

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Meeting Paper 4-C

PROPOSED REVISIONS TO DRAFT APEC FINANCE MINISTERS' POLICY STATEMENT ON FINANCIAL LITERACY AND EDUCATION

Office of the Advisory Group Chair

- PURPOSE** For consideration.
- ISSUE** Proposed revisions to draft APEC Finance Ministers' Policy Statement on Financial Literacy and Education
- BACKGROUND** The SFOM Chair is seeking inputs to the draft APEC Finance Ministers' Policy Statement on Financial Literacy and Education, including from ABAC. The attached proposal is based on discussions at the Shanghai Financial Inclusion Forum's session on financial literacy.
- PROPOSALS** Include the following paragraph: "We recognize the importance of harnessing private sector resources and expertise in promoting economical, effective and sustainable delivery of financial education, to keep pace with the continuing evolution of financial services. We welcome ABAC's inputs on public-private sector collaboration to develop innovative models of financial education based on new modes of access, as well as effective policy frameworks and guidelines for voluntary, fair, transparent and unbiased private sector engagement in financial education."
- DECISION POINT** Endorse the proposed revisions to be forwarded as ABAC inputs to the SFOM Chair.

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PROPOSED REVISIONS TO THE DRAFT APEC FINANCE MINISTERS' POLICY STATEMENT ON FINANCIAL LITERACY AND EDUCATION

The following paragraph, based on discussions in the financial literacy session of the ABAC-ADBI-AFDC Asia-Pacific Forum on Financial Inclusion held 25-27 June in Shanghai, China (see Annex for session summary), is proposed for inclusion in the draft as the penultimate (2nd to the last) paragraph of the draft statement:

We recognize the importance of harnessing private sector resources and expertise in promoting economical, effective and sustainable delivery of financial education, to keep pace with the continuing evolution of financial services. We welcome ABAC's inputs on public-private sector collaboration to develop innovative models of financial education based on new modes of access, as well as effective policy frameworks and guidelines for voluntary, fair, transparent and unbiased private sector engagement in financial education.

ANNEX
REPORT TO THE APEC SENIOR FINANCE OFFICIALS MEETING
**ASIA-PACIFIC FORUM ON FINANCIAL
INCLUSION**

Approaches, Regulations and Cross-Border Issues

25-27 June 2012
Shanghai, People's Republic of China

Report on the Session “Approaches to Promote Financial Literacy”

The Forum, co-organized by ABAC, the ADB Institute and the AFDC, attracted 73 participants from 23 economies, representing central banks and financial regulators, microfinance institutions, the banking sector, academic experts and key international public and private sector organizations that are active in the field of financial inclusion. The Forum was organized around 5 major themes, which are as follows:

- Approaches to promote financial literacy
- Financial identity
- Microfinance regulation
- Consumer protection
- Facilitating cross-border microfinance

This report for the APEC Conference “Improving Efficiency of the National Strategies for Financial Literacy” covers only the first theme. ABAC will submit a separate report on the entire Forum to the APEC Finance Ministers.

Financial literacy is a basic requirement for an individual to make good financial decisions. It is also a basic requirement for the market to function properly. Market failure, which has led to recent financial crises, often traces its roots to information asymmetry.

Financial literacy helps address these problems. It helps people overcome reluctance to access financial services, and it helps them to realize the benefits they can get when using these services. For people at the bottom of the pyramid, many of whom remain financially excluded, financial literacy is of even greater importance.

The challenge, on one hand, is the considerable need for financial education. According to the Monitor Group publication “Bridging the Gap: The Business Case for Financial Capability,” among the world’s poor people both banked and unbanked, almost as many as 3.4 billion people have not been reached. On the other hand, resources to address this need are limited.

There are many agencies and institutions from the public and private sectors that can help bridge this gap. To do so effectively, however, they need to

find a way of working in synergy with each other. There are also many innovations that can be harnessed for the same purpose. The session discussed how this gap can be bridged through effective collaboration and innovative solutions.

The following are key points that arose from the discussions:

- There is a massive financial capability gap that needs to be addressed, and to do so we have to find ways of delivering financial education more economically, effectively and sustainably than it is being currently delivered. Obviously, the public sector alone cannot cover these costs and so we need to involve the private sector, especially financial institutions, where there is much useful expertise that can be harnessed.
- Older models of financial education, like the dominant classroom-based models, need to be replaced by new ones which take advantage of new modes of access, including G2P payments, branchless or mobile banking and new technologies. Examples include models that target a narrower selection of customers, such as those that offer specialized training to existing high-value customers and those that target potentially delinquent customers. Other examples include relying on banking agents to provide a series of sessions attached to a product interaction; combining DVD-based training with training conducted by individuals.
- What works, cost reduction and cost recovery are key elements to take into account when designing new models of financial education, for which there is a business case. However, such models alone cannot bridge the gap. Many other interventions are needed including voluntary codes of conduct for the industry, transparency conditions and grievance channels, and incentives to encourage positive financial behavior. For these to succeed, coordination and alignment are required among financial service providers, foundations, NGOs, regulators and policy makers.
- Efforts can succeed where relevant stakeholders can agree on a roadmap for financial education. They should consider the development of new models of product-linked financial education; a shared framework, knowledge and results infrastructure; effective policy and advocacy dialogues and improved coordination. Policy dialogues could aim to establish a broad policy framework for product-linked financial education, sharing costs between public and private sectors, better coordination among regulators and deal with standards or guidelines for financial capability.

- Combining financial education with financial access is important, and financial institutions should develop products adapted to the needs of, for example, unbanked and vulnerable people.
- A multi-stakeholder approach works best where government bodies play an active role in leading and coordinating stakeholders' relevant activities. Appropriate roles of government include defining strategies and initiating programs, providing the policy orientation, raising awareness on potential financial needs and risks, providing the appropriate consumer protection frameworks, and developing good baseline data on consumers to underpin the whole effort.
- Effective engagement of financial institutions in financial education involves a number of elements. First, disclosure of essential information on financial products and services to enable comparison. Second, provision of suitable information and advice and promotion of financial awareness. Third, fair, transparent and unbiased provision of generic information not tied to a particular product. Fourth, delivery of financial education on a voluntary basis. Fifth, ensuring that financial products sold are appropriate to the needs and resources of the consumer. Governments and regulators can help ensure that financial institutions deliver financial education instead of marketing their own products by setting guidelines and putting up educational campaigns alongside financial service providers to provide unbiased information. Experiences in various economies on how consumer protection agencies are engaged in this process can be useful. Financial institutions can also help address these concerns by delivering financial education through or in conjunction with trusted non-governmental organizations and public agencies.
- Special attention should be placed on financial education for children and young people. Child and Youth Finance International (CYFI) provides an example of an international organization that works with authorities to include financial education in all school curricula, sharing of best practices, establishment of a certification process for financial education curricula, and the development of an education kit introducing financial, social and livelihood education. Major challenges that need to be addressed include defining issues that could be integrated in domestic curricula, use of non-formal education channels, training and capacity building for teachers, making topics relevant and interesting for young people and linking financial education more closely with entrepreneurship.