

## “Consumer protection and financial education”

The financial crisis has clearly shown the importance of placing consumers at the heart of the financial system. In the last years, regulators have made significant efforts aiming at enhancing the protection of consumers. Financial entities have also been contributing to reinforce the protection of their customers, for example by improving the transparency of their products and the quality of the information provided to their clients, but also by disseminating financial education programs for all social and demographic segments.

In a complex and rapidly evolving financial world, financial education is a key element to ensure that people acquire the financial knowledge they will need to help them make financial decisions all along their life. As far as younger generations are concerned, today's financially literate young people are the aware and responsible consumers of tomorrow. Financial education may not be the magic solution to consumer vulnerabilities, but it does certainly contribute to a more healthy and sustainable economy.

In order to assure the sustainability of the financial system, we need full involvement from all key stakeholders, an appropriate regulation, an effective supervision and financial institutions competing with responsible business models.

### Consumer protection

Following the financial crisis, a renewed policy and regulatory focus on financial consumer protection has emerged. The complexity of certain products in the rapidly evolving financial markets underpinned the necessity of a policy framework able to ensure adequate levels of transparency, proper supervisory mechanisms, responsible behaviour of financial providers and consumers, fair competition, effective complaints and redress mechanisms and a maximum level of security in order to protect consumers from fraud and bad commercial practices.

In light of these issues, in February 2011, the G20 called on the OECD, the Financial Stability Board (FSB) and other relevant international organisations to develop common principles on consumer protection in the field of financial services. These principles, developed in close cooperation with standard setting bodies and consumer and industry associations, were endorsed at the G20 meeting in October 2011. Since then, the G20/OECD Task Force on Financial Consumer Protection has developed effective approaches to support the implementation of these Principles.

At European level, regulators have adopted, over the last years, a significant set of initiatives that continues to enhance the level of consumer protection in the financial services industry. Some of the more relevant pieces of legislation, a number of which are currently subject to level 2 implementation, are the following:

- **The Directive on Unfair Commercial Practices** was adopted in 2005 to boost consumer confidence and has been able to curb a broad range of unfair business practices, such as providing untruthful information to consumers or using aggressive marketing techniques to influence their choices.
- **The Consumer Credit Directive** sets the obligation for the creditor to supply, in a standard form and during the pre-contractual phase, clear information on the main features of the credit offered, and establishes a 14 days right of withdrawal, as well as the right to make early repayment of the debt.
- The Commission Recommendation on **Collective Redress** establishes that national redress mechanisms should be available in different areas where EU law grants rights to citizens and companies, notably in consumer protection and financial services.
- The European Commission has also adopted new legislation on Alternative and Online Dispute Resolutions (**ADR/ODR**) that allows consumers and traders to solve their disputes without going to court, in a quick, low-cost and simple way.
- **The Mortgage Credit Directive** includes consumer information requirements, conduct of business obligations and competence requirements for staff, a consumer creditworthiness assessment obligation, provisions on early repayment, on foreign currency loans, on tying practices, and some high-level principles on financial education, property valuation and arrears and foreclosures.
- The revision of the **Deposit Guarantee Schemes Directive** has strengthened the protection of citizens' deposits in case of bank failures.
- The revised **Markets in Financial Instruments Directive (MiFID2)** strengthens the protection of investors by introducing organisational and conduct requirements or by strengthening the role of management bodies. It also increases the role and supervisory powers of regulators.
- **Undertakings for collective investment in transferable securities Directive 5 (UCITS5)** increases the protection of investors vis-à-vis managers of UCITS funds and their depositaries along the lines of the already existing safeguard for alternative investment funds (AIFs).
- **The Payment Accounts Directive** gives all European citizens access to a basic bank account, improves transparency and comparability of fees charged for payment accounts by payment service providers and ensures a smoother payment account switching process.
- **The Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation** lays down uniform rules on the format and content of key information documents for retail investors that have to be drawn up for products such as investment funds, life insurance policies with an investment element and structured deposits and bonds. It aims to facilitate comparison of features of different packaged products and to put retail investors in a position to take better informed financial decisions. Together with MiFID2 it allows National Competent Authorities, and, in exceptional cases the ESAs, to take a decision to temporarily prohibit or restrict a product when there is a significant investor protection concern.

Other regulatory initiatives are currently under discussion:

- The proposal for a revised **Insurance Mediation Directive (IMD2)** aims to strengthen insurance consumer protection by imposing enhanced professional requirements on insurance distributors and by establishing further requirements regarding selling practices, in particular in relation to disclosures, advice and conflicts of interest.

- In the payments area, two initiatives are about to be adopted: the revised **Payment Services Directive (PSD2)** as well as the **Interchange Fees for card-based payment transactions Regulation (IFR)**. These proposals have the objective to enhance consumer protection. In order to avoid unintended consequences, regulators of PSD2 are facing the challenge to find the right balance between fostering competition in the market and ensuring important aspects of consumer protection such as security of payments and data protection in a level playing field environment where new and traditional players can operate under the same regulatory and supervisory frameworks.

Consumer and investor protection is also a common statutory objective of the three European Supervisory Authorities (ESAs) - the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). ESAs have delivered a number of joint and cross-sectorial outputs on consumer protection and financial innovation, such as the Position on manufacturers' product oversight and governance processes, and the Guidelines on complaints handling which ensure a consistent approach across the banking, investment and insurance sectors. Upcoming areas of work for the ESAs' Joint Committee on consumer protection are, among others, self-placement, cross-selling and details of the Key Information Documents (KIDs) for retail investment products.

Over the last few years, the financial industry has also taken several steps in order to rebuild the trust of consumers, where trust has been lost, which is so paramount for the stability and good functioning of the financial markets. Improvements have been made in terms of better, clearer and more transparent information. Moreover, accounting regulatory frameworks are being updated to provide the most reliable information. Another improvement is the more prudent comprehensive and integrated approach towards risk assessments. When this was not the case before, financial institutions are increasingly aligning their business models towards a customer centric approach, focusing on consumers' real needs and expectations.

In terms of future priorities, it is worth mentioning that digital developments in the financial services industry have raised new opportunities as well as new challenges from a consumer protection perspective. There is an urgent need to promote innovation and seize the opportunities offered by the digital economy. It is important that new regulatory initiatives do not prevent this but on the contrary rather foster the digital economy and economic growth.

At the same time, this new digital environment must be understandable and easy to use for consumers, so they understand the product and potential financial risks they are taking. Furthermore, fraud prevention and security must be ensured for the stability of the system. In this regard, it is also paramount that new entrants in the financial services sector are properly regulated in order to ensure the highest levels of security.

Implementation and good application of new rules in retail financial services seems to be the priority of the new Commission for the years ahead. According to Commissioner Jonathan Hill, now it is time to look at new challenges and achieve a fully functioning Single Financial Market that is working properly in consumers' interests. The European Commission has announced the launch, in Q2 or Q3 2015, of a public consultation on retail financial services, insurance and consumer issues. This initiative will probably shed some light on future action that can be expected from the Commission in the field of financial consumer protection.

## Financial Education

As it has been stated by the European Parliament in its 2014 study on Consumer Protection Aspects of Financial Services, there is now a general consensus among policy-makers that stronger consumer protection, together with better financial education, is an essential pillar of financial stability.

In July 2014 the results of the first OECD PISA financial literacy test, which assessed the knowledge and skills of teenagers in dealing with financial issues, were published.

It turned out that around one in seven students in the 13 OECD countries that took part in the assessment are unable to make even simple decisions about everyday spending, and only one in ten can solve complex financial tasks. These concerns have been tackled by governments in many countries where dedicated national strategies have been put in place. Such strategies are designed to address the needs of the general public, but key target audiences are also defined depending on national circumstances (youth, elderly persons, women, migrants, entrepreneurs, low-income citizens, etc.).

In 2008, the OECD created the International Network for Financial Education (INFE) to promote and facilitate international co-operation between policy makers and other stakeholders on financial education issues worldwide. This network serves as a platform to collect data on financial literacy, develop analytical and comparative reports, research, and develop policy instruments. More than 240 public institutions from over 110 countries have joined the INFE. This work led to the OECD/INFE High-Level Principles on National Strategies for Financial Education, which were endorsed by the G20 in June 2012. The International Organization of Securities Commissions (IOSCO)'s Objectives and Principles of Securities Regulation, which have been endorsed by both the G20 and the Financial Stability Board, stress that "Regulators should play an active role in the education of investors and other market participants".

At European level, several initiatives have seen the light. In December 2007, the European Commission adopted a Communication on Financial Education underlining its support for initiatives from Member States, national and regional authorities, non-governmental agencies and the financial services sector. An Expert Group on Financial Education (EGFE) was established in 2008. The Commission has also supported the online consumer education tool "Dolceta" since 2003, but since July 2013, this website is closed. The best teaching resources from Dolceta have been moved across to a new EU funded Consumer Education website called "Consumer Classroom". In 2012 and 2013, the Commission funded the organization of training courses on financial services advice, targeting non-profit entities which offer general financial advice to consumers, and launched an information campaign on consumer credit.

Financial industry stakeholders are also developing financial education initiatives aiming at empowering consumers from all social and demographic segments.

The financial industry is engaged in this area<sup>1</sup>, including by promoting initiatives aiming to provide SMEs with advice and skills they often do not have in house, providing financial and in-kind support to national strategies, designing financial education programmes for young students and adults, and improving the training of intermediaries which have a significant role to play in financial education given their privileged relationship with retail investors. The recently held first European Money Week<sup>2</sup> (9-13 March 2015), an initiative of the European banking sector and supported by a large number of elected representatives at local, national and European levels, is a case in point.

It should be noted that it is also worth for consumers to examine which financial decision they can make based on their own financial education and when to call on the advice of qualified professionals.

The main objective of financial education programmes is to provide individuals with sound financial literacy skills and knowledge to allow them to take informed and educated decisions when buying financial products and to better manage their personal finances and resources: saving, contracting a mortgage credit, investing for retirement, understanding the link between risk and return, etc. It is a useful tool that can contribute as well to reduce financial exclusion and over-indebtedness. Financial education is also about ethics and values, for both consumers and for the professionals advising them on financial decision-making.

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<sup>1</sup> A number of reports by the various financial sectors (banks, asset management, insurance) promote and illustrate industry-driven financial education initiatives in Europe.

[http://www.ebf-fbe.eu/wp-content/uploads/2013/11/GoodPracticesReport\\_EuropeanMoneyWeek-FINAL.pdf](http://www.ebf-fbe.eu/wp-content/uploads/2013/11/GoodPracticesReport_EuropeanMoneyWeek-FINAL.pdf)  
[http://www.efama.org/Publications/EFAMA\\_Investor\\_Education\\_Report.pdf](http://www.efama.org/Publications/EFAMA_Investor_Education_Report.pdf)

[http://www.insuranceeurope.eu/uploads/Modules/Publications/financial\\_education.pdf](http://www.insuranceeurope.eu/uploads/Modules/Publications/financial_education.pdf)

<sup>2</sup> <http://www.europeanmoneyweek.eu>

Emphasis on ethics and values should thus be at the forefront in educating people throughout both their career and life. It is important to teach people the value of money and responsible financial behaviors that are essential for households' financial well-being but also for the stability of the economic system.

It is also noted that the level of financial education differs from country to country according to cultural and economic circumstances and thus there is no one-size fits all model for investor education and financial literacy programmes. Measures to improve consumer education and financial literacy should be adapted to the needs at national level. However, some initiatives could be envisaged at European or international level: for instance, a European day on financial education, and an EC recommendation to continue encouraging and align national strategies for financial education and their inclusion in school curricula would be highly beneficial. The exchange of best practices is also a useful tool for identifying new trends, determining the most appropriate measures to tailor programmes to consumers' needs and evaluate the effectiveness of schemes or identify ways in which public-private partnerships for financial literacy and consumer education can deliver the shared objectives.

## Conclusion

Financial consumer protection has to remain at the heart of European policy. The Capital Markets Union, probably the most relevant plan of the new Commission for the next few years in the field of financial services, will only be achieved with the support and confidence of financial markets investors, including retail investors. Financial education and adequate, well balanced consumer protection rules will underpin this process.

The challenge for regulators is big: they will have to find the right balance between consumer protection and the financial innovation that will foster sustainable economic growth in Europe. They will also have to deal with a new digital world by ensuring a level playing field between traditional and new financial players, but also by taking into consideration and reflecting in regulatory frameworks the changes in consumers' behaviors that new economic trends and technological developments are boosting.

Finally, it is encouraging to see that regulators are increasingly aware of the importance of financial education as a necessary element of consumer protection itself and as complement to consumer protection regulatory policies. A further integration of these aspects could maximize their overall impact. As stated by the European Parliament 2014 study on Consumer Protection Aspects of Financial Services, "considerably more efforts and resources should be devoted by governments, the financial sector and civil society to this activity". This suggests that the role of European Institutions in promoting financial education efforts could be revisited and reinforced.

Briefing notes are prepared by the Financial Industry Committee to the European Parliamentary Financial Services Forum. For further information on the subjects raised in the briefs please contact the Secretariat or the Chair of the Financial Industry Committee.

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