

# POSITION PAPER



ESBG comments on the draft report on: *“Improving consumer education and awareness as regards credit”*

July 2008



## INTRODUCTION

The European Savings Banks Group (ESBG) welcomes the focus on educating consumers and agrees with Rapporteur Ms. Iotova that financial literacy should be a priority for policy-makers. Ensuring a high level of financial literacy is a matter which has throughout history been seen as an issue of great importance among savings banks across Europe. A large knowledge gap between the banker and the customer may lead to a lack of confidence and therefore lower levels of customer satisfaction and it is consequently in the interest of all stakeholders to work together towards improving the situation. As financial institutions, with a strong commitment to corporate social responsibility, the members of the European Savings Banks Group therefore welcome all efforts to ensure that European consumers are knowledgeable and well-informed on financial matters.

Importantly, the role played by financial institutions should be carefully considered when designing programmes or schemes to increase the level of financial literacy. Savings banks are close to their clients and well aware of the areas where the lack of knowledge is most present. Being placed at the “heart” of the financial services provision, the savings banks are therefore well suited to contribute to the content of the programmes.

## COMMENTS ON THE DRAFT REPORT AND SUGGESTIONS FOR AMENDMENTS

The ESBG is pleased to note that the draft report is comprehensive and takes account of the important issues which need to be addressed in the area of financial education. In order to complete the picture, we would like to bring forward a number of additional comments, reflecting the views of the members of the European Savings Banks Group which could be taken into account in the coming discussions on the report. A list of amendments can also be found in Annex.

Under G, in the introduction of the draft report, there is a clear acknowledgement of the importance of starting financial literacy training at an early age. The ESBG could not agree more with that view. Therefore, we would like to express our regrets to the fact that a reference to parental responsibility is left out of the report, as parents are generally the first persons with an influence on a child’s life. The reference could for instance be made through an addition to point 9: “Recommends that financial education schemes focus on important life-planning aspects such as basic saving, debt, insurance and pensions; ***moreover, specific schemes should also empower parents to become a positive role model for financial behaviour and literacy.***”

With regard to point 9, the ESBG would at the same time like to stress its support for highlighting the importance of financial education programmes related to dependency, retirement and the provision of pension funds and other insurance products. As stated in the Explanatory Statement (page 10), social security systems are indeed increasingly based on citizens private contribution and less on the state.

In the context of schemes targeting different stages in life, the ESBG also agrees, that there is indeed a need for financial education in primary, secondary and higher education, as is also referred to in several parts of the report (inter alia points 1, 2 and 15). Nevertheless, in the area of education, the ESBG believes that the subsidiarity principle should apply and that any changes to



the national school curricula therefore should remain a matter to be dealt with at the level of the Member States.

In point 1, reference is made to the drawing up of financial schemes at EU level. The ESBG would like to call for caution, when focusing on the creation of common EU-wide schemes. Although, multi-national schemes have a role to play, one must at the same time acknowledge that most financial literacy schemes are carried out at a national, regional or local level. This way, the schemes are able to take into account the local specificities, such as culture, tradition and languages.

In point 4, the ESBG believes the draft report rightly addresses the importance of tailoring the needs of the target groups of financial literacy schemes. In order to reflect more clearly, the importance of the individual, actually making use of the information provided, the ESBG would suggest the following addition: “Is of the opinion that financial education programmes can only be effective if they are tailored to the needs of specific target groups and, if appropriate, if they are as personalised as possible; ***moreover, all financial education programmes shall contribute to an improvement of a conscious and realistic handling of one’s own financial possibilities.***”

The ESBG remains reluctant to the proposed Code of Conduct for staff of financial institutions, proposed in point 7. Financial institutions are already working to ensure that lending is carried out responsibly and consumer policy rules, regulating consumer information are already in force. A Code of Conduct for banking staff would risk imposing unnecessary administrative burden on banks and might in the longer run result in higher costs for consumers.

Moreover, the ESBG has noted that Central Banks, in some European countries are playing an increasing role in providing information and material with the aim to contribute to financial education of citizens. We believe that the activity of Central Banks should be acknowledged as well as encouraged.

As a new proposal for wording in point 7, the ESBG therefore proposes the following: “...encourages financial institutions to ~~develop Codes of Conduct for their staff~~ ***increase the counselling capabilities of their employees and equally encourages Central Banks to play an active role in providing consumers and schools with adequate information***”.

The ESBG and its members wish to welcome the statement made in point 8 that quality information is to be preferred over quantity. Such an approach will be beneficial to financial institutions and consumers alike.

The reference to the Consumer Markets Scoreboard in point 13 remains somewhat unclear and we would like to ask for some clarification as regards the reasons for including availability and quality of financial education in the Scoreboard.

We would also like to draw the attention to the importance of considering not only information campaigns through media, as proposed in points 11 and 14, but to also take into account that research for a better understanding of the underlying reasons for consumers’ lack of financial capability would be useful.



The ESBG believes that it is important to stress the role of Member States in the field of financial education. We would therefore propose to add a slightly stronger message to point 15, **calling** on Member States to include financial education in the primary and secondary school general curriculum.

In point 17, the ESBG would propose to include an additional reference to young persons, as this is a particularly vulnerable group in society. Our proposal for wording is the following: “Encourages Member States to pay special attention to the educational needs of pensioners and workers at the end of their professional career **and also to young people, starting their professional career, who are challenged by an appropriate use of their first income.**”

## COMMENTS REFERRING TO THE EXPLANATORY STATEMENT

While we are aware about the fact that amendments cannot be introduced to the Explanatory Statement, we would however like to raise a few issues for consideration in relation to the drafted text.

Under point II “Financial responsibility”, last sentence, we would propose the term “microeconomic terms” and this seems more appropriate than macroeconomic terms in this context.

Under point III “Problems due to lack of financial capability”, last point, we would suggest a reference to “consume” instead of “borrow money” as we believe the problem does not necessarily lie with the fact that consumers borrow, but rather with the fact that they are encouraged to over-consume, whether this is being done with borrowed or saved money. Our proposal would be the following: “And finally, nowadays customers are constantly put under pressure and tempted to ~~borrow money~~ **consume** via advertising. If they do not understand the consequences of **financing their consumption by** taking credit and especially of not being able to repay it, this can have negative effects on their well-being but also on society as a whole.”

## CONCLUSION

The ESBG wishes to thank you for taking our views and proposals into consideration. We stand ready to contribute further with explanations or additional information on our members’ experiences in the area of financial education. As financial education is an important element of the savings banks’ corporate social responsibility commitment, we look forward to cooperate further with you in the future on issues related to financial capability.



## Annex I

### List of suggestions for amendments to the draft report on: “Improving consumer education and awareness as regards credit”

#### Amendment 1

##### Point 4

4. “Is of the opinion that financial education programmes can only be effective if they are tailored to the needs of specific target groups and, if appropriate, if they are as personalised as possible;

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#### Amendment 2

##### Point 7

7. “Acknowledges the important role of the private sector, and particularly of financial institutions, in providing consumers with information on financial services; emphasises, however, that financial education should be unbiased and fair, and that it must be clearly distinguished from commercial advice or advertising; in order to achieve this goal, encourages financial institutions to ***develop Codes of Conduct for their staff?***”

7.” Acknowledges the important role of the private sector, and particularly of financial institutions, in providing consumers with information on financial services; emphasises, however, that financial education should be unbiased and fair, and that it must be clearly distinguished from commercial advice or advertising; in order to achieve this goal, encourages financial institutions to ***increase the counselling capabilities of their employees and equally encourages Central Banks to play an active role in providing consumers and schools with adequate information***”.



### Amendment 3

#### Point 9

9. “Recommends that financial education schemes focus on important life-planning aspects such as basic saving, debt, insurance and pensions;

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### Amendment 4

#### Point 15

15. “***Encourages*** Member States to include financial education in the primary and secondary school general curriculum, designed to develop the skills needed in everyday life, and to organise systematic training for teachers on this issue;”

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### Amendment 5

#### Point 17

17. “Encourages Member States to pay special attention to the educational needs of pensioners and workers at the end of their professional career;

17. “Encourages Member States to pay special attention to the educational needs of pensioners and workers at the end of their professional career ***and also to young people, starting their professional career, who are challenged by an appropriate use of their first income;***”



## About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG Members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG Member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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