Ministero dell'Economia e delle Finanze

5th Global Policy Research Symposium to Advance Financial Literacy

OECD International Network on Financial Education (OECD/INFE)

Prof. Pier Carlo Padoan

Ministro dell'Economia e delle Finanze

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Dear Angel, Ambassadors, distinguished guests,

First of all let me thank you for inviting me to share views and experiences, but above all I wish to thank you all for the great job you have being doing to increase the awareness about the relevance of financial literacy and in connection with other issues of the international agenda: inclusive growth, financial resilience, social capital.

Such an approach has a strong potential, as a growing amount of evidence is showing how the behavior of economic agents is the outcome of the interaction of several variables.

In capacity as a Minister, I had the chance to directly collect some evidence. I'd like to share with you a bit of such experience.

Over the last few years Italy has gone through the deepest economic crisis in its recent history.

The source of instability has been the financial stress originated in the United States from the sub-prime mortgages crisis. That crisis and the subsequent global recession triggered a vicious circle in the Italian economy. The recession brought stricter credit conditions which resulted in short-term capital shortage for small- to medium-sized businesses; as a consequence, an increasing number of businesses were unable to repay their debts; lenders saw their non-performing loans sky-rocketing, hence they reduced their exposure especially toward the manufacturing sector. At the lowest point of the recession, the industrial production in Italy fell by 25 percent. Many lenders had to start crash programs to write-off non-performing loans and raise capital to cover losses. Some banks failed to recover viable conditions and were forced to interrup their activity.

Shareholders and other creditors shared the burden of the losses. Some local communities have been seriously affected because of the financial loss so many people had to suffer in the same area.

The measures taken by the Government contributed to limiting the damages as continuity was provided to the financial services offered in local communities.

Several lessons were learned from those specific crises. Some of such lessons are related to the broader issue of the financial governance within the European Union and the Banking Union, but that topic would lead us too far away from the object of our meeting today.

For today, it's enough to say that these events highlighted two institutional failures: the first, in the process of checking if savers and investors were fit to buy specific financial products; the second, in the financial knowledge available to savers and investors, especially retail. It is also fair to say, however, that the major changes introduced by the Banking Union, such as the BRRD, did change the risk associated with assets held by savers, notably retail, in ways that they were not able to appreciate.

Eventually, lawmakers, in agreement with the Government, introduced measures to deal with the lack of financial literacy among Italian population. A committee was established with the aim of quick starting a national strategy to increase the level of education in the areas of finance, insurance, and pension provision.

The Committee for planning and coordination of financial education activities includes officials from 4 ministries and 4 independent authorities, and representatives of both financial advisors and consumers' organizations. I had the task of choosing the Director of the Committee and I'm happy to say that it was an easy task because I discovered that one of the most highly respected experts in the field is a scholar from Italy, so I had the pleasure to appoint Professor Annamaria Lusardi as Chair of the committee. I am sure you all have already appreciated her contributions to the subject.

A strategic committee should take quite a long time to elaborate a vision and consider its mission before actually starting to achieve concrete results. Nevertheless, I was an am aware that the lag in the diffusion of financial literacy among the Italian population required both a long-term approach and a sense of urgency. Therefore, the Government actively encouraged the Committee in elaborating a first version of a national program for financial education, approved by the Parliament early this year.

The cooperation between the Committee and the ministries in charge for the implementation of the program was the more valuable as much valuable because the Committee itself had promptly developed its own vision and could provide input for the program.

Moreover, the Committee took this sense of urgency very seriously and demonstrated to be able of editing and implementing a national web site in a few months, reporting useful information to disseminate basic knowledge and promote appropriate attitudes if not yet behavior. The web site has been online for a few weeks now and started a public consultation about the long-term strategy in order to crowdsource all potential contributions.

The Government supported the kick-off of such a long-term project with an initial annual budget of 1 million euro and human resources belonging to a number of public agencies. It's just a chip for a huge bet but I'm sure that results flourishing from the Committee's work will create support for the initiative and additional resources will come, both financial and human.

There's a long way to go to recover Italy's gap in financial education and the Committee is not intended as a measure to react to the crises but rather as a structural response to a fast changing world, which develops new opportunities and challenges every day.

Of course there are critical voices and I want to share an aspect of the criticism that you may find bizarre. Someone in Italy has argued that the Government' financial education initiative was intended to charge on consumers the burden of self-protection, in so dismissing responsibilities for surveillance and supervision. This, of course, is not true. The challenge is to set up a mutually supporting interaction between a safe consumer behaviour based on strong literacy, and appropriate institutional support by the surveillance authorities.

As I said, there's a long way to go to recover the Italian gap in matter of financial education and I wish to thank once again the OECD and GFLEC [the Global Financial Literacy Excellence Center] for their joint contribution to the development of both the toolkits and the competences, now available for those who want to improve the level of financial education in their countries.

Now, let me to point out some wider implications of a better understanding of managing personal and family finances.

Financial instability affects the weakest more heavily. In the financial sector, poorly managed lenders and other intermediaries will try to fix their problems by passing the risk over to somebody else. When the counterparts are skilled, passing the risk will have appropriate cost and if such costs are no longer affordable, the specific critical situation will come to an end. But if the counterparts are not well educated, they will take risks inadvertently, and most likely without appropriately pricing the risks. In other words, the crisis may expose vulnerable consumers to unsuitable and not fully transparent offers, unfair sales practices and the purchase of credit products clearly inappropriate for them.

If an adverse event takes place, this will result in a shock. The consequence will not be the same of a loss suffered by an investment firm. It will be much deeper as it will affect confidence, and therefore consumption, saving and investment.

Needless to say that such a scenario calls for better surveillance on the supply side. But it also calls for a focus on financial education and consumer protection, and reinforces the importance of financial literacy as a necessary complement to a sound framework for financial market regulation and financial supervision.

Safer and better educated microeconomic behavior leads to better macroeconomic performance. Let me briefly mention some implications of financial inclusion from a macroeconomic point of you.

- First, financial inclusion increases economic growth. We now have evidence that greater access of firms and households to financial services, as well as increasing women users of these services, lead to higher growth.

- At the same time, growing financial inclusion implies a broadening of the basis for risk taking: In other words, financial stability risks increase when access to credit is expanded without proper supervision. Financial inclusion must be associated with improvements in supervision and in the capabilities to assess, understand and properly price the risk itself. This is particularly relevant in ageing societies as it can take some of the pressure off pension systems.

- And finally, increasing access to basic financial services does not impact financial stability adversely. Moreover, closing gender gaps in account usage and promoting diversity in the depositor base would help improve growth without impairing financial stability.

Financial inclusion shouldn't be simply measured by the number of customers purchasing specific financial products. We should address the issue of wealth inequality and its relationship to the distribution of financial literacy and associate it to the appropriateness of financial services adoption.

Better-educated citizens perform better financial planning, are more accurate when making decision about their own resources, and appropriately manage risks allocated in the future. This brings wellbeing and sounder financial wealth. There is evidence that 30–40 percent of retirement wealth inequality in the US is accounted for by financial knowledge. Financial education is therefore one of the strategy to fight inequality.

My last point is about trust. Outcomes in most recent polls in many Western democracies bring a message of distrust. Everywhere individuals are losing confidence in their leaders and in the institutional establishment as a whole. While financial capital is widely available, a different form of capital is getting short at a dramatically fast pace. I'm talking about social capital, that I would charaterise as mutual trust allowing for reciprocity and cooperation among individuals so as to produce public goods for a common good. I've being witnessing social capital, in my own country, decrease also because financial literacy is largely inadequate and has amplified the consequence of financial crisis. Lack of education may amplify the fall in trust, making scapegoat solutions more attractive and institutional, knowledge building strategies more difficult to implement. A vicious circle can start again making institution building more difficult. As mutual trust falls, inclusion is more difficult to implement thus leading to a further fall in human capital.

More than 10 years have passed since the break out of the financial crisis and we can safely say that the crisis is behind us. As policy makers, we have the duty to learn from that experience in order to possibly avoid repeating great mistakes. One lesson we have drawn is that we need to restore growth in such a way that growth is effectively inclusive. A second lesson is that education is a key ingredient to foster inclusion and, of course, financial education is an essential component of such a process.

Recognising such learning process prompts me to say that it is not by chance that we are meeting today at the OECD to discuss the issue and share experience. The OECD motto says "Better Policies for Better Lives". I had the privilege of being part of the OECD when this motto was introduced. Time has demonstrated that this institution has been and is in many ways today delivering on this commitment.