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Financial Education in Asia: Assessment and Recommendations

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Abstract

This paper assesses the case for promoting financial education in Asia. It argues that the benefits of investing in financial education can be substantial. Data are limited, but indicate low financial literacy scores for selected Asian countries. As economies develop, access to financial products and services will increase, but households and small and medium-sized enterprises need to be able to use the products and services wisely and effectively. More effective management of savings and investment can contribute to overall economic growth. Moreover, as societies age and fiscal resources become stretched, households will become increasingly responsible for their own retirement planning. Asia's evolving experience suggests that more national surveys of financial literacy are needed and that coherent, tailored national strategies for financial education are essential for success.

JEL Classification: D14, D18, G21, G28, I25, L26

Contents

1. INTRODUCTION

Providing adequate financial education is one of the key emerging policy challenges facing the financial sector and economic development internationally. As Ben Bernanke, the then Chairman of the US Federal Reserve, observed during the onset of the global financial crisis:

"The financial preparedness of our nation's youth is essential to their well-being and of vital importance to our economic future. In the light of the problems that have arisen in the subprime mortgage market, we are reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate and increasingly complex financial marketplace." (Bernanke 2008: 1)

Yet financial education provision remains under the academic and policy radar in Asia. There is a dearth of economic research on the topic and little discussion in policy circles. This paper provides an overview of the current state of financial literacy and financial education in Asia, with the objective of identifying policy gaps and recommendations. It considers arguments for providing financial education, reviews available information on the status of financial literacy in the region, and evaluates policies and programs on financial education. On the whole, we find that financial literacy in Asia is still low, but policies to support financial education vary widely across the region, and have many gaps. The costs of these gaps are likely to increase over time as financial development proceeds and societies age, putting a greater burden on individual investment decisions for lifetime financial planning. We argue that a greater and more broad-based investment in financial education in the region could pay substantial dividends. Section 2 describes the background, benefits, and costs of investing in financial education in Asia. Section 3 describes the current status of financial literacy in Asia. Section 4 assesses current policies and gaps in financial education in Asia, while section 5 concludes with lessons learned from Asia's experience and policy recommendations.

2. BENEFITS AND COSTS OF INVESTING IN FINANCIAL EDUCATION IN ASIA

As background to the discussion of financial education in Asia, it is useful to briefly examine the relationship between per capita income and financial development in Asia. Table 1 and Figure 1 present the latest available information on gross domestic product (GDP) per capita (in current US dollars and purchasing power parity [PPP] dollars) and four indicators of financial development (private credit provided by financial institutions, stock market capitalization, outstanding domestic private debt and outstanding domestic public debt) for a number of countries in Asia and the Pacific. The data are indicative of a positive relationship between per capita income and financial development across Asian countries. Thus, for instance, Australia, Japan, New Zealand, Singapore, the Republic of Korea, Malaysia, and Thailand have both relatively high GDP per capita and relatively high levels of financial development. Meanwhile, many low-income economies in Southeast Asia, South Asia, and Central Asia are characterized by lower financial development. Higher levels of per capita income (in current US dollars) are also somewhat positively correlated with stock market capitalization across Asian countries. This link is particularly visible for Australia, Singapore, and the Republic of Korea. However, the direction of causality between per capita income and indicators of financial development is unclear and could run in both directions.

Table 1: Measures of per Capita Income and Financial Development for Asian Economies

	Population, 2013 (millions)	**GDP per capita, 2013** ($, current)	**GDP per capita, PPP, 2013** ($, current international)	**Private credit by deposit money banks and other financial institutions, 2011** (% of GDP)	**Stock market capitalization, 2011** (% of GDP)	**Outstanding domestic private debt securities, 2011** (% of GDP)	**Outstanding domestic public debt securities, 2011** (% of GDP)
Australia	23.1	67,458	43,544	129.2	103.4	49.3	29.8
Bangladesh	156.6	958	2,948	44.6	17.3	13.3	n.a.
Brunei Darussalam	0.4	38,563	71,777	32.8	n.a.	n.a.	n.a.
Cambodia	15.1	1,007	3,041	26.8	0.3	n.a.	n.a.
Fiji	0.9	4,375	7,750	68.2	11.2	n.a.	n.a.
India	1,252.1	1,499	5,412	47.1	68.7	4.9	29.6
Indonesia	249.9	3,475	9,561	28.3	45.0	1.4	10.8
Japan	127.3	38,634	36,449	177.7	68.6	37.2	218.9
Kazakhstan	17.0	13,610	23,211	41.1	40.3	n.a.	n.a.
Korea, Rep. of	50.2	25,977	33,140	98.4	96.2	59.3	44.8
Lao PDR	6.8	1,661	4,822	19.9	7.4	n.a.	n.a.
Malaysia	29.7	10,538	23,338	106.4	144.1	58.1	54.0
Myanmar	53.3	n.a.	n.a.	4.0	n.a.	n.a.	n.a.
New Zealand	4.5	41,556	34,826	143.9	52.9	n.a.	27.2
Pakistan	182.1	1,275	4,602	18.0	16.8	n.a.	30.7
Philippines	98.4	2,765	6,536	29.8	73.9	1.0	29.1
PRC	1,357.4	6,807	11,907	121.5	58.7	23.1	22.4
Singapore	5.4	55,183	78,763	106.9	145.2	10.0	45.4
Sri Lanka	20.5	3,280	9,738	26.7	33.8	n.a.	42.9
Thailand	67.0	5,779	14,394	130.9	81.7	12.7	49.8
Uzbekistan	30.2	1,878	5,168	n.a.	n.a.	n.a.	n.a.
Viet Nam	89.7	1,911	5,294	107.7	15.4	1.7	12.7

Lao PDR = Lao People's Democratic Republic, n.a. = not available, PRC = People's Republic of China.

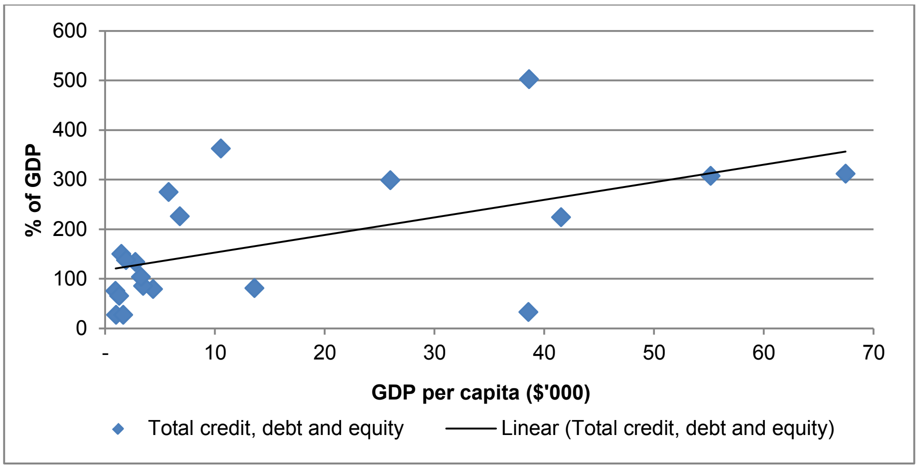
Note: Lao PDR = 2010 data; Myanmar = 2004 data.

Sources: Global Financial Development Database (GFDD) accessed on 1 April 2015. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTGLOBALFINREPORT

Viet Nam debt securities figures obtained from Asian Bonds Online.

Sri Lanka outstanding domestic public securities (proxied using domestically financed sovereign debt) figures obtained from CEIC database.

Figure 1: Relation of per Capita GDP to Debt, Credit, and Equity



GDP = gross domestic product.

Source: Table 1, Columns 2 and 7.

Clearly, many stochastic, historical, institutional, and policy factors can help explain why some Asian countries have higher levels of per capita income and financial development than others. Financial literacy is positively correlated with economic development (measured by GDP per capita) and financial development (the ratio of the sum of stock market capitalization, bond market capitalization and private credit to GDP, the most widely used indicator of financial development) (Beck, Demirgüç-Kunt, and Levine 2009), however it has been difficult empirically to untangle the direction of the effects, since the causality can run both ways. Despite this, there is little doubt that financial literacy and financial education can contribute to both economic and financial development in Asia.

In the aftermath of the global financial crisis of 2007–2009, financial literacy and financial education are receiving increasing attention worldwide.[1] There were sobering lessons, for example, in how the mis-selling of financial products contributed directly to the severity of the global financial crisis, both in developed economies and in Asia, which could partly be attributed to inadequate financial knowledge on the part of individual borrower and investors.[2] Financial education can be viewed as a capacity building process over an individual's lifetime, which results in improved financial literacy and well-being. It is hard to quantify the benefits and costs of investing in financial education. With some exceptions, Asian economies have only devoted limited resources to financial education, but we argue that there are substantial benefits to increased investment in financial education in Asia.

The empirical literature on the impacts of financial education on savings and other financial behavior is decidedly mixed.[3] Nevertheless, there are many channels by which financial literacy can plausibly contribute to economic and financial development. The benefits from financial education come principally from better financial allocation decisions of households, both regarding savings and borrowing, and these benefits

[1] The Organisation for Economic Co-operation and Development (OECD) has been very active in this area, including development of the OECD–International Network on Financial Education (OECD-INFE) and Programme for International Student Assessment (PISA) financial literacy survey. See, e.g., OECD (2013, 2014).

[2] Sales of Lehman "minibonds" caused significant losses for individual investors in both Singapore and Hong Kong, China.

[3] See, for example, the discussion in Mandell and Klein (2009).

affect not only large companies but also small and medium-sized enterprises (SMEs), which will be described in greater detail below. Second, having a more financially literate population is likely to increase domestic savings rates, thereby reducing reliance on foreign capital, and helping to foster faster economic growth. It can also enhance overall financial development and implementation of more sophisticated financial infrastructure. As will be argued below, it can also help to provide long-term financing for infrastructure investment in Asia. Financial education can contribute to better retirement planning, which is important since many Asian economies have aging populations, and better financial education of households and SME entrepreneurs can reduce financial stability risks, such as the probability of household or SME loan defaults.

Financial education will also prompt households to take a long-term perspective with regard to life insurance and pension funds, and that will enhance the wellbeing of individuals in retirement. SMEs will think more about how to finance their businesses and, furthermore, start-up businesses may find it easier to receive funds from households or financial institutions. These developments can also support higher economic growth.

Regarding aging populations, pension funds are very important. For example, with a 401K-type defined contribution pension scheme, people will have to think about what share of their money should be allocated to risky assets and safe assets, and so on. In addition to pension funds, life insurance plans will be important for self-protection after retirement. In Asia, assets of pension funds and insurance companies can be a very important source of financing for infrastructure investments. Given the critical role of infrastructure investment in supporting long-term and sustainable growth in Asian countries, promoting such savings can make a valuable contribution.

Figure 2 provides a conceptual framework for analyzing the expected macroeconomic impacts of financial education. First, financial education will diversify households' asset allocation of their savings. This will then affect the aggregate supply curve—companies have to raise money for their capital, and aggregate demand, consumption, and investment will be affected by that financial education. This in turn will enhance the expected growth rate of the economy, although the volatility of output may be increased as well. This implies that financial education will affect financial institutions, households and companies, aggregate supply and aggregate demand, and the expected rate of return and growth, but, at the same time, risks will be increased.

Figure 2: Macroeconomic Effects of Financial Education

Aggregate Demand Effect

Remittances → Households Income → Consumption → Increase in sales

Increase in sales of companies → Increase in investment

Y = C + I + G + EXP – IMP

Aggregate Supply Effect **Y=AxF(N,K)**

Increase in Sales →Increase in capital stock → higher rate of return on capital

→ Increase in employment → lower unemployment rate

Increase in Capital Inflow from Abroad by Remittances

→ Current account deficits will be reduced

Current account = (EXP-IMP)+Capital flows+Remittances

C = consumption, EXP = exports, G = government spending, I = investment, IMP = imports, K = capital stock, N = labor, Y = output.

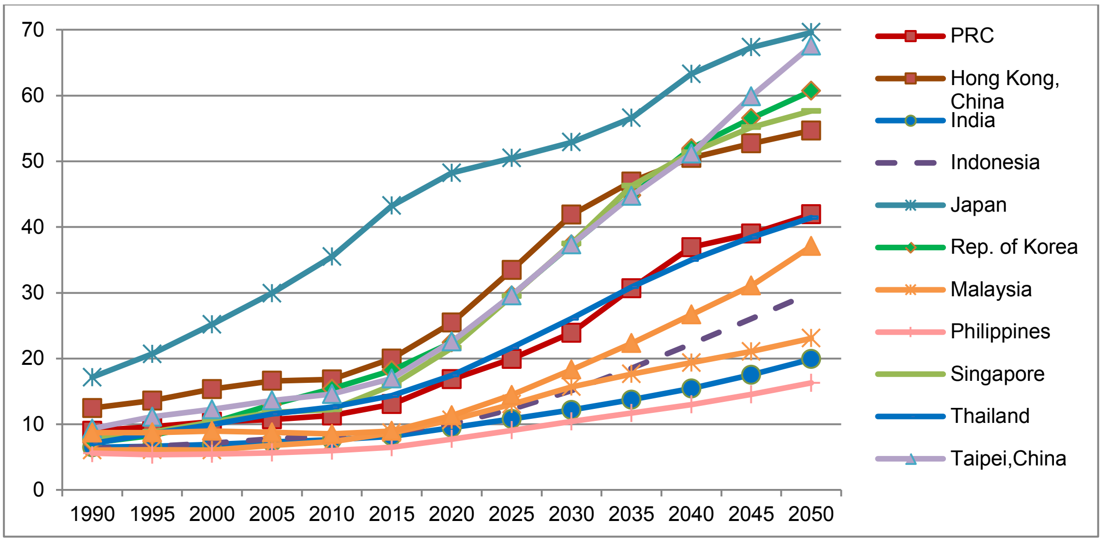
Source: Authors.

Asian economies need to provide a more diversified menu of assets for individual savers. In many Asian countries there are two extreme products, low-risk bank deposits and very risky stocks, with few financial products in between. The development of a greater variety of financial products will provide better financing and so on. Then assessing the risks and returns will become more important for investors.

Figure 3 shows the trend of the ratio of the population aged 65 and over to the working-age population (aged 15–64) through the year 2050. Japan has the highest longevity in the world, but the retired population is growing very rapidly. Among other economies, aging will occur especially rapidly in Hong Kong, China; the Republic of Korea; Singapore; and Taipei,China; followed by the People’s Republic of China (PRC) and Thailand. The general tendency to shift from defined benefits to defined contribution pension plans will further increase the need for adequate financial education and planning.

Figure 3: Dependency Ratio History and Projections

(aged 65+/aged 15–64)



PRC = People’s Republic of China.

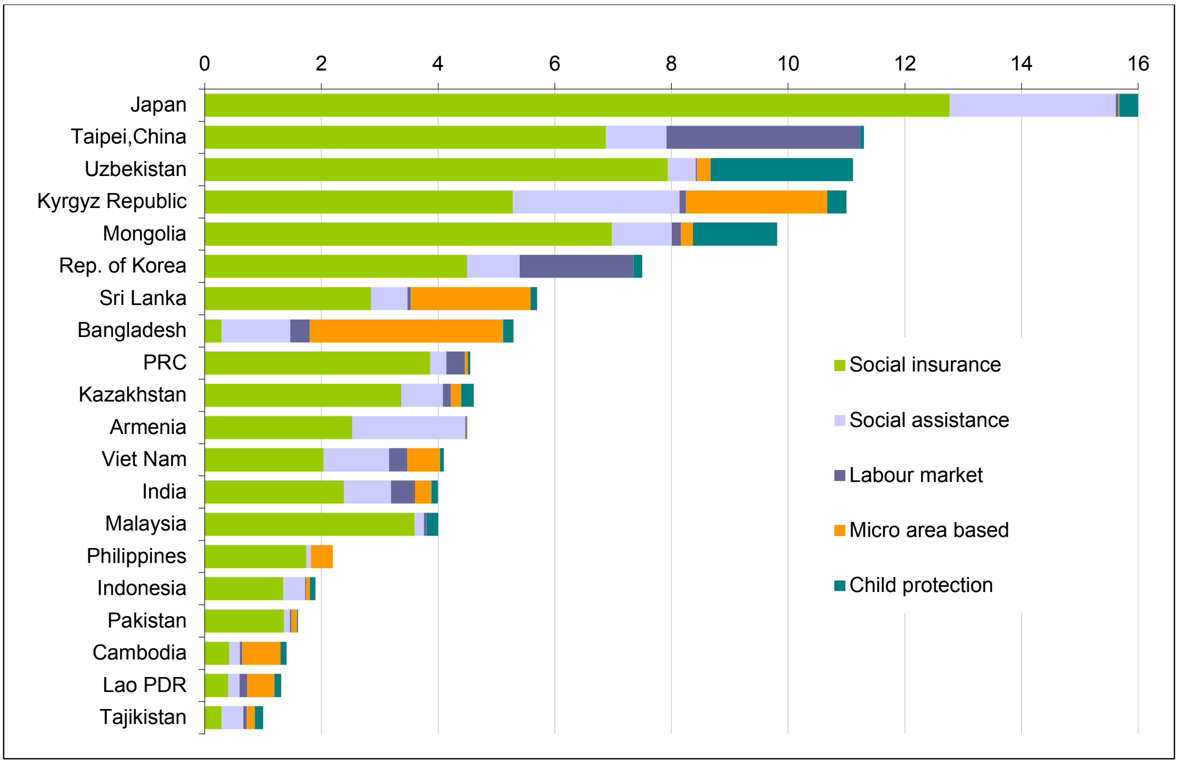
Sources: United Nations, Department of Economic and Social Affairs, Population Division. 2013. *World Population Prospects: The 2012 Revision*. Available at: http://data.un.org/Data.aspx?q=dependency+ratio&d=PopDiv&f=variableID%3a44

National Development Council (Taipei,China). 2014. Population Projections for [Taipei,China]: 2014–2060. Accessed 17 June 2014. Available at: http://www.ndc.gov.tw/encontent/m1.aspx?sNo=001457.

Many Asian economies are benefiting currently from the so-called demographic dividend, where young populations are large and retired people are relatively few. This makes it easy to finance the pension and healthcare systems. However, Figure 3 shows that many Asian economies have to prepare for the aging of their populations. Figure 4 shows government spending for social insurance or social welfare as a percentage of GDP. Again, the top economy is Japan, because spending on social insurance and social welfare in Japan is large. This is one of the reasons why Japanese budget deficits have increased, and many other Asian economies will face similar issues. Therefore, a good government pension and healthcare system, as well as life insurance and other self-protection mechanisms, will be very important.

Figure 4: Social Insurance Expenditures as Share of GDP

(% of GDP)



GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: ADB (2008).

Financial education is important for SMEs as well as households. Japan started collecting data for an SME database around 10 years ago, requiring many SMEs to update their record books every day. Many SME owners had not previously kept their books on a daily basis, but began to record their daily revenue and expenses. This resulted in a good form of financial education for SME owners, as many of them started to think more about long-term planning. This in turn led to more accurate reporting and a reduction in default losses by SMEs.

However, various costs also need to be factored in when considering investment in financial education. For instance, the effectiveness and reach of financial education programs may be unclear. Additionally, the capacity of teachers and educational systems to deliver financial education may be limited. Finally, large financial costs could arise from broad-based financial education programs.

Moreover, it is not yet clear how much this education has affected individuals' behavior and also that of the economy. Therefore, more research is needed on the outcomes of financial education. For example, it has been found that many teachers in schools are struggling to decide on which topics they should teach and are concerned about their lack of techniques and skills. Also, at the national and school levels, there are a variety of different levels of education, and it is costly to determine how to allocate funds to achieve efficient teaching methods.

3. CURRENT STATUS OF FINANCIAL LITERACY IN ASIA

Mapping the current status of financial literacy (or financial capability) in Asia presents challenges to researchers and policymakers alike. It is a new area, with limited data. The coverage of available surveys is relatively spotty, and methodologies and results are not consistent. Only a limited number of Asian economies and target groups within them have been surveyed so far and their results vary widely. There is some relation with per capita income but rankings differ significantly across different studies. Greater coverage of target groups (such as students, seniors, SMEs, and the self-employed) is needed (see Table 1). It is desirable that international organizations such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, or ADB sponsor surveys in many countries using the same kind of survey questionnaires and methodologies in order to establish a meaningful basis for international comparison.

Table 2 shows a compilation of selected financial literacy surveys, with an overall rating based on the responses to three questions. The first question concerns the understanding of compound interest, the second question the impact of inflation, and the third question the understanding of risk diversification. Germany ranks highest overall, while Japan and Indonesia rank highly among Asian economies. However, since the results come from different surveys, they should not necessarily be regarded as being comparable.

Table 2: Selected Financial Literacy Survey Results from around the World

Country (Year of Survey)	Overall Ranking*	Q1. Compound Interest	Q2: Inflation	Q3: Risk Diversification	Survey Sample
High Income					
United States (2009)	60	65	64	52	1488
Italy (2006)	48	40	60	45	3992
Germany (2009)	74	82	78	62	1059
Sweden (2010)	64	35	60	68	1302
Japan (2010)	57	71	59	40	5268
New Zealand (2009)	65	86	81	27	850
Netherlands (2010)	71	85	77	52	1324
Upper Middle Income					
Russia (2009)	33	36	51	13	1366
Romania (2010)	34	24	43		2048
Azerbaijan (2009)	46	46	46		1207
Chile (2006)	25	2	26	46	13054
Lower Middle Income					
Indonesia (2007)	56	78	61	28	3360
India (2006)	38	59	25	31	1496
West Bank and Gaza (2011)	58	51	64		2022

Note: The overall rating is calculated as an average of questions 1, 2, and 3.

Source: Xu and Zia (2012); authors' calculations.

Table 3 shows the results of the MasterCard Index of Financial Literacy survey (MasterCard 2013), which also illustrates the problem of comparability. The index is based on a survey of over 7,000 individuals aged 18–64 years on three aspects of basic financial literacy: money management, financial planning, and investment. As Table 3 shows, New Zealand is ranked top, while Japan is ranked at the bottom. Strikingly, high-income Japan is ranked lower than less-developed economies like Bangladesh and Myanmar. The survey's focus on credit card use may explain the surprisingly low ranking for Japan, where credit card use is low. Accordingly, surveys based on certain groups of people may not be representative of their true levels of financial literacy. This is an example of how different surveys may show different results depending on the survey forms and methodologies, and provides further support for the need to coordinate an international survey for the comparison of results across economies.

Table 3: MasterCard Index of Financial Literacy Report, 2013

Rank	Economy	Overall Financial Literacy Index
1	New Zealand	74
2	Singapore	72
3	Taipei,China	71
4	Australia	71
5	Hong Kong, China	71
6	Malaysia	70
7	Thailand	68
8	Philippines	68
9	Myanmar	66
10	People's Republic of China	66
11	Bangladesh	63
12	Viet Nam	63
13	Republic of Korea	62
14	Indonesia	60
15	India	59
16	Japan	57
Average for Asia and the Pacific		**66**

Source: MasterCard (2013).

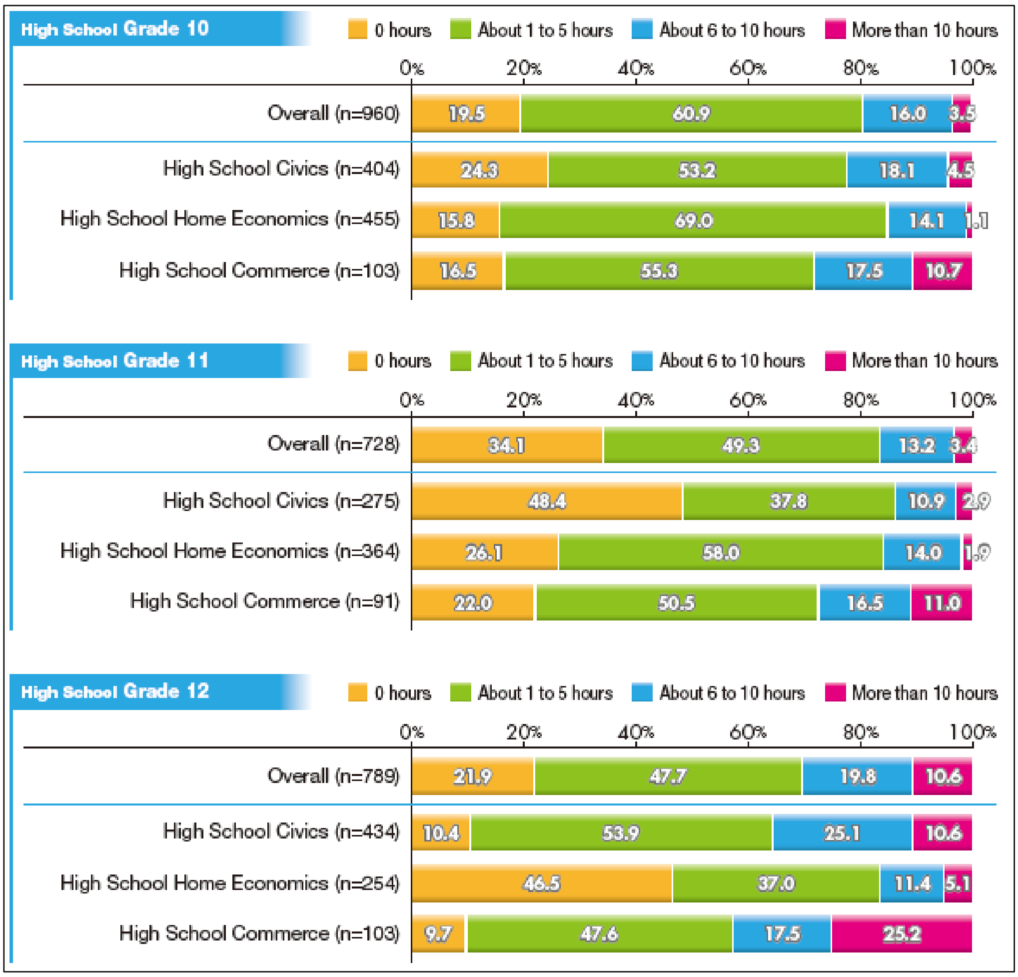
Asian economies are only sparsely represented in other international surveys. The OECD/International Network on Financial Education (INFE) survey of adult financial literacy only includes Malaysia in Asia, and the OECD Program for International Student Assessment (PISA), which covers 15-year-old high school students, only includes Shanghai (ranked top). At the national level, the Bank of Thailand conducted a survey of financial literacy modeled on the OECD/INFE survey, and Japan carried out a survey of high school teachers involved in financial education.[4] Because of the importance of having internationally comparable results, more Asian economies should be included in future rounds of the OECD/INFE and PISA surveys.

Measuring the inputs of financial education is another important aspect. Figure 5 shows the results of a major study of financial education in schools in Japan (Study Group on the Promotion of Financial and Economic Education 2014). The survey shows that a major problem is that many teachers are not well trained, and not many experts in financial education are teaching financial education courses. Additionally, not much

[4] See Study Group on the Promotion of Financial and Economic Education (2014) and the discussion below.

time is allocated to teaching financial education in Japanese schools. Many teachers think financial education required, with more than 80%–90% of the teachers indicating the need for financial education. However, actual allocation of time is limited, at zero hours or between one and five hours, which is small compared to other subjects.

Figure 5: Actual Lesson Time for Financial Education in Japanese High Schools



Source: Study Group on the Promotion of Financial and Economic Education (2014).

In Japan, many students have to take entrance examinations for secondary school, high school, and university. However, questions on financial education have never been asked in those exams, so students are not interested in learning about it.

4. CURRENT POLICIES AND GAPS IN FINANCIAL EDUCATION IN ASIA

There are still many policy gaps in Asia in the areas of financial literacy and financial education. There is a great variety of programs in Asia, as summarized in Table 4, which summarizes national strategies, the roles of central banks, regulators, and private programs, and the channels and coverage of such programs. The starting point for financial education is to have a national strategy, but so far in Asia, only India, Indonesia, and Japan have implemented such strategies. Indonesia and the Philippines are relatively strong compared to other countries. There are several levels of financial education; the national, school, and SME levels, and so on. Pakistan and the Philippines are in the process of finalizing their national policies. Central banks active in this area include the Reserve Bank of India (RBI), Bank Indonesia, Bank of Japan, Bank Negara Malaysia, Bangko Sentral ng Pilipinas (BSP), and Bank of Thailand. Financial regulators active in this area include the Financial Services Authority of Indonesia (OJK) and the China Banking Regulatory Commission in the PRC (see Table 4).

Table 4: Policies and Programs for Financial Education in Asia

Country	National Strategy	Central Bank Programs/Strategies	Other Regulators' Programs/Strategies	Private Bank, MFI, NGO Programs	Coverage	Channels	Consumer Protection	Curriculum
Bangladesh	None	None	None	None	None	None	BB: Guidelines on mobile financial Services	None
PRC	None	None	CBRC programs: - Website for public financial education - Requested financial institutions to provide clients and public with basic financial knowledge	None	None	None	Only general consumer protection rules	None
India	Financial Stability and Development Council launched National Strategy on Financial Education in 2012	RBI programs: - Financial literacy project to enhance financial literacy among target groups - Standardized literacy materials (2013)	None	Bank literacy centers that work with MFIs	School children, senior citizens, and military personnel	Schools	RBI: - Various circulars - Grievance redressal - Mechanism in Banks - Banking ombudsman system	None
Indonesia	Financial education one pillar of Indonesia National Strategy for Financial Inclusion organized by BI and MoF - "My Saving" program (2010)	BI programs: - Financial education - "Let's go to the bank" (2008)	OJK program: - National Financial Literacy Strategy	None	Students, children and youth, migrant workers, fishermen, communities in remote areas, factory workers	Schools, media	- National Consumer Protection Agency - Consumer Dispute Settlement Board - Credit Information Bureau	None
Philippines	None	BSP program: - Economic and Financial Learning Program to promote public awareness of economic and financial issues	None	None	N/A	None	- BSP: Consumer Affairs Group - SEC - NCC and NAPC Microfinance Consumer Protection Guidebook	None
Sri Lanka	None	Some activities	Some activities	Some activities	None	None	- Consumer Affairs Authority - Voluntary Financial Ombudsman system - Consumer Affairs Council - Credit Information Bureau of Sri Lanka	None
Thailand	None	BoT programs: - Financial education	Government "Debt Doctor" program	- Civil society groups and non-profit organizations financial education programs for low-income groups - BAAC teaches budgeting to rural clients	Private programs generally small scale	None	BoT: Financial Consumer Protection Center	None

BAAC = Bank of Agriculture and Agricultural Cooperatives, BB = Bangladesh Bank, BI = Bank Indonesia, BoT = Bank of Thailand, BSP = Bangko Sentral ng Pilipinas, CBRC = China Banking and Regulatory Commission, NAPC = National Anti-Poverty Council, NCC = National Credit Council, OJK = Financial Supervisory Agency, PBoC = Peoples' Bank of China, RBI = Reserve Bank of India, SEC = Securities and Exchange Commission.

Sources: ADBI (2014); BUCFLP (2014), Barua, Kathuria and Malik (forthcoming); Kelegama and Tilakaratna (2014); Khalily (forthcoming); Llanto (forthcoming), Tambunan (2014), and Tambunlertchai (2014).

Indonesia's financial education program is particularly well developed, as it includes cooperative efforts by the Ministry of Finance (MoF), Bank Indonesia, and the OJK. They have developed a variety of programs at the national level while also targeting specific groups, including students and youth, migrant workers, fishermen, communities in remote areas, and factory workers. One notable development was the TabunganKu ("My Saving") program by the MoF and Bank Indonesia that helped promote savings in bank accounts. In this program, the government established a no-frills savings account with no monthly administration frees and a low initial deposit of Rp20,000 for commercial banks and Rp10,000 for rural banks. As of April 2014, the number of TabunganKu accounts reached 12 million since the start in February 2010 (Bank Indonesia 2010; World Bank 2014). This shows the importance of having financial products that meet the demands raised by financial education programs. Financial education programs are carried out both through schools and in the media. Bank Indonesia, in cooperation with all commercial banks and rural banks, conducted a series of campaigns, including the national "Let's Go to the Bank" campaign in 2008 onward to improve consumer understanding of financial services, products, planning, management, and literacy. The OJK also has a National Financial Literacy Strategy program (Tambunan 2015).

In India, the Financial Stability and Development Council launched the National Strategy for Financial Education in 2012. The RBI's financial literacy has developed teaching materials for a variety of target groups—including students, women, rural and urban poor, and the elderly—and these are promoted through schools. Private banks have also developed literacy centers to work with micro-finance institutions (MFIs) (Myrold 2014). Similar to Bank Indonesia's "My Savings" program, the RBI has also made a concerted bid over the last decade to create basic financial service facilities for the "excluded." These include no-frills accounts with or without overdraft facilities. As of March 2012, the number of no-frills accounts had reached 103 million. Moreover, to coincide with India's 68th Independence Day on 15 August 2014, 15 million bank accounts were opened on that day with the biometric Aadhar identity card acting as the sole Know Your Client proof (Barua, Kathuria, and Malik, forthcoming).

In the Philippines, the BSP has been active in developing strategies for financial education and has issued a number of circulars in this regard. The main focus is the Economic and Financial Learning Program to promote awareness of economic financial issues. The program targets specific audiences like schoolchildren, secondary and tertiary students, overseas Filipino workers, microfinance clients, and others. The BSP also has a Credit Surety Program, a trust fund financed by contributions of a provincial government and a cooperative in the same province to encourage financial institutions to lend to micro, small, and medium-sized enterprises (MSMEs) in the province using the surety cover as a collateral substitute. The Consumer Affairs Group of the BSP has been in charge of programs for consumer protection, and the Monetary Board approved adoption of the Financial Consumer Protection (FCP) Framework to institutionalize consumer protection as an integral component of banking supervision in the country (Tetangco 2014). In addition, the National Credit Council and the Insurance Commission oversee financial education covering micro-insurance in collaboration with the National Anti-Poverty Commission (Llanto 2015).

However, most financial education programs in Asia tend to be small scale and targeted at individual groups rather than the broad population. Only Japan actually includes financial education in its school curriculum, but the program faces many problems, including a lack of experienced teachers, lack of time, and lack of motivation of students. Few programs address the needs of seniors or SMEs, either. In many countries financial education programs are conducted independently from one to another. Japan has been consolidating financial education programs and a coordinated system has been created, where duplication can be eliminated.

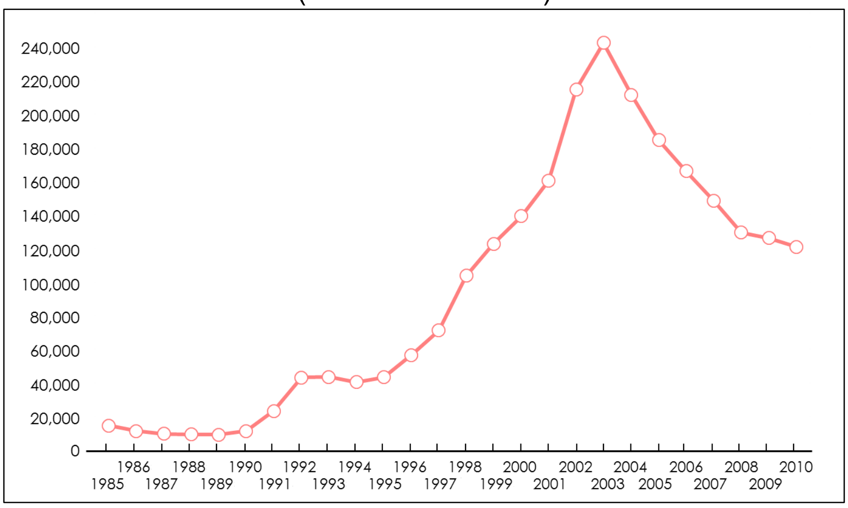
A national strategy for financial education needs to include the activities of private groups also engaged in this area. For example, ADB (2013) advocates establishing an oversight mechanism both to operationalize a national financial education strategy and promote continuous learning among the various stakeholders, and to serve as a point of contact with engagement with international initiatives to support financial education and consumer protection. ADB (2013) also recommends creating an innovation fund to encourage both private and public sector organizations to conduct research and innovate and pilot test new approaches to financial education that are appropriate to local contexts.

The process of developing financial education programs needs to address a complex set of interacting questions (Braunstein and Welch 2002): what is the targeted audience and that group's information needs; when should individuals be exposed to both general and specific information about financial issues and options; where should financial literacy education be provided to reach the broadest audience; how can financial literacy education be effectively delivered; and how can the effectiveness and impact of financial literacy programs be measured?

Another important aspect of financial education is its relation to consumer protection. For example, Japan has so-called moneylenders and loan sharks that used to charge interest rates of 96%. However, the maximum rate they can charge has gradually been reduced and is currently 20%. In rural regions in many Asian countries, start-up businesses and small businesses face moneylenders that charge very high rates of interest, and this leads to high default risks. Therefore, consumer financial education and appropriate regulation of moneylenders are both very important.

Because of the new laws, defaults by Japanese households have drastically diminished since 2003. Along with revisions to regulations and the strengthening of consumer education, the Japan Financial Services Agency has also started a hotline for individuals about consumer protection that has become a good source for information on regulations and supervision. Figure 6 illustrates the decline in household default rates. This can provide a good example for consumer education and protection in other Asian economies.

Figure 6: Default Rate of Households in Japan
(number of defaults)



Source: Japan Financial Services Agency.

5. CONCLUSIONS AND RECOMMENDATIONS

Financial education is a new subject for research and policy discussion in Asia. It is thus not surprising that our paper reveals that financial education programs generally are lagging in the region. There are a variety of surveys of financial literacy in Asian economies with results that are diverse and not necessarily comparable. However, Asia generally has high savings rates compared to Latin America or other regions. Currently, most of these savings are deposited into banks and are not well allocated in various financial products. This presents barriers to financing by SMEs and start-up businesses, and consequently retards potential growth. Our paper argues that the diversity of financial products needs to be increased, and that financial education programs at the national level, the level of central banks and regulators, and the private sector level need to be consolidated.

Asia's experience in the area of financial education is still limited, but we believe there are significant potential gains to be realized from more concerted policy efforts in this area. International experience offers several valuable lessons for promoting financial education.

First, existing national surveys of various target groups—such as those relating to financial literacy, access to finance, and consumer finance—are useful tools for understanding the needs and challenges of financial education. But more national surveys are required, particularly of poorer Asian countries, with consistent and internationally comparable methodologies. Using international standard methodologies, such as the OECD/INFE and PISA surveys, would enable benchmarking across countries and enrich national strategy development.

Second, coherent national strategies for financial education tailored to national circumstances are essential for success. Effective national strategies for financial education seem to contain four key elements: (a) coordination among major stakeholders, including regulatory authorities (central banks and financial supervision agencies), educational institutions, financial intuitions (e.g., commercial banks, non-bank financial institutions, and microfinance institutions), and civil society institutions; (b) emphasis on customer orientation and addressing demand-side as well as supply-side gaps; (c) combination of broad-based functional interventions and targeted programs for vulnerable groups (e.g., women, youth, the elderly, and SMEs) according to availability of resources; and (d) adoption of a long-term time horizon with flexibility to respond to changing needs.

Third, monitoring and evaluation of national strategies for financial education is vital for lesson learning and program adaptation. With the appropriate incentives, think tanks and universities can help in monitoring and evaluation efforts.

Fourth, since government support programs will not be enough to maintain adequate financing, the private sector, such as life insurance firms, must supply long-term financial products suitable for self-protection. Long-term asset allocation by households can support infrastructure and other investments where long-term finance is required.

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* The Asian Development Bank refers to China by the name People's Republic of China.

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