



FINANCIAL PLANNING STANDARDS BOARD

1 March 2019

Secretariat  
OECD International Network on Financial Education

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Dear Sir/Madam,

Financial Planning Standards Board (FPSB)<sup>1</sup> is pleased to provide comments on the draft *OECD Recommendation on Financial Literacy and Education*.

An affiliate member of the OECD International Network on Financial Education (INFE) since 2015, FPSB, along with its global network of nonprofit professional financial planning bodies in 26 countries and territories, welcomes the OECD's call for comprehensive national strategies that will guide the development, implementation and evaluation of financial education programs and policies, and that will align efforts by governments, public authorities and relevant stakeholders to enhance consumer financial wellbeing and support financial stability.

Already active in various national and global financial education and capability programs, the FPSB network looks forward to collaborating with national financial literacy leaders to help shape financial education and financial capability programs and policies. We hope that you will find the input from FPSB and our worldwide community of professional financial planning bodies of value as you finalize your recommendations on financial literacy and education.

FPSB has responded to the OECD consultation through the rubric of financial planning – a client-centric professional advice process that can help (re)build trust and restore the public's confidence in their own financial decision-making, in financial markets and in financial advisors. If you would like clarification on our submission, or would like additional information, please feel free to contact me at +1-720-407-1902 or at [nmaye@fpsb.org](mailto:nmaye@fpsb.org).

Respectfully submitted,

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Chief Executive Officer  
Financial Planning Standards Board Ltd.

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<sup>1</sup> Financial Planning Standards Board Ltd. manages, develops and operates certification, education and related programs for financial planning organizations to benefit the global community by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB demonstrates its commitment to excellence with the marks of professional distinction – CFP, CERTIFIED FINANCIAL PLANNER and CFP Logo mark – which it owns outside the United States. The FPSB global network consists of nonprofit professional financial planning bodies in the following territories: Australia, Austria, Brazil, Canada, Chinese Taipei, Colombia, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Japan, Malaysia, New Zealand, the Netherlands, the People's Republic of China, the Republic of Korea, Singapore, South Africa, Switzerland, Thailand, Turkey, the United Kingdom and the United States. At yearend 2018, there were 181,360 CFP professionals worldwide. For more, visit [fpsb.org](http://fpsb.org).

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### **General Comment**

FPSB supports the OECD's recommended approach to financial literacy and education, particularly the OECD's recognition that:

- Well-developed, comprehensive national financial education policies and programs promote the development of healthy, open and competitive financial markets, support financial stability and enhance consumer financial wellbeing;
- Financial education can be used to improve the levels of financial literacy and inclusion among all segments of the population, particularly communities that are traditionally underserved by the financial services industry;
- Financial education policies are important in facilitating informed decisions and responsible choices by consumers of financial products and services; and
- Financial education should be a complement to other policies that support financial decision-making.

### **Positioning Financial Education vis-à-vis Default Options, Financial Advice**

The language the OECD uses when it recognizes that “financial education is a complement to directive approaches such as choice architecture and financial advice, by ensuring that consumers are aware of the potential consequences of default options and guided decisions,” may unintentionally infer that consumers should only be protected from, rather than also benefit from, default options and guided decisions.

Default Options: FPSB appreciates the OECD's position on the need for consumer protection in the area of e-commerce<sup>2</sup>, where lack of opt-out provisions from some digital platforms may put consumers at a disadvantage. However, data shows that consumers around the world also benefit from default options in financial decision-making. For instance, to fight behavioral apathy and encourage more participation by employees in retirement planning, some employers automatically include employees in retirement plans unless they opt out. The National Bureau of Economic Research holds that default options such as this “matter a great deal” when it comes to retirement savings.<sup>3</sup> The Bureau goes on to note, “One explanation [for the benefit of default options] is the complexity of making retirement plan decisions. Surveys of financial literacy find that many individuals lack basic financial knowledge about concepts like risk or compounding. The psychology literature has established that individuals are more likely to put off making decisions as the complexity of the decision increases. Defaults that simplify retirement decision-making can thus encourage participation. A second possible explanation is that some individuals have problems with self-control, which may lead them to postpone enrolling in the plan or to make other decisions that are inconsistent with their long-term goals. A third explanation is that individuals perceive the default as an endorsement of a particular course of action.”

Guided Decisions: While financial literacy and education are key to improving consumers' financial wellbeing, equally important is the need to ensure consumer access to the guidance of competent and ethical financial advisors or financial planning professionals. In 2015, a global study<sup>4</sup> of 19,000 consumers conducted by FPSB found that consumers who work with a financial advisor (versus do-it-yourselfers) felt less challenged by their finances, more knowledgeable about financial matters and more successful at staying on track with financial goals. Of note, consumers working with CERTIFIED FINANCIAL PLANNER professionals reported even more favorable financial outcomes. FPSB's findings were

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<sup>2</sup> OECD Toolkit for Protecting Digital Consumers, [www.oecd.org/internet/consumer/toolkit-for-protecting-digital-consumers.pdf](http://www.oecd.org/internet/consumer/toolkit-for-protecting-digital-consumers.pdf)

<sup>3</sup> The Effect of Default Options on Retirement Savings, National Bureau of Economic Research, <https://www.nber.org/aginghealth/summer06/w12009.html>

<sup>4</sup> <https://www.fpsb.org/news/global-survey-financial-planning-standards-board-finds-consumers-lack-strong-confidence-achieving-financial-goals-2/>

echoed in the 2018 AMF Index of Financial Awareness (AMF Index)<sup>5</sup> released by the Quebec Autorité des Marchés Financiers in October 2018 as part of IOSCO's World Investor Week. The AMF Index, which assesses the perceived usefulness and rate of adoption of various financial behaviors, found that individuals who work with a financial advisor have substantially higher levels of financial awareness than those who do not (63 percent versus 52 percent).

FPSB proposes that the recognitions section of the OECD recommendations on financial literacy and education be revised to read, "Recognizing that financial education is a complement to directive approaches such as choice architecture and financial advice, by ensuring that consumers are aware of the potential benefits and consequences of default options and guided decisions."

### **Definitions of Financial Literacy, Financial Education**

FPSB supports the definition<sup>6</sup> proposed by the Committee on Financial Markets and the Insurance and Private Pensions Committee for "Financial Education." However, the definition for "Financial Literacy" may be overstated. While FPSB agrees that Financial Literacy involves "a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions....," the second part of the definition overstates the case when it says that Financial Literacy will lead consumers to "...ultimately achieve individual financial wellbeing." There are many factors other than literacy that contribute to a person's success or lack of success in achieving financial wellbeing, including personal circumstances, behavioral biases and working with a competent and ethical financial advisor or financial planning professional.

FPSB proposes that the OECD recommendations on financial literacy and education use the Committee on Financial Markets and the Insurance and Private Pensions Committee definition of "Financial Education" rather than the definition of "Financial Literacy."

### **Roadmaps, Implementation Plans and Metrics**

FPSB agrees with the OECD's recommendation that those collaborating on national strategies for financial education should develop a tailored roadmap which describes policy priorities, defines an implementation plan, and identifies appropriate resources prior to establishing a national strategy. FPSB also supports the OECD recommendation that national strategies for financial education be based on relevant evidence and analysis gathered and conducted prior to the strategy's adoption. These recommendations align well with the professional competencies and practice norms of CERTIFIED FINANCIAL PLANNER professionals worldwide who themselves use a similar process-driven approach that considers all aspects of a client's financial situation when formulating financial planning strategies and making recommendations, and who have committed to supporting financial education and financial literacy initiatives as part of their public interest commitment to building a global financial planning profession.

### **Topics, Confidence and Financial Planning: Complements in an Ecosystem**

FPSB agrees with the OECD's recommendation that those collaborating on national strategies for financial education should identify relevant issues and address them in order

<sup>5</sup> [https://lautorite.qc.ca/fileadmin/lautorite/grand\\_public/publications/organisation/etudes-sondages/Indice-Autorite-synthese-2018-an.pdf](https://lautorite.qc.ca/fileadmin/lautorite/grand_public/publications/organisation/etudes-sondages/Indice-Autorite-synthese-2018-an.pdf)

<sup>6</sup> OECD Recommendation on Financial Literacy and Education, Page 2

of priority. The financial education issues prioritized in OECD's recommendations—budgeting and managing finances in the short term; saving and investment; credit management; planning and saving for retirement and pensions—are consistent with the financial concerns over 19,000 consumers reported to FPSB during our 2015 global research<sup>7</sup>, namely:

- Being free of major financial debt (55 percent)
- Being free of common consumer debt (54 percent)
- Building savings or an emergency fund (51 percent)
- Retiring in the lifestyle that you want to (49 percent)
- Successfully managing your finances to achieve goals (47 percent)
- Making sure your investments are profitable (43 percent)

However, providing education without context may not be particularly fruitful. FPSB's global consumer research also found that when it comes to feeling knowledgeable about managing their finances, the public is struggling. Most people feel challenged by their finances, with relatively few saying that they feel confident about their finances, knowledgeable about financial matters or successful at staying on track with their financial goals. FPSB believes a key to improving consumers' financial decision-making and wellbeing is not only to educate and empower them through financial literacy and education initiatives, but to also provide them with the context for their financial decisions, and guidance from a competent and ethical financial advisor or financial planning professional.

FPSB proposes that the OECD recommendations on financial literacy and education consider topics related to debt and emergency planning<sup>8</sup>, and providing topic-specific education within the context of overall financial and life goals.

### **Complex Products and Vulnerable, Underserved Populations**

While FPSB recognizes the importance of education about financial products and services, not all products (or their impacts) are created equal. For basic products, simplifying and standardizing product information can be beneficial to customers. Chater et al.<sup>9</sup> found that standardizing and reducing the amount of information helped subjects identify the optimal choice between similar investments. When it comes to complex products, however, simply receiving or having access to material information evaluating the risks of a complex financial product is not enough to protect the consumer. The consumer also needs to understand the context in which the product is being recommended (including a rationale for why the complex product is preferred over a simpler product), and how the compensation structure for the intermediary and manufacturer compares to other similar products.

Seniors: Regarding the specific target groups noted in OECD's recommendation, FPSB is encouraged to see older generations highlighted. FPSB agrees in particular with OECD's assertion that seniors may be especially vulnerable to certain types of fraud, be less likely to lift themselves out of financial difficulty and have low take-up of new and innovative products and services. According to FPSB's research findings from its 2017 survey on senior investor vulnerability<sup>10</sup>, more than one-quarter (27 percent) of the 2,641 CFP professionals who responded said that they had encountered a client within the last 12 months who was the victim of fraud or had been taken advantage of as a result of being a senior. They also noted

<sup>7</sup> <https://www.fpsb.org/news/global-survey-financial-planning-standards-board-finds-consumers-lack-strong-confidence-achieving-financial-goals-2/>

<sup>8</sup> [https://www.fpsb.org/wp-content/uploads/2016/05/ValueofFP\\_infographic\\_2016\\_Members\\_Digital\\_FINAL-01.jpg](https://www.fpsb.org/wp-content/uploads/2016/05/ValueofFP_infographic_2016_Members_Digital_FINAL-01.jpg)

<sup>9</sup> Chater, Huck and Inderst. Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective, November 2010

<sup>10</sup> [https://www.fpsb.org/wp-content/uploads/2017/06/170623\\_itr\\_IOSCO-SrInvVulnerability.pdf](https://www.fpsb.org/wp-content/uploads/2017/06/170623_itr_IOSCO-SrInvVulnerability.pdf)

that those who have not saved enough for retirement could expose themselves to further losses by investing in schemes that promise high returns and low risk. For these and other reasons, the majority of CFP professionals who responded (60 percent) felt seniors would benefit most if regulators and professional bodies encouraged policies that support the delivery of financial advice to seniors under a client first/best interest duty of care.

Youth: Since many people defer focusing on financial matters until later in life, FPSB agrees with OECD that those developing national financial education strategies should take into account the importance of developing financial literacy skills among the youth. A possible approach to ensuring that financial education is made available from the earliest age possible is to teach financial literacy in schools, as proposed by OECD in sub-paragraph 7b(ii). However, it is also important to empower educators with sufficient knowledge and capability to confidently deliver financial literacy programs to students by allowing them to access trainings with competent financial advisors and financial planning professionals.

FPSB proposes that the OECD recommendations on financial literacy and education consider that, when it comes to complex products or financial services and educating vulnerable/underserved populations, national strategies recommend guidance from competent and ethical financial advisors or financial planning professionals held to a client first or fiduciary-like duty of care, as a complement to financial education.

#### **The Impact of, Need for Public Awareness**

FPSB is encouraged by OECD's recommendation that those collaborating on national strategies for financial education deploy targeted public awareness campaigns to ensure the effective delivery of financial education programs. FPSB, together with our global network of nonprofit professional financial planning bodies, will host the third annual World Financial Planning Day in October 2019 as a complement to IOSCO's World Investor Week. World Financial Planning Day is an opportunity for the global financial planning community to help consumers understand the value of the financial planning process, of having a financial plan and of working with a competent, ethical financial planner to achieve financial and life goals. During World Financial Planning Day, and in separate financial literacy and education initiatives throughout the year, the FPSB network and global CERTIFIED FINANCIAL PLANNER professional community offer a variety of programs, including:

- Pro-bono clinics: Consumers engage CFP professionals about financial matters, free of charge.
- Seminars and roadshows: CFP professionals present on a variety of financial topics, and highlight how to #PlanWell2LiveWell with a financial plan.
- Webinars: CFP professionals host presentations on good financial decision-making.
- Articles and blogs: CFP professionals serve as subject-matter experts on financial topics in various media publications.

FPSB would welcome the opportunity to collaborate with OECD-INFE and those leading national strategies for financial education on World Financial Planning Day and related financial literacy and education initiatives.

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