Opinion of the European Economic and Social Committee on ‘Financial education and responsible consumption of financial products’ (own-initiative opinion)

(2011/C 318/04)

Rapporteur: Mr TRIAS PINTÓ

On 20 January 2011 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Financial education and responsible consumption of financial products.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 24 June 2011.

At its 473rd plenary session, held on 13 and 14 July 2011 (meeting of 14 July), the European Economic and Social Committee adopted the following opinion by 142 votes to 6 with 4 abstentions.

1. Conclusions and recommendations

1.1 Over the past few years, growing complexity and lack of transparency in the financial system have made it increasingly difficult to understand financial products.

1.1.1 The EESC recognises that the European Commission and the OECD have responded to this situation and are taking action to deal with the shortcomings of the financial system. The Committee therefore calls on the financial industry to apply the new legislation properly and to self-regulate in order to foster appropriate and honest practices, remedying the previous conduct of some financial institutions, and making it easier to access transparent financial products: consumers should know exactly what they are signing up to and should be able to compare the market easily.

1.2 Improvement of regulation, supervision and transparency of the financial system to increase consumer and investor protection for financial products is essential, but this does not absolve Europeans from their responsibility to improve their financial awareness throughout their lives. Informed decision-making will help to ensure the responsible consumption of financial products. The aim should be to create a 'virtuous triangle' linking financial education, market regulation and consumer protection.

1.3 Financial education should be seen as a comprehensive policy in which all stakeholders work together: public administrations, the financial industry, businesses, trade union organisations, consumer associations, the education system, and in general terms, all Europeans as consumers of financial products. Nevertheless education and training should be carried out by bodies free of any conflict of interest.

1.4 In the context of an education system which should encourage Europeans to develop their critical faculties, financial education should continue throughout people's lives. The EESC calls for financial education to become a compulsory subject on the school curriculum, and this education should be followed up in training and retraining programmes for workers. As a subject, financial education should encourage responsible management of financial affairs (saving, use of credit cards, borrowing, etc.) and promote socially responsible financial products. The EESC supports the steps taken by the Commission to regulate the financial commodities market with a view to increasing transparency, enhancing the quality of information and improving supervisory mechanisms.

1.5 Financial education that is accessible to everyone will benefit society as a whole. Financial training projects should be targeted as a priority at the sections of the population that are at risk of financial exclusion. The financial industry itself has an obligation to be actively involved in programmes focusing on both microfinance and education, and in the provision of access to basic financial services.

1.6 The EESC wishes to point out that current financial education programmes have limited reach. The Committee therefore stresses that while identifying the training needs of consumers of financial products and drawing up ad hoc proposals does have its benefits, it is just as important to evaluate the suitability of all the various different education programmes and the extent to which the means of accessing these programmes are effective, and to ensure that all stakeholders work together in this task.

1.7 Financial education is clearly key to maintaining confidence in the financial system and ensuring the responsible consumption of financial products. It is therefore absolutely essential from now on that all relevant stakeholders - public and private - join forces to ensure that financial education has the strategies and resources it deserves, and to put right the lack of coordination and synergies between current initiatives (at international, EU and Member State level).

1.8 The EESC is aware of the European Commission's limited remit as far as education is concerned, but would argue that financial education is more than just education for the sake of it: it is also about empowering people, addressing social exclusion and promoting responsible consumption.
1.9 Lastly, the Committee stresses that the needs of financial-product users must be a priority issue at high-level international meetings such as the G-20 summits. It therefore calls for the setting up of a group of experts in consumer financial protection.

2. Financial culture and the role of consumers

2.1 The financial culture of deregulation and self-regulation, together with financial creativity, the sophistication of new instruments and a general lack of transparency in the system, have not only played a key role in causing the serious economic and financial crisis we are experiencing today, they have also hampered Europeans' understanding of this already inherently complex and globalised market, which is swamped with a vast range of financial products.

2.2 In a knowledge-based society, which should be buttressed by an education system that encourages people to think critically, financial education is a strategic tool which should go hand in hand with the new process of regulating the financial system. For a more robust, safe and transparent financial system, it is absolutely crucial to ensure we have responsible consumers who are actively involved in improving their financial awareness.

2.3 The idea of the ‘responsible consumption of financial products’ is gaining ground: it encourages people to distinguish between what they desire and what they actually need. The concept of ‘responsible saving’ is also becoming more popular. It involves thinking long-term and supporting socially responsible products (1) – products which perform better against environmental, social and corporate governance criteria.

2.4 The aim should not only be to pass on knowledge and skills (financial education), but also to ensure people are sufficiently financially literate to be able to take the right decisions on managing their personal finances in the real world (financial empowerment).

2.5 Ultimately, a significant proportion of the decisions people make in their lives have a financial element, which has a direct impact on their personal lives and families: from seeking student funding to planning a pension for retirement (2).

2.6 In addition, considering the current international economic crisis, European citizens’ growing interest in sustainability and employers’ approach to environmental, social and corporate governance issues (ESG criteria), there is a need to provide more information on how individual consumers can incorporate ESG criteria in their financial decision-making.

2.7 The EESC therefore believes that ensuring all segments of the population are sufficiently financially aware throughout their lives is crucial for maintaining confidence in a well-regulated financial system, and for ensuring its development and stability. Financial education will allow consumers to make informed decisions, and promote the intelligent consumption of financial products. This issue is becoming a common objective for governments, regulators and supervisory authorities.

2.8 Financial institutions also have a key role to play. This means the financial industry giving society a commitment to guaranteeing honesty and transparency in its customer service provision, acting unequivocally in the customers’ interests.

3. Financial education schemes

3.1 Financial education is the process through which consumers improve their understanding of financial products, financial risks and the opportunities presented by the market, so that they can make informed decisions on their finances. Making financial education widely accessible will benefit society as a whole, reducing the risk of financial exclusion and encouraging consumers to plan ahead and save, which would also help to prevent people getting into excessive debt.

3.2 To promote financial awareness among consumers, various different initiatives – known as financial education schemes – have been set up by supervisory bodies, financial institutions and other players in civil society.

3.3 This concept is not new – the OECD (3), the European Commission (4) and ECOFIN (5) have all sought to address the issue.

3.4 The most significant measures taken by EU institutions in this area have been the implementation of a large section on financial education as part of the consumer education project Development of online consumer education tools for adults (DOLCETA), and the establishment of the Expert Group on Financial Education (EGFE) by the Commission in October 2008. The EGFE meets regularly to examine the different strategies for rolling out financial education programmes, encouraging public-private cooperation to improve the way programmes are implemented.

(3) In July 2005. The OECD also ran a project on Financial education in 2009.
3.5 Improvements in financial education are required due to the complexity of new financial instruments, demographic changes (\(^{(*)}\)), and the new European legal framework (\(^{(\ast)}\)).

3.6 There is also the fact that generally people do not have a good enough grounding on financial issues. To improve financial education, Europeans need to be made aware of the need to improve their understanding of financial issues. The EESC therefore calls for national financial information campaigns to be stepped up.

3.7 The EESC is committed to ensuring that all Europeans (children, young people, the elderly, people with a disability and other groups) have effective access to financial training programmes, covering the appropriate subjects at each stage, taking into account the objectives and interests of each group. In tandem with key issues such as financial planning, savings, debt, insurance and pensions and the specific way in which this information is imparted, effective channels should be established to make such training accessible to relevant sections of the population in schools, in the workplace, through consumer groups, websites, specialised publications, the media, etc.

3.8 Children and young people are the priority target group for the programmes, but financial education is taught as part of the curriculum in schools only in a small number of Member States (\(^{(\ast)}\)). The EESC stresses that if this situation continues, objectives on financial education will not be met.

3.9 The EESC therefore calls on the European Commission and other institutions to improve information on and awareness of Socially Responsible Investment (SRI) in the different Member States, as part of their current initiatives on financial education.

3.10 The financial education schemes which are currently in operation in countries such as the UK (general financial advice scheme), France (Institute for financial education), Spain (Financial education plan 2008-2012) and Austria (the 'Initiative Finanzwissen' [financial education initiative]), are well-designed. However, they are not widely publicised, their implementation strategies do not have sufficient reach, and public awareness of the training resources provided by these institutions is low.

3.11 The EESC stresses that more research is needed to evaluate the suitability of the educational material, the means of accessing it, and the process of measuring improvements in financial skills over the long term, especially regarding the impact which this subject has on the education of children and young people.

4. New consumer financial behaviour

4.1 Demographic, socio-cultural and technological factors have given rise to new forms of financial behaviour. Consumers are now looking for tailored products and more professional customer service; they are asking for more information, taking an interest in where their money is being invested (\(^{(\ast)}\)), and taking a sceptical approach.

4.2 Increasingly, clients are breaking the ties of loyalty which had kept them with a particular financial institution: they now use a number of different banks, seeking a branch nearby or online access, good service and a good return on their investments.

4.3 The key to keeping clients is managing information correctly, in order to monitor patterns of behaviour and, in line with the client profile, provide appropriate information. For their part, consumers must compare the information they receive and fully understand what they are signing up to.

4.4 Consumer groups recommend taking a set of factors into account when dealing with financial institutions – customer service, quality of service, level of specialisation in particular products – rather than getting caught up in the flurry to find the best rate on the market. Financial education will ensure that consumers are attuned to the risk of unscrupulous financial operators.

5. Boosting transparency to improve consumer protection and win back consumer confidence

5.1 Measures on financial education should go hand in hand with comprehensive regulation of the financial markets and effective improvements in protection for consumers of financial products. Nevertheless, regulation of the financial markets does not absolve Europeans from their responsibility to update their financial skills throughout their lives.

5.2 Transparency is crucial when interacting with consumers, and it is also key in the process of winning back consumer confidence in the financial services industry.

5.3 Transparency of information is ensured through reports and publications, responsible advice, leaflets, information sheets, guides, new ways of making enquiries, presentations of products and financial services, etc. Small print, unfair terms in contracts and misleading advertising should all be eliminated.

\(^{(\ast)}\) In recent years demand has been growing for socially responsible financial products that use socially responsible criteria to decide where investments are made.

\(^{(\ast)}\) Increased life expectancy is particularly relevant here; older people need to be made aware of the new financial instruments and all adults should be obliged to plan for their future more effectively.

\(^{(\ast)}\) The framework was established on the basis of the Financial Services Action Plan, which the European Commission launched at the end of the 1990s.

\(^{(\ast)}\) In 2012, the Pisa report will assess for the first time the financial literacy of 15-year-olds in 19 different countries.
5.4 Banks are often a source of worry for consumers because of poor communication, the criteria for speaking to staff at the branch, and the documents themselves, which are generally incomprehensible to the lay reader. To address this situation, the banks need to employ qualified staff who keep their clients updated, initiate a dialogue with them, and use the client’s language.

5.5 As regards the marketing of financial services and products, information requirements have been strengthened. There is now a duty to notify the consumer accurately of the terms and conditions of the contract and the implications that these will have, sufficiently far in advance before an offer is accepted.

5.6 It is particularly important that the risks inherent in each transaction be stated and an attempt to share these risks made. The risk entailed by financial products has increasingly shifted towards the consumer in recent times. Where electronic banking is concerned, full access to the most relevant information must be guaranteed.

5.7 Specifically, European directive 2007/64/EC on payment services has ensured greater access to information. The Markets in Financial Instruments Directive (MIFID) (10) establishes the information which needs to be supplied when investment services are provided, and applies to all stages of the contract: pre-contract, at the time the contract is signed, and post-contract. The Directive also requires financial institutions to step up investor protection and offer their clients products which are suited to their particular investment profiles (taking into account risk and socio-cultural factors).

5.8 Directive 2008/48/EC, on consumer credit agreements, also helps to protect consumer rights. This Directive establishes the principle of a ‘responsible loan’, with the lender taking responsibility for providing advice, and the need to assess the current and future solvency of the consumer in line with the information provided by the latter and details extracted from databases.

5.9 Looking to the future, an important Community tool for boosting public confidence will be the Single Market Act (11), which contains a chapter on the plan for measures aimed at ensuring consumer protection in the field of retail financial products, focusing in particular on the transparency of bank fees and the current lack of protection for consumers taking out mortgages.

6. Promoting best banking practice

6.1 Financial deregulation over the last few decades has meant that the banking market and the capital market have become increasingly interlinked. This has increased the risk of the rights of clients in commercial banks being left unprotected.

6.2 Consumers have therefore complained about the lack of information provided in the marketing of financial products, particularly for new, sophisticated products.

6.3 The European Commission (12) highlights the following key problems that consumers have with their bank: shortcomings in pre-contract information, unreliable advice, lack of transparency on bank charges, and difficulties in changing to another bank.

6.4 To deal with these problems, the European Commission has launched a self-regulation initiative for the banking industry to improve access to information on bank charges, and ensure that these charges are easier to understand and compare. The EESC welcomes this important project for harmonisation, which should lead to a more standardised system that will make it easier to compare different products. The Committee also points out that to ensure this project is successful, consumer organisations need to be involved in developing the process.

6.5 It is clear, however, that financial institutions are reluctant to give their clients access to other banks’ products if these are less profitable. Launching new products irrespective of the demand for these products is just one of the mistakes that have been made in the area of joint investment.

6.6 To summarise then, there is a mismatch between the need and the product sold, which is driven by a management model in which supply reacts to demand, and profits are gained from a growing knowledge gap – given the information asymmetry – between the sellers and buyers of financial products. The EESC proposes establishing strict, binding codes of conduct for staff at financial institutions, which should reduce the potential conflict of interest between giving advice and marketing products. Financial institutions should bear the burden of proof as regards their compliance with the codes of conduct.

6.7 Financial intermediaries (including not only banks, but also insurance brokers, stockbrokers, etc.) should, whilst adhering strictly to the regulations in force, adopt best practice to protect the consumers of financial services, by improving the quality of information (clear, precise, tailored to needs, understandable and comparable with other products), policies that support financial training of savers and investors, and professional advice (reliable and honest) which supports consumers in their choice; there should be an independent ombudsman to defend and protect the rights and interests of purchasers of financial products.

(12) Data collection for prices of current accounts provided to consumers, European Commission, Brussels 2009.
6.8 To consolidate this new scenario, the EESC highlights the need to ensure that financial intermediaries are better qualified to fulfil this essential educational role. Financial intermediaries face a two-fold challenge: firstly, to have a better understanding of the products they sell, and secondly, to be able to convey this information effectively to the product's user.

7. Promoting financial inclusion

7.1 The EESC is aware that financial inclusion must be seen against the backdrop of people's full social inclusion. Guarantees of jobs, social protection, etc., will clearly make financial education initiatives more viable.

7.2 Various studies (13) have highlighted the general lack of understanding of financial issues, and the correlation between this level of understanding and how well-educated a person is and his/her socio-economic status. Many people have difficulties in managing their financial affairs and understanding the risks that go with their investments. And very few people have contingency plans if their personal circumstances change unexpectedly (unemployment, accident, divorce, death of husband or wife).

7.3 In a number of countries, only 30% of the adult population is capable of calculating simple interest and only 44% have a basic understanding of how the pensions system works (14).

7.4 Around 80 million Europeans - 16% of the total population live on the poverty line. Encouraging society to support inclusion policies was one of the objectives set by the EU in 2010 for the European Year for combating poverty and social exclusion, which put the emphasis on collective and individual responsibility.

7.5 Financial inclusion supports the process of social inclusion. It is therefore important to promote initiatives that foster the financial inclusion of sections of society that are at high risk of exclusion (women, the unemployed, people with disabilities, the elderly, the poor, etc.), by ensuring universal accessibility and developing financial products and services that are tailored to these groups.

7.6 In the current social and economic climate, the emphasis should be on financial education that helps people plan for their retirement, given the huge shift towards public contributory pension schemes, which provide earnings-related benefits. Furthermore, in order to boost the empowerment of working women, specific financial training programmes should be offered to women starting working life.

7.7 Measures for improving consumers' understanding of financial issues need to be targeted as a priority on the sections of the population that are least protected and are in danger of suffering from financial exclusion or of suffering as a result of certain speculative behaviour.

7.8 The EESC highlights the fact that financial institutions should take on the role of facilitating access to banking services for the poor, to prevent financial exclusion. Programmes for granting microcredit (15) therefore need to be fully integrated into the credit offer of financial institutions. The unemployed, young people finishing their studies who need a loan, entrepreneurs, immigrants, people with disabilities (16), etc. can all benefit from microcredit and they need to be guaranteed access to this resource.

7.9 Programmes focusing on both microfinance and education have had excellent results – given that education brings competitive advantages – in comparison with other initiatives that focus solely on microfinance.

8. The future of financial education

8.1 The EESC is fully aware of the European Commission's limitations as far as education is concerned, (17) but would argue that financial education is more than just education for the sake of it: it is also about empowering people, addressing social exclusion and promoting responsible consumption.

8.2 The Committee calls on the Commission to give serious consideration to developing legislative measures obliging the Member States to promote financial education in an effective manner.

8.3 Looking to the future, there is a broad consensus among bodies and institutions – possibly the most relevant in terms of financial education are the OECD's International Network on Financial Education (INFE) and the European Commission's Expert Group on Financial Education (EGFE) – on the material and methods which are most appropriate for financial education. The EESC agrees fully with these proposals, and therefore calls on governments and financial institutions to provide sufficient resources to promote their initiatives:

— Implement common methodology to assess people's level of financial literacy and inclusion.

— Ensure there is more financial education on the curriculum in schools. Implement international methodology to assess the efficiency and effectiveness of schemes in schools.

(14) According to José Gómez Yubero in his article on Financial education: from information to knowledge and informed financial decision-making.
(15) The UN General Assembly made 2005 the International Year of Microcredit.
(16) As is the case in France, microcredit should not only support entrepreneurship but also be seen as a tool for meeting other needs of people on a low income.
(17) According to Article 165 of the Treaty on the Functioning of the European Union, the Member States are responsible for legislating on education.
— Draw up national strategies on financial education, with appropriate processes for monitoring and impact assessment.

— Strengthen financial inclusion strategies. Step up efforts to target specific groups (young people, women, immigrants, people on low incomes).

— Protect consumer rights on financial products.

— Strengthen cooperation between the European Commission, the OECD and national governments to exploit potential synergies and avoid duplication of work.

— Organise a European day for financial education, for example, endorsed by the EU presidency at the time.

— Promote an annual conference on financial education, with the involvement of recognised experts.

— Set up a system at EU level to ensure the best initiatives on financial education and best practice are given public recognition (e.g. a prize).

— Promote the 'financial driving licence'.

— Organise regular inter-governmental meetings on financial education schemes in progress and include these considerations in the national political agenda (these meetings should not only involve describing the actions which are being carried out but also assessing their impact).

8.4 The EESC would like to add the following suggestions which bring together initiatives to improve people’s financial skills and measures to increase consumer protection in the field of financial products:

— Set up an independent body to provide advice free of charge to consumers on financial products, and on how to incorporate ESG criteria in their financial decision-making: this body could give advice either face-to-face or via a phone hotline.

— Regulate the role of financial intermediaries and public officials in financial education, to improve access to financial information and ensure it is easier to understand (18). Monitoring mechanisms should be put in place to guarantee the impartiality of their behaviour.

— Set up a European agency to protect the consumers of financial products, supervise banking practices (especially the accessibility, transparency and comparability of financial products) and combat fraud. This agency should have the power to impose sanctions.

— Make it compulsory for the financial industry to provide material that informs the consumers of financial products about their rights and the steps to take if they disagree with a proposal or decision made by a financial institution.

— Include warnings in the information provided with financial products (similar to the warnings that come with medicines) on any secondary or potentially adverse effects and the secondary effects of the product, together with key points on the conditions of the contract.

— Set up an EGFE in each Member State. The expert group should have a financial education strategy designed to consolidate the plans proposed, and should involve a range of representatives from organised civil society.

— European Commission support to design a coherent financial education strategy (for the national authorities of the Member States that have not yet done so). The Member States that have made the most progress in this area should be used as the benchmark.

— Produce a budgetary plan for each national financial education strategy, setting out who will fund financial education plans and with what resources.

— The European Commission should increase its sponsorship of financial education initiatives in the Member States, on the basis of good practice that is identified.

— Promote the widespread use of national social security accounts, so that all employees are informed, once a year, about the pensions they would receive when they retire.

— Promote financial products tailored to young people (from the age of 14, in other words, before young people can leave school and start working) and give them regular updates on the characteristics of these products and how they work.

— Encourage the toy industry to develop educational toys involving financial concepts.

— Broadcast short TV and radio programmes (10-15 minutes long) on basic financial issues (loans, mortgages, insurance, etc. and basic concepts such as profitability and risk), create multimedia initiatives and promote financial education through social networks.

— Make better use of consumers’ associations and other independent organisations from organised civil society to disseminate and implement government initiatives in the field of financial education.

(18) Whilst respecting the natural training role that falls to the education system.
Lastly, the EESC stresses that the needs of financial-product users must be a priority issue at high-level international meetings such as the G-20 summits. Consumers International (19) calls for an expert group to be set up on consumer financial protection which would report to the G-20, to guarantee access to stable, fair and competitive financial services.

Brussels, 14 July 2011.

The President
of the European Economic and Social Committee
Staffan NILSSON

(19) Consumers International represents 220 consumer organisations in 115 countries.
### APPENDIX I

**Financial education programme outline**

<table>
<thead>
<tr>
<th>Products</th>
<th>Topics and target groups</th>
<th>Means of imparting the information</th>
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<tbody>
<tr>
<td>Savings and liabilities (savings accounts, pay slips)</td>
<td>Learning how to save (children and young people)</td>
<td>Schools</td>
</tr>
<tr>
<td>Investments and assets (consumer loans and mortgages)</td>
<td>Starting work (young people)</td>
<td>Workplaces</td>
</tr>
<tr>
<td>Payment methods (debit and credit cards)</td>
<td>Starting to live independently (young people)</td>
<td>Retirement homes</td>
</tr>
<tr>
<td>Other financial products (insurance, pensions)</td>
<td>Starting a family (adults)</td>
<td>Employers associations and trade unions</td>
</tr>
<tr>
<td>Services (transfers, advice, charges)</td>
<td>Preparing for retirement (older people)</td>
<td>Consumer associations and NGOs</td>
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<tr>
<td></td>
<td>Managing money in a micro-business (entrepreneurs)</td>
<td>The media</td>
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(1) This outline programme should serve as an example - it is certainly not exhaustive and should not be limited to the above.