The Value Proposition of Investor Dispute Resolution & A Case Study on Putting it All Together

Global FC/IE Strategies and Implementation

Istanbul, Turkey

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If You Do Not Have FDR…

Why you should…

- Increasingly common part of financial consumer protection regulatory frameworks worldwide (@60)
- Builds investor trust and confidence in the marketplace
- Benefits society in general
- Benefits the regulator
The Financial Ombudsman – the concept

What is FDR – What is an Om-buds-man?

- A form of financial dispute resolution (FDR), various models
- An informal alternative to the court system
- Resolves individual customer complaints about financial services
- If complaint is upheld, compensation payable by the financial services provider to the consumer
- Not a regulator or a compensation fund
Yes, but only when part of a broader and effective legal and regulatory framework.

Financial service provider solvency and overall financial market stability and employment are bigger issues/concerns for the public.

Only an issue when a problem is encountered; then it matters a great deal to the investor.

FDR is no substitute for good consumer-facing market conduct regulation.
Does FDR Build Investor Trust and Confidence?

- FDR has two sides, EDR and IDR
- EDR is also no substitute for good internal firm-level dispute resolution (IDR)
  - Best practice involves a 2-tier system from the beginning (internal firm complaint handling, escalation of unresolved complaints to industry-level dispute resolution)
  - Vast majority of complaints appear to be resolved at the firm level
What FDR Does Well

- Gives government officials and regulators a credible, impartial place to refer consumer complaints about their financial service provider.

- An independent and impartial review provides “closure” even for complaints where we say “no” – usually ends the matter, which benefits the participating firms.

- Provides an accessible way to address complaints that would not otherwise be resolved through the courts due to factors such as cost, time, intimidation/fear of court process.
Other Benefits to Society from FDR

- Lower cost process for all parties (consumers/investors and financial services providers)
- Diverts many consumer complaints away from the already overburdened court system – likely averts some class action lawsuits
- Learnings from complaint cases and independent assessments by FDR structure provide valuable feedback that helps financial service providers to improve
- Guides financial literacy and education
Individual complaints can identify emerging trends and systemic problems that firms and regulators may not be aware of – early warning system (EWS)

Issues highlighted in complaints are valuable for public policy development by regulators (and legislators)

Enables the regulators to deal selectively and effectively with regulatory priorities without mixing in redress

Allows a different (non-legalistic) standard to be applied for compensation (e.g., fairness) – a different market discipline
Other Aspects of the Value Proposition

Industry benefits too

- Enhances reputation of local financial markets
- Enhances financial industry reputation
- Needed for international access (e.g., SEPA requirement)
- Political pressure valve
- A “no” that sticks
- Avoids unnecessary usage of court and media options
FDR’s Hidden Value

How FDR complaint data provides value

- Feedback to the firm, industry, regulators and government on FDR performance
- Early warning system for possible systemic issues
- Guides regulatory and/or legislative change
- Encourages firms to minimize/resolve complaints
- Prompts consumers to make complaints when dissatisfied
If You Already Have FDR…

How to Leverage It

- Know each other’s mandates, value the different roles and approaches
- Support each other in the performance of the mandate
- Clarification of rules and regulatory expectations
- Referrals to each other’s offices
- Support EFDR with appropriate regulatory requirements:
If You Already Have FDR…

How to Leverage It (cont’d)

- Support FDR with appropriate regulatory requirements:
  - Disclosure of IDR/EDR options to investors
  - Referral of unresolved investor complaints to EDR
  - Cooperation with EDR provider
  - Make IDR a regulator priority
  - Look at IDR in compliance visits to firms