

## Eddie Yue: Evolution of financial consumer protection and education in Asia

Speech by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the HKMA-SFC-OECD Asian Seminar, Hong Kong, 13 December 2012.

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André (Laboul),<sup>1</sup> Ashley (Alder),<sup>2</sup> distinguished guests, ladies and gentlemen,

Good morning. It's my pleasure to be among such distinguished company, and for such an important topic. On behalf of the Hong Kong Monetary Authority (HKMA), thank you all for joining us and I look forward to the discussion here today.

In discussing consumer education and protection, the focus must of course be on benefiting the consumer. That said, there is more than an element of enlightened self-interest for the rest of us. For the pathway to profit does not divert around the consumer interest. It runs right through it. Indeed, the best companies – those with long-term sustainable models of growth – operate on the basis of a natural synergy between what is good for customers and good for business.

This is an old lesson – but it's one we are relearning in the aftermath of the global financial crisis. One of the gripping aftershocks from the crisis has been the mis-selling complaints against some financial institutions. Such cases are, of course, deeply damaging to those individual institutions. Yet they also impact on us all. When the dust settles after each successive scandal, the lasting impression threatens the reputation not just of individual firms, but of whole sectors. In the case of Hong Kong, where the financial industry is so critical to the economy, this obviously carries even more importance.

Now, as a survey has found, we are fortunate in Hong Kong to have one of the highest levels of consumer trust in banks and financial services compared to other places.<sup>3</sup> But we've seen in the financial crisis how fragile trust can be. So we need to guard against complacency, and work towards ensuring that Hong Kong remains a beacon to the rest of the global financial services industry. Whether one is a financial institution, a financial regulator or a consumer, this is in all our interests.

So, how do we get there? In short, my argument this morning is that we will do so by recognising the interdependence of these three groups. Each has a role to play, but each also needs the help of the others. And, I would argue, at the heart of this interdependence lies effective consumer protection and education. I would like to discuss briefly each group in turn – first, the role of financial institutions.

### “The role of financial institutions”

As I alluded to just now, financial-services institutions have a direct interest in upholding the reputation of the industry as a whole. I believe success in this regard rests on two pillars. First, nurturing a culture of honesty among practitioners. Second, an absolute commitment to

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<sup>1</sup> Mr André Laboul, Head of the Financial Affairs Division, OECD and Chairman of the International Network on Financial Education.

<sup>2</sup> Mr Ashley Alder, Chief Executive Officer, Securities and Futures Commission.

<sup>3</sup> See Edelman Trust Barometer 2012, Hong Kong (HK trust in banks 74% and financial services 62% compared to a global average of 47% and 45%, respectively. See slides 13 and 15). (<http://www.slideshare.net/DavidRBrain/2012-edelman-trust-barometer-hong-kong-deck-1232012checkedfinal#btnNext>)

prioritise above all the customer, not profit maximisation. Or, combining both pillars, we could summarise all that into a single, rather old-fashioned word: integrity.

In theory, that's a standard to which we are all happy to sign on to. And yet, the temptation to put product before service, profit before client, is very real. I am sure we have all seen sufficient examples in different places.

I believe there are a number of actions financial institutions can and should take to guard against such dangerous practices. I will mention just three very briefly. First, greater transparency and disclosure of the benefits and risks of investment products. Second, more responsibility placed on financial institutions with respect to assessing the suitability of a product for a customer given his/her risk appetite. Third, simpler procedures and freer access for consumer to complaint and redress mechanisms. These are all things that many financial institutions have embedded into their corporate culture and I encourage all others to do the same.

### **“The role of financial regulators (the HKMA)”**

This brings me to the second group, financial regulators. Given my role, I will focus specifically on the example of the HKMA. In response to the changing landscape following the collapse of Lehman Brothers, the HKMA expanded its efforts to protect and educate consumers, and this change resulted in the creation in April 2010 of our Banking Conduct Department. I will focus first on our work to strengthen consumer protection before going on to saying something about our work on consumer education.

#### ***HKMA & consumer protection***

In terms of consumer protection, first, the HKMA has introduced new requirements on banks and issued guidelines on the selling of investment products. These include (a) requiring audio-recording the customer risk profile assessment and sales process to provide audit trails for reviews by banks and the regulators; (b) implementing a pre-investment cooling-off period in the sale of unlisted structured products to less sophisticated customers (such as the elderly or first-time buyer); and (c) requiring banks to carry out continuous reviews of product risk and inform investors of any upward changes to the risk ratings of the products they have purchased. These requirements were in addition to existing measures introduced by the Hong Kong Securities and Futures Commission (SFC) on the supervision of securities companies' selling activities.

Second, the HKMA is active in monitoring banks' compliance with these and other regulatory requirements through thematic on-site examinations. Banks are expected to have control processes and procedures in place to ensure adherence to the conduct regulations. In addition, to monitor compliance levels among banking staff, the HKMA conducts mystery shopping trips.

Third, the HKMA has strengthened consumer protection by working with partners. One example is our work with the Hong Kong Association of Banks in carrying out a comprehensive review of credit card practices in Hong Kong, drawing on reforms undertaken in the UK and US. As a result, we have been rolling out in stages 31 measures aimed at promoting fair and responsible business practices by credit card issuers, and all these will become effective by 2013. A second example is our partnership with the Financial Services and the Treasury Bureau and the Securities and Futures Commission to establish the Financial Dispute Resolution Centre. The objective is to help consumers settle monetary disputes quickly by means of mediation and arbitration. The Centre came into operation in June this year.

## ***The HKMA & consumer education***

On consumer education the HKMA has also been very active. From time to time, we publish articles, called “insight articles”, to increase consumers’ awareness of their rights and obligations in relation to particular consumer products like accumulators, Octopus cards and instalment payment plans. We also highlight key features and risks of certain investment products, and remind consumers not to invest if they do not understand a product. We have launched earlier this week a “Consumer Corner” on the HKMA website to provide important information on local banking consumer issues, including a set of “frequently asked questions” based on public enquiries and topical issues.

As with protection, so with education, we are also working with our partners. Among these initiatives, we are joining with the Consumer Council in their consumer awareness campaigns. Another very important initiative I’d like to highlight, is our work with the Securities and Futures Commission to establish an Investor Education Centre (IEC). The HKMA will supplement this with additional consumer education independent of the IEC, focusing on areas such as banking products and services, as well as other investment products that may not be covered by the IEC.

### **“The role of the consumer”**

So, as well as good practice among financial institutions, financial authorities also have an important role to play in enhancing consumer protection and education. But focusing on just those two groups leaves out possibly the most important group of all – the consumers themselves, to whom I will devote my remaining remarks.

One of the things on which the global financial crisis cast a cold light was the implicit cost to households – and indeed to society and financial markets – of low levels of financial literacy. Financial literacy is increasingly recognised as an important individual life skill that people need to thrive in a modern economy like Hong Kong. Without it, consumers can be at risk of mis-buying and bank employees are themselves at a higher risk of mis-selling.

For example, one of the hallmarks of our financial sector in this city is the universal banking regime that allows banks to offer basic services as well as a wide range of financial products. This is a great strength for the industry and highly beneficial to both banks and consumers. However, we should also acknowledge that it can expose some customers to higher risks arising from investment in complex financial products. I have in mind especially consumers who may be less sophisticated but who may nonetheless have a high level of trust in banks.

In that sense, it was not surprising that following the financial crisis, there was greater demand by consumers and consumer groups to better understand the risks of investment products offered by banks. This demand has been amplified by a number of other trends, namely: the greater complexity of financial products; the rapid pace of change in financial standards and regulations; the rising number of high net worth individuals in Asia-Pacific actively looking for investment opportunities; and the recognition that regulation alone is insufficient to protect consumers.

Financial education has thus become an important complement to market conduct and prudential regulation. Raising the financial competencies of individuals has become a long-term policy priority for the financial industry. This is particularly crucial in Hong Kong where, as you know, we have a regulatory framework based on disclosure and complementary customer suitability assessments.

In that context, it is especially important that consumers understand a product’s features and risks thoroughly when considering their investments. They have to decide whether or not an investment suits their objectives, and whether they have the ability to assume the associated risks. Thus, a key component of any efforts to enhancing financial education and protection must be improving individuals’ ability to ask the right questions and increase their awareness that ultimately they are responsible for their investment decisions.

## **“Conclusion”**

So, we've discussed how important consumer protection and education are. And we've covered the roles of each of the three groups in bringing about better protection and education. Let me now try to bring these strands all together.

Something that became very clear in the wake of the financial crisis was that apparently low-probability risks at the margin of an industry can have profound impacts – and that a rules-based system alone is inadequate in guarding against them. After the crisis, there has been increasing recognition that each of us in fact operates in a financial eco-system – in some respects, a fragile system – in which the well-being of the whole rests on the health and actions of each part.

Through suasion and regulation, financial regulators like the HKMA can do a lot to support consumers. But we will always be one step remote from the point of transaction. That's why we look to banks and other financial institutions not just to follow our rules, but to show leadership by really engaging in this area. Institutions can do a lot, individually and together, to self- and peer-regulate and, above all, ensure integrity throughout their organisations, particularly at the consumer-facing levels.

In the end, though, in this financial eco-system as with any other, so much depends on its beating heart – the consumer. That's why I believe one of the best things we in this room can do is to bend our efforts towards greater financial literacy. Through initiatives to better inform and empower consumers, they can be the judge of their own best interests. That way, the benefits accrue not only to individual consumers, but to the sector and society more widely. Education requires long term commitment and effort from us all, but the prize is also great.

Ladies and gentlemen, over the next day or so, we have the opportunity to make a real and substantial contribution to this agenda. For that reason, I am most grateful to you for joining us, and I very much look forward to our discussion and exchange of views. Together, I am sure we can learn and develop further many good measures. Measures that will not only help consumers, but will also improve the health and strength of the financial sector and our economies more widely.

Thank you.