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Financial Literacy

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Contents

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Introduction[1]

Financial literacy is "a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being".[2]

Not only is financial literacy important to individuals and their families, but low levels of financial literacy can have wider implications. "In the aftermath of the financial crisis, financial literacy has been increasingly recognised as an important individual life skill in a majority of economies. The underlying reasons for this growing policy attention encompass the transfer of a broad range of (financial) risks to consumers, the greater complexity and rapid evolution of the financial landscape, the rising number of active consumers/investors in the financial sphere and the limited ability of regulation alone to efficiently protect consumers. In addition, the consequences of the financial crisis have demonstrated the potential implied costs and negative spill-over effects of low levels of financial literacy for society at large, financial markets and households."[3] **Accordingly, it is relevant to financial regulators and supervisors,[4] whether their mandate focuses on prudential or market conduct objectives.**

International organizations have reinforced the need to build financial literacy and have developed tools for doing so. For example, the G20 has highlighted the importance of financial literacy in its High-Level Principles on Financial Consumer Protection[5] and its High-Level Principles on Digital Financial Inclusion.[6] The Organization for Economic Cooperation and Development (OECD), its International Network for Financial Education (INFE), and the World Bank have developed principles, guidance, best practices, survey instruments, diagnostic tools, and measurement and evaluation methods.[7]

An increasing number of countries are building financial literacy through the development and implementation of national strategies for financial education.[8] Their experiences in doing so are helping to inform both refinement of the strategies and enhancement of the international guidance.

Despite the considerable international and national efforts to improve financial literacy, much remains to be done. A 2016 survey of 30 countries found that "overall levels of financial literacy, indicated by combining scores on knowledge, attitudes and behaviour are relatively low…the average score across all participating countries is just 13.2 out of a possible 21, ... showing significant room for improvement."[9]

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[1] This note was prepared by Michael Hafeman on behalf of Toronto Centre.
[2] Organization for Economic Cooperation and Development (OECD) and International Network for Financial Education (INFE), *OECD/INFE High-level Principles on National Strategies for Financial Education*, August 2012.
[3] OECD/INFE, *OECD/INFE High-level Principles on National Strategies for Financial Education*, August 2012.
[4] For the sake of brevity, in this document "financial regulators and supervisors" are referred to as "supervisors".
[5] OECD, *G20 High-Level Principles on Financial Consumer Protection*, October 2011. See Principle 5: Financial Education and Awareness.
[6] Global Partnership for Financial Inclusion (GPFI), *G20 High-Level Principles for Digital Financial Inclusion*, 2016. See Principle 6: Strengthen Digital and Financial Literacy and Awareness.
[7] The Russia Trust Fund, which was operational between 2008 and 2013, provided significant funding for this work. See Key References and Additional Resources for selected documents.
[8] OECD/INFE, *National Strategies for Financial Education: OECD/INFE Policy Handbook*, 2015. "In 2015, based on the information received through the OECD/INFE surveys and Secretariat desk research, 59 countries report developing a national strategy, implementing one or revising it and developing a new one, with an additional five planning one. This represents a steady increase when compared with the situation in 2011, when 26 countries reported having developed or implemented a national strategy (more than 200% in three years)."
[9] OECD/INFE, *OECD/INFE International Survey of Adult Financial Literacy Competencies*, October 2016.

Supervisors are often involved in efforts to improve financial literacy.[10] In many countries, they are expected to lead these efforts – whether or not they have been formally mandated to do so.[11] But even if the efforts are led by another authority, supervisors should be actively involved as key stakeholders. Financial literacy complements both prudential and market conduct regulation and helps to facilitate financial inclusion – at least one of which will be relevant to the mandate of any supervisor!

Objectives

Supervisors should understand what financial literacy means, how it can affect the outcomes for consumers and the achievement of supervisory objectives, and what can be done to strengthen financial literacy and mitigate the effects of weaknesses.

The sections of this note cover the following aspects of financial literacy:

- What is Financial Literacy?
- How Does Financial Literacy Relate to Supervisory Objectives?
- What Can Supervisors Do?

This note will help you:

- Understand various dimensions of financial literacy, such as areas of content and types of competencies that might be needed;
- Identify barriers consumers might face in achieving financial literacy;
- Understand how financial literacy can affect the achievement of supervisory objectives;
- Identify steps supervisors might need to take to achieve their objectives, if the level of financial literacy is low; and
- Identify the roles supervisors can play in strengthening financial literacy.

This Toronto Centre Note is designed to help guide you toward making appropriate choices when considering possible regulations, supervisory actions, or other steps that might be taken in the context of your particular circumstances.

Section 1: What is Financial Literacy?

The Introduction set out the OECD's definition of financial literacy: "a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being". This comprehensive definition goes beyond a more traditional view of financial literacy, which focuses on awareness and knowledge of key financial concepts required for managing personal finances, including numeracy.

While awareness and knowledge are important, they will not contribute to financial well-being unless they are used in making financial decisions. Accordingly, some key stakeholders use the term "financial capability" to highlight the importance of implementation. The World Bank explains that: "Financial capability is the ability of consumers to use the acquired financial literacy to make better informed decisions about managing their finances. According to the World Bank definition, it is the internal capacity to act in one's best financial interest, given socioeconomic and environmental conditions. Financial capability encompasses the knowledge (literacy), attitudes, skills, and behaviors of

[10] World Bank, *Global Survey on Consumer Protection and Financial Literacy: Oversight Frameworks and Practices in 114 Economies*, 2014. See Chapter 8, which indicates that 71 percent of supervisors are involved.
[11] OECD/INFE, *National Strategies for Financial Education: OECD/INFE Policy Handbook*, 2015. See Chapter 3.

consumers regarding understanding, selecting, and using financial services and the ability to access financial services that fit their needs."[12] **This TC Note uses the term financial literacy as defined by the OECD synonymously with the World Bank definition of financial capability.**

Financial literacy is multifaceted, so it is useful to have a framework that sets out the desired competencies consumers should have in a structured manner. A competencies framework can be used as a basis for measuring the current state of financial literacy, informing development of national strategies on financial education, and segmenting consumers according to their levels of capability, so that interventions can be targeted to the needs of specific segments and demographic groups. For example, a financial education program might focus on women who are operating micro enterprises.

One such framework, which was developed by the OECD/INFE and endorsed by the G20[13], sets out four areas of content:

- **Money and transactions** covers core competencies relating to factors such as the different forms and purposes of money and its uses, income generation and management, comparison shopping, payments, and the importance of financial records and contracts.

- **Planning and managing finances** incorporates day to day financial planning competencies relating to creating and using a budget and managing income and expenditure, as well as longer term planning competencies such as saving, investing and making long-term plans. Specific core competencies related to retirement, credit use and debt management are also included.

- **Risk and reward** includes core competencies relating to identifying risk, creating financial safety nets and balancing risk and reward. It covers the risks inherent in certain financial products, and other kinds of risk that may impact on personal and household financial well-being such as damage caused by flooding or earthquakes or the loss of household income through ill-health, disability or death of a family member.

- **Financial landscape** relates to the characteristics and features of the financial world. It covers the overarching framework of regulation and consumer protection, as well as rights and responsibilities and the use of education, information and advice. Financial products and services are also flagged as a specific topic within this content area, highlighting the core competencies required to make appropriate choices. Other topics include awareness of – and protection from – scams and fraud, understanding of taxes and public spending and the impact of external factors on personal financial security or well-being.[14]

The framework describes core competencies under each topic within the various content areas. It starts with underpinning competencies, then describes other core competencies in order of likely priority. It categorizes the competencies under one of three types:

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[12] World Bank. *Financial Education Programs and Strategies: Approaches and Available Resources*, December 2013.

[13] OECD/INFE, *G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults*, August 2016. A similar framework has also been prepared with for youth: OECD/INFE, *OECD/INFE Core Competencies Framework on Financial Literacy for Youth*, November 2015.

[14] The World Bank has a framework with similar components: managing resources on a day-to-day basis; planning for the future; choosing among alternative financial products; and finding and assessing information, help, and advice. See World Bank, *Financial Capability in Low and Middle Income Countries: Measurement and Evaluation*, 2013.

- **Awareness, knowledge, and understanding**, which relates to information acquired;
- **Skills and behaviours**, which relates to actions to be taken; and
- **Confidence, motivation, and attitudes**, which relates to psychological mechanisms that might support or hinder positive behaviours.

For example, the framework describes the following underpinning competencies related to the topic of financial products and services, which is within the financial landscape area of content:

- **Awareness, knowledge, and understanding**
    - Aware of the different types of financial products and services available (including those delivered via digital means)
    - Knows which features are the most important to consider when choosing financial products and services

- **Skills and behaviours**
    - Actively seeks information on the important features of a financial product when making a choice
    - Chooses and uses appropriate financial products and services from among those available (which may include those delivered via digital means)

- **Confidence, motivation, and attitudes**
    - Confident to be able to make an informed decision about using a traditional or new type of financial product or service

Although the framework is intended to be universally relevant, this does not mean that each competency will be equally important to every consumer, or that a consumer needs to have a high level of capability in each competency to achieve financial well-being. The OECD/INFE states that: "It is anticipated that a combination of these core competencies, based on personal needs and the cultural and economic context, will enable an individual to maintain or improve financial well-being".[15] For example, research has shown that competencies in managing resources and planning for the future are more relevant to consumers in low-and middle-income countries than are competencies in choosing financial products or obtaining financial advice.[16]

Nor will each consumer find it equally easy to obtain and maintain relevant competencies. Access to financial services is needed to develop some competencies, such as confidence in choosing financial products, and some consumers might lack such access. Some consumers might also be hampered by circumstances such as poverty, geographic location, being only informally employed, and lack of access to education. Gender can be a significant barrier to developing financial literacy, as highlighted by the OECD/INFE: "Various factors may reduce women's opportunities to learn about financial matters and to acquire financial skills. Depending on national/local circumstances, these may encompass the review and appraisal of:

- legal and/or social norms potentially limiting women's economic opportunities;
- gender differences in the access to education, employment and formal financial markets;
- gender differences in the participation in employment and entrepreneurship, as this may reduce women's opportunities to gain experience with managing money and to "learn by doing";

[15] OECD/INFE, *G20/OECD INFE Core Competencies Framework on Financial Literacy for Adults*, August 2016.
[16] World Bank, *Financial Capability in Low and Middle Income Countries: Measurement and Evaluation*, 2013.

- cultural, social and economic factors, that may directly constrain women's ability to attend courses/seminars, apply their knowledge and act independently."[17]

Measuring the current state of financial literacy is a key step toward building financial literacy. Financial literacy can be measured by using surveys to assess people's financial knowledge, skills, attitudes, and behaviors. Based on these measurements, meaningful indicators can be developed to inform policy objectives. Policymakers are increasingly using surveys as diagnostic tools to inform the design of national strategies to improve people's financial literacy, inclusion, and consumer protection. They can be used to identify areas that need improvement; assess knowledge and actions linked to policies and regulations; and to target potential demographic groups.[18] Tools are available to assist in measuring financial literacy,[19] and the results of many financial literacy surveys have been published.[20]

Section 2: How Does Financial Literacy Relate to Supervisory Objectives?

Financial literacy is relevant to supervisors – regardless of the nature of their mandate. Having financially literate consumers can support the achievement of key policy objectives in areas such as market conduct, financial inclusion, and prudential supervision. Conversely, if consumer financial literacy is weak, then supervisors might have to take additional measures to achieve policy objectives. This section looks at the most common objectives of regulation and supervision and the role that financial literacy might play in helping to achieve each objective.

Sustain systemic stability. Macroprudential supervision seeks to reduce systemic risk and cope effectively with crises that do occur. Financially literate consumers are better able to understand the risks they face. For example, they might plan their finances to avoid excessive use of credit, which could lead to widespread defaults if an economic downturn occurs or interest rates rise. Risk mitigation measures such as regulatory limits on consumer borrowing, disclosure requirements, and tightened loan underwriting might be more important if financial literacy is weak.

Promote public confidence in the financial system. Financially literate consumers have a better understanding of the financial landscape, including the nature of the financial institutions they might deal with, the products and services available to them, and their rights and obligations. They should be aware of relevant aspects of the regulatory and supervisory framework and how to access consumer protection mechanisms. This understanding helps them to participate more confidently in the financial system. Conversely, consumers who lack such understanding might require more reassurance by supervisors and others to overcome fears and suspicions about the financial system.

Maintain the safety and soundness of financial institutions. Financially literate consumers should be better able to contribute to market discipline, which is recognized in international standards as a pillar of

[17] OECD/INFE, *OECD/INFE Policy Guidance on Addressing Women's and Girls' Needs for Financial Awareness and Education*, September 2013.
[18] World Bank, *Why Financial Capability is Important and How Surveys Can Help*, August 2013.
[19] Examples include: OECD/INFE, *2015 OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion*, March 2015; and World Bank, *Measuring Financial Capability: Questionnaires and Implementation Guidance for Low and Middle-income Countries*, June 2013.
[20] Examples include: OECD/INFE, *OECD/INFE International Survey of Adult Financial Literacy Competencies*, October 2016; OECD/INFE, *G20/OECD INFE Report on Adult Financial Literacy in G20 Countries*, July 2017; World Bank, *Making Sense of Financial Capability Surveys around the World: A Review of Existing Financial Capability and Literacy Measurement Instruments*, February 2013; and World Bank, *Measuring Financial Capability: A New Instrument and Results from Low and Middle-income Countries*, June 2013.

prudential supervision. They would appreciate the importance of dealing with sound financial institutions and should be more likely to avoid doing business with those whose failure would harm them, rather than simply using the lowest-cost providers. They might be better able to understand the information disclosed by financial institutions (or others, such as supervisors) regarding their financial strength, risks, and risk management, and factor this into their decisions. If financial literacy and market discipline are weak, more onerous prudential regulation and supervision might be needed. For example, capital requirements might be increased to help reduce the risk of failure.

Ensure that markets are fair, efficient, and transparent. Financially literate consumers should be aware of the need to understand the costs and risks of financial products and services, in order to make appropriate choices. They should have the skills to help make such assessments and the confidence and motivation to do so. Conversely, if financial literacy is weak, regulatory restrictions on products, pricing, and distribution, together with stronger disclosure requirements, might be needed to help create fair market conditions.

Increase access to financial services and develop the market. Financially literate consumers are more aware of the risks to their financial well-being and better understand how financial products and services can help them manage such risks. They should be more receptive to using financial services, including those provided in innovative ways, such as through digital distribution. If financial literacy is weak, innovations to increase access and develop the market might need to be subject to more regulatory restrictions and supervisory oversight to protect consumers.

Protect the consumer. Financial literacy can help to protect consumers. It enables them to make better choices and helps them to avoid pyramid schemes and other frauds that might be perpetrated on them. It also enhances the effectiveness of financial consumer protection measures. For example, they understand their rights and how to obtain redress if problems occur. If financial literacy is weak, consumer protection mechanisms might have to be strengthened to compensate and achieve an appropriate level of protection. For example, disclosure requirements might have to be strengthened, and the required disclosures simplified. Sales practices and permitted delivery channels might be restricted, which could constrain innovation. Customer service, such as claims handling, might have to be regulated. Dispute resolution mechanisms might have to be simplified, and guarantee schemes might need to be expanded.

In summary, consumer financial literacy supports the achievement of all objectives of regulation and supervision.

While steps can be taken to help mitigate the effects of weak financial literacy, these steps come with costs. Costs might be direct, for example, the costs of complying with regulations. Indirect costs can arise through the creation of barriers to the optimal performance of the financial system. For example, restrictions on products or distribution approaches might discourage innovation, impeding access to financial services and restraining growth and development of the market. As a result, the financial system might not contribute as much as it should to the financial well-being of consumers or the growth of the economy. Therefore, it is in the interest of both supervisors and society that consumers be financially literate.

Last, but not least, supervisors themselves should be financially literate to do their jobs effectively. If financial literacy of consumers is considered desirable, financial literacy of supervisors should be considered essential. Supervisors must be financially literate to understand the economic basis of financial products and services, develop appropriate regulations, and assess the financial strength and performance of providers. Furthermore, their own financial literacy will help them to identify the information consumers need to make decisions, to set realistic goals for the improving the financial literacy of consumers, to communicate effectively with stakeholders about financial literacy issues, and to develop and deliver relevant programs to enhance the financial literacy of consumers.

The next section of this TC Note considers what supervisors can do to deal with low levels of financial literacy.

Section 3: What Can Supervisors Do?

Supervisors often play a key role – sometimes taking the lead in their jurisdiction – in strengthening the financial literacy of consumers. They might be involved in activities such as developing a national strategy, overseeing its implementation, performing surveys, conducting training, preparing training materials for use by others, and issuing guidelines to industry on its involvement in financial literacy. A World Bank report shows the diversity of oversight frameworks and practices that exist.[21]

Supervisors might be responsible for, or provide input to, the preparation of a national strategy for financial literacy or financial education. As noted in the Introduction, a growing number of countries are developing such strategies. An OECD/INFE Policy Handbook[22] provides an overview of national strategies and discusses key practical and policy issues that need to be dealt with:

- **Developing a diagnosis to inform the national strategy**, which includes measuring the level of financial literacy and mapping existing financial education resources;

- **Establishing institutional and governing arrangements**, which includes creating clear and explicit mandates for public institutions, governance structures for implementing the strategy, and encouraging the appropriate involvement of the private sector;

- **Setting and achieving objectives, evaluating, and funding the national strategy**, which includes establishing roadmaps and action plans for implementation, assessing and monitoring the results using qualitative and quantitative data, and budgeting for the costs of implementation and securing funding through an appropriate mix of public and private sources; and

- **Ensuring effective and innovative provision of financial education**, which involves using techniques such as: facilitating multichannel access to information and advice; accounting for timing and location of the education and harnessing existing learning environments and networks; and supporting individual engagement, motivation, and decision-making.

Supervisors should become familiar with initiatives taken by others to build financial literacy, particularly in the financial sectors for which they are responsible and with the demographic groups they are targeting. Financial education programs have traditionally used classroom and workshop formats. However, alternative interventions are increasingly being used to build financial literacy. Examples include edutainment[23], social media marketing, personal counselling, and behavioural treatments such as auto-enrolment in pension plans. Case studies of programs used in various countries,

[21] World Bank, *Global Survey on Consumer Protection and Financial Literacy: Oversight Frameworks and Practices in 114 Economies*, 2014.
[22] OECD/INFE, *National Strategies for Financial Education: OECD/INFE Policy Handbook*, 2015.
[23] Edutainment is entertainment with an educational aspect.

and the results they have achieved, have been published.[24] Guidance is available on designing programs that can be particularly effective in meeting the financial literacy needs of women and girls.[25]

Supervisors should take advantage of opportunities for international collaboration, which will enable them to share knowledge and develop effective approaches to strengthening financial literacy. They might do so through existing international and regional organizations of supervisors. INFE includes supervisors among its members and organizes conferences and provides other opportunities for interaction, such as working groups.

Supervisors should consider the level of financial literacy in establishing regulatory and supervisory policies, and use financial education as part of their toolkit for enhancing consumer protection. Section 2 of this TC Note provided some examples on steps that might be taken to mitigate low levels of financial literacy. Both the OECD[26] and the World Bank[27] have published sector-specific recommendations on good practices for financial consumer protection, which include guidance on financial education. The trend toward digital financial services is creating both new opportunities and risks, with implications related to financial literacy. Digital financial services can improve financial inclusion, but at the same time might expose consumers with low financial literacy to risks – some of which are different from or might be higher than those found in traditional financial services. On the other hand, digital tools offer the opportunity to help build financial literacy.[28]

Supervisors should engage with other stakeholders, such as the private sector and not-for-profit organizations, in addressing financial literacy issues. Financial institutions should benefit from having a financially-literate base of consumers to deal with, and financial literacy can help some not-for-profit organizations meet their objectives. In some countries, a significant share of the funding for financial education comes from non-governmental sources. However, supervisors might need to establish guidelines for the involvement of non-governmental organizations, to protect against the risk that their financial education initiatives provide unbiased information rather than simply serving as marketing tools.[29]

Supervisors who provide financial literacy training, or develop training materials to be used by others, should be aware of existing resources and tools that might be adapted to meet their needs. The OECD/INFE maintains a database of such resources[30], as do some national authorities. Also, the World Bank has prepared a mapping of organizations involved in financial literacy and the nature of their activities, some of which will be relevant to supervisors.[31]

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[24] World Bank, *Enhancing Financial Capability and Behavior in Low- and Middle-Income Countries*, 2014.

[25] OECD/INFE, *OECD/INFE Policy Guidance on Addressing Women's and Girls' Needs for Financial Awareness and Education*, September 2013. See also OECD, *Women and Financial Education: Evidence, Policy Responses and Guidance*, October 2013.

[26] OECD, *Recommendation on Principles and Good Practices for Financial Education and Awareness*, July 2005; OECD, *Recommendation on Good Practices for Enhanced Risk Awareness and Education on Insurance Issues*, March 2008; OECD, *Recommendation on Good Practices for Financial Education Relating to Private Pensions*, March 2008; and OECD, *Financial Literacy and Consumer Protection: Overlooked Aspects of the Crisis: OECD Recommendation on Good Practices on Financial Education and Awareness Relating to Credit*, June 2009.

[27] World Bank, *Good Practices for Financial Consumer Protection*, June 2012.

[28] OECD/INFE, *G20/OECD INFE Report on Ensuring Financial Education and Consumer Protection for All in the Digital Age*, April 2017. See also, TC Note *Advancing Women's Digital Financial Inclusion*.

[29] OECD/INFE, *OECD/INFE Guidelines for Private and Not-For-Profit Stakeholders in Financial Education*, November 2014.

[30] The International Gateway for Financial Education, http://www.financial-education.org/home.html.

[31] World Bank, *Global Mapping of Financial Consumer Protection and Financial Literacy Initiatives*, September 2015. Activities were mapped into nine categories: standard setting; member networks/task forces; policy-related

Supervisors should ensure that the effectiveness of activities undertaken to build financial literacy is evaluated. This is particularly important for large, costly financial education programs. Some such programs might not contribute significantly to participants' awareness or knowledge, while other programs might enhance their knowledge without motivating them to act on it. Principles[32] and tools[33] have been developed to help guide the evaluation of financial literacy programs.

Supervisors should ensure that they have sufficient financial literacy competencies to perform their own responsibilities in an effective manner. The first step might be to determine what core competencies are needed. The core competencies for consumer financial literacy developed by OECD/INFE provide a useful starting point. However, supervisors should have additional financial literacy competencies, at least in areas such as financial products and markets. A tool might be developed to measure the level of competencies, with training undertaken to address areas of weakness.

Conclusions

Financial literacy is "a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being".

Not only is financial literacy important to individuals and their families, but low levels of financial literacy can have wider implications. The consequences of the financial crisis have demonstrated the potential implied costs and negative spill-over effects of low levels of financial literacy for society at large, financial markets and households. Accordingly, it is relevant to financial regulators and supervisors, whether their mandate focuses on prudential or market conduct objectives.

An increasing number of countries are building financial literacy through the development and implementation of national strategies for financial education, but much remains to be done. Supervisors are often involved in efforts to improve financial literacy.

Financial literacy is multifaceted, so having a competencies framework is useful as a basis for measuring financial literacy, informing development of national strategies on financial education, segmenting consumers according to their levels of capability, and targeting interventions to the needs of specific segments and demographic groups. The OECD/INFE framework sets out four areas of content: money and transactions; planning and managing finances; risk and reward; and financial landscape. It describes core competencies under each topic within the various content areas, categorizing them under one of three types: awareness, knowledge, and understanding; skills and behaviours; and confidence, motivation, and attitudes.

This does not mean that each competency will be equally important to every consumer, or that a consumer needs to have a high level of capability in each competency to achieve financial well-being. Nor will each consumer find it equally easy to obtain and maintain relevant competencies; for example, gender can be a significant barrier to developing financial literacy.

Measuring financial literacy is a key step toward building financial literacy.

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work; technical assistance/capacity building; reports/publications/ research; surveys/global database; advocacy; funding; and educational tools.

[32] OECD/INFE, *INFE High-Level Principles for the Evaluation of Financial Education Programmes*, January 2012.

[33] World Bank, *A Toolkit for the Evaluation of Financial Capability Programs in Low- and Middle-Income Countries*, June 2013.

Financial literacy is relevant to supervisors – regardless of the nature of their mandate. Having financially literate consumers can support the achievement of key policy objectives in areas such as market conduct, financial inclusion, and prudential supervision. Supervisors should understand what financial literacy means, how it can affect the outcomes for consumers and the achievement of supervisory objectives, and what can be done to strengthen financial literacy and mitigate the effects of weaknesses.

Steps taken to mitigate the effects of weak financial literacy come with costs. Costs might be direct or indirect, such as the creation of barriers to the optimal performance of the financial system. Therefore, it is in the interest of both supervisors and society that consumers be financially literate.

Supervisors often play a key role – sometimes taking the lead in their jurisdiction – in strengthening the financial literacy of consumers. Supervisors might be responsible for, or provide input to, the preparation of a national strategy for financial literacy or financial education. To fulfill their roles most effectively, supervisors can take steps such as:

- become familiar with initiatives taken by others to build financial literacy, particularly in the financial sectors for which they are responsible and with the demographic groups they are targeting;
- take advantage of opportunities for international collaboration, which will enable them to share knowledge and develop effective approaches to strengthening financial literacy;
- consider the level of financial literacy in establishing regulatory and supervisory policies, and use financial education as part of their toolkit for enhancing consumer protection;
- engage with other stakeholders, such as the private sector and not-for-profit organizations, in addressing financial literacy issues;
- provide financial literacy training, or develop training materials to be used by others, should be aware of existing resources and tools that might be adapted to meet their needs; and
- ensure that the effectiveness of activities undertaken to build financial literacy is evaluated.

Last, but not least, supervisors should ensure that they have sufficient financial literacy competencies to perform their own responsibilities in an effective manner. They must be financially literate to understand the economic basis of financial products and services, develop appropriate regulations, and assess the financial strength and performance of providers. Furthermore, their own financial literacy will help them to identify the information consumers need to make decisions, to set realistic goals for the improving the financial literacy of consumers, to communicate effectively with stakeholders about financial literacy issues, and to develop and deliver relevant programs to enhance the financial literacy of consumers.

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Additional Readings

Most of the Key References include references to other sources of information. A few of them have been listed below.

Global Financial Literacy Excellence Center (GFLEC) http://gflec.org/
Founded in 2011 at the George Washington University School of Business, the Global Financial Literacy Excellence Center (GFLEC), formerly known as the Global Center for Financial Literacy (GCFL), has positioned itself to be the world's leading center for financial literacy research and policy. Through rigorous scholarship and research, wide-reaching education, and global policy and services, the Center works with partners in Washington, DC, throughout the United States, and across the globe to raise the level of financial knowledge.

International Network on Financial Education (INFE) http://www.financial-education.org/join_INFE.html

Created in 2008, the OECD International Network on Financial Education (INFE) promotes and facilitates international co-operation between policymakers and other stakeholders on financial education issues worldwide.

It 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 now belong to the network. INFE has several categories of members: full and regular members are public institutions (including supervisors); affiliate members are non-governmental, not-for-profit organizations with an interest in financial literacy; associate members are international governmental organizations; and supporters are private sector organizations.

The International Gateway for Financial Education http://www.financial-education.org/home.html
The Gateway serves as a global clearinghouse, providing access to a comprehensive range of information, data, resources, research and news on financial education issues and programmes around the globe. (Note: the most recent posting was in 2015.)

World Bank – Responsible Finance http://responsiblefinance.worldbank.org/
This website features the World Bank's ongoing research and technical assistance related to responsible finance. It offers data and information from three flagship products:

- Country diagnostic reviews assess the legal/regulatory policy and institutional framework for financial consumer protection against international good practices
- Household surveys measure how financially capable people are and provide demand-side information for strengthening existing financial consumer protection frameworks
- Technical assistance helps in strengthening legal and institutional frameworks for Financial Consumer Protection and raising Financial Capability levels

The information presented on this website presents both supply and demand side data.