



**HKMA-SFC-OECD Asian seminar**

**Evolution of Financial Consumer  
Protection and Education in Asia**

**Session II Disclosure and  
transparency in banking and  
securities: meeting the needs  
of retail consumers**

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# Outline

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- What do we know - the importance of disclosure
- The global financial crisis - key lessons learnt
- Action taken - country examples
- Disclosure and Transparency - G20 High-Level Principles
- The next steps - key questions



# Importance

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- Disclosure and transparency - a **fundamental** component of financial consumer protection policy
- Disclosure aims to **correct** market failure caused by incomplete or asymmetric information
- Not just the quantity but the **quality** of the information provided to consumers
- Information needs to be **tailored** to the financial education and capabilities of the recipient



# Importance

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“Consumers want to be assured that the products that they access offer a fair deal, carry no surprises and can be relied on to perform the function expected of them, and – if anything does go wrong – that they can easily get redress.”

The Way Ahead for Conduct Regulation: A Positive Partnership to Deliver for Consumers, ABI

September 2012



# Key Lessons

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- Consumers have limited experience and understanding of making certain financial decisions
- Financial products – more complex
- Not directly comparable
- Long term and/or uncertain outcomes
- Financial products “sold to” rather than “bought by” consumers



# Key Lessons

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- Information to consumers – insufficient, untimely and technical in detail
- Communicated in a way that is confusing and difficult for consumers to understand
- Provision of inappropriate advice
- Conflicts of interest
- In certain circumstances, sales targets and remuneration of these incentives can cause bias and negative consumer outcomes



# Examples

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## USA

- Consumer Financial Protection Bureau (CFPB)
- The “Know Before You Owe Campaign”
- Focus on credit cards, student loans and mortgages
- Sample credit card agreement that is short and written in plain English
- Spells out what each of the terms means for the consumer



# Examples

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## Central Bank of Ireland – Consumer Protection Code, 2012

- A regulated entity must ensure that all information it provides to a consumer is clear, accurate, up to date, and written in plain English.
- Key information must be brought to the attention of the consumer.
- The method of presentation must not disguise, diminish or obscure important information



# Examples

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## Australia

- The Financial Services Reform Act 2001, disclosure as a key consumer protection measure
- But...improvements needed like Product Disclosure Statements...new disclosure benchmarks for complex products
- The Future of Advice Reforms - ban on product commissions and introduced a statutory duty for advisers to act in the 'best interest' of consumers



# Examples

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## European Union

- Packaged Retail Investment Products (PRIIPs) will further deliver on investor protection by introducing the obligation to provide a clear, short and standardised key investor information document to explain the characteristics and the risk of every investment product



# G20 High Level Principle

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- Key issue for the OECD - 2010 Task Force of Experts
- G20 Finance Ministers and Central Bank Governors, February 2011, call to develop common principles on consumer protection
- A set of 10 principles endorsed by the G20 leaders in Cannes, November 2011
- The development of effective approaches to support the implementation of the principles
- Russian G20 Leaders Summit, September 2013



## G20 High Level Principle

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- Financial services providers and authorised agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product
- They should also provide information on conflicts of interest associated with the authorised agent through which the product is sold
- In particular, information should be provided on material aspects of the financial product



## G20 High Level Principle

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- Appropriate information should be provided at all stages of the relationship with the customer
- All financial promotional material should be accurate, honest, understandable and not misleading
- Standardised pre-contractual disclosure practices (e.g. forms) should be adopted where applicable and possible to allow comparisons between products and services of the same nature



## G20 High Level Principle

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- Specific disclosure mechanisms, including possible warnings, should be developed to provide information commensurate with complex and risky products and services
- Where possible consumer research should be conducted to help determine and improve the effectiveness of disclosure requirements



## G20 High Level Principle

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- The provision of advice should be as objective as possible and should in general be based on the consumer's profile considering the complexity of the product, the risks associated with it as well as the customer's financial objectives, knowledge, capabilities and experience.
- Consumers should be made aware of the importance of providing financial services providers with relevant, accurate and available information.



# Key Questions

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- How to achieve an integrated approach – role of financial education?
- What are the limitations to product information disclosure?
- Enhanced disclosure for key sectors like credit, more sophisticated investments or mortgages?
- Universal standards and methods of product disclosure?



# Key Questions

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- How to improve disclosure at all stages of the relationship with the consumer - before, after and at the point of sale?
- How to ensure that advice is as objective as possible?
- How can conflicts of interest between sellers and consumers best be tackled?
- How best to address the issue of disclosure and transparency for complex and bundled products



# Key Questions

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- Do risk warning systems work for consumers?
- How can reciprocal transparency be encouraged?



# Thank You

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**Comments and questions are welcome**

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