Overview of IOSCO C8 Report

*Sound Practices for Investment Risk Education*

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Investment Risk Education

1. What we did – review and analysis of experience, context and approaches to investor education
2. How we did it – working group, literature review, survey, report published September 2015
3. Why we did it – C8 mandate
4. What we found – challenges, sound practices and examples
5. Next steps – recommendations
Purpose & Scope

To explore how securities regulators use investment risk education to address the misalignment between retail investors’ understanding of risk and the actual level of risk to which they may be exposed through an investment.

In: “Investment Risk Education”

Includes a range of education, information and communication activities, aimed at retail investors, which seek to:
• Promote awareness and understanding of key investment concepts;
• Influence investor attitudes and behaviours; and
• Improve investors’ financial skills & competence.

“Investment risk”: the risk that an investment will not deliver the expected yield and/or lose value.

Out: Investment fraud, mandatory disclosure requirements, financial product advertising and financial advisors.
Context

• IOSCO Methodology – Principle 3 – Key Issue 6

  “Regulators should play an active role in promoting the education of investors and other market participants.”

• C8 mandate – conduct IOSCO’s policy work on retail investor education and financial literacy

• Misalignment between investor’s understanding of risk and the actual level of risk

• Education about investment risk is increasingly important as products become more complex/diverse and individuals bear greater responsibility for their financial wellbeing
Context

1. Theories of investing behaviour and the role of research

2. Retail investors’ levels of financial literacy

3. Factors affecting retail investors’ attitudes towards risk

4. Regulatory protections for retail investors
Challenges

1. Product complexity, e.g. US FINRA note the difficulties associated with clear communication when investor risk profiles are very individualistic

2. Reaching investors at the right time, e.g. Germany BaFin highlight that retail investors can only be reached on a voluntary basis

3. Taking account of investors’ behavioural biases

4. The role of advisors and other financial intermediaries – out of scope but insufficient questions and heavy reliance, e.g. OSC research

5. Measuring & evaluating initiatives – a common issue
Sound practice 1

Focus on influencing retail investor attitudes and behaviour as well as improving knowledge

- Resources mainly offered via digital means
- More than general information: targeted & tailored guidance
- Tools and resources that allow users to interact, test, learn and obtain information based on their personal circumstances
- User testing is key during the development phase
Case study – OSC Risk Profile Quiz

When it comes to money, does the thought of losing it make you cringe?

While losing money is never an occasion to celebrate, everyone has a limit on how much they are willing to lose. Understanding your personal comfort level with risk and financial loss is critical to making informed financial decisions.

Take this quiz and learn your risk tolerance level.

Question 5

A good friend offers you an opportunity to invest in his new invention, which would double your investment if it passes a safety inspection. There’s a 20% chance of success. How much would you invest?

a. Nothing
b. One month’s salary
c. Two month’s salary
d. Six month’s salary

Your risk score is 18

You have a medium tolerance for risk!

When it comes to choosing between risk, you can go both ways! You have a medium tolerance for risk, which gives you the best of both worlds – protection from great loss, while also more opportunities to grow your investment. Based on your risk comfort level, here are a few articles you might be interested in:

- Mutual funds
- Rob Carrick - adapting to risk with age
- Atton Griffiths – asset allocation

Retake the quiz

Progress:
Your risk level: 9 of 17

Progress:
Your risk level: 18 of 17

Share this! Tweet this! Email this!
Sound Practice 2

*Develop initiatives that take an evidence-based approach in response to the needs of retail investors*

- Investment risk education activities should be evidence-based, taking into account insights from research (including behavioural economics) to better understand the decision-making behaviours of the target audience

- Applying behavioural insights help adapt to and/or take advantage of investors’ behavioural biases

- Some C8 members use BE principles in the design and development of their tools/resources
Sound Practice 2

• Economic & other data
• Incorporation of behavioural economics principles:
  • Promotion of simple action steps, make it easy
  • Use of real-life case studies
  • Employment of social marketing techniques
  • Provision of point-in-time information
  • Test with target audience
Test initiatives with the target audience

In order to maximise the likely effect of any investment risk education initiative, testing with the target audience is an important step in the process. Testing can be conducted during development and on an ongoing basis, allowing changes to be made in response to user needs which may change over time.
Sound Practice 4

*Develop initiatives that reach people close in time to the making of investment decisions and that are promoted in a variety of ways to expand reach and interaction.*

Providing information, tools or resources at the right time is likely to be most effective – that is, at the point in time when it can positively influence an investor’s decision-making or promotes action.
Case study – AMF France

• 2014 AMF France Forex Intermediary campaign
• AMF France displayed false adverts, similar to the real adverts by intermediaries
• Clicks on the “false adverts” took users to the AMF’s website to learn more about the products, using AMF educational tools
• 37,000 people clicked on the false adverts and were directed to educational material in 7 weeks
Sound Practice 5

Send clear messages that are adapted for different target groups (e.g. beginner and more savvy investors) and for the different ways people access information.

Case Study – “Cash@Campus” Program – Malaysia SC
Case study – FCA UK

- Consumer Spotlight examines how people deal with money & financial services
- Divides the population into 10 segments based on financial needs & attitudes
- Focus is on capabilities & potential vulnerabilities of groups
Sound Practice 6

*Use engaging content and delivery styles*

- Website information, warnings, checklists, videos, glossaries & media releases
- Online tools, calculators & quizzes, mobile apps for smartphones & tablets
- Hard copy brochures & publications
- Face-to-face/online seminars and webinars, training days & telephone services for retail investors & stakeholders
- Training packages for intermediaries
Sound Practice 6

- Mass media paid advertising
- PR and media campaigns
- Campaigns to promote particular investment risk issues
- Social media & search engine optimisation
- Via intermediaries/partners’ communication channels, outreach activities & other relevant events
Case study – ASIC Australia

Use the investing challenge to test your knowledge of:

- different assets from super and shares to property and ETFs
- risk factors affecting your investments
- diversification and protecting your money

**Investing challenge**

How much do you really know about investment risk?

**Video: Investing challenge introduction**

Nicole Pedersen-McKinnon talks about the importance of understanding investing concepts and how it can help you manage risk and make more informed investment decisions.

Nicole is a financial educator, commentator and personal finance author.

Transcript: Investment risk tool introduction

Welcome to ASIC’s MoneySmart investor education. This investing challenge is for you if you are interested in investing and you want to understand more about managing investment risk.
Sound Practice 7

Design activities that are current and up to date with emerging new technologies and developments in financial markets

Case studies – OSC and AMF Quebec
Where relevant, develop investor education initiatives that complement regulatory actions to enhance impact

Case study – ASIC Australia

• 2014 – ASIC required all hybrid securities prospectuses to include a reference to www.moneysmart.com.au and updated the guidance to include questions to ask and a short quiz
• Early 2015 – three offers of hybrid securities to retail investors raising a total of A$2.62 billion
• Significant increase in visits from 550 (Nov 14 & Dec 14) to over 3,000 (Feb 15) – ASIC nudged investors to seek more information
Sound Practice 9

*Develop evaluation frameworks and measures at the outset and seek to evaluate outputs and outcomes*

- Quantitative measures
- Qualitative measures
  - pre- and post-testing
  - user feedback
  - conversions
  - complaints data
  - randomised control trials
- Population-wide surveys
- Changes in attitudes and behaviours
Take aways – summary of sound practices

1. Focus on influencing retail investor attitudes and behaviour as well as improving knowledge

2. Develop initiatives that take an evidence-based approach in response to the needs of retail investors

3. Test initiatives with the target audience

4. Develop initiatives that reach people close in time to the making of investment decisions and that are promoted in a variety of ways to expand reach and interaction
Take aways – summary of sound practices

5. Send clear messages that are adapted for different target groups (e.g. beginner and more savvy investors) and for the different ways people access information

6. Use engaging content and delivery styles

7. Design activities that are current and up to date with emerging new technologies and developments in financial markets

8. Where relevant, develop investor education initiatives that complement regulatory actions to enhance impact

9. Develop evaluation frameworks and measures at the outset and seek to evaluate outputs and outcomes