Protection through Education
Towards a More Inclusive and Secure Financial World
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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
- Information asymmetry
- Education & Awareness gap
- Failure of gatekeepers – Advisers, Auditors
- Conflict issues undermined role of watchdogs- analysts, investor associations, media etc.
Tools of market discipline have failed investors

- Ineffective disclosure-based regulation
  - Lack of transparency
  - Ineffective disclosure
  - Poor sales practices
  - KYC in form not substance
- Poor corporate governance
- Poor risk management
- Failure of gatekeepers/watchdogs
- Failure to address conflicts of interest

Scams – A continuous challenge

- Limitations of regulatory reach
- More sophisticated scams today mimic or incorporate characteristics of legitimate modes of investment into their schemes whilst tailoring scheme to avoid regulatory reach
- Victims cut across gender, race, educational/social levels
- Technological advances increase ease of reach of scams across geographical boundaries

Challenge in ensuring reach of investor education cuts across uneven and diverse (multi-cultural/multilingual) population distribution
Investors themselves are also partly to blame

<table>
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<tr>
<th>Increased access to complex products</th>
<th>Not matched by requisite understanding</th>
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<td>Due diligence</td>
<td>Inadequate level of due diligence and unwillingness to access information</td>
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<td>Product suitability assessment</td>
<td>Indifference/apathy in matching product to investment objective and risk profile at point of sale</td>
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<td>Human nature</td>
<td>unacceptable levels of greed, apathy and naïveté</td>
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<td>Accountability</td>
<td>Unwillingness to take responsibility/accountability for investments</td>
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From the Regulatory Perspective.....

In a continuously evolving market there will always be :-

- Regulatory gaps and overlaps
- Inadequate reach over unregulated products/entities
- Coordination issues
- Unscrupulous intermediaries ready to take advantage of any point of vulnerability
- Inadequate knowledge, capacity and resources
- Need to balance cost and benefit of regulation

A sound regulatory framework is not in itself sufficient
Approach to protecting investors through investor education needs rethinking ....

- A more holistic approach is necessary
- Embedding investor education in other regulatory functions
- How to deal with increased accessibility of complex products and alternative markets to retail investors
- What should be the goals of investor education
- Enhancing investor advocacy – improved channels of communication with effective follow through to address concerns

Malaysia: Strategic Focus In 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 SC's 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
Objective: Knowledgeable and Vigilant Investors
Increase Investor Awareness

Widen financial literacy/capability

A responsible industry
- Incorporates investor education in marketing
- Provides effective product 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

Challenges faced - managing investors’ expectations

Investor Perspective
- Level of self discipline/accountability
- Level of investor awareness/knowledge & understanding
- Investor mindset/attitude

Regulatory Perspective
- Legal & evidentiary considerations, regulatory roles
- Differentiating victims from promoters
- Resource, costs
- Investor innovation and investor accountability

Protecting Investors Through Education
Investor education approach needs paradigm shift

Traditional Approach
- Investor education pursued independently of other regulatory goals
- Paternalistic
- Regulators take primary responsibility – moral hazard
- Intermediaries have little or no role
- Focus on retail investors
- Insufficient focus on behavioral risk

Traditional approach focuses on the ‘buy side’ of the investment value chain

What needs to change
- Education must be viewed widely, not as isolated function
- Pursue investor education as a key component of regulatory function
- Leverage on opportunities for investor education when carrying out other regulatory function
- Establish meaningful KPIs to measure success and effectiveness

Strategy moving forward
- Targeted approach to investor education;
- Complement ‘buy-side’ initiatives with sell-side efforts;
- Collaborative & coordinated efforts with industry;
- Embedding investor education across the investment chain.
- Continuing to build the IE trajectory from financial literacy to financial capability across the investor segments - starting from children as future investors

SC’s Investor Education Strategy Remains Relevant

Objective: Knowledgeable and Vigilant Investors
Increase Investor Awareness

Widen financial literacy/capability

BUY

Rural / Blue Collar / Housewives
Schools
Universities/Workplace
Investing Public

A responsible industry
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Shareholder Activism
Proactive & Participative Institutional Shareholders
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Continued training and improvement of skills of market intermediaries
SC’s Investor Education Strategy in Practice... 

- Investor rights
- Awareness of redress options

Simple, effective & accessible

Financial literacy & capability

Matching product to investment objectives & risk profile

Investor Responsibility
- Due diligence
- Investment monitoring
- Dealing with qualified professionals

Seeking Redress

Information

Self-Knowledge

Action

Product Understanding

This must be matched by the quality of services and disclosures in the market.

SC’s Investor Education Strategy - Focus Areas

Enhancing investor protection by ensuring investors are knowledgeable and vigilant of their rights

Goal
To create knowledgeable & vigilant Investors

Increased focus on sustainability & reach

Schools
To inculcate money management culture among school children

Widen financial literacy among key target groups

Financial Literacy Programmes
To increase familiarity with investing, awareness of investors’ rights & responsibilities and develop resistance to scams

Increased focus on sales practice disclosures & KYC

Rural / Blue Collar / Housewives
To increase sophistication in managing savings and developing capability in investing

Investors / Potential Investors
To create a greater pool of informed, capable and responsible investors in the capital market

Develop Responsible Intermediaries

Financial Capability Programmes

Universities / Workplace
Strategic Partnerships in Delivering Investor Education Programmes

Financial literacy programmes
- Seminars / Workshops / Camps / Challenges
- Online learning: Malaysian Investor website, Exchange & Associations' websites
- Media: Newspaper articles, Radio & TV capsules
- Investor Clinics / Road shows

Financial capability programmes

Knowledgeable & Vigilant Investor Community

Working with ….

Industry Associations:
- Minority Shareholders' Watchdog Group
- Financial Planning Associations
- Malaysian Investor Relations Association

Intermediaries:
- Stockbrokers
- Investment Banks
- Futures Brokers
- Asset Management Companies (PNB)
- Unit Trust Management Companies

Bank Negara Malaysia
NGOs
Media
Federation of Investment Managers Malaysia
Capital Market Development Fund

SC's Investor Education Strategy - Focus Areas

Widen financial literacy among key target groups
Financial Literacy Programmes

Increased focus on sustainability & reach

Increased focus on sales practice – disclosures & KYC

Develop Responsible Intermediaries
Financial Capability Programmes

Investors / Potential Investors

Schools
Rural / Blue Collar / Housewives
Universities / Workplace

Kids & Cash/ Teens & Cash
29,803 students (2011)

Be Money Wise Seminar
8,009 participants (2011)

Workforce
Money@Work - 1,697 employees (2011)

University
- Cash@Campus - 3,035 students (2011)
- Campus kaChing! - 20 universities (2011)

Collaborative Efforts
- Road shows & Exhibitions
- Talks (Smart Partnership Programme)
- Train the trainer programme – Train the Teacher programme launched – Sept 2011
- Leveraging of networks to increase distribution of collaterals

Media
- 3 month Investor Education Radio Series
- Malaysian investor website
- TV segments
- Series of articles published

2011/ 2012 Programmes
Nationwide radio edumercials coverage in 4 languages - went live on 12 Dec 2011
- “One on one” investor clinics nationwide
- Investor survey

Proposed Sales Practice Guidelines for unlisted capital market products
Enhanced supervision to include IE considerations
**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

**Investor Education does have a Positive Impact**

An impact survey was conducted among 800 random participants, gauging the effectiveness of our Be Money Wise (B.M.W.) programme

- **Post-Programme Knowledge Application**
  - More vigilant when considering an investment: 87.3%
  - Started implementing a personal budget: 85.8%
  - Started setting financial goals using S.M.A.R.T.: 84.4%

- **Post-programme Adopted Behaviours**
  - Setting aside an amount of money for saving/investing: 88%
  - Legal & Illegal Scheme Differentiations: Able to differentiate between legal and illegal investment schemes: 87%

- **Contact for Checking Legality of Investment Product**
  - More aware to contact SC: 65.2%

- **Knowledge Application & Its Duration**
  - Applied the knowledge from the programme in less than 12 months: 88%
Investor Education does have a Positive Impact

Increase in enquiries pre-investment as opposed to post investment

- Enquiries made regarding legality and status of various investment schemes offered to the public prior to investment decision

Improvement in quality of complaints

- Quality of complaints received reflect investors’ higher level of understanding of rights and avenues for redress, as well as the capital market & products/services

Increase in investor activism

- Increase in level of shareholder activism through participation and exercise of rights at general meetings as well as in highlighting issues to regulators, Minority Shareholders Watchdog Group and the media

Malaysian Capital Market Institutional Framework

- Established on 1 March 1993
- Reports to the Minister of Finance and tables accounts to the Parliament annually
- Consists of 9 Board members
- Acts as the single body that regulates and promotes the development of capital market
Thank You