



From the Regulators

Financial industry has to reduce the risk of complex products being mis-sold to investors

By James Langton | May 10, 2013 08:30

The financial industry should be looking for innovative ways of avoiding product mis-selling, as it creates increasingly innovative and complex products, says the head of the group of international regulators.

In a speech earlier this week to the Australian Shareholders' Association, Greg Medcraft, chairman of the Australian Securities and Investments Commission (ASIC) and the International Organization of Securities Commissions (IOSCO), said that the financial industry has to reduce the risk of complex products being mis-sold to investors, particularly at a time when returns are low and investors are searching for yield.

"It's not a sustainable business model if the customers are losing money," he said, adding that firms need to ensure the products are appropriate for the customer and aren't mis-sold.

The ASIC has a working group on complex products which is currently exploring the best ways to regulate these products, he noted, "This includes considering the whole of the product life cycle, not just distribution and disclosure."

At the same time, he suggested that industry could be innovating in their approach to assessing whether product are appropriate for particular clients. "Product manufacturers should use new technology such as e-learning modules that explain a product's features and risks could be used to educate investors about a product. This could overcome some of the inherent weaknesses of traditional disclosure," he said. "An online assessment could then be used to assess someone's understanding before they part with their cash."

"Thinking laterally and using different tools, such as new media, can lead to more effective communication and better outcomes for investors," he said.

Medcraft also noted that investor education has to improve, so that investors can take responsibility for their decisions too. "They should understand the risk–reward pay off and the concept of diversification. In this regard, investor education remains key," he said. "In fact, I like to say if you don't understand it, you shouldn't buy it, even if your financial adviser recommends it."

"Innovation is inevitable. We need to ensure it does not outpace regulation or compromise our strategic objectives of confident and informed investors, and fair and efficient markets," he said.

In the same speech, Medcraft also suggested that it makes sense to work toward the global harmonization of regulation. "Global principles and a global rulebook are a good starting point. This would minimise market fragmentation and facilitate cross-border capital flows," he said, noting that

IOSCO has formed a task force on cross-border regulation to develop a tool kit of measures to overcome regulatory differences between jurisdictions. Regulators also need to work to address global misconduct, he said.

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