



COMCEC

Standing Committee
For Economic and Commercial Cooperation
of the Organization of Islamic Cooperation

CAPITAL MARKET
REGULATORS FORUM
COMCEC

Financial Literacy Task Force Report

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سازمان بورس و اوراق بهادار
SECURITIES & EXCHANGE ORGANIZATION

هيئة أسواق المال
Capital Markets Authority



Outline of the Presentation

1. Brief introduction to financial literacy;
2. What we have done;
 - Literature Review;
 - Survey approach and questions;
3. Findings
4. 13 recommendations for national strategy and policy;
5. Conclusion.

1- Brief Introduction to Financial Literacy

- FL Origin and Turning point
- Comprehensive Definition of FL
- Importance of FL

Financial Literacy Origin and Turning point

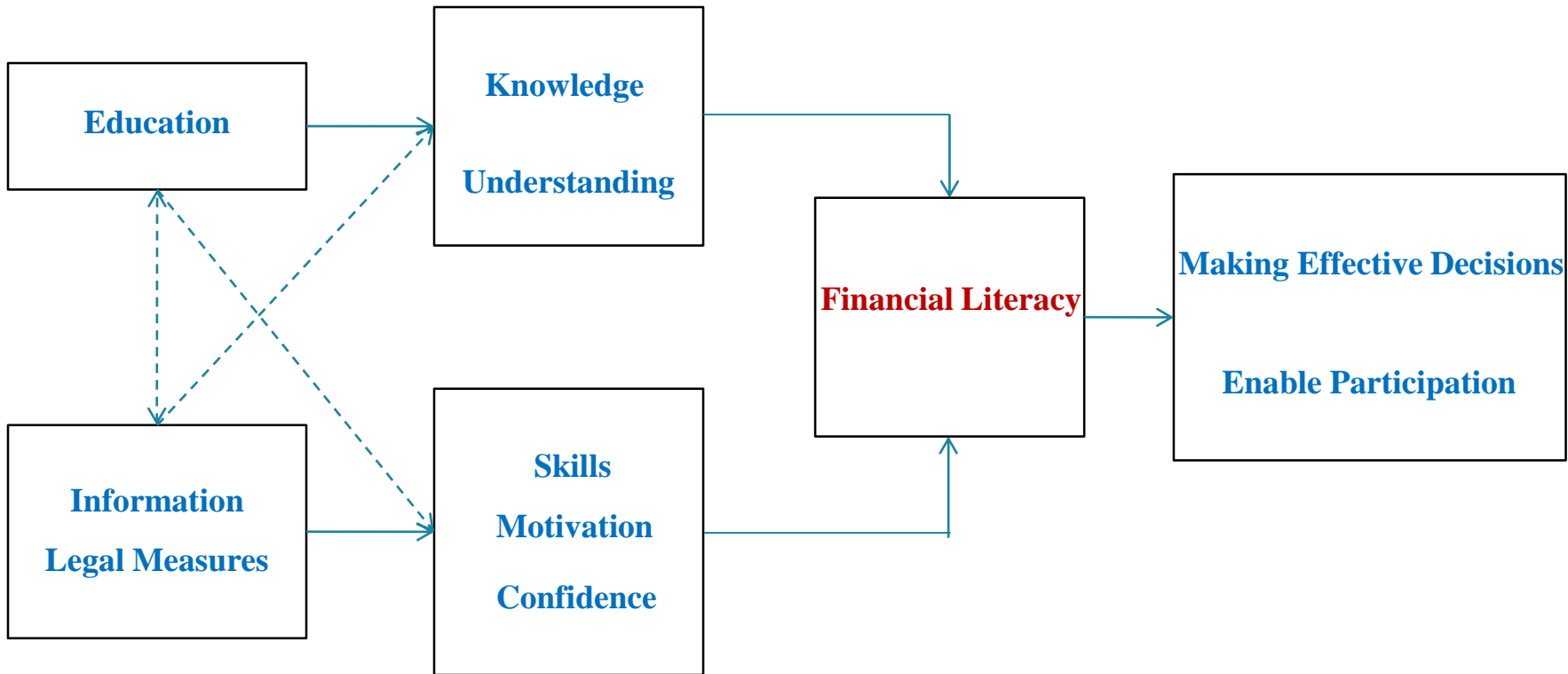
- Financial literacy origin is in great recession;
- Importance of FL realized in 2000s;
- In 2003: establishment of Financial Literacy and Education Commission (FLEC);
- Attention of international organizations: OECD
- **Turning Point: 2007-2008 recession;**
- Bunch of researches since 2008;
- Attention of governments to FL;

Financial Literacy Definitions

- United States Government Accountability Office (GAO): ability of informed judgments & effective actions in regard of money;
- Policy Research Initiatives in Canada (PRI): ability to read, analyze, manage and communicate about personal finance;
- Lusardi and Tufano (2009): numeracy and calculation skills;
- FL used interchangeably as Financial Education & Financial Capability
 - OECD: usually uses financial education,
 - PRI: usually uses financial capability
 - Others: usually uses financial literacy.

Comprehensive Definition of FL: OECD

- "Knowledge and understanding of financial concepts, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life."



Specification of FL Definition:

Broad Definition

All financial concepts:

- Tax
- Interest rate
- Using credit and debit card
- Saving
- Inflation
- Numeracy
- Risk

Narrow Definition

Capital market concepts:

- Stock
- Diversification
- Risk & Return
- ETFs
- Investment collective scheme
- Disclosure
- Bond

Importance of Financial Literacy

- Complexity of financial products;
- More participation and responsibility in financial markets;
- Better planning for future especially retirement;
- Recent events in financial markets: risk ignorance;
- More institutes providing financial services;
- Better contribution to the real economy;
- Surveys findings.

2- What we have done

- Task Force Mandates,
- Literature Review
- Main Issues of the Questionnaire
- Circulation of the Questionnaire
- Findings

Task Force Mandates:

- **Phase 1:** Determining Current State of Status for Financial Literacy of Member Countries;
- **Phase 2:** Strategies and Policy Recommendations for Enhancing Financial Literacy of COMCEC Member States.



**Determining Current State of Status
for Financial Literacy of Member
Countries**

Tasks Done:

- Regular meetings of experts, information sharing and consultation
- In-depth study for preparing survey questionnaire with collaboration of co chair and secretariat,
- Content preparation & discussion,
- Finalizing the questionnaire,
- Circulation of questionnaire by secretariat,
- Receive responses via specified period,
- Analyzing responses,
- Writing report,
- Meeting in Tehran.

Financial Literacy Task Force Survey Approaches:

- In-depth study of relevant studies, surveys and experiences (Literature Review),
- Circulating a questionnaire to the national authorities of member countries.

Literature Review (Similar Surveys 1):

- OECD (The Organization for Economic Co-operation and Development):
 - Made of 2 phases:
 - First phase launched in order to assess types of financial literacy programs, analyze their effectiveness and develop a methodology to compare strategies and programs for improving financial literacy;
 - Second Phase launched in order to assess the level of financial literacy among some pilot countries. It continued to provide guidelines for national strategies .
 - Result: low level of financial understanding among respondents.

Literature Review (Similar Surveys 2):

- ISFS (Institute for Socio-Financial Studies):
 - “Financial Literacy 2000”
 - Supported by Fannie Mae Foundation
 - 1000 adults were surveyed in order to assess current state of financial literacy among Americans;
 - 90 relevant programs were assessed in different fields;
 - Managers were asked to identify challenges;
 - Finally, the survey assessed available delivery methods;

Literature Review (Similar Surveys 3):

- SEC (Securities & exchange Commission):
 - Existing FL level of retail investors
 - Dodd- Frank Act required it;
 - Launched by Office of Investor Education & Advocacy in 2010;
 - Surprising finding; more than 50% of adult investors are not familiar even with basic concept of financial calculation.

Literature Review (Similar Surveys 4):

- IMD (International Institute for Management Development):
 - Publish FL indicator since 1995;
 - Senior business leaders were interviewed;
 - Sample size is about 4000 managers.
- As a result, all countries in the survey were ranked. Based on ranking IF 2008, Singapore, Finland are the best.

Literature Review (Similar Surveys 5):

- EU Commission:
 - Report has been published by EIOPA (European Insurance and Occupational Pensions Authority), in 2011 aiming:
 - To assess financial literacy and education initiatives by competent authorities, target groups, tools and programs, domestic and international cooperation,
 - Evaluation and measurement of success of the initiatives.

Circulation of the Questionnaire:

- The secretariat circulated the questionnaire among all member countries;
- Responses received from 8 countries: **Cameron, Kuwait, Iran, Malaysia, Maldives, Pakistan, Palestine and Turkey.**

5 Main Issues of the Questionnaire

1. The position and status of national authorities;
2. The major financial literacy programs and initiatives;
3. Evaluation and assessment of effectiveness of programs and initiatives;
4. Legal competence of national authority;
5. Economic indicators relevant to financial literacy;

Survey Questions (9 ones):

1. What is the position and status of national authorities in financial literacy?
2. What are the main challenges and restrictions authorities would have faced?
3. What are different target groups authorities consider in financial literacy programs?
4. What are the programs and initiatives of member countries in the field of financial literacy?
5. What delivery methods do member countries utilize?

Survey Questions:

6. What evaluation process do member countries acquire to assess effectiveness of financial literacy programs?
7. What are criteria of a successful program?
8. What are the rules and regulations concerning financial literacy in member countries?
9. How would main economical indicators affect financial literacy level in member countries?

3- Findings (in brief)

- General Findings
- Main Restrictions and Challenges
- Main Target Groups
- Main Delivery Methods

Findings (in brief):

- Majority have a dedicated unit for FL: **Awareness Dep. or Affiliated Co.**
- Programs are allocated to different target groups;
- Different internal & external channels of cooperation: **ministry of education, INFE, CFA, OECD,....;**
- 1 country has national strategy and 3 others are working on it;
- **Quit all members have incentives for FL programs (tax rebates);**
- Most FL programs are self funded by authorities;
- Securities Act of members support FL programs;

Main Restrictions and Challenges

- FL initiatives are new born and emerging phenomena;
- Coordination among all related institutions is difficult and time consuming (if initiatives are consolidated) ;
- Lack of resources in some cases;
- Lack of attention to practice rather than theory;
- Low level of literacy among people;
- Lack of importance understanding of financial literacy;

Main Target Groups:

- Students and staffs (100%),
- Children and Teachers (86%),
- Households and parents (71%),
- Women and Vulnerable (57%),
- **Retired (42%)**, contrary to the global trends.

Main Delivery Methods (4 tools):

- Website and hard / digital copy of publications (+80%)
- Seminars / workshops/ courses and CM guides (60 to 80%)
- Exhibitions / TV campaign/ on-line games (40 to 60 %)
- Software / movie & serial (20 to 40 %)

4- Strategies and Policy Recommendations for Enhancing Financial Literacy of COMCEC Member States

- Context of Recommendations
- Recommendation 1 to 13

Context of Recommendations:

1. Allocation of a leader (coordinator) for FL;
2. FL stakeholders;
3. Incentives for Financial Literacy;
4. Determining Mission & Objectives;
5. New Categorization of Target Groups;
6. Specific Considerations for Capital Market;
7. Delivery Methods of providing FL programs;
8. Programs Evaluation;
9. Monitoring Progress.

Recommendation 1: Dedicated Unit

- A dedicated leader for financial literacy due to the special structure of capital market.
- *The Task Force recommends that each regulatory body should establish a department to serve as a dedicated leader in financial literacy context. This department will work collaboratively with different stakeholders and consider different matters in financial literacy*

Recommendation 2: Stakeholders

- FL is a shared responsibility: all financial entities.
- Regulators: guide, drive, cooperate, supervise, set pathway.
- Financial entities: run programs, enjoy literate investors, address products and services, receive incentives.
- *Identify variety of stakeholders (mandatory or voluntary) of financial literacy, outline pathways of cooperation, outsource some duties, drive them toward your ultimate goals and supervise and assess conduct of educational programs.*

Recommendation 3: Incentives

- In order to incentivize financial entities to conduct financial literacy programs voluntary;
- *Determine some incentives such as tax exemptions (or rebates) in order to stimulate and encourage financial entities to role play voluntarily in financial literacy environment and programs.*

Recommendation 4: Mission and Objectives

- **Mission:** what you want to achieve. A focus point for vision;
“Strengthening the financial literacy of investors”
- **Objectives:** roadmaps of achieving goals. Basic ways for reaching the Mission;
“Improve financial education infrastructure”
- *Clarify your mission and objectives in preparing financial literacy strategies as roadmap of your future initiatives.*

Who Should Be Instructed?

- In order to categorize target groups, we recommend a new form of categorization;
- Potential Investors
- Newcomers
- Current Investors

Recommendation 5: Current Investors

- Studies have found that many investors do not understand key financial concepts.
- *Assess financial literacy level among existing retail investors in order to make sure investors are informed and knowledgeable.*

Potential (Future) Investors

- Long time planning would lead to Behavior change,
- FL alongside computer and language skills,
- Financial instruction should start in the early ages to instill good habits and responsible attitudes,
- Schools and universities role in FL,
- Work place education,
- Community centers.

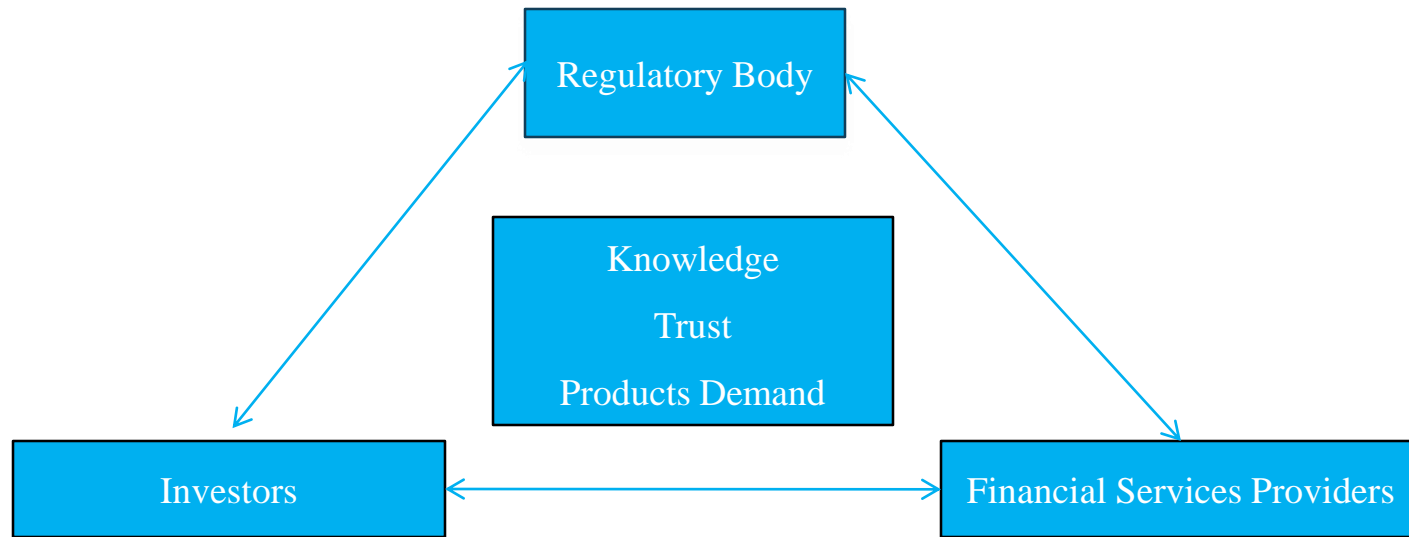
Recommendation 6

- *schools, universities, workplace and community centers are sources of potential target groups. Offer basic programs for schools and carry out campaign or challenges among secondary school students. Perform seminars, workshop and courses for university students, employers and families in university, work place or community center in order to encourage them enter capital market knowledgeably.*

Newcomers

- Layered (step by step) education;
- Basic Financial concepts;
- Available resources;
- Investors' right;
- How they are protected;
- Practical education: role playing

Recommendation 7: Triangle Interactions of Financial Literacy



- *Try to acquire newcomers trust to capital market step by step through educating them in basic financial concepts and implications, introducing them resources of essential information, how they are protected by regulatory body and finally application of knowledge they have acquired practically*

Recommendation 8: Specific Considerations

- Structure of Capital Market: Retail vs. Institutional Investors
- Age and Gender: Young vs. Old; Male vs. Female
- *Prioritize your educational programs based on predominant age range, gender and tendency of your organization toward the structure of capital market.*

Recommendation 9: Delivery Methods

- The best way: ask investors
- *Conduct a survey and ask public (specifically investors) how they acquire information, how they like to receive training and what they need to understand. Provide pre-designed responses and let people tick them. Base on the number of internet users in your country, the survey can be conducted internet or paper based or both.*

Recommendation 10: Global Methods

- People are divided into 3 learning groups:
 - Visual (learn by seeing)
 - Auditory (learn by listening)
 - Kinesthetic (learn by doing)

Delivery methods should cover all tastes.

- Educational Web site
- Publications
- Seminars & Courses
- Public/investors Awareness Campaign
- Competitions, Games and animations

Recommendation 11: Evaluation of FL Level

- Self –assessment: let investors assess themselves
- *Provide quizzes in your web site with different levels and allow investors to score their own financial literacy level. Subsequently, after receiving the obtained score, the web site can offer essential educational programs for promotion of investors' knowledge*

Recommendation 12: Monitoring National Progress

- Repeat the survey at appropriate intervals (e.g., every three or five years)
- *We recommend establishment of COMCEC advisory council on financial literacy to collaborate and provide ongoing advice for member states. In this regard, the council can provide a uniform survey for member countries, observe their initiatives, help them to create or improve national strategy and ask them to give report on their achievements.*

Recommendation 13: Evaluation of Programs

- pre-post tests
- feedback questionnaire
- Interview
- number of people refer to sites
- number of people / investors participate in programs
- *As financial literacy leader in capital market, provide uniform criteria and resources for educational programs evaluation to support and enhance the evaluation capabilities of financial literacy education providers*

Conclusion

- Surveys: Positive Correlation and Casual Effect of FL and CM,
- Ultimate goal of broad meaning of FL: Behavior Change
- Ultimate goal of narrow meaning of FL: preparing situation for making effective decisions.
- Investors decisions related to uncontrollable factors such as:
 - Financial IQ,
 - employment type,
 - employment status and income,
 - peers and family pressure,
 - Risk characteristics of individuals.

We believe that COMCEC can be an appropriate gateway for further cooperation on financial literacy to promote current state of member countries.

Thank you for your attention