Financial Literacy: Role of BSEC

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Abstract

Financial literacy has been the subject of close attention by regulators and researchers over recent decade particularly for retail investors in the stock to make informed judgments and decision as the stock market is becoming increasingly complex and diverse. This is not only important for retail investors, but also for institutional investors such as mutual funds and merchant bankers, stock brokers/dealers. Major failures in the stock market in many countries have been attributed to poor financial literacy of both retail investors and institutional investors in terms of investment and decision and resource allocation. International Organisation of Securities Commissions (IOSCO) and researchers have recognised that investors can be protected by enhancing their financial knowledge using different teaching and learning methods. The securities regulators across the world including Bangladesh Securities and Exchange Commission have emphasized to promote investors education and financial literacy. The method of delivering financial literacy program varies across the audiences in different jurisdictions. There are also instances that other regulators such as central bank, insurance regulators, retirement fund commission and ministry of finance and ministry of education provide financial literacy program jointly with the securities regulator. This article highlights the demand for participation in national strategy to enhance financial literacy across the country.

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Introduction

The capital market in Bangladesh currently has around 2 million investors, many of whom have limited financial literacy. With a growing interest in the development of the capital market in Bangladesh and investor's lack of financial knowledge have heightened the need for promoting financial literacy. Bangladesh Securities and Exchange Commission (BSEC), the regulator of the country's capital market, has taken a timely initiative to enhance investors' awareness on financial literacy. This article attempts to provide an overview of financial literacy and the role of regulators of some in promoting financial literacy and a sound financial market. The purpose of this article is to understand the fundamental of financial literacy and the role of regulators in this regard. To understand the fundamental of financial literacy, the article first discusses definition of financial literacy provided by different organization and scholars. The article also provides a brief discussion on the role of regulators in promoting financial literacy in different jurisdiction and highlights the need for a national strategy.

What does financial literacy mean?

The term 'financial literacy' is a wide-ranging concept, not just limited to understanding to determine the rate of return on investment in securities. This refers to different things to different people in different perspective. There is no a single definition that captures the broader concept of financial literacy. Therefore, different organisations and scholars have provided various definitions. OECD defines financial literacy as '*the process by which financial consumers/investors improve their understanding about the financial products, concepts, risk and through information, instructions and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for the help, and to take other effective actions to improve their financial well-being'*. OECD's definition is not only focused on in financial products, but also concerned with broader aspects of financial well-being of a person which includes saving, budgeting, investing in non-financial product, banking and insurance and overall financial planning. This represents a reasonable reflection of the key elements that are generally agreed should be included. It is important, in particular, to note that this definition goes beyond financial knowledge to include attitudes and behaviour. Financial capability is often used in place of financial literacy because it more clearly includes these additional elements beyond knowledge. Lusardi and Mitchell also define financial literacy with a broader perspective as *"peoples' ability to process economic information and make informed decisions about financial planning, wealth accumulation, pensions, and debt."* Many others refer 'financial literacy' to knowledge and skills of financial consumers, which help, make financial decisions for their well-being.

International Organization of Securities Commissions (IOSCO), the global standard setter for the securities markets, views financial literacy focusing education and information needs of individuals (i.e. retail investors') who participate in the securities markets. IOSCO defines financial literacy as the "*understanding ordinary investors have of market principles, instruments, organizations and regulations*." IOSCO recognizes financial literacy as protection and since the main task of regulators is investors' protection, the organization emphasizes on the role of regulators in this respect. However, IOSCO reports that some countries have broader aspects with respect to financial literacy and while others are concerned with education of investors particularly in securities market. It is also evident that in some jurisdictions securities regulators and other organisation such as central bank, insurance regulators, ministry of primary education have been promoting financial literacy together.

The World Bank (WB) is a global financial institution that provides financial and technical assistance to countries around the world. One of the key areas of focus for the World Bank is financial literacy, which it sees as an essential component of economic development and poverty reduction. The World Bank defines financial literacy as *the ability to use knowledge and skills to make informed and effective decisions regarding the use and management of money.* This includes *understanding financial products and services, managing personal finances, and making informed investment decisions.* The World Bank recognizes that financial literacy is particularly important for low-income and disadvantaged populations, who often lack access to formal financial services and may be more vulnerable to financial exploitation. In order to promote financial literacy, the World Bank supports a range of programs and initiatives, including financial education programs for schools and communities, financial inclusion initiatives to expand access to financial services, and policy reforms to promote financial consumer protection and responsible financial behaviour. The World Bank also works with governments, financial institutions, and other stakeholders to develop and implement effective strategies for promoting financial literacy and improving financial outcomes for individuals and communities around the world.

Why Regulators are Central in Financial Literacy Related Initiatives?

Role of regulators in promoting financial literacy is critical in educating individuals. There is no one-size-fits-all model for investor education and financial literacy programs. Strategy towards literacy program is subject to the country's mission and the level of financial literacy. According to the survey of Standard & Poor's in 2018, financial literacy stands the highest in Norway, Denmark, and Sweden, all with a financial literacy rate of 71%. These countries are followed by the Netherlands, Canada, and Finland, which have a financial literacy rate of 68%. On the other hand, the survey found that Yemen had the lowest financial literacy rate, with only 13% of adults having a basic understanding of financial concepts. Other countries with low financial literacy rates include Afghanistan (14%), South Sudan (16%), and Palestine (17%). The adults having basic understanding of financial concepts in Bangladesh 25%, India 24%, Pakistan 26% and Sri Lanka 35%[1].

Regulators have the unique ability and expertise to "look inside the securities industry" to identify and understand factors that shape market outcomes and business models, including structural and other competition issues, information problems and misaligned incentives. Through rule-making, supervision, and enforcement powers, regulators have the unique ability and expertise to look inside the securities industry to identify and understand factors that shape market outcomes and business models, including structural and other competition issues, information problems, and misaligned incentives. However, the most important reason that puts regulators at the core of financial literacy related actions is based on principle 4, key issue 5 of the International Organization of Securities Commissions' (IOSCO) principles, which asserts: "Regulators should play an active role in the education of investors and other market participants."

IOSCO has put forward the following main reasons to explain why regulators are central in financial literacy related actions:

a. ***Independent and unbiased***: Securities regulators are uniquely positioned to provide unbiased investor education, including, for example, information and tools to help retail

[1] S&P measures the label of financial literacy based on questions and answers related to four fundamental concepts for financial decision-making: 1. basic numeracy, 2. interest compounding, 3. inflation, and 4. risk diversification.

investors understand investment products, work more effectively with intermediaries and take steps to avoid falling victim to fraud.

b. ***Access to expertise and data***: Regulators have extensive expertise and experience in securities, market structure, and investment product regulation.

c. ***Unique insights into workings of the markets***: Securities regulators can leverage this experience and insight to develop targeted investor education programs.

d. ***Direct impact through regulatory action***: A wide range of tools give securities regulators the flexibility to determine the most appropriate approach to address investor protection, whether it is through investor education and financial literacy programs, and/or regulatory action.

e. ***Well positioned to take on a leadership role***: As part of national and local strategies, securities regulators may have opportunities to take on key leadership roles in specific areas of investor education and work in partnership with other organizations.

f. ***Investor Protection:*** The primary role of regulators is to protect investors, and financial literacy plays a key role in helping investors make informed decisions and avoid scams or fraud.

g. ***Market Integrity:*** Financial literacy can help maintain market integrity by promoting transparency, accountability, and fair competition among financial service providers.

h. ***Financial Stability***: Improving financial literacy can help reduce the likelihood of financial crises and promote overall economic stability.

i. ***Inclusive Growth:*** Financial literacy can promote inclusive growth by increasing access to financial services and helping individuals make the most of their financial resources.

j. ***Financial Innovation:*** As financial products and services become more complex, financial literacy is increasingly important to help individuals understand the risks and benefits of different options.

Initiatives in promoting financial literacy around the world

Emphasizing the need for financial literacy, many countries both developed and developing, have launched financial literacy programs. The OECD has brought out following recommendations on Principles and Good practices for financial awareness:

a. Governments and all stakeholders concerned should promote unbiased, fair and coordinated financial education.

b. Financial education should start at school, for people to be educated as early as possible.
c. Financial education should be part of the good governance of financial institutions whose accountability and responsibility should be encouraged.
d. Financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed.
e. Financial institutions should be encouraged to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences; small print and abstruse documentation should be discouraged.
f. Financial education programmes should focus particularly on important life-planning aspects, such as, basic savings, debt, insurance and pensions.
g. Programmes should be oriented towards financial capacity building, appropriately targeted on specific groups, and made as personalised as possible.
h. Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pension schemes.
i. National campaigns, specific websites, free information services, and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.

It is now universally recognised as a core component of the financial empowerment of individuals and the overall stability of the financial system. Three sets of high-level principles endorsed by G20 Leaders reflect this: Innovative Financial Inclusion (2010), Financial Consumer Protection (2011), and National Strategies for Financial Education (2012). In addition, in 2016, a new set of high-level principles on Digital Financial Inclusion were approved by G20 Leaders. Principle 6 recognises the importance and relevance of financial literacy competencies to allow consumers and small businesses (and especially groups at risk or vulnerable) to take full advantage of the increasingly digitalised financial landscape. Following OECD principles, many countries like Czech Republic, Netherlands, New Zealand, Spain, and UK have already implemented National Strategy for Financial Education, while many other countries are in the process of formulation and implementation. For example, India has under taken five-year strategic action plan to enhance literacy label in the country by:

a. Incorporating basic financial education in school curricula up to senior secondary level.
b. Creating awareness about consumer protection and grievances redressal machinery available in the country.

c. Delivering financial education materials by trained persons in a format suitable to each target group.

d. Undertaking measure through various stakeholders Securities and Exchange Board of India (SEBI), Reserve Bank of India, Insurance Regulator, Insurance Regulatory and Development authority and Pension Fund Regulatory and Development Authority.

e. Establishing initial contact with 500 million adults, educating them on key saving, protection and investment related products so that they are empowered to take prudent financial decisions.

IOSCO (International Organization of Securities Commissions) has published a set of recommendations on principles for investor education and protection. These recommendations are designed to help securities regulators and other stakeholders promote investor education and protection. The recommendations are as follows:

a. Develop a comprehensive investor education and protection strategy: Securities regulators should develop a comprehensive investor education and protection strategy that is tailored to the needs of their local market and that takes into account the broader national policy context.

b. Promote a culture of investor education and protection: Securities regulators should promote a culture of investor education and protection by engaging with key stakeholders, such as industry participants, investor organizations, and the media.

c. Foster financial capability and empowerment: Securities regulators should foster financial capability and empowerment by providing investors with the knowledge, skills, and tools they need to make informed investment decisions.

d. Target vulnerable investors: Securities regulators should target vulnerable investors, such as seniors and those with lower financial literacy, by developing tailored educational materials and outreach programs.

e. Promote financial education in schools: Securities regulators should work with education authorities to promote financial education in schools, from primary to tertiary levels, as a means of building a culture of investor education.

f. Develop investor-focused disclosure: Securities regulators should develop investor-focused disclosure requirements to ensure that investors have access to relevant and understandable information to make informed investment decisions.

g. Promote fair and transparent markets: Securities regulators should promote fair and transparent markets by ensuring that there is a level playing field for all investors, and

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that investor protection measures are in place, including clear rules and effective enforcement mechanisms.

h. Monitor and evaluate the effectiveness of investor education and protection initiatives: Securities regulators should monitor and evaluate the effectiveness of their investor education and protection initiatives on an ongoing basis to ensure that they are achieving their intended outcomes.

Overall, IOSCO's recommendations emphasize the importance of investor education and protection in promoting fair and transparent markets and in protecting the interests of investors. By implementing these principles, securities regulators and other stakeholders can help to ensure that investors have the knowledge, skills, and tools they need to make informed investment decisions and to participate effectively in financial markets.

The World Bank has published a set of recommendations on financial education and consumer protection. These recommendations are designed to help governments and other stakeholders promote financial literacy and consumer protection. The recommendations are as follows:

a. Develop a national strategy for financial education: Governments should develop a national strategy for financial education that is based on an assessment of the country's financial literacy needs and that sets clear goals, identifies key stakeholders, and establishes a monitoring and evaluation framework.
b. Integrate financial education into school curricula: Financial education should be integrated into school curricula at all levels, from primary to tertiary education, and should be designed to be relevant and engaging for students.
c. Develop targeted financial education programs: Governments and other stakeholders should develop targeted financial education programs for specific groups, such as women, low-income households, and small and medium-sized enterprises.
d. Promote financial inclusion: Financial education should be linked to efforts to promote financial inclusion, such as expanding access to financial services and products, and addressing barriers to financial inclusion, such as lack of documentation and access to financial education.
e. Strengthen consumer protection measures: Governments should strengthen consumer protection measures, such as rules on disclosure and transparency, and should establish effective redress mechanisms for consumers who are harmed by financial products and services.

f. Promote financial consumer empowerment: Consumers should be provided with the tools and resources they need to enhance their financial capability, such as access to information, counseling, and advice.

g. Engage the private sector: The private sector should be engaged in efforts to promote financial education and consumer protection, for example, by offering financial education programs to their employees, and by developing responsible financial products and services.

h. Foster international cooperation: Governments should foster international cooperation on financial education and consumer protection, for example, by sharing best practices and collaborating on research.

Overall, the World Bank's recommendations highlight the importance of financial education and consumer protection in promoting financial inclusion and sustainable economic growth. By implementing these principles and good practices, governments and other stakeholders can help individuals and families make informed financial decisions, improve their financial well-being, and contribute to economic growth and stability.

Securities and Exchange Board of India (SEBI), Reserve Bank of India, Insurance Regulator, Insurance Regulatory and Development authority and Pension Fund Regulatory and Development Authority have undertaken various measures to spread financial literacy awareness across the nation to various audience groups such as, school students, college students, working executives, middle income group, home makers, retired personnel by appointing resource person throughout the country.

New Zealand launched its first national strategy in 2008. The National Strategy was a collective effort of many individuals and organizations who worked together with a common vision, mission and focus. The 2008 vision was "Personal financial wellbeing for New Zealanders." Its mission was to ensure that "New Zealanders are financially well-educated and can make informed financial decisions throughout their lives" and its focuses were "delivering quality, extending delivery, sharing what works, working together." The document made clear recommendations to all interested sectors about how officials can achieve the greatest impact on personal financial decision-making for all New Zealanders over the long term.

In the 2014 strategy, everything has changed as the outcome of the previous strategy were quite satisfactory. In the new strategy, the vision of financial education is "Everyone is able to ahead financially". The objectives of the new strategy are:

a. Cultural shift where it is easy to talk about money;
b. Effective financial learning throughout life;
c. Everyone has a current financial plan, and is prepared for the unexpected;
d. People make smart use of debt; and
e. Everyone saving and investing.

Therefore, in New Zealand, money has become an easy topic of conversation; people can talk with their partner, family and friends about money; people confidently talk with financial services providers, ask questions, and understand the choices and make judgment and decision.

Initiatives in promoting financial literacy through out the Bangladesh in respect of present National Strategy

Financial literacy is an important aspect of personal and economic development, and Bangladesh has recognized this by implementing a National Strategy for Financial Literacy (NSFL) in 2019. The NSFL aims to promote financial education and awareness among the people of Bangladesh, particularly those who are economically vulnerable and marginalized. The NSFL has four key objectives:

a. To increase awareness of financial products and services among the people of Bangladesh.
b. To improve the ability of individuals to make informed financial decisions.
c. To promote financial inclusion and improve access to financial services.
d. To enhance the capacity of financial service providers to deliver financial education and literacy programs.

To achieve these objectives, the NSFL has outlined a number of strategies and action plans, including:

a. Developing and implementing a national financial literacy curriculum for schools and colleges.
b. Establishing a national financial literacy council to coordinate and monitor financial education activities across the country.
c. Conducting research and surveys to identify the financial education needs of different segments of the population.
d. Developing and disseminating financial education materials and resources through various channels, including mass media, social media, and mobile platforms.

e. Encouraging financial service providers to incorporate financial education and literacy into their products and services.

f. Providing training and capacity building for financial educators and service providers.

The NSFL is a comprehensive strategy that seeks to promote financial literacy and inclusion in Bangladesh, and has the potential to positively impact the economic well-being of the people of the country.

Steps are taken in promoting financial literacy by BSEC

The Bangladesh Securities and Exchange Commission (BSEC) is the regulator of the country's capital markets, and it has taken several steps to improve financial literacy in Bangladesh. Here are some of the notable steps taken by the BSEC:

a. Launching the Investor Awareness Program: The BSEC has launched number of investor awareness program to educate the public about capital markets and investment opportunities and other financial literacy. The program includes a series of workshops, seminars, district level financial literacy conferences and training sessions to promote financial literacy and awareness among investors.

b. Publishing Investor Education Materials: The BSEC has published a variety of educational materials for investors, including brochures, booklets, and guides. These materials cover a wide range of topics, including the basics of investing, the role of the capital markets in the economy, and the risks and rewards of different types of investments. Financial Literacy Conference at district level organized by BSEC is one of the effective ways to disseminate financial literacy and educate individuals about personal finance.

c. Requiring Disclosures: The BSEC requires publicly listed companies to disclose important financial information, such as financial statements, annual reports, and other relevant information. This information is made available to the public through the BSEC's website and other channels.

d. Strengthening Investor Protection: The BSEC has taken steps to strengthen investor protection by introducing regulations that require greater transparency, accountability, and ethical conduct in the capital markets. This includes measures to prevent insider trading, market manipulation, and other forms of misconduct.

e. Developing Online Education Tools: The BSEC has developed an online education tool(website) to make it easier for investors to access information and learn about the capital markets. This tool provides access to educational materials, news, and other resources.

Overall, the BSEC's efforts to improve financial literacy in Bangladesh have helped to promote greater awareness and understanding of the capital markets, and have helped to make it easier for investors to access information and make informed investment decisions.

Suggestions and Conclusion

Financial literacy is a way by which investors can enhance their understanding about financial concepts, markets, risk and return on investment, financial products, prepare for unexpected results from investment, and overall financial planning which can improve their well-being and reduce financial distress. Bangladesh Securities and Exchange Commission (BSEC) has first recognised the need for improving financial knowledge of individuals who invest in stock market, and is promoting financial literacy across the country. The National Strategy for Financial Literacy in Bangladesh is an important framework that can help to promote financial literacy and inclusion in the country. The strategy provides a roadmap for a coordinated and comprehensive approach to addressing the financial education needs of different segments of the population, and can help to strengthen the financial sector by promoting greater awareness, understanding, and participation in financial activities. BSEC has also taken various steps to improve investors' awareness in financial literacy that has been much appreciated by the current government. BSEC has a massive plan to increase financial literacy program around the country despite its budgetary constraints.

To ensure the successful implementation of the National Strategy for Financial Literacy in Bangladesh, it is important to take the following suggestions into consideration:

a. Building partnerships: Collaboration between different stakeholders, including government agencies, financial service providers, NGOs, and academia, is essential to ensure the effective implementation of the strategy. Building partnerships can help to leverage resources and expertise, and can ensure that the strategy is tailored to the needs and interests of different communities.
b. Include relevant topics in National Curriculum: By incorporating relevant topics into the curriculum, NCTB can play a vital role in ensuring that the next generation is equipped with the knowledge and skills they need to succeed in an increasingly complex financial world. NCTB can help young people develop the skills they need to make informed decisions about their financial futures, and promote a culture of financial responsibility and resilience. This could include basic financial concepts such

as budgeting, saving, and investing, as well as more advanced topics such as financial planning, credit, and risk management.

c. Teaching Financial Literacy to Kids: Making easy access of free online games, activities, and lesson plans for children of all ages for teaching financial literacy to kids. Specially featured website can offer lesson plans, games, and activities that can be used in the primary and secondary under the supervision of concern authority by using government provided online facilities in their classroom by concern professionals.

d. Targeting different segments of the population: Financial literacy needs differ across different segments of the population, including women, youth, rural communities, and marginalized groups. The strategy should take into account these differences and provide targeted interventions to address the unique financial education needs of different groups.

e. Promoting the use of technology: Technology can be a powerful tool for promoting financial literacy and inclusion, and the strategy should explore ways to leverage technology to reach a wider audience. This can include developing digital platforms, mobile apps, and other tools to deliver financial education content and information.

f. Measuring impact: It is important to establish a system for monitoring and evaluating the impact of the strategy. This can help to identify areas that require improvement and ensure that resources are being used effectively.

Overall, the successful implementation of the National Strategy for Financial Literacy in Bangladesh requires a sustained commitment from all stakeholders, and a willingness to adapt and innovate as circumstances change. By building partnerships, targeting different segments of the population, promoting the use of technology, and measuring impact, Bangladesh can achieve its goal of promoting financial literacy and inclusion, and building a more vibrant and inclusive financial sector. Therefore, this paper highlights the need for a national strategy in enhancing financial knowledge, skills and laws where other organisations i.e. Bangladesh Bank, Insurance Regulatory Authority, Ministry of Finance, Ministry of Education, NGOs and various financial institutions can promote financial literacy simultaneously across the nation.

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