



BANCA D'ITALIA
EUROSISTEMA

**2nd Workshop on Behavioural Financial
Regulation and Policy
Herbert Simon Society and Bank of Italy**

Opening remarks by Salvatore Rossi
Senior Deputy Governor of the Bank of Italy
and President of the Institute for the Supervision of Insurance (IVASS)

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Today we mark the second edition of the Workshop on Behavioural Financial Regulation and Policy here at the Bank of Italy. Part of it will be dedicated to the presentation and discussion of the BeFAIRLY report, which is ambitiously titled “The Behavioural Finance Revolution: A New Approach to Financial Policies and Regulations” (edited by Viale, Mousavi, Alemanni and Filotto).

The remaining part of the workshop will be dedicated to issues that are very dear to us regulators: financial education and risk literacy. Subjects that, in the wider context of a consumer protection framework, have seen in recent years some growing and fascinating research advancements, as well as an ever increasing body of evidence coming from implemented policies around the world.

In introducing the first edition of this workshop one year ago I suggested that behavioral economics had irrevocably modified the way we frame the real-world economic phenomena in our thinking. And that the debate between those – like you – more eager to integrate or replace the “standard” theory and those that are resisting it, has been beneficial to all its participants, whichever the field of allegiance.

I stand by this view. The more an agreed-upon body of knowledge in behavioral economic sciences consolidates¹, the more defined and robust would be the set of non-traditional regulatory tools. Especially when considering the workings of the banking and insurance markets, any policy intervention should be well understandable by the industry and the general public.

¹ See for example the survey contributions to the recent *Handbook of Behavioral Economics – Foundations and Applications*, (October 2018), Elsevier, Bernheim D., S. DellaVigna and D. Laibson Eds.

It is in this context that an open-ended discussion between regulators, independent academics and the industry, such as the one we are going to experience today, is so valuable. On the one hand the drive of the industry towards value-creating innovations produces what in some instances could be labelled “facts before the theory”. On the other hand the findings of behavioral theorists helps making sense of such data.

For example, recent research in behavioral corporate finance has greatly expanded our understanding of managerial conducts. It has shown that even top managers, a rather sophisticated group of individuals, are not immune to biases and seemingly irrational decision making, and that their traits and life experiences are priced by the markets².

Even more relevant are behavioral traits in household finance decisions. Actual investment and consumption decisions that are based on mental accounting³, present bias⁴ and reference point consumption⁵, have been recurrently mentioned as possible explanations for “non-traditional” agents’ behavior that is found in the data.

We at the Bank of Italy and IVASS (the Italian regulation and supervision authority for insurance), in our consumer protection activity, consider now attentively the insight of behavioral economics.

Years ago we were relying mainly on transparency requirements. But full disclosure, while responding to information asymmetry, was not addressing behavioral bias.

In the real world consumers have behavioral weakness and difficulty in processing a vast amount of information. On top of that, households’ financial

² See for example Schoar, A. and L. Zuo, (2016), "Does the Market Value CEO Styles?", *American Economic Review*, 106 (5), and Malmendier U., (2018), “Behavioral Corporate Finance”, in Bernheim D., S. DellaVigna and D. Laibson, Eds.

³ See Thaler, R.H., (1985), “Mental accounting and consumer choice”, *Marketing Science*, 4 (3), and the descending literature.

⁴ For example, Laibson, D., (1997), “Golden eggs and hyperbolic discounting”, *Quarterly Journal of Economics*, 112 (2).

⁵ See Koszegi, B. and M. Rabin, (2009), “Reference-dependent consumption plans”, *American Economic Review*, 99 (3).

decisions are taken so rarely that in fact seldom people learn from their direct experience.

Therefore our policy approach has been re-oriented, in both regulation and enforcement. Formal compliance has given way to a more substantial approach, requesting producers to be fair in their relations to customers.

We have also promoted the creation of alternative dispute resolution procedures, simple, rapid and effective. Arbitro Bancario e Finanziario has been a success: last year over 30.000 complaints were received; the analogous entity for insurance, Arbitro Assicurativo, will be established presumably in the early 2020.

However, financial regulation and good supervision could be not enough if consumers do not really understand their financial needs and cannot operate properly their rights: effective financial education is a crucial life skill in order to make financial decisions consistent with personal and family needs.

In today's digital age, financial markets offer everybody easy access to a wide range of financial services and products. But digitalization is two-faced: it can emphasize some behavioral biases, such as short-termism and impatience, but could nudge people into specific virtuous action. The final balance will be positive only if consumers are financially literate.

Building a sound financial education is complex, as it requires a long-life approach on three challenging dimensions: knowledge, attitude, and behavior. Financial education goes beyond than just providing information, it is meant to change those three dimensions, in order for people to achieve their financial well-being.

Best practices around the world show that experiential learning (such as games, simulations and role plays) helps acquire, retain and put in practice new information.

Since 2008 in our main program for students, "Educazione finanziaria a scuola", we have progressively moved from information to capability, fostering a value-driven approach to economic issues, stimulating the participants' interest by suggesting "I need it because...". We have been using movies as

a trigger for debating financial issues and behavioral biases. We have also introduced contests and prizes. Our competition “Let’s design a banknote” invites Italian primary and secondary school students to design an imaginary banknote on a given theme; for the current edition, the theme is “money and emotions”. The prize-winning classes receive an amount of money for their school. We will also contribute to the First edition of the Italian Economic and Finance Olympiad.

Adults are more challenging: they tend to acquire just the knowledge and skills they need for a specific purpose and their behavior tend to be well-rooted. Furthermore, adults are an extremely heterogeneous population. For example, some immigrants grew up where saving food meant wasting it. Thus the concept of saving must be explained to them with a special care.

Let me also add that IVASS is now planning an exercise to measure insurance literacy, a still underexplored dimension of financial capability; even if it is a novel concept, it could become an international benchmark.

I would like to stress that, as international experience shows, single institutions cannot fill all the gaps: a nationally-coordinated approach to financial education is a key factor for success. Financial education needs an interdisciplinary approach and strong cooperation among many stakeholders, including academia, private sector and civil society, as well as the public sector, so that all the points of view can be taken into account, from pedagogy to neuro-economy.

Last October, some preliminary evidence of the Survey of financial education initiatives in Italy in the years 2015-17 was released. The Survey shows a very fragmented offer of financial education initiatives.

As authorities involved in the diffusion of financial literacy, over time we advocated the implementation of a national strategy for financial education, recognizing its crucial role in ensuring a more inclusive growth and gender equality. We therefore strongly welcomed the establishment of the Committee on financial education in August 2017.

Since its inception, the Committee has been very active, also thanks to the energy of its Director Annamaria Lusardi, whom I want to thank on behalf

of all of us, and the forward-thinking choice to make the most of the existing experience in financial literacy, in Italy and abroad. So far the Committee has achieved many important results.

Among them, the Committee defined the Italian National Strategy for Financial Education (NSFE), which defines vision, mission, goals and guidelines. The strategy promotes a holistic approach to financial well-being, also including insurance and social security perspectives. In the strategy, the Committee has been able to take advantage from international experiences – as Annamaria says quoting Isaac Newton “standing on the shoulders of giants” – and building on all information available for our country, such as Bank of Italy survey on adult financial literacy⁶.

We are confident that the Committee will play a constructive and pivotal role in coordinating all efforts in the field of financial education. The Financial Education Month, which took place last October, included over 350 initiatives nationwide: it was a good starting point.

There is a further element to keep in mind: we need robust evaluations to identify areas for improvement and to be sure that we make good use of resources. Indeed, evaluation is a crucial aspect for making good financial education.

In sum, we need to exploit all available theories, empirical evidence and points of view. Much work still needs to be done, which requires a joint effort by all the actors involved: this conference is an excellent opportunity to lay the foundation of such a collaboration.

⁶ See A. di Salvatore et al, (2018), “Measuring the financial literacy of the adult population: the experience of Banca d’Italia.” *Occasional Papers*, N°435, Banca d’Italia,

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