

Speech

SFST's speech at the Asia Financial Consumer Protection Roundtable (English only)

Friday, December 14, 2012

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the HKMA - SFC - OECD Asia Financial Consumer Protection Roundtable on "Main Challenges in Developing and Implementing Financial Consumer Protection Policies in Asia" today (December 14):

Ladies and Gentlemen,

Good afternoon. It is my pleasure to be here today at the Asia Financial Consumer Protection Roundtable organised by the OECD, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC). A warm welcome to all of you, especially those who have travelled a long way to be here.

This is the first time the OECD has joined hands with our two financial regulators in organising a roundtable for high-level officials to get together and discuss the challenges in developing and implementing financial consumer protection policies. You have brought together top experts in the field to discuss issues of concern and to chart the way forward.

The financial services sector forms an integral and very important part of Hong Kong's economy. It accounts for one sixth of our GDP and contributes directly to more than 220 000 jobs. The healthy and sustainable development of our financial sector is of utmost importance to the continuous growth of our economy. It is always our policy objective to strike a balance between generating market development on one hand, and enhancing financial stability and investor protection on the other. In fact, these goals are not mutually exclusive, they go together hand-in-hand.

As envisioned by the OECD in its G20 High-Level Principles on Financial Consumer Protection, "Consumer confidence and trust in a well-functioning market for financial services promote financial stability, growth efficiency and

innovation over the long term." The financial tsunami that hit the world in 2008 has led us to rethink the implications of highly complex financial products and review the entire regulatory environment. Market innovations which result in multiple investment products of various degrees of complexity have exposed our financial consumers to a more confusing financial world. We have to take a fresh look at the matter from the perspective of protecting financial consumers.

While our financial infrastructure remained intact during the financial crisis, major financial activities take place in Hong Kong on a daily basis and there is no room for complacency. We have implemented many improvement measures aimed at enhancing investment product sales practices and the business conduct of intermediaries, on which I will say more later. When formulating regulatory measures in Hong Kong, we and our regulators make reference to international standards and practices in major markets, and also aspects of and development trends in our own market. We will continue our efforts in strengthening our regulatory and supervisory frameworks to provide better protection to financial consumers and enhance financial stability.

We share the OECD's view that the rights of financial consumers come with corresponding consumer responsibilities. This brings out the importance of investor education. The OECD principles also point out that complaints handling and redress is an important part of investor protection. Hong Kong has adopted multi-pronged measures with a holistic approach, aiming to provide protection for our financial consumers through strengthening the regulation of the sales process, providing complaint handling and dispute resolution mechanisms, and enhancing investor education.

Sales Process and Conduct of Financial Intermediaries

Analysis of the Global Financial Crisis and related events suggests that while regulatory frameworks were in place, there was mis-selling of investment products by financial institutions in the market and this led to undesirable outcomes. Not only were the related financial institutions badly hit by these outcomes, investors suffered. To meet this challenge, our regulators, HKMA and SFC have made a number of improvements intended to promote the level of protection offered to financial customers.

These improvement measures include enhancing the selling practice of investment products, the business conduct of intermediaries and investor education. Since the end of 2008, the Government has implemented these recommendations in phases with the HKMA and the SFC.

For example, the HKMA has issued circulars to the Registered Institutions, requiring them to attach "health warnings" to retail structured products and to have clear segregation between general banking business, securities-related activities and so forth. Moreover, the SFC completed a public consultation in 2009 and implemented a series of proposals with a view to enhancing the regulation of intermediaries selling investment products to the public in 2010, including a requirement to provide statements revealing key facts about products, the introduction of cooling-off periods and disclosure of commercial interests involved in the sales process (including commissions and fees).

Complaint Handling and Dispute Resolution Mechanism

Of course, things can still go wrong even with all these new measures. We are of the view that complaints by financial consumers who are not satisfied with the financial services received should be properly dealt with by the financial institutions. This is why the SFC and HKMA have asked financial intermediaries to strengthen their complaint handling system so that they will deal with their customers' complaints expeditiously and fairly. This is in addition to the fact that in Hong Kong, we have a very active and capable Consumer Council which acts swiftly on complaints, including those about financial products.

If the dispute is not settled between the financial institution and the consumer, the only remaining remedy used to be bringing the case to court. With more financial activities taking place, there is a need to provide consumers with an independent and affordable avenue for resolving monetary disputes with financial services providers. Against such a backdrop, we set up the Financial Dispute Resolution Centre (FDRC) in June this year. The FDRC aims to provide consumers with an alternative avenue which is independent and affordable, and resolving monetary disputes with financial institutions by way of "mediation first and arbitration next". This is also in line with the

government's goal to develop Hong Kong as a regional centre for dispute resolution.

Investor Education

Our regulators have spared no effort in disseminating investor protection messages to the public through various media, reminding investors to stay vigilant and not to invest in products that they do not understand.

Unfortunately however, one of the key lessons learnt from the financial crisis in 2008 is that some investors have a tendency to commit to structured products that they do not fully understand. The cost to society of investors not having the necessary skills to make informed financial decisions can be significant. It is thus essential to enhance the awareness and financial literacy of the investing public. On this, the Investor Education Centre (IEC), a wholly owned subsidiary of the SFC, came into operation in November 2012. This cross-sectoral investor education body will complement regulatory measures to protect the investing public by improving their financial knowledge and awareness of risks, so that they can make informed financial decisions.

Other measures to protect the investing public

To bridge the safety nets in the financial markets, we are also proposing to establish a Policyholders' Protection Fund (PPF) to improve market stability and safeguard the interests of policyholders in the event of insurer insolvency. We are preparing the enabling legislation for establishing the PPF, and aim to introduce the Bill into LegCo in 2014.

In addition to the PPF, we have proposed to establish an Independent Insurance Authority to replace the existing self-regulatory regime for insurance intermediaries. The new Authority will be more in line with the regulatory arrangements for financial markets both locally and overseas. It will aim to facilitate the stable development of the insurance industry, offer better protection to policyholders, and enable a more timely response to market demands.

This exercise will affect over 70 000 industry practitioners. We will need to engage the stakeholders closely to secure public support and ensure a smooth transition. We are consulting the public on the draft legislation at the moment and aim to finalise it next year.

Bank accounts store the fruits of the population's hard-work and consequently we attach great importance to maintaining the stability of the banking system. We launched a statutory Deposit Protection Scheme (DPS) in 2006. Following the expiry of the contingency measure to provide the Full Deposit Guarantee driven by global financial crisis in 2008, we have enhanced the Deposit Protection Scheme, including raising the protection limit from HKD100,000 to HKD500,000 per depositor per bank in January 2011 to reinforce confidence in Hong Kong's banking system.

The Mandatory Provident Fund (MPF) system, i.e. our retirement scheme for our working population, has been in place for 12 years. Since 2008, MPF fees and charges have come down to 1.74 per cent, representing a 17 per cent reduction. Clearly, to the general public this is too little and too slow. There is a need for further changes. The Employee Choice Arrangement launched this November has increased the size of MPF assets transferable by employees from 40 per cent to 67 per cent of the total MPF net asset value. Thus people who pay for the service have more say now over the choice of their service provider. In parallel, the MPFA is looking into ways for the implementation of "Full Portability", which will help intensify market competition. In response to public demand, we will pursue more fundamental changes to bring down MPF fees and charges to render fair and equitable treatment to our financial consumers.

The HKMA has been promoting a corporate culture for banks that will help to ensure that they treat their consumers fairly. One initiative of the HKMA in this regard is credit card reform. This has involved the HKMA working with the industry to introduce a set of enhanced credit card practices, with reference to similar developments in the US and the UK. A total of 31 measures were announced by the industry, which will be fully implemented by authorised institutions in phases by the end of 2013. These measures aim to promote fair and responsible business practices by credit card issuers. Some of the measures will reduce the cost to customers while the increased disclosure will enable customers to compare products/services among authorised

institutions and make informed decisions. The implementation of credit card reform in Hong Kong will bring the city in line with the best international standards.

Conclusion

With the rapid pace of developments in the financial sector, I am sure you would agree that it is important to remain vigilant to the lessons learnt in the past, and identify ways to better protect our investors. I call on industry players to keep an eye on global financial trends and recommendations from reputable international financial forums (including G20 and the Financial Stability Board) to ensure that financial regulations are consistent and well-articulated. The Government and the regulators will continue to review and update our legislative and regulatory systems to enhance market quality and facilitate market development. It takes the joint efforts of the Government and the financial sector to pursue these policy initiatives effectively.

This Roundtable, and the Seminars held yesterday and this morning, provide a timely opportunity for experts to exchange professional views and explore how best we can take investor protection a step further. The OECD, HKMA and SFC deserve our thanks for putting together this very interesting two-day programme for us. I trust you have found it rewarding. I also hope that outside your serious and fruitful intellectual exchanges, delegates from overseas will be able to find some time to savour the delights of Asia's world city. I wish you all a successful and memorable stay in Hong Kong.

Thank you.

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