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REPORT

on protecting the consumer: improving consumer education and awareness on credit and finance
(2007/2288(INI))

Committee on the Internal Market and Consumer Protection

Rapporteur: Iliana Malinova Iotova

Rapporteur for opinion (*):
Jean Paul Gauzès, Committee on Economic and Monetary Affairs

(*) Associated committee – Rule 47 of the Rules of Procedure

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(*) Associated committee – Rule 47 of the Rules of Procedure

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on protecting the consumer: improving consumer education and awareness on credit and finance (2007/2288(INI))

The European Parliament,

- having regard to the Commission's Communication of 18 December 2007 on Financial Education (COM(2007)0808),
 - having regard to the Commission's Green Paper on retail financial services in the single market (COM(2007)0226),
 - having regard to its position at second reading of 16 January 2008 on the common position adopted by the Council with a view to the adoption of a directive of the European Parliament and of the Council on credit agreements for consumers and repealing Council Directive 87/102/EEC¹,
 - having regard to its resolution of 11 July 2007 on financial services policy (2005-2010) - White Paper²,
 - having regard to Rule 45 of its Rules of Procedure,
 - having regard to the report of the Committee on Internal Market and Consumer Protection and the opinion of the Committee on Economic and Monetary Affairs (A6-0393/2008),
- A. whereas on the one hand, financial markets are fast evolving, have become very dynamic and increasingly complex, and, on the other hand, societal changes and changes in lifestyle create a need for sound management of private finances and a need to adjust private finances regularly to suit new work and family circumstances,
- B. whereas raising the level of financial literacy of consumers should be a priority for policy-makers both at Member State and at European level, not only because of the benefits for individuals but also because of the benefits for society and the economy, such as reducing the level of problem debt, increasing savings, increasing competition, making appropriate use of insurance products and making adequate provision for retirement,
- C. whereas studies reveal that consumers tend to overestimate their knowledge of financial services and need to be informed of the fact that they are not as financially literate as they believe, and of the consequences thereof,
- D. whereas high quality financial education programmes, targeted and, where appropriate, as personalised as possible, can contribute to raising financial literacy, allowing consumers to make informed choices and thus to the effective functioning of financial markets,

¹ Texts adopted, P6_TA(2008)0011.

² OJ 175 E, 10.7.2008, p. 392.

- E. whereas the importance of cross-border financial services is constantly increasing, and the Commission should take initiatives at EU level for the promotion of cross-border and, where necessary, comparable information on financial education,
- F. whereas particular attention should be paid to the educational needs of vulnerable consumers, and also to those of young consumers, who face decisions affecting economic prospects for their whole lifetime ,
- G. whereas research has shown that those who have learned the basic aspects of personal finance at a very early age have more financial literacy; whereas financial education is closely related to the teaching of basic skills (mathematics and reading),
1. Welcomes the Commission initiatives in the field of the financial education of consumers, in particular the recent setting-up of the Expert Group on Financial Education, and its intention to publish an online database of financial education schemes and research in the EU; is of the opinion that this Expert Group on Financial education should have clear responsibilities and powers; suggests that this group be asked in particular to look into the added value of, and best practices in, EU financial education and cross-border financial services;
 2. Stresses that the objective of educating and raising the awareness of consumers as regards finance and credit is to improve consumers' awareness of economic and financial realities with a view to understanding economic commitments and avoiding unnecessary risk, excessive debt and financial exclusion; considers that training and the provision of information should allow consumers to take an independent approach, based on their own judgement, to the financial products that are offered to them or that they are considering using;
 3. Notes that the 'sub-prime mortgage' crisis illustrates not only the dangers of inadequate information for borrowers but also the lack of understanding and knowledge of such information leading to consumers being insufficiently concerned about the risks of insolvency and excessive debt;
 4. Underlines that empowered and educated consumers help to foster competition, quality and innovation within the banking and financial services industries and recalls that educated and confident investors can provide additional liquidity to capital markets for investment and growth;
 5. Stresses the importance of establishing the level of financial literacy in the Member States and an understanding of the added value the EU can provide, as well as of defining educational needs for specific target groups in society, according to a mix of criteria such as age, income and level of education;
 6. Recognises the role of private initiatives, the financial services industry and consumer organisations at both Community and national level in defining the specific needs of target groups for financial education, in identifying the weaknesses and shortcomings of existing education schemes, and in providing financial information to consumers, including through internet-based tools media and educational campaigns, etc. for financial planning;
 7. Is of the opinion that financial education programmes are most effective if they are tailored to the needs of specific target groups and, where appropriate, personalised; is of

the opinion, moreover, that all financial education programmes should contribute to the improvement of a conscious and realistic handling of each individual's financial possibilities; consideration should be given to the development of programmes that improve adults' financial capabilities.

8. Calls on the Commission, in cooperation with the Member States, to develop, at EU level, educational programmes in the field of personal finances, based on common rules and principles which can be adapted to the needs of, and applied in, all Member States, setting benchmarks and promoting the exchange of best practice;
9. Emphasises that financial education can complement but cannot be a substitute for coherent consumer protection provisions in financial services legislation and the regulation and strict supervision of financial institutions;
10. 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 offered in a fair, unbiased and transparent manner, so as to serve the interests of the consumer, 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;
11. Acknowledges that a delicate balance needs to be struck between providing consumers with the knowledge they need to make informed financial decisions and overloading the consumer with information; favours quality over quantity, for example high-quality, accessible, concrete and easily comprehensible information aimed at enhancing the consumer's ability to make informed and responsible choices;
12. Considers that effective, clear and comprehensible information, particularly in advertisements for financial products, is necessary and that financial institutions should provide sufficient information before contracts are concluded and, in particular, strictly apply the rules laid down in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments¹ (Mifid) and Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers²; calls on the Commission to put forward, in a coherent manner specific legislative proposals for a harmonised system of consumer information and protection, in particular in the framework of mortgage credit (such as a harmonised, simple and comparable European standardised information sheet including common indications on the annual percentage rate charged, etc.);
13. Recommends that financial education schemes focus on important life-planning aspects such as basic saving, debt, insurance and pensions;
14. Asks the Commission to continue efforts to promote dialogue between stakeholders;
15. Suggests the increase of the budget line 17 02 02 to finance activities at EU level aiming at improving consumers' financial education and financial literacy; asks the Commission

¹ OJ L 145, 30.4.2004, p. 1.

² OJ L 133, 22.05.08, p. 66.

to contribute to raising awareness at EU level through supporting the organisation of national and regional conferences, seminars, media and awareness campaigns as well as educational programmes with cross-border participation, in particular in the field of retail financial services and household credit/debt management;

16. Calls on the Commission to further develop and upgrade the Dolceta online tool and to provide this service in all official languages; suggests that the Commission include on the Dolceta website a link to the online database it intends to set up of existing regional and national financial education schemes; suggests that the Dolceta website should include links to the websites of public and private bodies operating in the field of financial education, broken down by country;
17. Asks the Commission to include indicators of the availability and quality of financial education in the Consumer Markets Scoreboard;
18. Calls on the Commission to set up information campaigns in order to raise the awareness of consumers of their rights under EU legislation in the sphere of the provision of financial services;
19. Stresses the need for the Member States, with the support of the Commission, to carry out regular surveys, in cooperation with the various social and population groups of the Member States, concerning current levels of financial literacy among the public, in order to identify priority areas for action and thus ensure the appropriate, prompt and effective implementation of financial education programmes to assist the public;
20. Encourages Member States to include financial education in the primary and secondary school programmes developed by the competent institutions, designed to develop the skills needed in everyday life, and to organise systematic training for teachers on this subject;
21. Stresses the need for an ongoing two-way educational process for both sides, that is to say financial advisors and consumers, so as to ensure the provision of accurate information in step with the most recent developments in the financial services sector;
22. Is of the opinion that synergy effects between different educational organisations are not sufficiently used; asks Member States, therefore, to establish a network for financial education in which both the public and private sector take part, and to encourage cooperation and dialogue between all actors;
23. Encourages Member States to pay special attention to the educational needs of pensioners and persons at the end of their professional career, who may be at risk of financial exclusion, and also to young people starting their professional career who are faced with the challenge of determining how to make appropriate use of their new income;
24. Calls on the Member States to set up training programmes in economics and financial services for social workers, since they are in contact with persons at risk of poverty or excessive debt;
25. Instructs its President to forward this resolution to the Council, the Commission and the

governments of the Member States.

EXPLANATORY STATEMENT

I Importance of financial education

Financial education is high on the agenda both in the USA and the EU. The reason for this is twofold. Firstly, consumers are confronted with a constantly increasing availability and complexity of goods and services. Secondly, consumer information and counselling cannot keep up with the level of complexity of financial products. This situation increases the vulnerability of consumers with regard to financial issues.

Consumers need basic skills which will help them choose and fully understand the information and suggestions. If the gap in information and financial expertise between financial intermediaries and consumers is reduced this would decrease the risk of over-indebtedness, default or bankruptcy. It would also generate more competition between lenders and thus raise the overall efficiency of the market because better informed consumers can distinguish between different financing proposals and select the one closest to their needs.

II Concept of financial capability

The concept of financial capability, as defined by researchers, includes three basic elements:

- financial knowledge and understanding

A basic level of financial capability should be established. Consumers should be able to understand basic financial terminology as well as to some extent the technical, legal and mathematical procedures involved. This knowledge should be acquired through education and training but also through passive receipt of information from different sources or experience.

- financial skills and competence

After a certain level of knowledge is acquired consumers should develop the ability to use it to their benefit. This calls for a range of specific skills such as gathering financial information (bank statements, receipts, etc.) and record-keeping, proper evaluation of the gathered information, comparison between the different products and other skills that will facilitate financial planning (saving, spending, budgeting, investing).

- financial responsibility

Knowledge and skills will not be sufficient to ensure that consumers manage their finances appropriately. They must be ready and willing to use their knowledge and skills. This is largely a question of attitude. Financial capability means more than simply knowing the right course of action. People with the same knowledge may choose different courses of action because they have different attitudes towards spending and investing. Even when people have the knowledge and skills they still may make decisions that are not responsible in macroeconomic terms.

III Problems due to lack of financial capability

It is difficult for consumers with low financial knowledge to choose the products and services that are most suitable to their needs. It is hard to evaluate given advice and they may be misled and victim to unfair selling practices.

There is a general misunderstanding of financial products, especially if they are more complicated. This problem has two possible outcomes - people do not get involved in financial matters (financial exclusion) or people get involved but they might not choose the right product and also they might not shop around enough to find the product that satisfies their needs best, because customers find it hard to compare the products. Different studies show that the customer decides either simply to choose the lowest-priced products, or to choose products offered by big companies because they are seen as more reliable. Another problem is that people don't monitor products after they have purchased them, so that they could switch to more favourable offers. According to a study carried out by FSA (Financial Services Authority) levels of shopping around for financial products are very low in the UK, in contrast to customers' behaviour when buying clothing or mobile phones.

Another problem is that customers don't know whom to turn to. Surveys show that when people want advice they turn first to their family and friends. The motive behind is that people believe that family members will give them a credible advice. On the other hand, asking for an advice from a bank may lead to a pressure to buy financial products. Consumers should be provided with independent advice so that their interests are served best. However few consumers can afford the services of personal financial advisers.

Failing to plan ahead is also a consequence of the lack of financial literacy and capability. People should realise that planning for their retirement should start during their early working years.

And finally, nowadays customers are constantly put under pressure and tempted to borrow money via advertising. If they do not understand the consequences of 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.

VI Raising awareness

Although surveys show that there is a general lack of financial capability among European consumers, people may not realise or admit this fact. We need to raise awareness of consumers as to how well they understand financial matters, to help them realise the need for financial education and independent expert advice.

At the same time consumers should be aware of the consequences of their actions and contractual agreements in which they enter, for example what are the consequences if they don't pay the instalments or in case of early repayment. This awareness will allow them to take informed and responsible decisions.

There is a need for an information campaign aimed at increasing public interest in financial capability. Also consumers' ability to evaluate their own financial capabilities should be developed.

Attitudes of consumers towards financial education should be influenced. Even if quality financial education schemes and expert counselling is available people may still decide that they don't need it.

V Financial education and financial information - differentiated approach

Consumers' financial capability is evolving in the course of life of an individual. It depends on consumers' position in the life cycle as well as their level of education, income, etc. Financial knowledge and understanding, skills and competence, and responsibility are useless if consumers can't use them in practice. Therefore, financial education should be practical and not purely theoretical, especially for older consumers. Financial education schemes must take into account the needs of consumers. Their needs depend on age, level of income, marital status, education, attitudes, personal interests, sector they are working in, etc.

These points lead to basic principles for financial education schemes. They:

- should be targeted,
- have to consider the different needs and interests of a diverse range of consumers and should be provided in their own language - the information for consumers should be concrete and easy to understand,
- should apply to a wide range of consumers - children, young adults, adults, people near retirement, pensioners - it should be included in the formal education system and afterwards specific financial training programmes aimed at certain social and economic groups should be developed,
- should also take into account the ability of customers to complain and to seek redress.

Another important point is that consumer information is a necessary but not sufficient condition for making efficient decisions. An increase in the information available to consumers often not automatically results in an increase in the information possessed by them. Consumers need information but they also need to be able to understand this information and to compare it. Often consumers are burdened with too much information and they have problems filtering it. This may decrease their level of understanding and limit their decision-making capability. Information must not be confused with education and advice.

Usually consumers with less income have less access to information because they don't use financial products regularly. Services of independent financial advisers are used by many customers but not those with low incomes. Special attention should be given to access to independent and quality advice for low income consumers .

VI Elaboration and implementation of financial education schemes

All actors should be involved in the process of financial education - the state, NGOs, consumer organisations and financial institutions. A clear division of responsibilities is needed. Financial institutions have the expertise knowledge to elaborate concrete and practical education schemes but cannot be the only provider of financial education and advice.

Other credible providers of financial education are independent institutions like the consumer organisations and the state. The best solution is that financial education is carried out jointly by financial institutions and consumer organisations so that consumer rights and interests are protected and no pressure is exerted on consumers to buy financial products.

VII Financial education at EU level

Financial education is provided by different institutions and organizations – financial surveillance authorities, financial institutions, agencies for increasing the literacy of adults, consumer organisations etc. National authorities in 11 Member States are the main drivers of financial education. The main subject is money theory and the use of a bank account. Financial education programs also include management of credits and loans and cover issues like investments, savings, insurance and risk management. In the field of financial education the Commission has undertaken the following initiatives:

- **The Commission has set up a website, Dolceta, offering consumer education to adults** – the site is translated into all official languages of the EU (except for Romanian and Bulgarian) and is adapted to the needs of national markets
- **The Commission has decided to extend Dolceta to primary and secondary education** - this new project is directed at young people and teachers. The objective is to help educators to incorporate financial matters into their classes and evaluate students on these topics.
- **"Europe Diary"** – a booklet distributed to second-level students to inform them of their rights as consumers. It includes a section on money and debt, which explains how financial institutions and products work, and gives a warning on the dangers of excessive borrowing.
- In March 2007, the Commission organized a Conference on **"Increasing Financial Capability"** to highlight the importance of high-quality financial education provision and provide a forum for the exchange of best practices.
- **Green Paper on Retail Financial Services** suggested that more could be done to encourage financial education
- **Commission Communication on Financial Education (COM(2007)226)**

VIII Measures

- Member States should play a central role in financial education. However a basic program in the area of financial education should be developed at EU level. This program must create common rules and principles applied in all Member States.

- The best way to improve people's financial capability is to incorporate a subject covering financial matters in the school curriculum. In order to achieve best results financial education should start at school and be obligatory. The Commission should recommend Member States to include financial education in their national school curriculum.

- There should be a special approach for improving the financial literacy of various society groups – children in elementary and secondary schools, students in universities, adults, people with low incomes and pensioners.

- Member States should establish a network for financial education in which both government and non-government sector, as well as specially trained tutors take part.
- The Commission should encourage Member States to establish financial education specifically designed for consumers at the end of their professional career or already pensioners. This is important because nowadays social security systems are set in such a way that the risks are borne by the citizens and no longer by the state.
- The Commission should create a budget line for financial education programs at EU level. Money must be set aside for media campaigns, increasing consumer awareness on problems caused by a low level of financial literacy.

17.9.2008

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

for the Committee on the Internal Market and Consumer Protection

on Protecting the consumer: improving consumer education and awareness on credit and finance

(2007/2288(INI))

Rapporteur(*): Jean-Paul Gauzès

(*): Associated committee – Rule 47 of the Rules of Procedure

SUGGESTIONS

The Committee on Economic and Monetary Affairs calls on the Committee on the Internal Market and Consumer Protection, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Stresses that the objective of educating and raising the awareness of consumers as regards finance and credit is to improve consumers' awareness of economic and financial realities with a view to understanding economic commitments and avoiding unnecessary risk, excessive debt and financial exclusion; considers that training and the provision of information should allow consumers to take an independent approach, based on their own judgement, to the financial products that are offered to them or that they are considering using; calls on the governments of Member States and local authorities to adopt and coordinate with financial institutions, other stakeholders, the media, education and assessment professionals and consumer organisations measures and initiatives to raise financial literacy of citizens; calls on the Commission to submit a European programme for financial education;
2. Notes that the 'sub-prime mortgage' crisis illustrates not only the dangers of inadequate information for borrowers but also the lack of understanding and knowledge of such information leading to consumers being insufficiently concerned about the risks of insolvency and excessive debt;
3. Considers that effective, clear and comprehensible information, particularly in advertisements for financial products, is necessary and that financial institutions should provide sufficient information before contracts are concluded and, in particular, strictly

apply the rules laid down in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments¹ (Mifid) and Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers²; calls on the Commission to put forward, in a coherent manner specific legislative proposals for a harmonised system of consumer information and protection in particular in the framework of mortgage credit (such as a harmonised, simple and comparable European standardised information sheet including common indications on the annual percentage rate charged, etc.);

4. Suggests that an introduction to economics and finances be introduced into teaching and adapted to different levels of education, and that the introduction should stress sound management of the family budget and proper use of the most common financial products; recalls that financial education can be spread widely among consumers and citizens by means of the media and all available IT technologies;
5. Believes that training in household finance and in credit awareness should be given to social workers in contact with families at risk of excessive debt or financial exclusion in order to be able to provide them with useful advice and warn them of the risks; calls for the development of specific programmes for young people aimed at instructing them, as future consumers, regarding the products of the banking system, for those arriving in the European Union in order to reinforce their awareness of European financial practices, and for retired people, with the view to enabling them to seek better, cheaper and more appropriate products and services;
6. Believes that governments should strengthen and encourage action by organisations involved in educating and raising the awareness of consumers as regards finance and credit;
7. Underlines that empowered and educated consumers help to foster competition, quality and innovation within the banking and financial services industries and recalls that educated and confident investors can provide additional liquidity to capital markets for investment and growth; stresses that consumer education and protection can never replace an efficient supervision but actually increases its effectiveness when in proper balance.

¹ OJ L 145, 30.4.2004, p. 1.

² OJ L 133, 22.05.08, p. 66.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	9.9.2008
Result of final vote	+: 33 -: 0 0: 0
Members present for the final vote	Mariela Velichkova Baeva, Paolo Bartolozzi, Zsolt László Becsey, Pervenche Berès, Sebastian Valentin Bodu, Sharon Bowles, Udo Bullmann, Manuel António dos Santos, Christian Ehler, Elisa Ferreira, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Robert Goebbels, Donata Gottardi, Gunnar Hökmark, Karsten Friedrich Hoppenstedt, Othmar Karas, Christoph Konrad, Guntars Krasts, Kurt Joachim Lauk, Andrea Losco, Astrid Lulling, Gay Mitchell, Sirpa Pietikäinen, John Purvis, Alexander Radwan, Bernhard Rapkay, Heide Rühle, Eoin Ryan, Antolín Sánchez Presedo, Salvador Domingo Sanz Palacio, Olle Schmidt, Peter Skinner, Margarita Starkevičiūtė, Ieke van den Burg
Substitute(s) present for the final vote	Harald Ettl, Piia-Noora Kauppi, Vladimír Maňka, Bilyana Ilieva Raeva, Margaritis Schinas

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	7.10.2008
Result of final vote	+: 35 -: 0 0: 0
Members present for the final vote	Cristian Silviu Buşoi, Charlotte Cederschiöld, Gabriela Creţu, Mia De Vits, Janelly Fourtou, Evelyne Gebhardt, Hélène Goudin, Małgorzata Handzlik, Christopher Heaton-Harris, Anna Hedh, Iliana Malinova Iotova, Pierre Jonckheer, Kurt Lechner, Toine Manders, Catuscia Marini, Arlene McCarthy, Nickolay Mladenov, Catherine Neris, Zita Pleštinská, Karin Riis-Jørgensen, Zuzana Roithová, Heide Rühle, Leopold Józef Rutowicz, Christel Schaldemose, Andreas Schwab, Marianne Thyssen, Jacques Toubon, Barbara Weiler, Marian Złotea
Substitute(s) present for the final vote	Emmanouil Angelakas, Wolfgang Bulfon, Colm Burke, Giovanna Corda, Othmar Karas, José Ribeiro e Castro, Olle Schmidt