Enhancing the effectiveness of Investor Education

13 – 14 December 2012
HKMA-SFC-OECD Asian Seminar

Sujatha Sekhar Naik
Securities Commission Malaysia
Post-Global Financial Crisis: Breakdown Of Key Pillars Of Investor Protection

- Poor corporate governance
- Unethical conduct/conflict
- Poor risk management
- Lack of transparency
- Poor disclosure & sales practices

- Inadequate oversight
- Regulatory gaps – arbitrage, reach,
- Structural impediments
- Regulatory capacity & resource
- Inadequate Education & Awareness

Self Discipline

Regulatory Discipline

Market Discipline

- Information asymmetry
- Education & Awareness gap
- Failure of gatekeepers – Advisers, Auditors
- Conflict issues undermined role of watchdogs- analysts, investor associations, media etc
Investors’ behaviour can undermine protection

Scams continue to be a challenge: increasingly sophisticated, mimicking legitimate schemes

A sound regulatory framework, as such, is not in itself sufficient....

The 3 pillars of protection must be rebalanced

Approach to investor education as a tool of protection needs rethinking...

- **Accountability**: Unwillingness to take responsibility/accountability for investments
- **Due diligence**: Inadequate level of due diligence and unwillingness to access information
- **Human nature**: Unacceptable levels of greed, apathy and naiveté
- **Product suitability assessment**: Indifference/apathy in matching product to investment objective and risk profile at point of sale

- **Increased access to complex products**: Not matched by requisite understanding

© Securities Commission Malaysia
Strategic Focus on Investor Education as a key Component of Protection

This is reflected in the continued strategic focus given to investor education in the governance Strategies set out in the SC’s Capital Market Master Plan 2 (Issued in April 2011)

Investor education continues to play a key role in Securities Commission’s (SC) Statutory mandate of ensuring adequate investor protection

CMP 2 recognises the strategic importance of promoting investor education initiatives to enhance investor sophistication and awareness of the capital market as well as exerting market discipline
SC’s Investor Education Strategy

Objective: Knowledgeable and Vigilant Investors

Widen financial literacy/capability

Empowered Investor

A responsible industry

Connectivity of education & conduct:
- product development & delivery
- Effective & responsible product disclosure and sales practices
- Responsible post sale care and disclosure

Shareholder Activism
Proactive & Participative Institutional Shareholders
Continued targeted engagement & education initiatives with Institutional Investors on their role & Closure of knowledge gaps

Continued training and improvement of skills of market intermediaries
Rethinking our approach to protecting investors through investor education ....

- A more holistic approach is necessary – delivering education through the whole ecosystem
- Embedding investor education in other regulatory functions
- Goals of investor education: knowledgeable & vigilant investors - IE as a tool to empower investors.
- Enhancing investor advocacy – improved channels of communication and redress
Knowledgeable & vigilant investor + sound & facilitative framework = empowered investor

The eco-system can weaken or strengthen the empowerment of the investor

Convenience is a key ingredient for an IEP tool to be effective
Eco – system Facilitative to Investor Empowerment

Connectivity of conduct and education
Investor Protection - Embedding IE At Point Of Need

Corporate Governance

- Product Development & Delivery
- Sales Practices /KYC
- Disclosure
- Update KYC

PRE SALE

- Know-Your-Client requirements
- Ensure Product Suitability
- Product & Risk Information Disclosure
- Advertising Guidelines
- Competency of Representatives
- Conflict Of Interest

POINT OF SALE

- Disclosure
- Product Suitability
- Sales Practices

POST SALE

- Continuous Disclosure

Connectivity of conduct and Investor Education

Deliver IE at point of need – to change the behavioural response to emotive impetus that leads to unwise investment decisions
Avenues of Redress – delivering IE in context

Securities Industry Dispute Resolution Center (SIDREC)

- Alternative Dispute Resolution (ADR) body established in Sept 2010

- Independent redress mechanism to resolve monetary disputes involving market intermediaries and retail investors

- Functions as a mediation and dispute resolution forum for small monetary claims filed by individual investors in relation to their dealings in securities and capital market products

Market players
- Licensed intermediaries - Required to provide an effective complaints avenue
- Industry Associations - Best Practices, Codes

Regulators & SROs
- SC, Central Bank, Companies Commission
- Bursa Malaysia
- Federation of Investment Managers Malaysia

Investor Interest Groups
- Minority Shareholders Watchdog Group
- Consumer associations

Alternative Dispute Resolution Bodies
- SIDREC
- CMCF
Investor Education does have a Positive Impact

From SC’s complaints management, we have found...
- Increase in enquiries pre-investment as opposed to post investment
- Improvement in quality of complaints
- Increase in investor activism

A survey of 800 participants from our Be Money Wise (B.M.W.) programme

<table>
<thead>
<tr>
<th>Post-Programme Knowledge Application</th>
<th>Post-programme Adopted Behaviours</th>
<th>Contact for Checking Legality of Investment Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>More vigilant when considering an investment.</td>
<td>Setting aside an amount of money for saving/investing.</td>
<td>More aware to contact SC.</td>
</tr>
<tr>
<td>Started implementing a personal budget.</td>
<td></td>
<td>65.2%</td>
</tr>
<tr>
<td>Started setting financial goals using S.M.A.R.T.</td>
<td>Able to differentiate between legal &amp; illegal investment schemes.</td>
<td></td>
</tr>
<tr>
<td>84.4%</td>
<td>87%</td>
<td>88%</td>
</tr>
</tbody>
</table>

From SC's complaints management, we have found...
- Increase in enquiries pre-investment as opposed to post investment
- Improvement in quality of complaints
- Increase in investor activism
Unfortunately, investor behaviour is often triggered by emotive, not rational, influences …

Mini Investor survey of 6,464 respondents through our nationwide Investor Clinics

- Have an understanding of the basics of investing: 39.9%
- Attracted to investments with scam characteristics: 30.5%
- Understand the steps to be taken to avoid being scammed: 30.5%
- Invest in schemes without prior check with the regulator: 38.4%
- Understand purview of the various regulatory agencies: 38.4%

The SC will be undertaking a major survey on investor behaviour in 2013

Efforts need to be focused on developing tools to facilitate the delivery of IE through the investment trajectory at point of need
Efforts will only truly be effective through strategic collaboration with all market players.
Investor education - not a cure all but a necessary vaccine

- Embedding investor education across the investment chain
- Contributes to effective risk management
- Results in a responsible, informed investor
- Strengthens market discipline & acts as catalyst for self discipline
- Accelerates the correction of imbalance in the 3 market disciplines
- Rebuilds investor confidence & trust in the market
Thank You
Sales Practices Guidelines for Unlisted Capital Market Products

Fair treatment of investors
- Investors' interest to be taken into account in development and distribution of product

Product Highlights Sheet
- To facilitate product comparison and responsible decision making by investors

Reasonable basis for Recommendation
- Internal policies and processes must be in place to enable the distributor to have reasonable basis when making a recommendation
A centralised private pension administrator promotes efficiency and convenience principally through:

- Facilitating portability between PRS providers
- Being a one-stop centre to facilitate transfer, consolidation and withdrawal instructions
- Undertake promotion and awareness on PRS
## Embedding IE into Private Retirement Schemes

### Pre Sale
- Identifying target audience, information required & its delivery
- Enhancement of education and skills of individual PRS distributors

### Point of Sale
- Sales Practice Guidelines
- Disclosure framework to ensure transparent & frequent reporting to members

### Post Sale
- Default switching to safer funds as investor ages
- To keep in focus investor understanding and awareness
- PPA designed to be a convenient one-stop info center for members

© Securities Commission Malaysia
Malaysian Capital Market Institutional Framework

- **MINISTER OF FINANCE**
  - BANK NEGARA MALAYSIA - CENTRAL BANK
  - SECURITIES COMMISSION MALAYSIA
    - Established on 1 March 1993
    - Reports to the Minister of Finance and tables accounts to the Parliament annually
    - Consists of 9 Commission Members
    - Acts as the single body that regulates and promotes the development of capital market
  - SIDREC
    - Securities Industry Dispute Resolution Centre
  - BURSA MALAYSIA - EXCHANGE
    - MIBA
      - Malaysian Investment Banking Association
    - FIMM
      - Federation of Malaysian Unit Trust Managers
    - ASCM
      - Association of Stockbroking Companies
    - SIDC
      - Securities Industry Development Corporation SC’s Training & Development arm
    - FPLC
      - Federation of Public Listed Companies
  - INVESTMENT BANKS
  - ASSET MANAGERS, UNIT TRUSTS
  - STOCKBROKERS
  - LISTED COMPANIES

© Securities Commission Malaysia
SC’s Investor Education Strategy with increased focus on sell side

Financial Capability Programmes

Develop Responsible Intermediaries

Corporate Disclosure Guide – issued by Exchange in 2011
The Corporate Governance Blueprint 2011
The Malaysian Code on Corporate Governance 2012
MOU with Bank Negara Malaysia – enhanced arrangements
Sales Practice Guidelines – to be issued in Dec 2012
Capital Market Compensation Fund - to be launched in Dec 2012

Financial Literacy Programmes

Media
- Investor Education Radio Series
- Investor Education website – to be enhanced
- TV segments
- Series of articles published
- Media Interviews & briefings

Investor Clinics

SIDC – SC’s Training & Development arm
Wise Investor Campaign
Kids & Cash / Teens & Cash
Be Money Wise
Money@Work
Cash@Campus / Campus kaChing!

Widen financial literacy among key target groups