

Chairman's Speech

Consumer Education

- A national necessity or an unnecessary irritation?

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INTERNATIONAL FORUM FOR INVESTOR EDUCATION

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[Greetings]

Good afternoon, ladies and gentlemen,

It is a great honor to speak at this panel discussion at the 36th IOSCO Annual Conference, held in the beautiful and historic city of Cape Town, South Africa.

First of all, I would like to extend my sincere gratitude and congratulations to Mr. Dube Tshidi, Executive Officer of the Financial Services Board of South Africa, and Mr. Greg Tanzer, Secretary General of IOSCO, on successfully organizing this wonderful event and bringing together so many distinguished guests and experts from securities regulatory agencies across the world.

[Overview of IFIE]

Before talking about consumer education in the financial sector, I would like to briefly introduce the International Forum for Investor Education (IFIE).

IFIE was formed in 2005 as a unique alliance that brings together private and public sector investor education providers. IFIE's mission is to develop and strengthen investor education programs, policies and practices across the globe.

To achieve this objective, among its many global and regional activities, IFIE provides a network to exchange information and best practices among education providers from different jurisdictions.

IFIE helps investor education providers remain informed of the current trends and best practices on investor education programs and investment products in the global financial markets.

IFIE and IOSCO host joint global investor education conferences on a regular basis to promote the exchange of investor education information.

[Importance of Consumer Education]

We believe nobody should dispute the value of financial education. Especially, in the wake of the recent global financial crisis, financial education is increasingly emphasized worldwide. I think this reflects the realization that the crisis was partially caused by a lack of financial literacy and insufficient financial education.

A number of factors highlight the importance of financial education. They include changes in the global financial environment such as the introduction of sophisticated products and rises in financial fraud and other crimes. We should also add to this list growing information asymmetry, increasing life expectancy and aging societies.

Faced with increased choices and risks in the free market, consumers need financial education to make rational decisions. This is particularly the case because not every financial product can be properly regulated.

Financial education is one of the most effective tools to improve the financial literacy of individuals and help prevent financial crises. From a micro perspective, financial education is beneficial to individual welfare.

From a macro perspective, it ultimately contributes to the development of the market and economy. There is no doubt that sound and comprehensive financial education programs, norms and practices are critical to ensure the stability and vitality of capital markets.

[Major Challenges for Consumer Education]

Despite the increased importance of financial education, however, financial education has not been as prevalent as desired. I think it is against this background that this panel discussion is being held here today at the IOSCO meeting.

I believe there are three major challenges in expanding financial education. First, financial education involves high costs.

Specifically, it costs to develop and continuously deliver education programs that can meet the needs of various groups of people. Since economies and markets continue to grow and evolve globally, additional costs are required to keep the programs current and meet emerging needs. Who should be responsible for funding such education is an important issue.

Second, any given education program will affect people differently. It is difficult to know when and how the effects of education programs will materialize.

Third, the evaluation of consumer education is a challenging task. It is never easy to evaluate how cost-effectively education programs achieve their goals.

I think these issues are why consumer education is sometimes called into question. Nevertheless, I think we should not let these challenges prevent us from promoting and developing consumer financial education.

[Korea's Experience]

I understand there are many countries where education has played a crucial role in developing their national economies and capital markets. As I believe Korea is the case in point, I would now like to share Korea's experience.

Korea was a poor agricultural country in the 1960s but has now grown into the 12th largest economy in the world.

Korea's per capita income (GNI) has jumped approximately 230 times in 40 years from \$87 to over \$20,000.

While this rapid growth can be attributed to many factors, I can confidently state that the Korean people's passion for education was a key driver.

Currently, about 80% of high school graduates in Korea go to university, which is one of the highest rates in the world. And Korea's illiteracy rate is almost zero, among the lowest in the world.

Likewise, financial education has proven effective in the development of the Korean capital market.

With the aim of providing systematic and effective financial education, the Korea Council for Investor Education (KCIE) was launched in 2005.

KCIE is a non-profit organization with a nationwide network, co-founded by seven organizations including public regulators, the industry association, and the stock exchange. KCIE provides a variety of programs not only for general investors but also for young people and the underprivileged.

Korea's efforts have brought about positive changes to its capital market. Korea is witnessing a paradigm shift in household asset management from "deposit" to "investment." Consequently, the capital market is becoming an important investment destination for household assets.

In line with this change, the Korean market has achieved qualitative growth, becoming more stable and oriented toward long-term, diversified investment. That is, institutional investors are playing a greater role in a market that was once dominated by speculative retail investors.

As such, I strongly believe education has played a pivotal role in developing the economy and capital market in Korea.

[Role of Regulators, Listed Issuers, and Institutional Investors]

To provide financial education efficiently, we need to set up a national strategy. The national strategy helps to maintain the consistency of education policy and coordinate various education providers.

However, it is practically impossible to put consumer education solely under the control of the government and public regulators, which essentially involves tax. And the school system alone is not enough to fully take care of consumer education for adults.

In addition, the government is unlikely to meet the diverse and changing needs of individual consumers in today's rapidly changing market environment.

Therefore, the government and public authorities should focus on establishing an education infrastructure and creating national education strategies.

In this sense, self-regulatory organizations (SROs) may be in an appropriate position to share the responsibility of investor education.

There are some merits to this approach. First, education funding would not just be covered by taxpayers but by the industry.

Second, SROs are better positioned to respond to the rapidly changing financial market environment in a swift and flexible manner. This means they are more capable of providing financial education that can meet the specific and evolving needs of different target groups.

Moreover, SROs can work to coordinate between government and industry while working to complement financial education within the school system. By doing so, SROs can enhance the effectiveness of financial education as a whole.

As beneficiaries of the financial market, listed issuers and institutional investors should actively engage in consumer education. Listed companies are responsible for providing transparent corporate disclosures, which will help consumers make informed financial decisions.

Institutional investors should identify what information is necessary for their individual customers through the Know Your Customer (KYC) System. And they should provide their customers with sufficient information on the structure and risks of financial investment products.

The financial institutions should also make sure the information is provided in an easy-to-understand manner.

As part of the initiative for increased corporate social responsibility, these businesses can provide and finance education programs.

[International Cooperation and the Role of IOSCO]

International cooperation is essential for the development of consumer education. Specifically, it is important to promote the exchange of information on education programs and policies among countries and across jurisdictions.

IFIE aims to meet this need by serving as a forum for investor education providers worldwide. IFIE currently has two regional subcommittees: the Asia Forum for Investor Education (AFIE) and MENA - IFIE.

AFIE represents Asia-Pacific jurisdictions, and MENA-IFIE represents the Middle East and North Africa. These bodies are dedicated to improving investor education in their respective regions.

For example, as Chair of AFIE, Korea shares its investor education expertise and experience with AFIE and IFIE members. We have provided for free our education materials to global investor education providers. Those materials are also available through the websites of AFIE and IFIE. I believe this effort is clearly in the spirit of IFIE's key mission.

As I see there is great potential for capital market growth in this region of Africa, I believe more efforts need to be made to spread our investor education endeavor across a broader African continent.

I think South Africa, for that matter, is capable of taking the initiative and bringing its regional partners onboard. We were glad that Mr. Bert Chanetsa of the Financial Services Board in South Africa was able to join us at the recent IFIE-IOSCO Global Conference in Cairo, Egypt.

IFIE is currently in initial discussions with colleagues in Latin America and Europe to create similar regional efforts so that the benefits of investor education initiatives may spread to as many parts of the world as possible.

As I mentioned earlier, IFIE and IOSCO regularly host joint global conferences to promote investor education. IOSCO also publishes reports on investor education, contributing to the development of global investor education.

I know IOSCO will continue its work to facilitate global cooperation among national regulators for the development of consumer education.

As I said, SROs are important in investor education, but they don't have strong enforcement means. I suppose this is particularly true for developing countries. In this sense, IOSCO can play a critical role in maximizing the effectiveness of the education programs by helping to ensure the education is properly enforced.

As Chair of IFIE, I will work to strengthen our cooperative ties with IOSCO so that IFIE may grow to become IOSCO's key policy partner for investor education. And I welcome further discussion with IOSCO and its members on our initiatives.

[Closing Remarks]

Ladies and gentlemen,

We cannot overemphasize the importance of consumer education in the capital market. It is a fundamental aspect of capital market development as it directly involves building market confidence. Once investors lose confidence in the market, it takes a great deal of effort to gain it back—if ever.

In today's rapidly evolving financial world, educated investors will find themselves better placed to make the right decisions and manage risk effectively. Their informed decisions will, in turn, help ensure the efficient utilization of resources, boosting market efficiency and developing the economy.

I firmly believe that consumer education is indeed a national necessity and that we all must learn from each other, share our experiences and support each other in this regard. This is why we need to work together to promote consumer education not only within jurisdictions but across them.

This panel discussion on consumer education, therefore, is of great significance and value.

In particular, my hope is that governments, public regulators, SROs and investor education providers strengthen their work together to deliver better financial education programs to more people.

This effort, I believe, will eventually help to bring a healthier and more mature sense of capitalism and enhance democracy throughout the world.

Thank you for your attention.