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Misselling as a New Topic of Financial Education? A Didactic Analysis of Investment Advice after the Financial Crisis

Personal financial investments are, as a matter of course, a topic of economic education because they are a life situation which is inherently economical. In contrast, faulty advising in banks which has become focussed upon due to the extent it has played a part in the recent financial crisis is mentioned neither in curricula nor in educational text books. Numerous private funds have been exposed as unprofitable investments. One reason for this problem is to be found in the marketing staff of the banks who did not invest their customer's funds securely enough – and the customers did not notice it. What conclusions can be drawn from this for general financial education after the financial crisis?
The economic education has failed to address the topic of "faulty advising in banks" as well. On the basis of categorical economic didactics the following contribution will analyse whether one has an exemplary case here upon which students can win generalized, transferable insights. In this context, the topic of personal financial investments will be classified in an efficient manner and the risk of opportunism in advising situations will be analysed with the help of the positive principal-agent theory. The results of this analysis of informational asymmetries within financial markets give direction to the development and revision of curricula in the didactics of economic education. With the following article a sustainable theoretical fundament will be created to underscore the obligatory inclusion of this topic in curricula as well as its realisation for target groups in school text books.

Contents

Keywords:
economic education, economic literacy, financial competence, financial literacy, moral education, „Lebenssituationen-Qualifikationen-Konzept", investment advice, misselling, financial crisis, new institutional economics, principal-agent theory, signalling, screening, business ethics

1. General Financial Education after the Financial Crisis

The financial crisis unmasked a number of private financial investments as unprofitable investments. One reason for this can be found in the fact that bank employees did not invest the money as securely as their customers would have desired – and the customers did not realize this. In contrast, the "aims and forms of personal financial investments" are found as a subject in nearly all curricula and school books which deal with this subject matter have relevant chapters accordingly. In addition, the pool of available educational materials from banks and savings banks is comprehensive. But a webquest at an extensive data bank for curricula (www.lehrplaene.org) yields only one hit for the topic "investment advice" and not a single hit for the topic "misselling". Accordingly, this problem is also not discussed in school text books. It is also neither useful nor to be expected, that banks and savings banks develop educational materials. In light of this starting position it is up to the discretion of single teachers to decide whether students will be prepared for this economic situation or not. In the process the danger exists, that school instruction follows the tenor of public opinion and that it merely moralizes what actually should be analysed rationally.

On the basis of categorical economical didactics the authors will analyse in this contribution - for the first time - whether the problem of misselling in banks concerning personal financial investments should assume an obligatory position in curricula and in school text books and which categories of economic thought can be conveyed to students with the help of this topic.

In order to didactically legitimize the contents of some curricula, its societal and individual importance must initially be analysed. Therefore, the authors make an attempt in chapter two on the basis of a life situation-qualification approach to reconstruct personal financial investment and the usage of advisory services as an important, economically influenced life situation. Then it also has to be tested whether an analysis of the subject "misselling" even does belong in the domain of economics, since it is obviously also lastly an ethical problem. Therefore, it will be discussed in chapter 3 what type of fundamental domain specific contribution economic education can attempt to accomplish in clarifying the issues and the situational requirements. In light of scant lesson time and full curricula one also must account for the exemplarity of the educational content, so that the students can gain basic, essential, and structural insights. This occurs in chapter four in view of a situational analysis and in chapter five in regard to methods of problem solving.

Only when the three criteria (1) individual and societal significance, (2) original explicational contribution and (3) exemplarity are fulfilled can an educational topic said to be didactically valid to a sufficient degree. Only then can one demand that it be included in obligatory curricula plans, be prepared as a topic in school books for specific target groups of students and be made a central theme in school instruction (chapter six).

2. Personal Investment as an Economic Life Situation

Economic education rests on three guiding principles: autonomy, competence and responsibility, meaning that it is supposed to support the ability to act maturely, efficiently and responsibly in economic life situations.

The performance requirements of the situation are supposed to be reflected in subjective competencies to meet these requirements. *General financial education* concentrates on life situations that are encountered by depositors, debtors and insurance policy holders. In economic education, the *Life-Situation-Concept* (Steinmann 1997, 7) assigns the life situations „Saving/ Insuring/ Provision/ Asset formation" to the area of life called „Application of Income". This investigation focuses exclusively on the situation of the saver, wherein the life situations saving, investment and asset formation are not further distinguished for simplicity's sake.

2.1 Social Developments and Asset Formation

Over the last decade, the necessity for long term asset formation has increased – not only for all members of the German society. This is caused by the demographic change that is marked by decreasing fertility rates and higher life expectancy. The falling number of premium payers and the growing group of pensioners have led to arising financing problems within the statutory pension insurance. It has become commonly known, that the social security systems of the social state show substantial deficits, e.g. regarding the income of pensioners. According to the legislator, these deficits ought to be covered by personal retirement provisions. The formation of assets is supposed to commence with entering the working force. The political decision to supplement the statutory pension system with a capital-funded model (e.g. the so-called "Riester-Rente" and "Rürup-Rente") creates pressure on citizens to decide and act. Assuming they want to accumulate assets for retirement provision, they have to choose among the different investment products and their different suppliers.

The life situation "investment" implies high requirements from demanders, particularly considering the development on the supply side. At least for private investors, the market for financial products is intransparent: the globalisation of financial markets has led to strong growth in the number of suppliers. Via the internet, contracts can be signed equally easy with international as with domestic suppliers. Legal framework - e.g. regarding deposit protection - differ depending on the company's place of business. The deregulation of financial markets has engendered the evolution of completely new investment products. Overall, the number and variety of offered products has become unclear to a degree that complete awareness of existing investment alternatives is unattainable for personal investors. These are furthermore often highly complex in their structure, preventing a reliable assessment of risk and opportunity. Rational and sound investment decisions require expert knowledge.

2.2 Asset Formation and Financial Literacy

Is the broad population suitably qualified to cope with the demands from the market for financial products and services? Doubts are raised by all empirical studies about *Economic Literacy* which have shown considerable lack of such among the population (e.g. Würth, Klein 2001). To an even greater extent, the same will apply for their *Financial Literacy* (cf. Reifner 2006), which, however has not been subject to as much empirical research.

Financial education should enhance the ability to make investment decisions as independently, competently and responsibly as possible. The individual is independent from advice to the extent of her economic competency. A problem that he can solve herself does not require an expert but at most some information about the supply side. Such information can be obtained either from the suppliers directly, or

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from independent consumer protection institutions like *Stiftung Warentest*. Although this latter source of general consumer information increases transparency and hence improves decision making, it needs to be distinguished from customer advice that is tailored to the individual situation of the customer.

In many cases, it is neither possible nor sensible to educate the demand side in all economic fields from laymen to experts. It is even a characterising element of the modern and functionally differentiated economic world, which is marked by specialisation and division of labour, that not everyone can or needs to know everything. For efficiency reasons, the knowledge required for personal investment is hence mostly not accumulated by each personal investor, but requested from financial services companies in the form of "investment advice". Most people will therefore sooner or later demand "investment advice" and general financial education should consequently imply the preparation for the sales or counselling situation as well as develop competencies for decision making.

3. The Business-Ethical Dimension of Investment Advice

The global economic and financial crisis which originated from the US housing market is publicly discussed as a crisis of capitalism itself. It is said to have become evident once again that capitalist economic systems do not develop smoothly but cyclically and encounter crises. The frequency of crises with global effects appears to have grown rapidly in the age of globalisation (e.g. Asia-Crisis, Russian Financial Crisis, Dotcom Crisis, Global Financial Crisis). Many people furthermore consider the current crisis – more than the afore mentioned ones – to be resulting from the ethical foundations of capitalism (or the lack thereof). Adam Smith's invisible-hand-theory is questioned once again in light of the alleged market failure. On the one hand, performance-based compensation systems, specifically those of investment bankers, are discussed as having caused the crisis by stimulating their egoism towards insatiable greed, that was no longer controlled by ethical standards. On the other hand, the financial crisis has resulted in high destruction of wealth among personal investors, who, while unaware of the risks, apparently blindly followed the investment recommendations of sales associates. They feel deceived and betrayed due to the perceived abuse of their unawareness and trust. Others are said to have themselves been acting out of greed by ignoring or accepting all risk in the chase of a higher return.

The ethical dimension of the problem is not to be underestimated. Does the topic actually belong in the scope of economic education? Greed and indulgence are accounted for in theology as vices which underline the presence of a bad character! Does the problem therefore rather give reason for character education of bank employees and private investors? Should the debate about misselling in banks even be given over to economic education? In order to determine the domain specific contribution of economic education in the clarification of ethical questions concerning economic activity the following will attempt to summarize the economic ethical dimension of private investment advising.

3.1 Misselling in Banks – a Latent Risk

It is certainly rational not to make investment decisions without approaching an expert for advice when lacking the required knowledge. It is also efficient if this knowledge is not acquired by each personal investor but by experts that can then share this knowledge repeatedly. But whenever a decision depends upon external advice, it bears the risk of being accidentally or even knowingly wrong advice from "experts". This results from market intransparency which causes problems of qualification and of motivation among the sales associates in banks:

- *Qualification Problems*: Even professional "financial advisers" in banks lack complete awareness of the entire market and the specific know-how to evaluate risks and opportunities of ever changing financial products. They therefore have to rely themselves on the judgment of other experts (e.g. rating agencies, analysts within their bank). Division of labour has progressed far in this sense. Thus, sales associates sell their clients products that have been recommended, suggested or imposed on them for sale by others, without necessarilly fully understanding their structure. Consequently, they cannot evaluate risk and return reliably themselves.
- *Motivation Problems*: Financial advisers in banks can purposely take advantage of their clients' unawareness to maximise their own utility instead of their clients'. This is possible, as banks usually do not separate "advisory" and "selling" activities. The advisers are sales associates at the same time, which is why "advice" is marked with quotation marks in this paper as long as it refers to investment advice in banks. Moreover, the paper will refer to the bank's employees as sales associates rather than as advisers to illustrate that their job is primarily to sell rather than to give advice.

The danger of misselling is large when it comes to personal investment, because the institutional framework within banks has established incentives that expose sales associates to a conflict of interest. First of all, their compensation is to some extent based on performance (at times 100%) meaning that it is in their best financial interest to achieve high sales. They additionally need to consider internal requirements of their institution. In the context of management by objectives, they are asked to attain certain quantitative goals within a given time horizon wherein the achievement of such goals is surveilled and failure to achieve them is sanctioned. There are guidelines for client contact that encourage the preferred treatment of financial products offered by the bank or fund-managing subsidiaries. The interests of the client and the bank can not always be combined with that of the sales associate. This conflict of interest has led to a number of verifiable cases of misselling in the past. At times this involved intentional fraud as in the case of the former broker Bernard L. Madoff, who caused an estimated financial damage of 65 billion US-dollars to 4800 investors by using a pyramid scheme ("Ponzi-Scheme"). He was sentenced to a prison term of 150 years on 29th June 2009.

In this paper, misselling will also refer to those cases in which the bad recommendations were not intentional but against the documented wishes and needs expressed by the client. They are less spectacular but have affected many personal investors. They are therefore more suitable for general financial education, which serves the maturity of the consumer.

The term "misselling" is supposed to – without judgment – describe a situation in which the recommended investment differs from the explicit desire of the client or his real needs. The focus is neither on an actual financial damage to the client, nor on an advantage for the sales associate or the bank or their intentions. It is, for example a case of misselling, when a sales associate recommends a change of contract to a client, simply because he receives a commission while accepting a potentially worse situation for the client. Such cases are explicitly warned against (Finanztest 2009, 37). However, it is still a case of misselling, even if the client does not incur financial damage or even benefits from the recommendation against his expressed desire or need. For instance, if a client had expressed a desire for safe investments but had nevertheless been sold shares in a stock-based mutual fund which the client had then disposed of with a high profit during a bull market. He would not have sustained a financial loss, but he unintentionally had borne a financial risk and possibly remained unaware of its existence even in retrospect. Since, high return always comes with high risk, even a complete loss of the invested capital may have been possible. It is, however, not a case of misselling, if a sales associate fails to disclose better or cheaper products of competitors. It would go too far to expect suppliers in a competitive market to inform clients about their competitors.

3.2 The Ethics of People and Institutions

The public debate about the lax morality of "bankers" (and institutional investors) follows the paradigm of individual ethics: the ultimate cause of a crisis is seen in a moral deficit of the acting individuals. It is nonetheless doubtfull to attempt to explain the failure of a system solely through individual failure. The question is rather, how the system has created space for such individual failure or stimulated or sanctioned it. This discussion requires a reference to the paradigm of individual ethics. To simplify, the difference between the ethics of individuals and those of institutions lies within the distinction that the further investigates the players' moral quality whereas the latter challenges the moral quality of the "rules". According to the approach by institutional ethics, morality can only subordinately be provided by individuals. It needs to be engendered primarily through the behavioural influence of institutions. Whenever moral misbehaviour derives from wrong incentives, the better approach is an incentive-compatible reconstruction of situatively relevant institutions. The advantage of institutional ethics is the systematic disattachment of the motives of acting individuals from the results of a social acting situation. The achievement of ethically desired results of action is then no longer dependent on individuals acting morally. Even in situations, where individual ethics are constrained by the inability or unwillingness of individuals to act morally, institutional ethics can remain effective. According to Kant, even a population of devils would create a state and abide by a social contract if only they were capable of reasoning.

Institutions, however, cannot control individual behaviour directly, but can only stimulate it. And hence, institutional ethics can only work as a supplement but not as a perfect substitute for individual ethics. Moreover, such institutions do not just exist, but are created by people that may or may not be interested in fair "rules". Individual ethics are thus a prerequisite for institutional ethics, which then aid to liberate individuals from ethical expectations in the choice of their action.

3.3 Business-Ethics and Economic Education

The global financial crisis gives rise to the institutional-ethical reflection on, and potential reformation of the system of market economies as well as of the specific situation of investment "advice". The question remains, how this situation can be covered in teaching in order to result in economic and ethical education of students. Retzmann (2006, 274 et sqq.) has shown that there are four different perspectives within economic and business-ethical education, which are, however, not equally suitable for any subject of teaching. These perspectives are therefore firstly weighed up against each other:

- The *acting person*'s perspective: Students are regarded as potential personal investors that are to be qualified to cope with the demands of the associated situation. This is the predominant perspective in general financial education. It is also mostly taken in vocational training, e.g. in the training of banking and insurance associates, who are trained to conduct counselling interviews.

- The *affected person*'s perspective: In this case, students are regarded as the counterparty of an acting person, that takes the acting initiative. The affected person is involved in an interaction or a transaction with the acting person. In advisory or selling interaction with a bank, a personal investor is affected by investment and buying recommendations from sales associates. He is the counterparty of such an acting person. In the case of misselling, he is their "victim". While this perspective is predominant in the media, it is treated subordinately in general financial education.

It goes without saying that it cannot be the aim of professional training, to qualify banking and insurance associates for misselling in the acting person's perspective. Considering the current incentive system in banks, the teacher's moral appeal to act in the customer's best interest would be ineffective. Neither should the teaching of economics focus exclusively on protecting the affected person from misselling, even though this is certainly legitimate. This perspective would lead to an admittedly appropriate scepticism against banking associates, but may also encourage an unwanted moralisation of the problem.

- The acting and the affected person are involved in a context of action that is perceived from the outside by the *impartial spectator*. The impartial spectator can therefore relate both perspectives to each other and analyse the resulting context impartially. This spectator's perspective is hitherto rarely taken in general financial education but is considered necessary to cover the topic of "misselling in banks". Ignoring the offender or victim's perspective, the teaching of economics should aim to explain the phenomenon of misselling economically from the situation of the acting and the affected person.
- Like the spectator, the *citizen* is not involved in the direct context of action. Unlike the spectator however, the citizen attempts to alter the action from the outside, as long as it leads to an ethically deficient result. The citizen judges and intervenes when necessary. He does not achieve this by becoming part of the action, but through the construction of a political framework. This implies the implementation of ethical standards in economic action by institutions. A contribution to economic and business-ethical education therefore also requires the *citizen*'s perspective.

The following will evaluate, what theoretically reasonable insight can be achieved by taking the spectator's and the citizen's perspective in "misselling in banks" as a topic of economic education.

4. Investment Advice as a Topic of Economic Education

Fundamentally, we have to distinguish between financial *products* (e.g. an investment) and financial *services* (e.g. investment advice in a bank). Using an economic analysis of the investment and the "counselling situation", we can identify starting points for an institutional approach to misselling in banks.

4.1 Financial Products as Credence Goods

In a supermarket, offered rotten fruit will never be picked to go in the trolley. An electronic device that turns out to be defective immediately after purchase can be exchanged at the retailer. But what if a sales associate recommends a risky investment that does not meet the customer's need for safety? This situation is different from the previous two, as the customer as a layman can usually neither assess the individual suitability or utility of a financial product before, nor after purchase. In economics, the trust issues associated with a good or service are referred to as informational asymmetries between supply and demand side. Depending on whether the asymmetries exist ex ante, ex post or in both cases, the qualities of a good or service are distinguished into search, experience and credence qualities. *Search qualities* are characterised by the buyer's possibility to inspect the good reliably before purchase, which is why goods with large search quality elements are also referred to as "inspection goods" (Hirshleifer 1973, 37). The qualities of *experience goods* (first: Nelson 1970) cannot be assessed before but definitely after purchase or use.

Complex financial products barely possess any search qualities and only few experience qualities. Personal investors usually lack the knowledge required to evaluate the quality of an investment reliably ex ante. Experience also only provides limited evaluation of a financial product, since a low return can also be traced back to other factors (e.g. an economic downturn). Even good past experience – unlike for regularly purchased goods of standardised quality – does not serve as an indicator for the future. Only exceptional circumstances like the current financial crisis turn financial products into experience goods. Many personal investors that were assuming to have invested their money safely had to acknowledge the presence of risky products in their portfolios, that lost all or part of their value as the crisis progressed. Their presence would never have been discovered without the financial crisis.

Financial products contain large elements of *credence* goods (first: Darby, Karni 1973). This means that certain qualities of the product cannot be perceived at all, or only when incurring prohibitively high costs. Informational asymmetries between supply and demand sides exist in markets for credence goods (cf. Reisch 2005, 186).

As a consequence of the large share of credence qualities in financial products, trust is an important basis for a functioning market. Trust can be defined economically as an exploitable investment by the trus-

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tor: „A pervasive notion in the literature is that trust is associated with dependence and risk: the trustor depends on something or someone (the trustee or object of trust), and there is a possibility that expectations or hopes will not be satisfied, and that 'things will go wrong'. Trust entails the submission to relational risk. Yet one expects that 'things will go allright'" (Nooteboom 2005, 37). The central problem of markets for credence goods is therefore, the presence of incentives for the trustee to exploit the invested trust.

4.2 Investment "Advice" as a Principal-Agent Relationship

Since financial products contain a large share of credence qualities, banks have employees with expert knowledge to make the intransparent market for financial products more transparent for personal investors. Does this solve the personal investor's problem? Unfortunately not! The problem at present is that the sales associate does not just have to consider the customer's interest but also that of his employer and will potentially even take his own interest into account.

Clients, sales associates and banks probably do not only pursue mutual but also conflicting interests. As soon as the interests of the client (e.g. the safest investment), the sales associate (e.g. the highest commission) and the bank (e.g. highest sales) are not congruent, the client is in danger of being advised against his own interest. In other words, the danger of misselling arises.

This danger can be evaluated in class using the principal-agent theory, as it investigates contractual relationships between a principal and an agent. It occasionally depends on the situation to determine who the principal and the agent are. Furthermore, one person can simultaneously be agent to several people.

Principal-agent problems arise from an asymmetric distribution of information between principal and agent. The agent has an advantage in knowledge regarding the conduct of the task, which is, amongst other things, the reason why the principal does not conduct the task himself. The agent can use this advantage in the interest of the principal (advantages of local knowledge) or in his own (danger of opportunist action). If the agent evaluates existing alternative actions considering an own interest that conflicts with the principal's interest informational asymmetries can compromise the mutual benefit of a cooperation. The counselling interaction between sales associate and customer in a bank is a principal-agent relationship: Customers ask the sales associates of a bank to compose a portfolio of investments that suits the individual preferences and life situation. As principal, they are *trustors* at the same time. By providing trust towards the agent, they immediately bear a risk. They expect their trust not to be disappointed but accept the risk of precisely that.

4.3 Misselling as a Result of Conflicts of Interest

Customer advisers also act on account of the bank's management, which has asked them to make profitable transactions for the bank. Situations of financial advice therefore possess the special quality that a sales associate – as an agent – serves two principals: the customers and the management. In addition to the conflicting interests of agent and principal, the agent needs to weight the interests of both principals. Personal investment is therefore a complex structure of relationships between a principal (the bank), an agent (the sales associate) and another principal (the customer). It is consequently an example of a principal-agent-client relationship.

Assuming all people involved act rationally, the sales associate's primary interest is to increase his income through commissions and premiums and to establish himself within the firm. The bank has an interest in the highest possible number of revenue generating customers. The customer's interest is – depending on individual preferences – a safe, accessible or high yielding investment. This demonstrates how, alongside the mutual interest in a transaction which creates a win-win-situation, conflicting interests between the acting individuals involved exist in the specific structure of the transaction.

The typical principal-agent problems between employer and employee occur in the interaction between the bank's management and its employees (*hidden action/ hidden characteristics*). These informational problems arise from the limited insight into the agent's freedom of action and from the difficulty to draw an immediate conclusion about the agent's performance based on the results of the action. Effort and misfortune can result in the same outcome as a combination of lazyness and luck. In the interaction between customer and sales associate, the informational asymmetries result from the customer's lack of know-how and the uncertainty about the agent's true intentions (*hidden information/ hidden intention*).

The bank as an employer solves its principal-agent problem – amongst other things – by implementing a performance-based compensation system. Bonuses, commissions and performance premiums are used to link the bank's interest with that of the employee. The work towards a collective goal is more likely, the more it benefits the individual. The more an employee's compensation depends upon performance indicators, the lower will be the fixed component of the salary and the higher the employee's probability to adjust his actions accordingly and potentially ignore customers' interests. The problem of this complex principal-agent-client relationship lies in the fact, that the measures to mitigate informational problems between employer and employee enhance the conflict of interest between the employee and the customer. The bank solves its principal-agent problem by increasing a different one. This can then not be in the bank's best interest, as only satisfied customers will become regular ones, who will provide lasting opportunities for (profitable) transactions. The situation hence requires the right balance in meeting the conflicting interests.

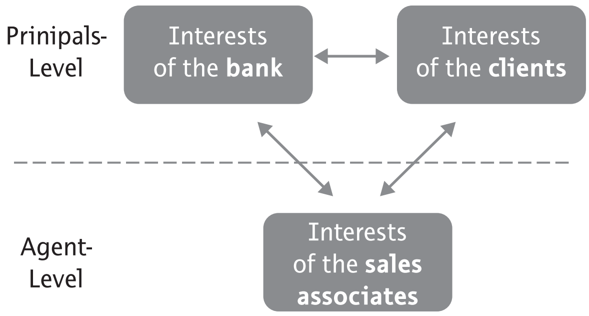

Fig. 1: Conflict of interests

To solve or alleviate the relevant problem of misselling, principal-agent problems between sales associates and clients need to be mitigated. This requires on one hand more transparency in financial markets in order to give consumers access to their sanctioning potential (*voice/exit*). On the other hand, incentives need to be established on an institutional level to combine the interests of sales associates with those of their customers. This can be achieved through both legal requirements for protection of personal investors as well as through internal requirements for client contact in banks.

5. Approaches Regarding the Acting Person and Regulation as a topic of Economic Education

To mitigate informational problems, regulative approaches can be distinguished from those based on the acting person. The latter can then again be divided into measures to signal information („signalling"; first: Spence 1973) and those to screen information („screening"; first: Stiglitz 1974).

5.1 Signalling Trustability

Signalling activities are measures to alleviate informational asymmetries that are initiated by the better informed party. The qualities of an offered good or service are to be communicated to the consumer through credible signals. The special challenge encountered by suppliers of financial products and services is the development of trust in an area of goods with large credence quality elements. A supplier can send credible signals particularly well, if the investment of trust is reassured institutionally.

The trust in people can be supported by the trust in an institution. Institutions can alleviate the danger of exploitation that trustors are exposed to, if the incentives that originate from them act to make an exploiting behaviour less attractive for the trustee. Institutions can take a complementary and substitutive function for trust (Kubon-Gilke 2005, 10 et sqq.). In an interaction, trust serves the purpose of diminishing uncertainties about the counterparty's behaviour. Trust is a mechanism for the reduction of social complexity (Luhmann 1989). Institutions have a similar function, as they can reduce uncertainties through regularity (cf. Krohn 2007, 16). They can structure interactions, stabilise expectations and create an environment of trust.

An intelligent and incentive-compatible design of institutions can guarantee the effect of social control and hence the trust-creating protection from exploitation even in an anonymous and complex context of interactions. Behaviour that conflicts with norms can be sanctioned and desired behaviour rewarded through the effect of control and incentives by institutions. Institutions structure the individual's freedom of action and thus channel human behaviour according to the situation; they also – which is a central point in this context – stabilise behavioural expectations (cf. Beckmann 2005, 66).

Suppliers on the market for financial products and services can therefore establish a culture of trust through the creation and design of institutions. Customers' trust in the quality of financial "advice" and products has sustained severe damage in the context of the financial crisis. To regain customers' trust, it seems helpful for the suppliers to send institutionally reassured and therefore trustworthy signals of reputation. For example: the Quirin Bank promotes itself as advising without the presence of commissions. It has established the internet platform www.provisionsverbot.de and organised a petition against commissions in the banking sector to the German Bundestag. Regardless of whether the Quirin Bank gives "advice" that is superior to that given by other banks, this demonstrates the importance the bank assigns to this "signal of trust".

5.2 Testing Trustability

Screening summarises the principal's possibilities to mitigate the asymmetric distribution of information through an information search. In the given context, screening activities from the demand side can relate to financial *products* on one hand. Customers can collect information about different products and their advantages and disadvantages to reduce the sales associate's advantage in knowledge. An informed customer is more likely to notice "advice" that is not in his best interest and only aims for the sales associate's commission. On the other hand, screening activities can be directed at financial *services*, when the principal tries to form a more informed opinion about potential agents. This can reduce the danger of a bad agent selection. Screening activities can only be effective on the market for financial products, if reliable information about the quality of financial products and services is made more accessible to customers. Credible external institutions with an adequate expertise need to compose information in such a way to enable demanders to better screen the complex and intransparent market for financial products and services. For example: the magazine *Finanztest* publishes a warning list of all offers that are advertised or sold with dubious methods or that show a clear disproportion of risk and opportunities. This list names offers, initiators, sales agents, suppliers and other involved parties.

5.3 Increase Transparency and Liability

Informational problems cannot only be mitigated by strengthening the incentives for information activities of the acting people that are directly affected, but also through regulatory measures. A state essentially has two possibilities to reduce informational asymmetries: it can create additional transparency by providing the required information, or it can directly alleviate informational problems by, for instance, influencing the production process by setting standards (cf. Benner 2002, 30 et sqq.).

To give an example: the probably most prominent example of statutory provision of information in an economic context in Germany is *Stiftung Warentest*, which tests products and services employing scientific methods by independent institutions and publishes the results. *Stiftung Warentest* is not a statutory institution but an independent foundation, vested with legal capacity. It was however, created in the early 1960s upon statutory initiative. The special necessity for consumer information about financial issues is demonstrated by the publication of a differentiated magazine *Finanztest* by *Stiftung Warentest*, which informs the readership about investment tools, insurance, taxes, provision etc. The magazine uses tests to inform about the quality of financial products and services. Media analyses by the magazine *Finanztest* have shown that the readership is primarily composed of well-educated academics that are able to assimilate the intellectually demanding information offered.

The role of statutory influence on the market for financial products and services has recently become evident in the alteration of the law for dealing with financial securities: Since 2010, banks are obligated to prepare a written and signed documentation of the content of every counselling interview. This is supposed to facilitate the legal enforcement of compensation for any damage to demanders caused by misselling. Another example for statutory intervention in financial markets is the recent verdict by the *Bundesgerichtshof* (Az. XI ZR 586/07), which obliges banks to disclose any commissions during counselling interviews. For the personal investor, this does not only make the agent's interest evident but even quantifiable.

6. Financial Competency as a Goal of Economic Education

It has been justified many times by different groups (didacts, educational scientists, social interest groups) that all adolescents have a right to be offered a systematic general financial education (incorporated in their economic education at school), for them to be able to succeed – from an economic perspective – in leading their lives (cf. e.g. Kaminski 2005; Piorkowsky 2009). This paper shall not repeat but simply state this argument. There are possibilities for informal learning even within financial or economic education, e.g. from experience. To rely on only that, however, is not only insufficient but even desastrous, particularly in the case of financial education. The reference to informal learning implies that people are supposed to learn and become smarter from experience. Whoever argues like this accepts that people make mistakes and learn from them. In the case of personal investment, however, such mistakes can have severe consequences. Apart from that, learning from experience is only possible in the case of goods with experience qualities. It does not apply to credence goods. It is therefore strongly inadvisable to rely on informal learning alone. On the contrary, general financial education within schools should be enhanced systematically and its goal must be a well-developed *Financial Literacy* for all adolescents. It is likely, that individuals educated in economics can benefit from opportunities and avoid risks better than economic laymen.

Stronger financial competency within the population is publicly requested by a variety of acting individuals. For instance, the ministry for alimentation and consumer protection has argued in favour of the pursuit of a stronger financial competency among consumers during the latest quality assurance for the quality of financial advice and the qualification of sales associates (cf. BMELV 2009). But what do we actually mean by financial competency? And why should it be part of an economic education aiming at general education? These questions cannot be fully answered here, but the present contribution has shown, that financial competence must go beyond simple help and provide categorical comprehension which is then transferable. Economic education must also not be confined to mediating knowledge about different investment types and financial services, but it has to contain structural and functional economic knowledge about the investment or counselling situation.

Students can recognise and comprehend the structural dimension of different economic life situations on the basis of a theoretical understanding of economics. Economic education is not only relevant to the subject area of economics, but also to its specific

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scientific methodology. In the context of a discussion in school about situations of financial "advice", this implies that the consideration of finance-linked topics (e.g. money, interest) is insufficient. Students need to understand the structural causes of the problem. Only then are they able to transfer their knowledge to the approach of new problem sets. They need to be able to direct their economic perspective at a certain problem. Economic education can, for epistemological reasons, only be defined through the perspective of gaining understanding. Accepting this, the curriculum has to be marked by the selection of theoretical approaches and not primarily through the selection of covered subjects.

The number of economic life situations is unidentifiable, since no situation is ever truly identical to another one in every single aspect. It would be impossible to prepare students for dealing with economic life situations successfully, if any economically relevant life situation had to be qualified separately. To facilitate a successful dealing with "counselling situations" from the personal investor's point of view, the focus needs to be on the structural problem which reappears in a specified form in many situations (not only in personal investment). It cannot be the aim of teaching to turn students into quasi investment experts. This would not only require an unreasonable amount of time, but would also not be efficient, considering the rapid development and change of the institutional details of the market for financial products and services.

The positive principal-agent theory seems suitable to uncover the structural problem of "counselling situations" in banks. The analysis of the investment situation on the basis of the principal-agent approach has demonstrated that cases of misselling in banks have not been unfortunate accidents in the context of the global financial crisis. They originated from structural problems and have been emphasised by the existing incentive systems. The financial crisis has merely made the degree of misselling evident through the cases of investors losing all their invested capital.

The principal-agent theory can serve as a heuristic in the analysis of principal-agent relationships and not (!) as a tool in the search for optimal incentive contracts.

The principal-agent theory can serve as a heuristic in the analysis of principal-agent relationships and not (!) as a tool in the search for optimal incentive contracts. Heuristics are not confined to certain subjects but can be employed according to the problem. Goods with credence qualities are not only present in money and capital markets and contract relations are virtually ubiquitous in the economic sphere based on the division of labor. Rehearsed on the example of personal investment and counselling students can apply these economical thought schemes independently to other life situations dependant on economics. The life situation approach and the categorical approach in the didactics of economics (Kruber 2000) do not contradict one another, but rather complement each other meaningfully – even in economic education.

The principal-agent analysis of „counselling situations" in banks has shown: conflicts of interest arise as soon as the investment advice is not strictly separated from the selling activity. This can occur in more or less well defined forms. We can therefore expect the continued occurrence of misselling in the future. As a consequence, it is not surprising that independent service tests by *Stiftung Warentest* will – as others previously – fail to cause a behavioural change among sales associates in banks. They still recommend financial products that object the investors' expressed goals and preferences (*Finanztest* 2010).

7. Conclusion

Investment situations are prospectively relevant life situations for students, which cannot be dealt with on the basis of day-to-day experience alone. They should hence become part of the curricula when teaching economics. Due to the complexity of the market for financial products and services and the efficiency advantages of today's division of labour, it should not be the aim of teaching to pass on detailed product-specific and institutional knowledge. Product knowledge would be out-dated all too fast by reality when mediated in the context of a financial „product training". In contrast, structure and functional knowledge remains constant over time. But because the study of basic economic thought processes is possible with the help of the topic „misselling", it can be said to have exemplary qualities. It is equally unreasonable to limit the preparation for investment situations to simple instrumental aid. Whatever may suffice for simple economic life situations in banks (such as opening an account or transferring money) does not satisfy the demands of a more complex investment situation which requires a solid understanding of the economic processes involved. The empirically observable phenomenon of misselling by sales associates enforces an extraordinary dimension upon the problem of the life situation "Investment".

The results of the present situation analysis can initially be elaborated in a way that is adequate to the target group, and then become a fundamental part of the economic and political education of students. This has to focus on retrospectively highlighting which "rules" of the market or the firm encourage misselling and what kind of regulation for the protection of personal investors from misselling has proven to be deficient or counterproductive in the past. In the future the most suitable regulation to avoid misselling needs to be elaborated. This procedure guarantees that the discussion about economic and political systemic control will be based on economic knowledge of the systemic logic. It avoids the mere moralisation of the misbehaviour of others, since complaining about the status quo does not contribute to its improvement. The approaches to solve the problem need to relate to the level of acting individuals (a bank's management, employee and customer) but also to that of the institutional framework of the market for financial products and services. Using the example of an institutional-economic discussion about investment situations and misselling, students can learn and evaluate institutional approaches to the support of morality.

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