

Approved Resolutions for Association for Consumer Rights AGM 29 March 2014.

6. Financial Education and Responsible Consumption

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Justification

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

The European Commission and the OECD have responded to this situation and are taking action to deal with the shortcomings of the financial system, taking the necessary steps

- to regulate the financial commodities market with a view to
- increasing transparency,
- enhancing the quality of information and
- improving supervisory mechanisms.

The financial industry is in duty bound 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.**

The most significant measures taken by EU institutions in addressing financial education, 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.

Recommendations

- **Improvement of regulation, supervision and transparency of the financial system** to increase consumer and investor protection for financial products is essential.
- However, 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.**

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.
- Education and training should be carried out by bodies free of any conflict of interest.
 - In the context of an education system which should encourage Europeans to develop their critical faculties, financial education should continue throughout people's lives.
 - **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.**

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.
- In a knowledge-based society, 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.
- 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 products¹ – products which perform better against environmental, social and corporate governance criteria.
- 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 retirement².
- There is the need to ensure that 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.
- 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.**

¹ EESC Opinion on Socially responsible financial products, OJ C 21/06, 21.1.2011, p.33.

² See the Commission document: Green Paper – Towards adequate, sustainable and safe European pension systems COM(2010) 365 final.

- 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.
- 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.**

Looking towards the future

- 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 invested³, and taking a sceptical approach.
- 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.
- There is **the need to establish 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.

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.

Governments and financial institutions need 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.
- 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

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In recent years demand has been growing for socially responsible financial products that use socially responsible criteria to decide where investments are made.

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).

The following suggestions can serve to 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 understand⁴. 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 (the European Commission's Expert Group on Financial Education) 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 to design a coherent financial education strategy (for the national

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Whilst respecting the natural training role that falls to the education system.

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.**