtedness in 2008.

Severine Deboos (Social Finance Program, International Labour Organization) spoke about the role of the social partners in enlightened and sustainable consumer financial capability. She explained the link of the topic of financial capability and overindebtedness with employment and the social partners that is employers and employees as well as trade unions. One example was that passive overindebtedness could result from job loss and that the work situation would influence financial education and behaviour. The social partners would often be neglected in the discussion, although there were strong connections among the topics.

In the ensuing debate, **Rosa-Maria Gelpi (Vice President of Cetelem)** stressed that in France only 7-8 percent of workers would be organized in trade unions and would not be representative for all employees. Some other participants were interested in the question of age and its relation to financial capability. **Wendy van den Hende (Chief Executive of the Personal Finance Education Group)** mentioned that the situation was quite different for 40-year old people when they were 25 than for those that are 25 today. And **Professor Karen Gross (Director New York Law School Economic Literacy Consortium)** stressed that there are far more factors than age that explain financial literacy. An early survey by **Professor Elaine Kempson** showed that people stressed that there was a lack of good and impartial information about financial

service products. She also pointed out that economic cycles also contribute to passive overindebtedness and hence to individuals ability to manage their money day-to-day.

Hugues Feltesse stressed that there was no common definition of overindebtedness in Europe as well as no typology. He stated that one must have a clear view of the nature of debt, the impact of the financial burden and the history of the overindebtedness situation.

Professor Umberto Filotto served as the Chairman of the session of banks. He noted that in Italy for a while information of the consumer was not considered to be important as there was the attitude that the state would take care of the problem. But because of the increasing market opening, people now would be faced with choices and now a basic level of financial education was needed. In enabling the consumer with financial skills, this would be a powerful way of also intensifying competition. The first speaker in this panel was **Dara Duguay, the Director of the Citigroup Office of Financial Education** who spoke about the “Personal Finance Education Program” of her company. She explained that in the U.S., financial literacy has become a movement, especially with the coalition called the Jump\$tart Coalition for Personal Financial Literacy, which includes government agencies as well as all major NGOs and financial institutions. She explained that her company has made provisions for funding of financial education over a 10 year period. This commitment would also be invested in conferences and events on the subject matter. Even though awareness of the issue of financial literacy started in the US, increasingly the topic also receives major visibility in India, China and Korea.

Marc Dechèvre (Secretary General, Union Professionnelle du Crédit) introduced the audience to the "The Guide to Consumer Credit and the Budget Tool." He said that the idea and the draft of a “Guide to Consumer Credit” was discussed with the Observatoire du Credit et de l’Endettement (an NGO that works in this area) and published in 2001. It is regularly updated if regulations change. He also informed the workshop participants that his organization provides a budget tool with which consumers get an overview of their household budget and where they can plot their expenses and income in figures. **Fernando Cejudo Sanchez (Senior Director of Business Development and Innovation, BBVA)** stressed that a central topic was information transparency in regards to product information and labeling as well as how consumers could submit claims. Especially important would be the explanation of the costs and fees to the consumer who applied for credit.

Wendy van den Hende stressed in the discussion that in the UK there was a quality mark for information material in financial education. This apparently was also the case in the US, where the Jump\$tart coalition accepts only material that goes through a review process, **Dara Duguay** explained. The tougher issue, **Karen Gross** stated, was not the quality of the material, but of the teacher’s quality. **Fiona Wilkinson** emphasized that it was very important to explain to consumers also credit scoring as well as rules for data sharing and credit bureaus. And **Jurga Stančiūtė** noted that it was important to draw a line between pure consumer information and true education of consumers. **Professor Karen Gross (Director New York Law School Economic Literacy Consortium)** served as the Chair of the third session on views from consumer advocates. She stressed that financial literacy education in the U.S. should not be simply exported but regarded as a “cautionary tale.” She said that three questions should be asked: “What should we do collectively to make financial literacy

a core competence? What does it mean to be financially competent and how does one assess as to whether the goal has been achieved?" She explained that markets would change all the time, therefore a set of transportable skills were needed. Financial literacy was far more than "budgeting." It would include knowledge acquisition, the delivery system of this knowledge, community centers, public service campaigns as well as regulatory efforts and education on credit reporting.

Wendy van den Hende (Chief Executive of the Personal Finance Education Group) presented "Teaching Money Matters – Personal Finance Education in Schools" in the UK. The purpose would not be to teach pupils details about financial products or services, because they would change all the time. Rather, individuals should leave schools with core competence in financial literacy. For this matter, her charity provides school material, newsletters as well as websites and telephone support. In addition, there would be training events and conferences. She also stated that math teachers, for instance, would hesitate to teach the topic as they would be getting into issues, such as attitudes and financial responsibility, that they would regard as outside mathematics.

Adiconsum in Italy was represented by **Lorenza Pegoretti (Lawyer)** who spoke about "Different Roles but Common Goals in Consumer Education." She noted that too much information was no information and that a lot of consumer information was difficult to understand and boring. Contracts have to be readable by a consumer who is not a specialist and financial services providers should ensure that the consumer fully understands the trade-off between his/her own repayment capability as well as the expected performance. In the recent past years, in fact, consumer associations and financial service provider associations, have contributed to the design and implementation of consumer information initiatives.

Nikolov Bogomil (Executive Director, Bulgarian National Consumers Association) spoke about the role of consumer organizations in the financial sector of Bulgaria. He stated that formerly, there was only one bank and one offer and therefore no choice. Now his country would go through a transition period and there was a basic lack of experience to deal with such problems as consumers would not be used to face choices. His consumer association could potentially improve the situation through raising consumer awareness, the conduct of product comparisons as well as lobbying for an improvement of laws. For instance, his associations compared 10 bank offers and marked the great differences between them.

The final speaker in the panel of consumer advocates was **Werner Sanio (Executive Committee Member, BAG Schuldnerberatung and Expert Debt Advice Center, SFZ Mainz)**. He presented "Developing Financial Capability in Germany." As primary prevention, he stated, financial education would be helpful to avoid overindebtedness and financial exclusion. Secondary prevention would include the support in periods of crisis and tertiary prevention would include the restructuring or relapse of debt. In Germany, his organization has introduced the "Financial Driver's License" where students receive training and do an exam to receive the license. It would be clear from debt advice services that people often would try for 2-3 years to handle their financial crisis, only after that they would go to the debt advice. It would be important to learn that crises are something normal and that they can still may be active, "you might come out of the crisis stronger." In the following discussion **Professor Karen Gross** emphasized that there are "teachable moments" in an individual's life and that these moments would be different from country to country.

Rosa-Maria Gelpi said that especially in the Eastern European countries, consumer credit would be rapidly growing and many households would not be aware of the risk of taking credit in other currencies, directing the remark to **Bogomil Nikolov**. He stated that overindebtedness currently was not a larger problem in his country as consumer would just start to borrow money.

Professor Elaine Kempson said that families could be reached by giving material that teach children how to read but at the same time contain monetary matters. **Dara Duguay** stated that in the US there was some good success with workplace training, even at her own company. **Professor Karen Gross** said that she also recognized major interest when she gave capability training at the New York Law School.

Husták Zdeněk (Advisor to the Deputy Minister of the Ministry of Finance of the Czech Republic) stated that they would have similar observations in the Czech Republic as mentioned for Bulgaria. They would currently think about financial literacy standards so that it is clear that at the age of 15, for example, specific tasks must be learned. **Professor Karen Gross** stressed that one should be careful with assessment of such programs as knowledge could be easily measured, but not if the person really does change the behaviour.

In the afternoon, Elaine Kempson summarized the morning sessions for **Member of the European Parliament (Dutch Labour Party) Ieke van den Burg** who visited the workshop. The MEP stressed that Member States would be increasingly convinced that Europe could play a role in the stimulation of activities on the national level. Therefore, the conference in 2007 would be a forum to exchange ideas. She stressed that average consumers could not be treated like an educated “elitist group” that would benefit from product choice. In the Netherlands a survey showed that consumers invested in financial products, but on the other hand had not understanding of basic concepts such as purchasing power or inflation. National supervisors would have the role of looking into the practices of financial service providers, **Ieke van den Burg** explained, and then to inform the Parliament about regulations that can be applied. **Jurga Stančiūtė** said that she felt that there was a need for input from the financial product user’s side at a very early stage.

Professor Elaine Kempson stressed that consumer organizations often had the problem of being too small and having too many other tasks as to travel and present at the Commission or conferences. It was briefly discussed how consumer associations could be empowered from the side of the Parliament. Ieke van den Burg suggested to elaborate concrete proposals, referring to examples in other fields like occupational health & safety and normalisation, where the Commission also supports non-business stakeholders to contribute to the development of standards and rules.

Nicola Jentzsch (CEPS, ECRI) asked the question as to whether the American idea of a coalition such as JumpStart would be something worth contemplating for Europe. **Professor Karen Gross** stated that not everything from the U.S. should be simply replicated in Europe: first it would be important to think about the core topics and the goals of consumer financial education. The concept should be based on consensus. The workshop was concluded with a summary by **Professor Umberto Filotto** who thanked the participants and Chairs for the event as well as the European Credit Research Institute for organizing it. He gratefully acknowledged the sponsorship of the event by Visa Europe.