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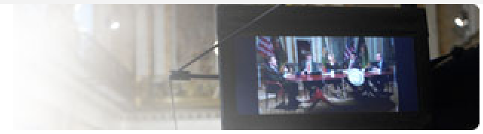

Remarks by Assistant Secretary for Financial Institutions Cyrus Amir-Mokri at a Meeting of the President's Advisory Council on Financial Capability

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As Prepared for Delivery

WASHINGTON – Good morning, everyone. Welcome to the Treasury Department. Thank you for joining us for the seventh meeting of the President's Advisory Council on Financial Capability. And, as always, I want to give special thanks to the members of the Council for their dedication, hard work, and enthusiasm.

At the outset, I would like briefly to mention one important item. The Council has been interested in the role of technology in promoting financial capability. Recently, we at Treasury launched the MyMoneyAppUp Challenge in partnership with two non-profit organizations, the D2D Fund, and Center for Financial Services Innovation (CFSI). The concept behind this mobile apps challenge was a recommendation by the Council. The Challenge engages the public to send us ideas and mobile app designs that will enhance financial capability, and I encourage everyone to go to the website at MyMoneyAppUp.Challenge.gov for more information. We look forward to broad public participation.

Now, let me offer a few thoughts about today's agenda, which is focused on financial capability research. The field of financial literacy is sometimes criticized for spending substantial resources on programs with insufficient regard to whether those programs actually yield the desired improvement in financial capability. Without passing judgment on the effectiveness of any particular program, I think we would all agree that research should be an integral part of our financial capability strategy. Today's agenda, I believe, further underscores this orientation.

Research is important to all phases of our efforts to develop policy on financial capability, and this research starts with our attempts to define the problems we are trying to solve. Research can, and should, help us to identify the particular issues or situations that need our focus, and it also can help us to set policy priorities. For example, research can identify the populations on which to concentrate our efforts, the life situations and financial decisions that are most relevant for developing financial capability, and the particular skills that our citizens need to face the important financial decisions that they make during their lives.

It is by virtue of important research such as FINRA's 2009 National Survey on Financial Capability in the United States and Treasury's involvement in this work that we know that too often there is a gap between individuals' perceptions of financial knowledge and reality. Thirty-seven percent of respondents in the survey rated their financial aptitude as being high. But when presented with basic questions measuring their understanding of interest rates, inflation, and risk diversification, less than one-third were able to answer all questions correctly. When the subjects of bond prices and mortgages were added, the proportion of those able to answer all questions correctly dropped to less than 10 percent. The survey report also highlights that young individuals display much lower financial literacy than older individuals. For example, twice as many individuals ages 18-29 failed to correctly answer a question about inflation when compared to individuals over age 30. From research done a decade ago by the Senate Banking Committee, we know that the fastest-growing sector of bankruptcy filers had been individuals under the age of 25. Thus, this kind of research explains why the President's Advisory Council on Financial Capability has chosen to focus its efforts on financial education in our schools. We look forward to FINRA's 2012 survey.

Research also has given us valuable insights about savings habits, which is another area of the Council's work on financial capability, focusing on the retiree communities of today and tomorrow. A recent retirement survey reveals that 60 percent of Generation Y respondents (ages 18-27) note that they have saved nothing for retirement while 33 percent of Generation X and 38 percent of Baby Boomers have contributed to accounts.[1]

Not only does research help us to identify the subject matter that should be our policy focus, it can also help us to determine the measures that should be taken to address the problems. For example, research reveals that simple financial numeracy is very important and that it may be a sufficient measure in some cases. Generally, it appears that those who lack financially numeracy skills are less likely to plan for retirement and to accumulate retirement wealth. A 2010 National Endowment for Financial Education study of college students found, moreover, that students from states where a financial education course was required had the highest reported financial knowledge and were more likely to display positive financial behavior. Specifically, compared to other students, these young adults were more likely to save, less likely to make late credit card payments, less likely to be compulsive buyers, and more likely to be willing to take average financial risk.[2] From these research findings, policymakers might consider instituting more financial education courses in schools.

In other contexts, financial numeracy may not be sufficient. Sometimes, information is too inaccessible and the impact of the financial decision too remote. In such circumstances, policy goals could be promoted by other enabling tools. For example, a 2007 paper by the Vanguard Center for Retirement Research found that where new employees were automatically signed up in employer-supported pension plans, 86 percent stayed in the plan, even when they had the option to withdraw. By contrast, when new employees were informed about the corporate pension plan and simply invited to join, only 45 percent did so. Thus, to encourage savings, for example, sometimes "opt out" policies may work better than "opt in" policies, without compromising individual choice.

Of course, it is also important to appreciate the limits of behavioral approaches. With reference to this retirement savings example, the fact that more persons stay in the savings program does not necessarily imply that those individuals will make good financial decisions in other aspects of their lives. We should not mistake program successes with financial capability. This is a possible interpretation of the research, which shows that while automatic enrollments for employer-based retirement plans result in increased employee participation, these individuals save less money than they would if they enrolled voluntarily.

Therefore, in analyzing measures to promote financial capability, we must remain mindful of the complexity and variety of the challenges and situations we face. Often, we will have to look to incorporating a combination of approaches and best practices in order to further our financial capability goals. This fact implies, moreover, that research, criteria for success, and program evaluation should become part and parcel of implementing measures to enhance financial capability. We should continue to ask whether the steps we are taking are actually working to improve financial capability. We should look to develop objective tracking methods to remain cognizant of whether our desired outcomes and targets are being met.

Although there is substantial research in some areas as to what measures are effective in promoting financial capability, we are in need of research in other areas. Of particular interest and significance is research around the impact of technology. Not only do all of our lives increasingly revolve around technology, our younger generations have lived in a world where the vehicles of learning, social communication, business interaction, and idea generation are increasingly technology-driven. We may not be able to deliver financial capability if we overlook the impact and promise of technology. Let me cite a few particulars.

Consider the potential impact of mobile technology as a means for improving financial literacy and capability. There are currently 6.1 billion mobile phone subscriptions in the world, with 953 million of them being smartphone subscriptions. It is projected that within five years, more than half of mobile phone users will be using smartphones. With this proliferation in personal technological devices, global mobile traffic is growing at rapid speeds and currently comprises about 10 percent of all global Internet traffic. Mobile use is directly impacting consumer behavior and financial choices. Today, mobile devices are accounting for 8 percent of e-commerce within the United States and are helping to accelerate revenues in the market.

Along with mobile device usage, new technology platforms are attempting to aggregate data and services in innovative, consumer-friendly ways to improve financial capability. For instance, a new financial capability tool has been created to allow individuals to make purchases with a dedicated credit card, deposit checks using his or her smartphone, set up direct deposits, earn interest, pay bills, transfer money, and withdraw cash from ATMs. This application can also help individuals to categorize transactions, understand spending in real time, and make all activities searchable. Likewise, other applications are being developed to help individuals manage their spending and achieve their financial goals by, for example, allowing customers to check their spending against preset budgets or providing daily balance alerts and warnings when monthly spending limits are about to be surpassed. Whether, how, and to what extent, these new vehicles will help improve financial capability will be an important area for further study.

I want to make special mention of the panelists who have joined us today. John Lynch, Annamaria Lusardi, and Dick Thaler are among the country's most dynamic thought leaders and experts in behavioral economics, financial education, and consumer psychology. Additionally, we are pleased to be joined by Alison Borland, of Aon Hewitt, who will provide insight into research sponsored by the corporate sector. We appreciate you all taking the time to be here with us this morning.

Again, to the Council – thank you all for your efforts. The President and the Secretary of the Treasury are very interested in the important work you are doing. Your work on financial capability concerns nothing less than the fundamental issues of human dignity and social mobility. Today, in the United States, many of us are thinking about whether our society continues sufficiently to support the opportunity for individuals to make better lives for themselves. Improved financial capability will allow for better financial decisions, which, in turn, will allow individuals to enjoy improved financial flexibility. In this way, financial capability can become an important tool to avoid, if not reduce, any opportunity gap that might exist.

It is my privilege now to turn it over to the Chairman of the President's Advisory Council on Financial Capability, John Rogers.

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[1] The 2011 Scottrade American Retirement Survey, 2011.
[2] "Personal Finance Courses in High Schools on the Rise." NEFE, 2010.