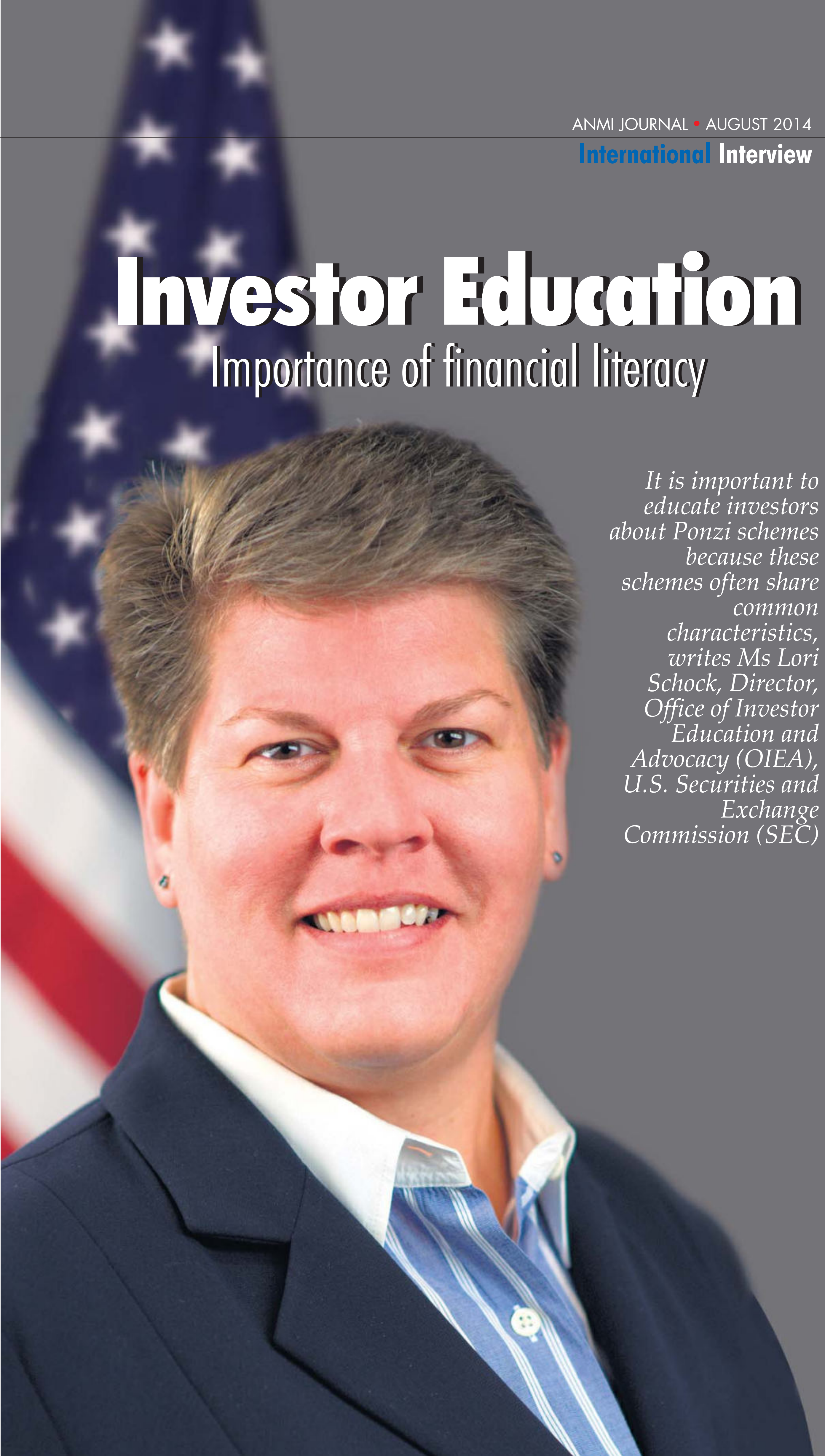
Investor Education

Importance of financial literacy



It is important to educate investors about Ponzi schemes because these schemes often share common characteristics, writes Ms Lori Schock, Director, Office of Investor Education and Advocacy (OIEA), U.S. Securities and Exchange Commission (SEC)

International Interview

Policymakers across all jurisdictions are recognizing the importance of financial literacy and of including investing resources in financial education programmes. What is the next step?

Raising awareness regarding the importance of financial literacy and investor education is an important first step. Far too many current and potential investors lack basic financial literacy. Many jurisdictions have developed national strategies focused on financial education or financial capability. In my view, the next step is implementing these strategies and determining which efforts are successful. Research and evaluation will play a key role.

How does your office help in protecting investors and maintaining market integrity?

As part of its investor protection mission, the SEC participates in educational initiatives to help individual investors avoid fraud and make informed investing decisions. The SEC's Office of Investor Education and Advocacy (OIEA) leads these efforts by communicating daily with investors, responding to their complaints and inquiries, and providing educational programmes and materials.

OIEA handles investment-related complaints and questions from tens of thousands of individual investors and others every year. OIEA also raises awareness about the SEC's online educational resources, including Investor.gov, and implements other investor education programmes focused on helping individuals to research investments and investment professionals, understand fees, and detect fraud.

Effectiveness of financial education programmes is a big challenge. How can financial education programmes be made more effective?

As part of a 2012 study of US investors, OIEA identified the most effective existing private and public efforts to educate investors, which included programmes that are research-based, that are goal oriented and emphasize important investor education concepts, and that are easily accessible, delivered efficiently, and relevant to their target audience.

Does financial literacy in schools have an impact on financial markets? How can trategies and programmes be made more innovative and focused on students? What has been your experience in the USA in this regard?

I've always believed that incorporating financial education in schools is important, and I serve as an ex-officio board member of the Jump$tart Coalition for Financial Literacy, which is a diverse group of organizations that share a commitment to advancing financial literacy among America's youth and working collaboratively toward effective financial education in the United States. Just like any other target audience, it's important to reach students where they are ~ whether it is in the classroom, online, or through games and apps.

I also regularly represent the SEC on the US Financial Literacy and Education Commission (FLEC), a group of over 20 federal agencies with an interest in improving financial literacy in the United States. FLEC launched an effort to help enhance young Americans' financial capability called "Starting Early for Financial Success." This initiative builds on the experience and resources of key federal agencies to help young people have an understanding of financial basics as they begin their career and includes committees focused on children and youth, post-secondary education, early career and retirement, and research.

You frequently attend international meetings focused on investor education. What major take-aways would you like to share?

"Don't reinvent the wheel," is a popular American phrase that is a common theme of these meetings. In many cases, building off of the investor education efforts of others is more efficient than starting a programme or initiative from the beginning. Another take-way is the importance of identifying partnerships to expand the reach and effectiveness of programmes within a jurisdiction. Through the use of partnerships, even programmes with limited resources have the potential to make a significant impact.

Investors cannot be expected to have expert knowledge to distinguish and understand the financial implications of continuous new complex and leveraged products. What is the role of investor education with respect to these products?

At the SEC, one of our goals is to help investors make informed investing decisions. When there is investor confusion with respect to a particular product, OIEA often issues an investor alert or bulletin. For example, SEC staff and FINRA issued an investor alert because we believed individual investors might be confused about the performance objectives of leveraged and inverse exchange-traded funds. More recently, the SEC has issued investor alerts on Bitcoin and other virtual currency-related investments.

Ponzi schemes with different shapes and formats keep on sprouting in all developing economies. How can investor education supplement regulatory efforts?

It's important to educate investors about Ponzi schemes because these schemes often share common characteristics. OIEA's investor education materials tell investors to look for the following warning signs: high investment returns with little or no risk, overly consistent returns, unregistered investments, unlicensed sellers, secretive and/or complex strategies, issues with paperwork, and difficulty receiving payments.

More generally, OIEA's anti-fraud efforts are focused on educating individuals about common persuasion tactics and how to check out the background of an investment professional.

ANMI has recently embarked upon a financial literacy and investor education programme through National Television to reach small villages, towns and cities by associating itself with SEBI (Government Regulator) and National Stock Exchange. What in your opinion would be the key inputs for mass acceptability?

One key consideration is whether the content is timely and relevant. Does the programme tailor its information to a specific target audience? Is the programme reaching individuals at "teachable moments," or certain stages of life when they are most receptive to learning? Is the programme presenting content in a manner that is engaging and interactive?

Social media is taking on a greater role in investing. What in your opinion should investors be aware of while accessing these social media platforms?

While social media can provide many benefits for investors, it also presents opportunities for fraudsters. Social media and the Internet generally offer a number of attributes criminals may find attractive. Social media lets fraudsters contact many different people at a relatively low cost. It is also easy to create a site, account, email, direct message, or webpage that looks and feels legitimate ~ and that feeling of legitimacy gives criminals a better chance to convince you to send them your money.

Finally, it can be difficult to track down the true account holders that use social media. That potential of anonymity can make it harder for fraudsters to be held accountable. As a result, investors need to use caution when using social media while considering an investment. The SEC has issued a number of investor alerts and bulletins focused on social media and investing, which include useful information for avoiding investments scams. Being thoughtful about privacy and security settings on social media accounts is critical.

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