



MASTERCLASS: ELEMENTS OF FINANCE FOR SUSTAINABLE AND INCLUSIVE GROWTH

Perspectives on financial markets policies, sovereign debt management, financial consumer protection and financial literacy.

March 2019

Directorate for Financial and Enterprise Affairs



Introduction: OECD and Financial Markets

- OECD Directorate for Financial and Enterprise Affairs engages in ***research, international dialog through its committees and stakeholder outreach, policy guidance, and capacity building.***
- ***Its staff and committees assess*** a broad range of financial market issues including structural analysis of markets and institutions, sovereign debt markets, financial consumer protection and literacy.
- Today's presentation will cover these topics, and we welcome feedback to better understand areas of interest to African policy-makers.



Contents

- **Policy Framework for Effective and Efficient Financial Regulation**
- **Sovereign debt markets**
- **Financial consumer protection & education**



POLICY FRAMEWORK FOR EFFECTIVE AND EFFICIENT FINANCIAL REGULATION

(“THE FRAMEWORK”)



Purpose and key elements

- Purpose
 - As a framework for policy-makers to achieve stronger, more resilience financial systems that can support sustainable and inclusive economic growth.

Key elements

1. Financial Landscape
2. Policy Objectives
3. Policy Instruments
4. System design and implementation
5. Review



Financial Landscape

Define attributes of well-functioning financial system

- Scope and functions
- Linkages
- Expected outcomes
- Foundations

Establish transparency of the functioning of the financial system

- Availability of macro/micro data
- Cost vs relevance / confidentiality / stability implications
- Various levels – governments, industry associations, international organizations

Surveillance and analysis to understand system developments

- Develop surveillance mechanisms
- Analysis of structural and conjunctural risks, interconnectedness and spillovers, concentration and market power imbalances, emerging risks
- Information sharing within and across authorities at the national and international level



Comprehensive surveillance

	System	Risks
Macro	<ul style="list-style-type: none">• Economy and credit conditions• <i>Sustainable and inclusive</i>	<ul style="list-style-type: none">• Liquidity transformation
Markets	<ul style="list-style-type: none">• Formation, issuance, liquidity• <i>Transparency, integrity</i>	<ul style="list-style-type: none">• Maturity transformation
Financial institutions	<ul style="list-style-type: none">• Banks, credit unions, microfinance• <i>Stable & sound</i>	<ul style="list-style-type: none">• Leverage• Credit transfer
Market-based finance	<ul style="list-style-type: none">• Funds• Broker-dealers• <i>Efficient & effective</i>• Securitization• Derivatives	<ul style="list-style-type: none">• Operational/cyber
Institutional investors	<ul style="list-style-type: none">• Pensions, insurers, etc.	<ul style="list-style-type: none">• Interconnectedness• Concentration
Financial infrastructure	<ul style="list-style-type: none">• CCPs, payment systems, exchanges	<ul style="list-style-type: none">• Complexity



Policy Objectives

Articulate policy objectives

- Safety and soundness
- Financial stability
- Market confidence
- Integrity and transparency
- Conduct and financial consumer protection

Identify/prioritize risks and case for intervention

- Types of market failures
- Considerations - benefits versus costs, the international dimension, and possible alternatives

Ensure accountability framework

- Mechanisms to promote accountability should be in place
 - Internal and external reporting
 - Remedies to address serious failures



Policy Instruments

Identification of financial sector policy instruments

- Surveillance
- Regulation
- Market-based solutions
- Guarantees, subsidies
- Government ownership

Matching instruments to objectives

- Assess based on impact and incentives
- Proportionality – effectiveness vs. costs, transparency vs constructive ambiguity
- Reduce conflicts where policy instrument has multiple effects

Specification and principles of financial regulation

- Directive
- Compulsion
- Supervision



Principles of Financial Regulation

Nature

- Coordination, convergence on policy-rule making
- Risk-based
- Sound incentives
- Comprehensiveness
- Competitive neutrality

Process and Enforcement

- High-quality, transparent decision-making and enforcement
- Systematic review

International dimensions

- Coordination, convergence on policy-rule making
- Regulation of internationally-active firms
- Promotion of open, competitive, and safe markets through the establishment of a level playing field
- Removal of unnecessary duplication, burdens, conflicts and barriers across countries



System Design and Implementation / Review

Matching policy objectives and instruments to institutions

- Close linkages, global linkages, implicit and explicit linkages
- Rapid evolution of financial system
- Ensure coherence and consistency
- Align incentives and minimize conflicts
- Minimize risks for taxpayer

Systems for coordination, oversight and control

- Coordination and integration
- Oversight and controls

Review

- Should align with evolution of the financial system
- Should be reviewed 5-8 years, as appropriate
- International peer reviews are helpful to supplement domestic reviews



SOVEREIGN DEBT MARKETS



Importance of public debt management

- **A government's debt portfolio:**
 - is usually the largest financial portfolio in a country;
 - serves as a benchmark for pricing in domestic capital markets;
 - offers a low-risk, liquid and reliable saving tool;
 - facilitate the implementation of monetary policy.
- **Prudent public debt management can:**
 - help economies reduce their borrowing cost, contain financial risk, and develop their domestic debt market;
 - facilitate maintaining financial stability and assist countries;
 - develop their domestic financial system.



Debt management objective and principles in the OECD area

Objective:

- Finance the government and meet servicing obligations
- Minimize cost but subject to containing risks over the medium/long term
- Promote development of domestic debt market
- Objectives ideally formulated in debt management law, and change infrequently

Principles

Transparency

accountability

and

predictability



Our work on public debt management

- ✓ The OECD provides authoritative information on technical and policy issues in public debt management and government securities markets.
- ✓ We aim formulate and promote, where appropriate, leading practices in public debt and risk management through various publications and meetings.

Publications

- [*OECD Sovereign Borrowing Outlook*](#)
- [*OECD Working Papers on Sovereign Borrowing and Public Debt Management*](#)

Meetings

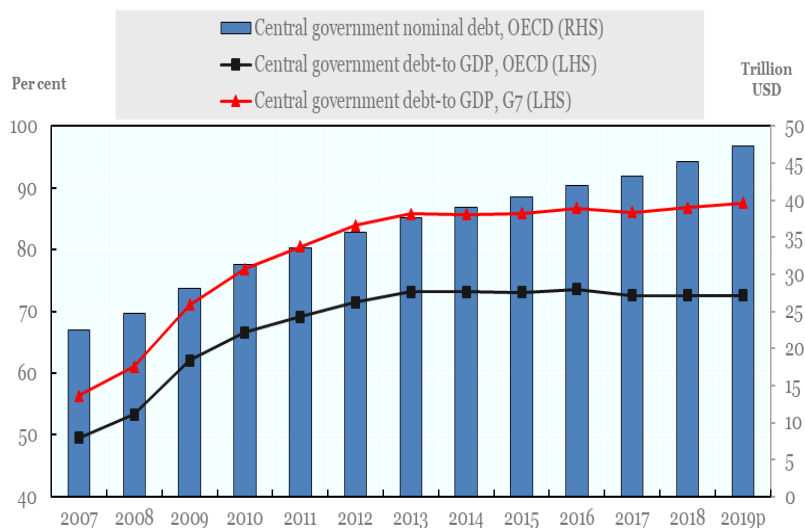
- [*Working Party on Debt Management*](#)
- [*OECD Global Forum on Public Debt Management*](#)



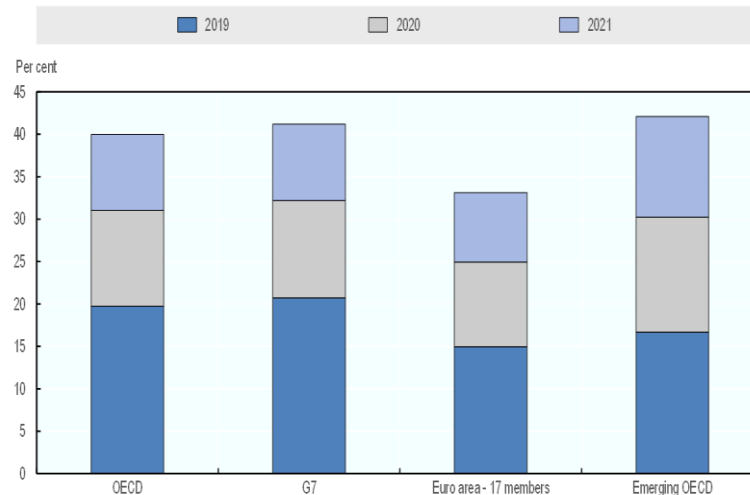
Recent trends: Sovereign debt levels continue to rise

- Since 2007, the outstanding government debt in nominal terms doubled to USD 45 trillion in 2018, and is projected to rise further to USD 47.2 trillion this year.
- The debt-to-GDP ratios stabilised at high levels due to economic growth in the OECD area. But for the G7 countries, debt-to-GDP ratio is expected to rise.
- On average, OECD governments will need to refinance around 40% of their outstanding marketable debt in the next three years.
- This implies a risk for sovereigns that might need to refinance existing debt at higher interest rates.

Central government marketable debt, 2007-2019



Cumulative percentage of debt maturing in the next 12, 24 and 36 months (% of total marketable debt as of 2018)





Emerging challenges

- Already, the high level of debt servicing, together with large net borrowing requirements, has generated challenging rollover ratios and aggravated refinancing risks for sovereign debt management.
- With a substantial amount of uncertainty lying ahead, borrowing conditions may become more vulnerable to sudden shifts in investor sentiment and perceptions of sovereign risk.
- Putting an effective debt management framework as well as safety nets in place is essential for mitigating refinancing risk and liquidity risk.



FINANCIAL CONSUMER PROTECTION & EDUCATION



FCP and FE: complementary policy agendas to financial inclusion

Providing **access** to financial products and services alone is not enough

Requires appropriate level of **financial consumer protection** to ensure fair treatment and safety of people's money

And **financial education** to give people the knowledge, skills and confidence to make informed and appropriate choices

OECD is the global leader for policy development on financial consumer protection and financial education



Financial Consumer Protection

- OECD is the **global leader for the development of financial consumer protection policy**
- Financial consumer protection, together with financial education, essential complements to financial inclusion
- **G20/OECD High Level Principles on Financial Consumer Protection** endorsed by G20, OECD and APEC, set out comprehensive framework
- G20/OECD Task Force on Financial Consumer Protection





FINANCIAL CONSUMER PROTECTION

- G20/OECD High Level Principles on Financial Consumer Protection developed in 2011
- Supplemented by policy guidance and effective approaches to support the implementation of the High Level Principles
- Cover topics such as oversight arrangements; fair treatment; disclosure; conduct; data protection; consumer redress





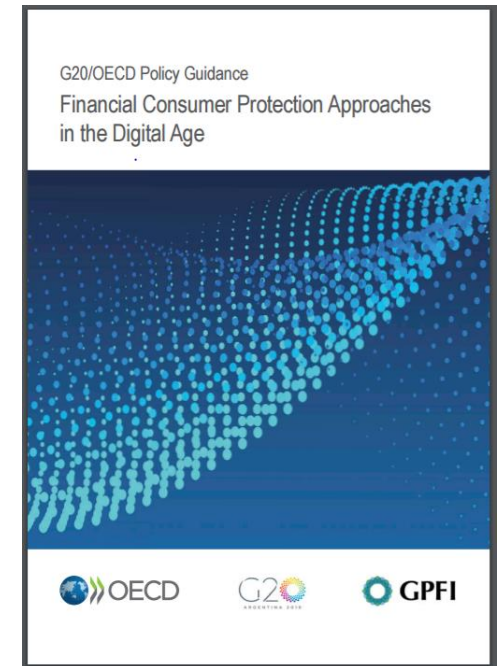
FINANCIAL CONSUMER PROTECTION PRINCIPLES

1. Legal, Regulatory and Supervisory Framework	6. Responsible Business Conduct of Financial Services Providers and Authorised Agents
2. Role, powers and capabilities of Oversight Bodies	7. Protection of Consumer Assets against Fraud and Misuse
3. Equitable and Fair Treatment of Consumers	8. Protection of Consumer Data and Privacy
4. Disclosure and Transparency	9. Complaints Handling and Redress
5. Financial Education and Awareness	10. Competition



Financial consumer protection priorities

- Effective implementation of financial consumer protection frameworks in accordance with the High Level Principles – standalone and/or in conjunction with financial inclusion strategies.
- Digitalisation – application of the High Level Principles in a digital environment.
- Demographic changes – the impact of demographic changes on financial consumers (current focus is ageing populations in support of the G20 Presidency in 2019)





Financial consumer protection priorities

- Consumer credit – appropriate consumer protection measures relating to marketing, sale and conduct relating to consumer credit
- Data – identification and monitoring of risks to financial consumers to support risk-based approaches to regulation and supervision
- Financial product governance – good practices in terms of policy and supervisory approaches to governance of financial products



What do we mean by financial *education* and financial *literacy*?

• **A process by which individuals through *information, instruction and/or objective advice* :**

- Improve their **understanding of financial products and concepts**
- Develop the **skills and confidence**
- Become more **aware of financial risks and opportunities**
- Make **informed choices**, to know where to go for help, and take other **effective actions**
- To improve **financial wellbeing**

Financial education
(OECD, 2005; G20/APEC, 2012)

Financial literacy
(OECD; G20, APEC, 2012)

- **A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being**



A changing financial landscape with implications for consumers and small businesses

An evolving financial landscape

More inclusive
But room for improvement

uncertain futures and more individual responsibility for risks and their financing

Increased digitalisation of life and finance



Enabling and empowering tools are needed to avoid negative spill overs

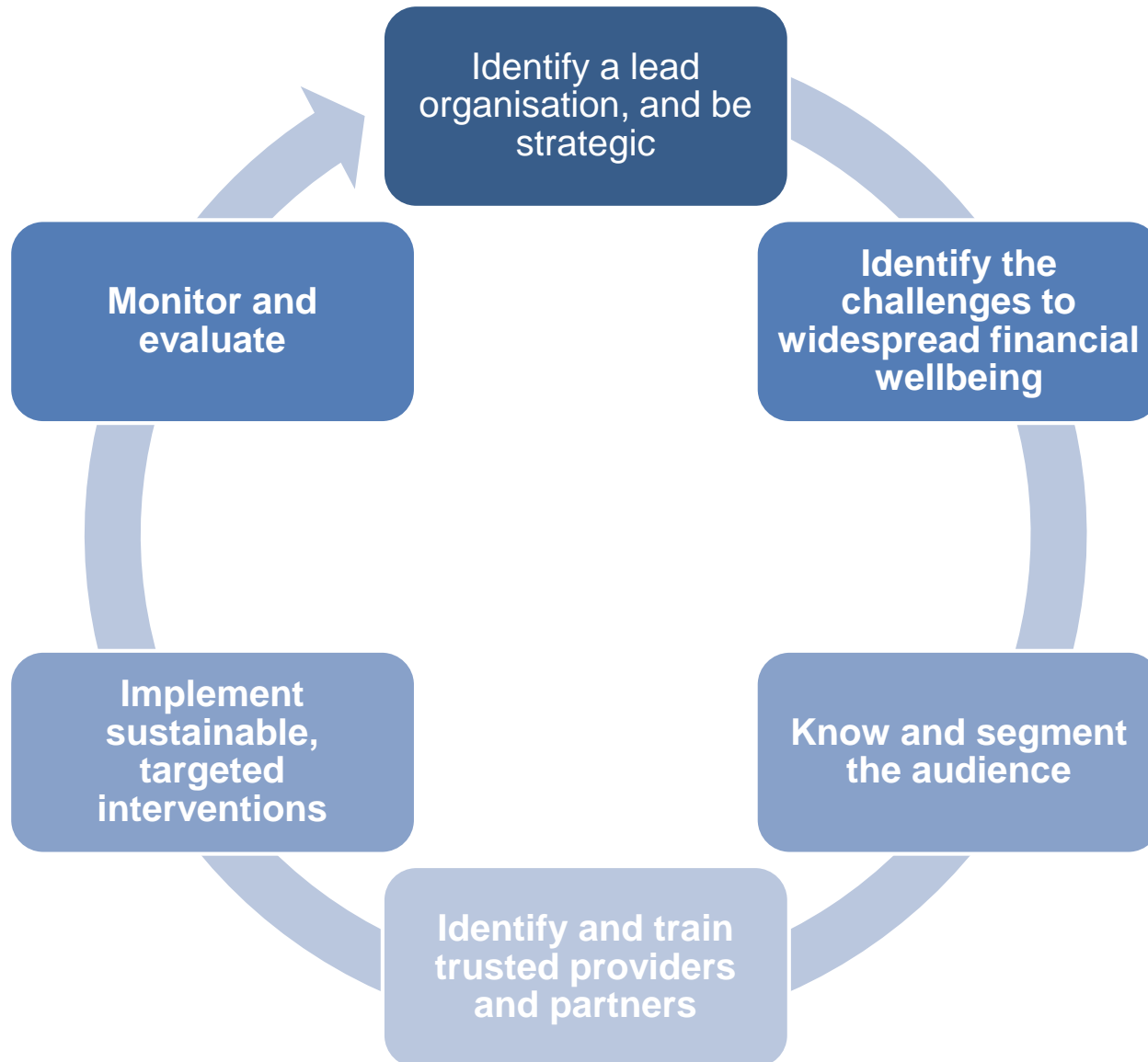
Individuals and SMEs may face exclusion, over indebtedness, fraud & mis-selling

The financial industry can miss market opportunities if people avoid interacting with financial services

Governments may find that the remedy to poor financial decisions is more costly than prevention



Key elements to an effective approach





Conclusion

- Establishing the policy framework for the financial system, across objectives, monitoring, policy design and implementation, is critical.
- Well-functioning sovereign bond markets are vitally important from which to establish stable pricing of financing for the economy across the yield curve.
- To ensure resilient, efficient, and fair markets, financial consumer protection and financial education are essential.
- OECD perspective and expertise, through publications, conferences, and capacity building, can help support authorities that wish to strengthen their financial markets.



APPENDIX



OECD/International Network on Financial Education (INFE) Project on Financial Education

Work started in 2002. Serviced by 2 OECD Committees

INFE created in 2008

120 economies
approx 250 public
authorities

A technical
committee

An advisory board

Outreach to other communities through

INFE Research
Committee

Partnerships with
NGOS and
private sector

Global and regional policy platforms and roundtables

Asia

Latin America

Eurasia and
Southeast Europe

→ **Next meeting and Global Symposium in Cape Town, RSA, 21-24 May**



Effective approaches designed to shift the needle

- Determine the main challenges – collect data, gather evidence, identify priorities.
- Be strategic - create a nationally coordinated strategy to address the issues identified.
- Evaluate success,
make changes
where necessary.

Sources :

8 OECD and OECD/INFE POLICY INSTRUMENTS
OECD/INFE SURVEYS, PISA RESULTS, IMPACT
EVALUATION
OECD/INFE REGIONAL REPORTS ON FINANCIAL
EDUCATION
(in AFRICA, ASIA, LATIN AMERICA, EUROPE)
OECD research WORKING PAPERS