Financial Education and Literacy: The Role of Financial Institutions

Tom Clark
VP, Government Relations
GE Money Asia

OECD-Bank Indonesia
International Conference on Financial Education
Bali, Indonesia
October 21-22, 2008
Overview: Role of Financial Institutions

- Must be **Committed** to conducting business activities in accordance with the highest ethical standards, encompassing not only strict legal and regulatory compliance, but fair business practices and sensitivity to consumers’ situations.

- Should **Embrace** a Responsible Lending Standard as guiding principles for all its activities, and audit adherence to these principles. Should be honored even in markets where adequate legal requirements may not yet be developed.

- Should actively **Promote** and work with responsible self-regulatory organizations (**SRO’s**) to raise industry-wide compliance, promote consumer financial literacy, and contribute to a sound and healthy consumer financial services sector.

- **Support** and **cooperate** with regulators and government to share global best practices, and achieve the common goals economic growth, liquidity and consumer protection.
Touchstones of Responsible Lending

• **EMPOWER** customers to make **INFORMED DECISIONS**, so they can decide whether or not our offer is **of value** to them and **affordable** for them.

• Products and processes are **TRANSPARENT** and **SUITABLE**.

• Treat customers **FAIRLY** and with **RESPECT**.

• Be **RESPONSIVE** to changes in customer circumstances causing financial difficulties.

• Practice **Corporate Citizenship**, improving consumer education, and strengthening the financial system.
Financial Education – Challenges and our Response: Disclosure and Suitability

• KEY CHALLENGES

  • Insufficient Experience with Financial Products and Affordability Analysis
  • Difficulty Reading and Interpreting Loan Documentation
  • Lack of Understanding of Credit Information Management

• RESPONSES

  • Clear Summary of Terms. Summary boxes disclosing key product features are provided to customers prior to the decision to purchase.
  • Fees. The customer is clearly informed about fees and their purpose in general and is warned either before or as soon as possible after the fee has been incurred.
  • Underwriting and Suitability Review. GE Money maintains clear policies to insure that it carries out careful review of the indebtedness and ability to repay of each customer prior to making loan. Regional Initiative to Promote Full-File Credit Bureaus.
  • Building Good Credit. Show how positive loan repayment history builds credit standing, enhances empowerment. Work to promote modern credit bureau systems.
Financial Education – Challenges and our Response: Systemic Education Challenges

• KEY CHALLENGES

  • Historical Lack of Access to Formal Credit Sector
  • Limited General Educational Background
  • Understanding Strategic Use of Credit For Socio-Economic Improvement

• RESPONSES

  • Targeted Programs. Literacy and Education Programs Targeted and Specific Challenges in Each Market.
  • Addressing Root Causes. Look at broader, systemic issues underlying low levels of awareness, such as lack of Financial Empowerment for Women.
  • Effective Partnering. GE Money seeks out effective NGO’s to partner with to drive financial literacy efforts.
  • Advocacy for Inclusive Financial Service Markets. Work with regulators, policy makers to avoid well-intentioned measures that may exclude more consumers from access to credit, or drive them to informal credit providers.
Global Needs
  e.g.: Financial Empowerment for Women

Targeted Program for each market

Issues & Needs in each country
  e.g.: NEET in Japan, OFW in the Philippines
# GE Money Asia Financial Education: Some of Our Programs

<table>
<thead>
<tr>
<th>The Philippines</th>
<th>Indonesia</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name</strong></td>
<td>WE (Women Entrepreneurship)</td>
<td>Bijak Dana Perempuan (Women Fund Wise)</td>
</tr>
<tr>
<td><strong>Mission</strong></td>
<td>Help young Filipino women transform from job seekers to job creators and to become enterprising leaders</td>
<td>Provide underprivileged women with opportunities to get and keep control of their financial well-being throughout their lifetimes</td>
</tr>
<tr>
<td><strong>Partner</strong></td>
<td>Let’s Go Foundation</td>
<td>Association for Community Empowerment (ACE)</td>
</tr>
<tr>
<td><strong>Start Date</strong></td>
<td>December 2006</td>
<td>August 1, 2007</td>
</tr>
<tr>
<td><strong>Target</strong></td>
<td>Female college and high school students</td>
<td>Women in a village in South Jakarta</td>
</tr>
<tr>
<td><strong>Contents</strong></td>
<td>Research, development of teaching materials, TTT for teachers, create website for sharing info and materials</td>
<td>Research, establishing cooperatives, consultation, developing teaching materials, classes</td>
</tr>
</tbody>
</table>

**Photo**

[Image of women entrepreneurs]

[Image of the launch of Bijak Dana Perempuan]

[Image of GE Money Asia staff]

*Slide 7*
Financial Literacy Initiative
Financial literacy program for the women and youth of urban slums in Delhi aims to create awareness about the need for proper financial planning

- Partnership with HOPE Foundation, a well respected NGO and an affiliate of HOPE worldwide
- Since its launch in March 2008, the program has already served over **780 women and youth** (as at September 2008)
GE Money Asia Financial Education: Japan Example

“MoneyConnection”
Financial Education for high school students to prevent them from becoming ‘NEET’ (Not in Education, Employment or Training).

- Financial Education addressing one of Japan’s most serious issues
- Strong non-profit partner and advisory board
- Today this program has reached over 10,000 students since March 2007.
Targeted Programs: Steady Progress

- Innovative and sustainable community partnership programs across the region:
  - Indonesia
  - Philippines
  - Thailand
  - Japan
  - India

- Since December 2006, the described programs have reached over 12,000 women and students across Asia.
Importance of SRO’S

• Ensure Financial Education Initiatives are Embedded and Sustainable

• Fill Gaps in Regulation to Enhance Practical, Market-Based Protections

• Ensure initiatives are not just company “marketing”, but a win-win for consumers, industry and regulators

• Forums for continuing dialogue on financial service policy issues between industry, regulators, and consumer groups
GE’s Commitment to SRO Initiatives in Asia

Some SRO’s Supported

AKKI (Indonesia)

Consumer Finance Association (Thailand)

Financial Services Association (Japan)

Sharing Global Perspectives With Regulators

• Member of FSA and METI “Shingikai” Study Groups on Consumer Finance in Japan

• Sponsored Seminars on Consumer Finance with State Bank of Vietnam

• Charter Member of APEC Credit Bureau Coalition to Promote Best Practice Risk Management Systems

• Presentations on Credit Bureau Systems for Monetary Authority of Singapore
### Financial Education Linked to Sustainable Lending

<table>
<thead>
<tr>
<th>Borrower characteristic</th>
<th>Lending Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>LE = 0 to “x” and/or D/I ratio &lt;= α%</td>
<td>Receive Personal Financial Management Handbook</td>
</tr>
<tr>
<td>e.g.: LE = 0 to 2 and/or D/I ratio &lt;=20%</td>
<td></td>
</tr>
<tr>
<td>LE = (“x”+1) to “y” and/or D/I ratio &gt; α% &amp; &lt; β%</td>
<td>• Personal Financial Mgmt Handbook</td>
</tr>
<tr>
<td>e.g. LE = 3 to 4 and/or D/I ratio &gt; 20% but &lt; 30%</td>
<td>• 1-2 hours of Financial Planning lecture (live or video based)</td>
</tr>
<tr>
<td>LE &gt;= (“y”+1) and/or D/I ratio &gt;= β%</td>
<td>• Personal Financial Mgmt Handbook</td>
</tr>
<tr>
<td>e.g. LE &gt;= 5 and/or D/I ratio &gt;=30%</td>
<td>• 3-4 hours of Financial Planning lecture (live or video based)</td>
</tr>
</tbody>
</table>

*In this category, lender should also perform income verification.*

### Association
- Financial Services Association becomes primary industry supported voice for financial education, financial management/counseling, and debt arrangement
- Any registered moneylender may become sponsoring member
- Encourage standards to be widely adopted by industry; report illegal and fraudulent practices and assist consumers and regulatory authorities
Recommendations for Further Action

- Encourage private-public partnerships and industry-NGO collaboration on effective financial literacy programs.

- Respond effectively to marketplace needs with targeted programs.

- Promote SRO’s to develop industry guidelines around consumer protection, disclosure practices and responsible lending and risk management.

- Enhance inclusiveness of financial service markets to provide safe, reliable, regulated credit options to consumers. Avoid measures that overly restrict credit supply and displace consumers to informal credit sector.

- Promote modern, full-file credit information systems. Reward borrowers for sound credit management.