

Keynote Address
Professor Emeritus Datuk Dr. Marimuthu Nadason
President of Consumers International
At the IAFICO Conference 2019
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Good Morning Ladies and Gentlemen

Thank you Mr/Ms Chairman for your kind introduction

I understand that this is the first time that the International Academy of Financial Consumers (IAFCO) has invited a representative from Consumers International to speak at their event. On behalf of CI, I would like to thank the organisers for inviting me to share the thoughts of a Consumer Activist at this event. Honestly, I think it is very timely and appropriate.

For CI, banking and finance issues are one of the key issues faced by consumers throughout the globe. One clear indication is that on the 15th March every year, Consumers throughout the world celebrate World Consumer Rights Day as a celebration of unity and purpose of consumers. CI would every year determine a central theme for the event. Normally, the theme is for that particular year; rarely the theme is extended for 2 years. But in the case of Banking and Financial Issues, the theme on banking and finance was celebrated over 3 years; the only theme in the history of CI to be extended over 3 years. That is how important the issue of banking and finance is to CI and consumers. For your information the themes were:

2011 – Our Money Our Rights

2012 – Show Banks the Yellow Card, and in,

2013 – Our Money, Our Rights: Campaigning for Real Choice in Financial Services

As President of CI I give my commitment that CI will continue to work with all key stakeholders to strengthen consumer protection in the financial sector. With 250 members from 121 countries as well as representations in several important institutions at the Global level, I strongly believe that CI can make a significant impact on enhancing consumer protection in the financial sector. The growing complexity of financial products over the past decade, coupled with financial

innovations and the increasing transfer of risks to households have put enormous pressure and responsibilities on the shoulders of financial consumers.

In this interdependent world, financial consumer protection involves both international and domestic factors. Due to globalisation and liberalisation of financial services, the systemic risk caused by one financial institution in one country may influence the consumers in other countries because the regulations and business practices in the domestic market may have to change to keep up with international trends. Thus communication and cooperation among countries are essential for financial consumer protection.

Over the past decade, financial consumer protection has become an increasingly mainstream priority. A strong consumer protection regime is key to ensuring that expanded access to financial services benefits consumers, enabling them to make well informed decisions on how best to use financial services, building trust in the formal financial sector and contributing to healthy and competitive financial markets. The global crises of 2008 highlighted the importance of financial consumer protection for long-term stability of the world financial system. The need for financial stability, financial integrity, financial inclusion and financial consumer protection objectives to complement one another has become an increasingly common theme highlighted by global policy makers in recent years.

Personally I am also very involved in financial and banking matters in my own state. I am a member of the Board of Directors of the national Ombudsman for Financial Services. Through the complaints and issues raised in the Ombudsman as well as the National Consumer Complaints Centre, operated by my National Consumer Organisation, FOMCA we have been advocating for stronger measures on financial education and financial protection. Some of the key complaints on banking and financial services received by the NCCC are on unfair interests, charges and penalties, changing interest rates, hidden charges, assignment of loans to unauthorised and unregulated parties (collection agencies) unfair contract terms and misleading advertisements.

For example from our feedback from our National Consumer Complaints Centre, we realised that many consumers did not fully understand their insurance policy. Thus when it came for to the time for them to make their claims, to their dismay they found that there were restrictions and

limitations in their policy and they could not get the coverage that they had expected and had been paying their premiums over a long period of time. I thus conducted a national survey to ascertain how well consumers understood their policy. We found that most consumers did not read, did not fully understand their policy and most importantly most consumers were not aware of the limitations and restrictions in their policy. 73% of consumers indicated that they would really appreciate a product disclosure sheet that would explain to them in simple terms, the key elements of their policy, especially the limitations and restrictions. FOMCA is thus currently advocating with the Central Bank to make it mandatory for all insurance policies to have a product disclosure sheet so that consumers understand what they are buying and at time of purchase can actually compare different products and choose what best value is for money.

Financial consumer protection is an important issue for a modern society where people cannot live without financial products and services such as savings, loans and insurance. It cannot be denied that the development of the financial market has made a great contribution to the quality of life and economic growth of society.

The following is some key points of CI's recommendations on consumer protection in financial services:

1. Information design and disclosure

Consumers should receive clear, sufficient, reliable, comparable and timely information about financial service products. Contracts must include clear up front pricing so that consumers can appreciate the cost of the product before becoming obligated to pay. Financial service providers should be responsible for testing the quality and comprehensibility of the information provided, with additional audits conducted by national regulators.

Standard formats (such as Product Disclosure Sheet) should be used for the presentation of information about financial service products so that consumers can easily compare products.

2. Contracts, charges and practices

Many financial service products are now so complex that consumers, regulators and even the financial service providers themselves cannot understand them. This complexity needs to be managed. Regulators should introduce a requirement of comprehensibility and prohibit products that are not comprehensible; they should require the availability of simple standard financial service products and key financial service products should be required to meet minimum standards of consumer protection.

Conflict of interest in the provision of advice and sale of financial services needs to be addressed. Financial advice to consumers should be separated from sales-based remuneration. Additionally, there should be protection against inappropriate marketing methods.

The following practices should be cause for a contract to be voidable:

- failure to gain the informed consent of the consumer;
- unfair or unreasonable fees and costs charged to consumers and included in consumer contracts for financial services products;
- clauses in financial service contracts that result in consumers waiving core consumer protections, and,
- the sale of financial services that are unsuitable for the consumer.

3. The structure and functions of national financial consumer protection bodies

Under the UN guidelines for consumer protection, all governments have a responsibility to protect and promote consumer rights. Governments should each establish a national body that has consumer protection as an explicit regulatory objective with full authority to investigate, halt and remedy violations of consumer protection law, including where necessary the right to define specific practices or products as unfair, deceptive or otherwise illegal.

The body should be independent of the industry, free from conflicts of interest and include a balance of members with industry and consumer expertise. Representatives of the consumer interest should be integrated into the governance of the sector at national level.

4. Redress and dispute resolution systems

Access to dispute resolution and redress is one of the eight consumer rights. Governments should ensure that consumers have access to adequate redress mechanisms, which are 'expeditious, fair, inexpensive and accessible'. Governments should also provide collective redress mechanisms, in order to reduce the demand for individual proceedings.

Findings from these redress mechanisms should be synthesised and reported to regulators in order to inform future regulation.

5. Promoting competition in financial services

The financial crisis led to a significant reduction in competition in the financial services sector which was already suffering from a high level of market concentration. Competition is an important consumer issue and CI strongly recommends that countries take action to promote competition as a means to enhance consumer protection in financial services.

6. Access to basic financial services and the role of new forms of service

Universal access to free or affordable basic financial services should be a specific aim of government policy on financial services. New innovations and technologies are already making great strides in this area, increasing access but also raising new challenges for consumer protection. Governments should seek to encourage innovation in safe, effective, low cost methods for banking inclusion whilst supporting the development of consumer protection.

Conclusion: ongoing international co-operation on financial consumer protection

There is now an urgent need for stronger international co-operation on financial consumer protection. The financial crisis showed that weak consumer protection in one country can now pose a risk to other countries and the global dimension of financial services means that financial market conduct regulators around the world now often face

similar issues and challenges. Increasingly, consumers throughout the world are beginning to face similar issues and problems, thus needing a more global approach (rather than just a national approach) towards financial consumer protection.

Thus stakeholders representing the protection of financial consumers also need to cooperate both to learn from one another as well as where possible to undertake collaborative international actions to protect consumers. We cannot deny that financial products are constantly evolving and very often consumers fail to understand or have the ability to protect themselves. Thus consumer organization and other key stakeholders such as IAFICO need to collaborate to effectively advocate to put consumer protection in place, especially, to protect low income and less educated consumers. Further, collaboration is also necessary to empower consumers to protect themselves and make informed decisions in purchasing financial products and services.

I once again thank the organizers for inviting me to speak at this event. And I look forward to close cooperation between CI and IAFICO for the protection and betterment of financial consumers throughout the world.

Thank you.

***LINKING
ACADEMIC RESEARCH
WITH
PUBLIC POLICY****

***LET'S KEEP TRYING!**

SHARON TENNYSON
PROFESSOR, DEPARTMENT OF POLICY ANALYSIS AND MANAGEMENT
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International Review of Financial Consumers

In 2016 IAFICO established IRFC as a peer-reviewed academic journal publishing studies related to financial consumers.

It focuses on the topics of financial products and services, regulations and supervision, institutions, and financial culture.

The Journal's research seeks to maintain an efficient and equitable financial market.



IRFC History and Accomplishments

- Inaugural Editors
 - Prof. Man Cho, KDI School of Public Policy & Mgmt
 - Prof. Tsai Jhe Chen, National Chengchi University

- International Editorial Board
 - Representing countries in Asia, Europe and North America

- Published twice per year since Oct 2016
 - 25 articles in six issues

Research Aims

- IRFC successfully promotes international research
 - Research published on Korea, Indonesia, Australia, Bangladesh, Taiwan, USA, France, UK, and Japan
 - Comparative cross-country research also published

- IRFC successfully promotes inter-disciplinarity
 - Empirical research using lab experiments, large datasets, surveys, interviews and legal analysis
 - Conceptual research applying economic, legal and regulatory frameworks also published

Research Focus

- IRFC successfully publishes on relevant, important, current issues including:
 - ▣ Consumer financial protection and regulatory reforms
 - ▣ Financial services and service quality
 - ▣ Fintech and financial innovations including cryptocurrency and micro-products
 - ▣ Consumer financial capability and financial education
 - ▣ Consumer behavior in financial markets
 - ▣ Financial markets and economic development

IRFC is Ready for Next Phase

- SCOPUS indexing for IRFC
 - Many preparatory requirements already accomplished in previous years
 - A small amount of “polishing” is underway in preparation for application this fall

- Special Issues
 - In addition to promoting publication of research presented at annual GFFC, targeted topics for special issues will be periodically advertised

Does Research Matter?



Edward Rubin* famously said [regarding US Congress hearing on Truth in Lending Act]:

“The Subcommittee’s enthusiasm for debate and general aggressiveness toward its witnesses was combined, and perhaps causally connected with, its remarkable passivity about empirical data.”

* US legal scholar, current Dean of Vanderbilt Law School

Research as Retrospective Evaluation

- Michael Greenstone, former chief economist US Council of Economic Advisers:
- Retrospective analysis can help show what works and what does not, and in the process can promote the repeal or streamlining of less effective rules and the strengthening or expansion of those that are working well.

Price Regulation in Car Insurance

- US states regulate insurance and in early years regulation often focused on insurance prices
- The state of Massachusetts (MA) had very strict regulation of prices for car insurance
- Social objectives of MA car insurance laws [1977]:
 - Universal coverage
 - “Reasonable” rates for all
 - No premium surcharges on residual market policies
 - No use of age, gender, marital status in setting rates
 - Rate subsidies to high-cost drivers

Insurer Exits 1988-2000

Voluntary Exits		Involuntary Exits	Entrants
Aetna*	Hartford	American Mutual Ins Co	American Auto Ins Co**
AIG	Home	American Universal Ins Co	American States Ins
Allstate	John Hancock*	American Hardware Mutual	Classic Indemnity Co
Central Mutual	Kemper	Classic Indemnity Co	Commercial Union Homeland
Chubb	Nationwide	Fitchburg Mutual	Commonwealth Mutual
Cigna*	Peerless	New England Fidelity Ins	Masswest Ins Co
Colonial Penn*	Reliance	Providence Washington	New England Fidelity Ins
Continental	Royal	Trust Ins Co	Peoples Service Ins Co
Crum and Forster*	St Paul	Worcester Ins Co	Pilgrim Ins Co
Firemans Fund	Shelby		Premier Ins Co of MA**
General Accident	US F&G*		Trust Ins Co.
General Motors Ins	Utica National		

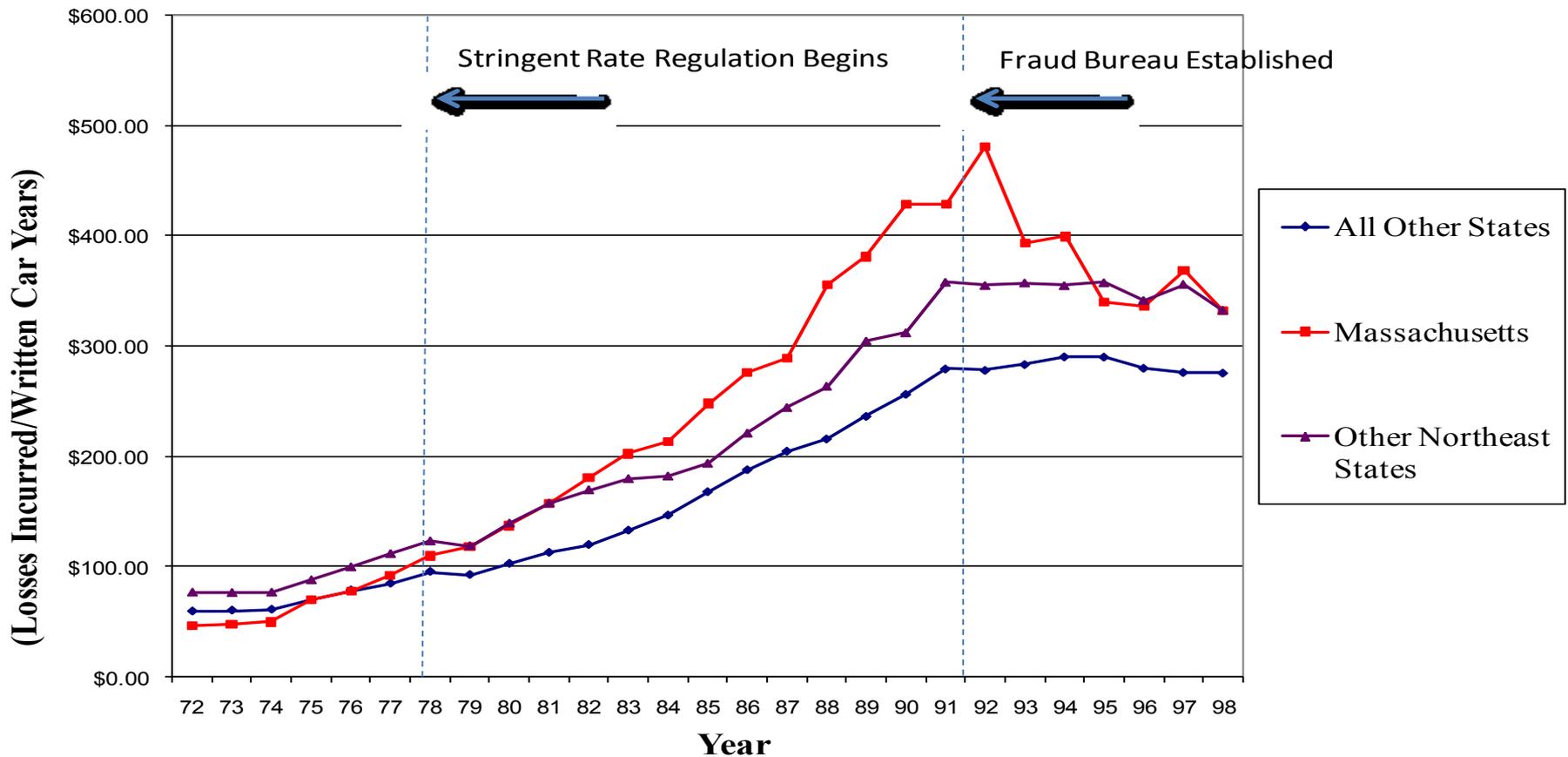
Source: Derrig (1993), Yelen (1993) and authors' compilations from NAIC data and A.M. Best Company Reports.

* Exit was part of a more general strategy to reduce or withdraw from automobile or personal insurance lines.

** Firm entry was part of a reorganization of a national group's business into Massachusetts-only writings.

Car Insurance Costs Rise

**Average Annual Loss Costs per Insured Car
Massachusetts vs Other States**



Evidence Supports Change

Headline: “NEW DIRECTION FOR MASS DRIVERS!”



“Starting April 1, 2007 Massachusetts auto insurance undergoes a major change. Individual insurers, including the companies we represent, will price auto policies with their own rates, approved by the state insurance commissioner.”

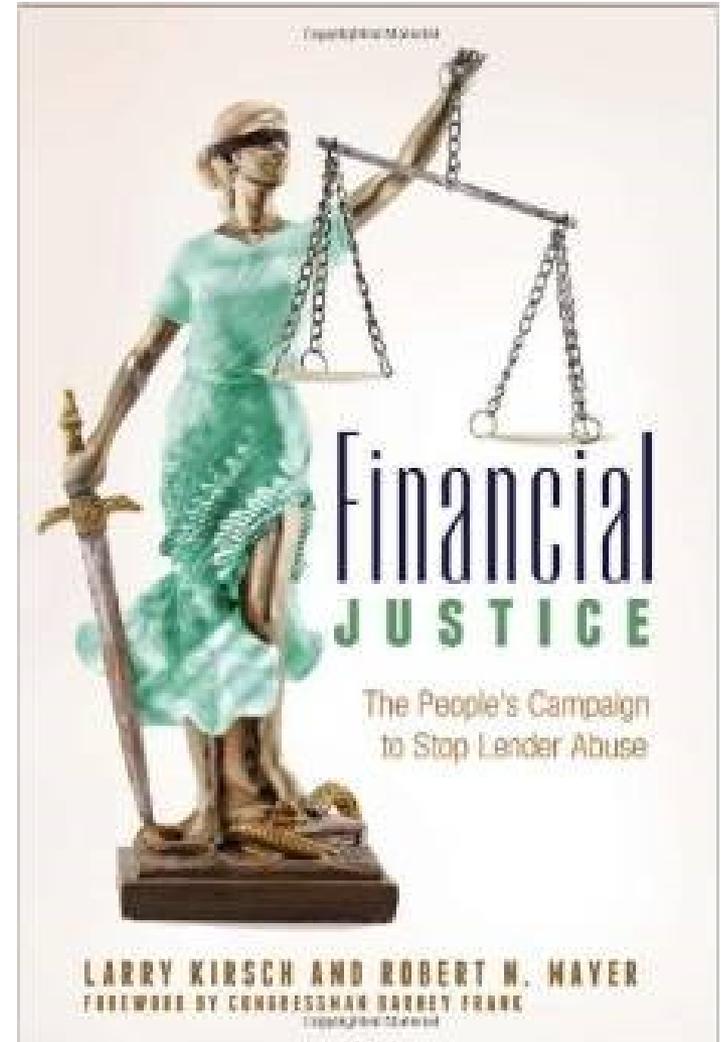
Research and Advocates

- Massachusetts Automobile Insurance competition was spearheaded by the *Fairness for Good Drivers Coalition*
- Use of academic research provided by expert witnesses and consultants
- But: contacts with Governor, consumer awareness campaign, years of pressure

Research Advocacy and US CFPB



Campaign for CFPB supported by academic research (Elizabeth Warren and co-authors) but catalyzed by a coalition of consumer advocacy groups and government agencies



Research and Advocacy in Australia

THE UNIVERSITY OF
MELBOURNE

FinFuture

The Future of Personal Finance in Australia

DOWNLOAD THE WHITE PAPER →

WHITE PAPER

CONSUMER RESEARCH

ABOUT

THE PURPOSE OF THE FINANCIAL SECTOR IS TO
SERVE THE COMMUNITY

“IMPROVING THE FINANCE SECTOR FOR ALL AUSTRALIANS” AUGUST 2019

Research and the Evolution of Policy

- The “information revolution” in economics (1980s) had profound effects on the design of consumer protection policies.
- Problems of Information in Markets
 - ▣ Costly information
 - ▣ Missing information
 - ▣ Asymmetric information
 - ▣ False information

Information Policies

- Howard Beales et al. 1981*:
“Where inefficient outcomes are the result of inadequate consumer information,... simply adjust the information available to consumers, still leave consumers to make their own choices.”

*The Efficient Regulation of Consumer Information

Beales, Craswell, Salop; *Journal of Law and Economics* 24, p.491

Problems of Information

- Costly information
- Missing information
- Asymmetric information
- False information
- Cognitive limits in use of information

Evolving Policy Perspectives

- Gillian Hadfield et al. 1998:
“Consumer protection instruments that actually generate information that is costly for consumers to interpret or access may be counterproductive.”
- Simple disclosures which provide only crude information may be more effective

Problems of Information

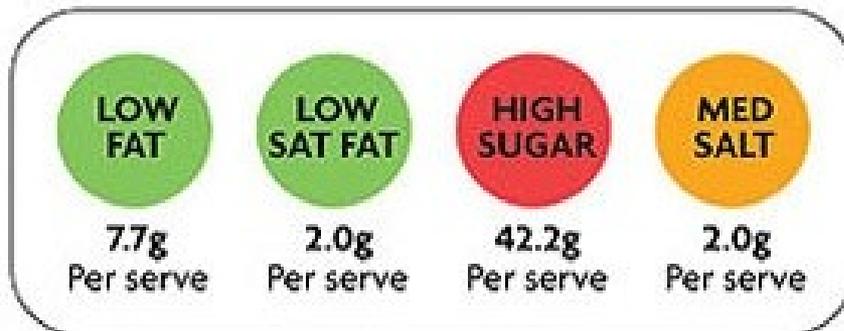
- ❑ Costly information
- ❑ Missing information
- ❑ Asymmetric information
- ❑ False information
- ❑ Cognitive limits in use of information
- ❑ Lack of self-awareness in use of information
- ❑ Deliberately misleading or shrouded information

Profit-Maximizing vs Mandated Disclosure

Front of Package Labeling



Voluntary US label
“Nutrition Keys”



Mandatory UK label
“Traffic Light” system

Increasingly, mandated product disclosures are being designed by government based on consumer research and testing

Nudges: Limitations and Problems

- Nudges are often ineffective in solving complex policy problems.
- Credit card billing disclosures designed to increase consumers' monthly payments by providing suggested payment amounts have little effect on the target consumer population (Jones et al., 2015) and may cause some consumers to reduce rather than increase monthly payments (Navarro-Martinez et al., 2011; Salisbury, 2014).

Manage your account online: [Redacted] Additional contact information conveniently located on reverse side

ACCOUNT SUMMARY	
Account Number:	[Redacted]
Previous Balance	\$506.92
Payment, Credits	-\$1,031.09
Purchases	+\$1,503.12
Fees Charged	+\$9.09
New Balance	\$988.04
Opening/Closing Date	03/11/11 - 04/10/11
Total Credit Line	\$2,000
Available Credit	\$1,011
Cash Access Line	\$400
Available for Cash	\$400

PAYMENT INFORMATION	
New Balance	\$988.04
Payment Due Date	05/07/11
Minimum Payment Due	\$19.00

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a late fee of up to \$35.00 and your APR's will be subject to increase to a maximum Penalty APR of 29.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	13 years	\$2,163
\$36	3 years	\$1,288 (Savings=\$875)

If you would like information about credit counseling services, call [Redacted]

Digitization: New Challenges

Data Privacy

Artificial Intelligence

Digital Currencies

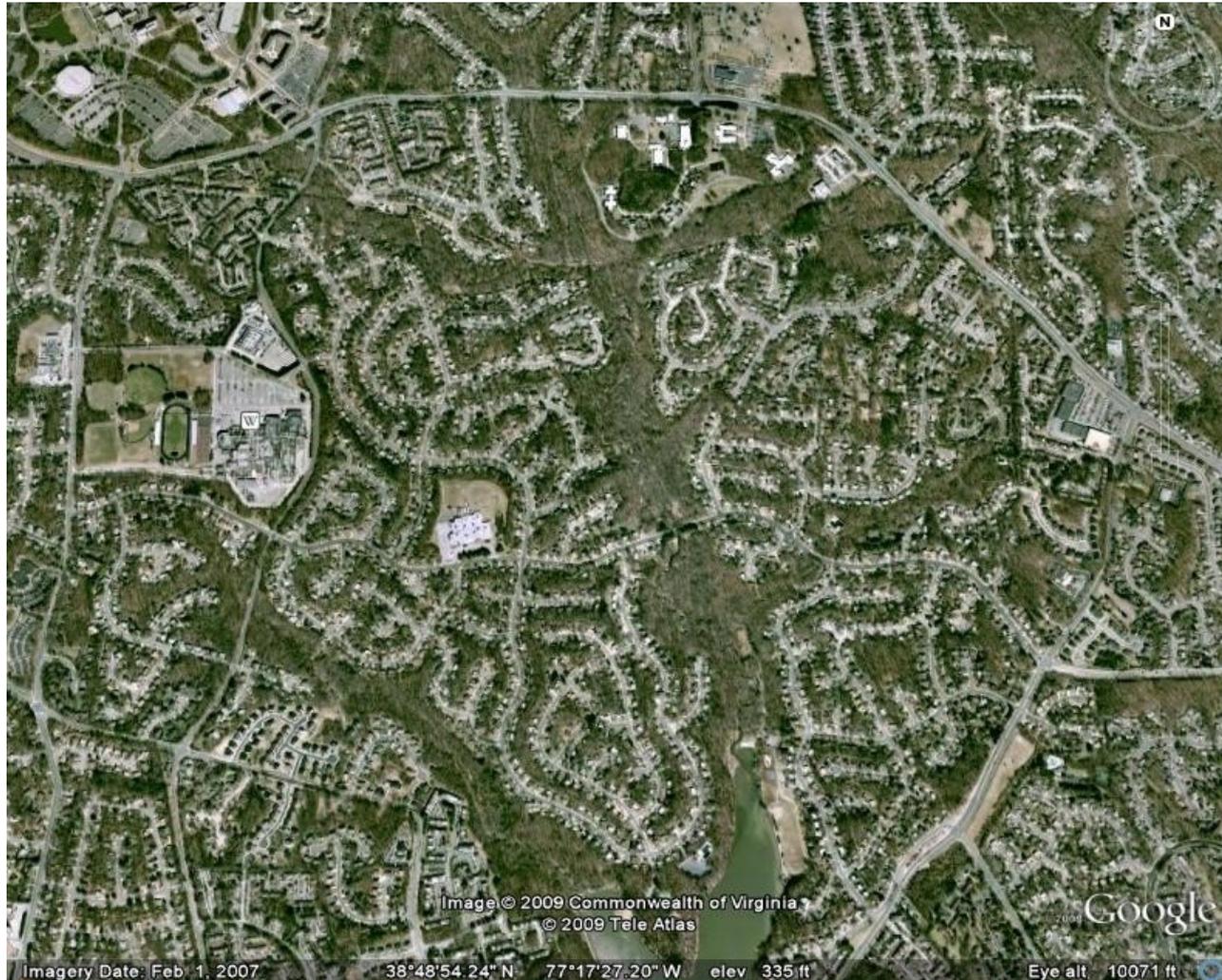
RegTech Development



General Points

- Research does matter – over the long run, through interactions with policy choices
- Advocates need research
- Policy progress is not linear – ongoing research, new tools, new frameworks are essential
- Not all policy relevant research is about policy
 - ▣ Research fosters higher levels of critical thinking

The View from 10,000 Feet Reveals Patterns



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