

Strategic Framework for Investor Education and Financial Literacy

IOSCO Consultation Report CR03/14

I. Introduction

The [Investment Management Association](#) is a member of EFAMA and is the trade association for the UK-based asset management industry. IMA has had an active interest in investor education for 20 years. It has contributed to the EFAMA response to the consultation report, and is pleased to send its comments to you separately.

II. Background

The role of education in investor protection:

IMA welcomes the underlying premise to the report that financial, and more particularly investor, education can complement “the traditional tools of regulation, supervision and enforcement”.

However, we would like to make two positioning points upfront:

1. Education will never be substitute for regulation: consumer protection measures are inevitable. The point is that demand-side programme of education may improve the effectiveness of those measures.
2. Financial literacy is, as Flore-Anne Messy of the OECD has said, an important life skill for individuals, as participants in our economy and as members of society. This has implications for the educational roles that Governments should, and non-financial services organisations could, also play.

The Definitions:

The definitions given are good. You could add that by “retail investors”, you mean the end customer – the person who purchases securities and investment funds either directly on their own account or with the help of an adviser for example, as part of a retirement plan. It is important to emphasise the need for, and role of, regulated investment advice, at least in the UK context. Obviously, the optimum level of financial literacy skills, knowledge and understanding will vary from one group of customers to another, as defined by their need to invest, i.e. save in assets where there is a risk to capital, and depending on whether they are using a qualified, regulated adviser.

Benefits:

The challenge is to prove that the financial outcomes mentioned are deliverable as a result of investor education and financial literacy programmes. We need evidence - measures of success - even if it may be hard to isolate, “education” as ‘the’, or even ‘a’, main contributing factor. Otherwise, we are open to criticism that we are making leading and unsubstantiated assumptions and are wasting our time. (See support for research below)

The point that investor education can help investors assess the suitability of investment advice is well-made. However, you could expand this, by saying that for many customers, “a little learning is a dangerous thing”, (to quote the 18th century British poet, Alexander Pope) when it comes to balancing risk and reward in taking investment decisions. Therefore, stress the importance of experts and warn against over-reliance on education and learning by regulators as the route to good outcomes for consumers.

An important outcome of financial education, is less to make individuals into financial experts in their own right and more to help them understand what their saving objectives should be and to be motivated to make progress, while recognising the limits of their knowledge and skills and that seeking advice and guidance may help them achieving those objectives.

Expectations as to the extent that investor education and improvements in financial literacy might improve individuals' ability to plan for their retirement are rising. The introduction of auto-enrolment means more people are beginning to save for their own pension, but the amounts being invested will often not be sufficient to fund a reasonable standard of living in retirement. IMA would like regulators, governments, the industry and educationalists work together at least to engender a better public understanding of the importance starting saving as early in life as possible and of saving regularly.

Limitations:

IOSCO has astutely noted that education programmes will not "completely" eliminate the need for regulatory interventions. It correctly identifies the challenge as being to figure out what works.

III. The Role of IOSCO

We welcome IOSCO's willingness to take a firm position in the development and delivery of investor education and financial literacy, working with its members and relevant partners in the process.

IOSCO mentions the importance of securities regulators. In the UK the FCA is supported by the Money Advice Service (MAS). FCA last year produced an occasional paper on behavioural economics flagging it as "a hugely important feature of the new regulatory system". This could be seen as a significant first step in its attempt to improve its approach to investor protection. Since its formation, FCA has not openly addressed the role of education, but it does oversee and fund the information and guidance provided by the MAS through the fees it receives from its regulated firms. FCA has a consumer section on its website, from which it links firmly to MAS. MAS is taking a leadership role in developing a National Strategy for Financial Capability in the UK on which it will consult this summer. It is likely to strongly advocate a "partnership approach".

Given the premise is that the economy and society as a whole will benefit. Can we ask for more emphasis on the role of Government in underpinning our investor education efforts by instilling those life skills through their education services in schools? This particularly applies in attainment of financial literacy skills and competence, for example, a Mathematics class is an ideal opportunity to teach the concept of compound interest where students can practice and realise the relevance of their new-found skills in a financial planning context.

IV. Global focus

IOSCO's appreciation of the global organisations and networks already working in this area and its care to position its own initiative alongside these is good. The establishment of IOSCO's C8 should add value for those of us in favour on improving access to investor education, in the context of national financial literacy campaigns.

V. Role of research.

Yes, this is important. C8's willingness to do primary and secondary research is welcome and very careful thought should be given to how to structure this. Its plan to draw from the findings from the fields of behavioural economics and finance is also sensible. The MAS in the UK is putting research and evaluation as a key component in its soon to be published consultation on the National Strategy for Financial Education in the UK.

VI. C8's strategic approach

The outline given in the report reads well. It is meaningful and understandably ambitious. Identifying topics in a "roadmap" to guide the committee, and ultimately IOSCO members, it breaks down the aims into manageable steps. The headings Investment Knowledge and understanding; Financial skills and competence and Programme design, delivery and measurement make good sense, as do the explanatory paragraphs under them.

It would be interesting to know:

1. The time frame over which the fulfilment of the mandate is likely to be assessed?
2. What the C8 budget is, and the proportion it represents of IOSCO's overall annual budget?

VII. Current practices of C8 members

The practices listed are informative. There is a strong recognition of the overriding need for the supplier of the services to measure the effectiveness of what they are doing relative to their aims. An assessment of the effectiveness of the value of certain approaches relative to others at least is helpful. It correctly mentions the value of timing interventions to coincide with certain life events – i.e. just in time – so as to improve customers' willingness to engage, take in the information and act upon it. Similarly, the value of tailoring communications to suit specified groups of customers is well put. There are also important points made as to value for money and the benefit of partnerships.

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