



**ASIC**

Australian Securities & Investments Commission

# Opening statement: Addressing financial consumer protection risks in an increasingly digital and financial world

*A speech by Greg Medcraft, Chairman,  
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## ***CHECK AGAINST DELIVERY***

### **Introduction**

Good morning, ladies and gentlemen. Thank you to everyone for joining us today – and, in particular, to our international guests who have travelled from across the globe.

I would also like to extend a special thanks to Masamachi Kono and the rest of the team from OECD for co-hosting this event with ASIC.

It has been about 10 years since the events that started the global financial crisis GFC – the freezing of some BNP Paribas funds on 9 August 2007. This has been described by some as ‘the day the world changed’. And so it is fitting to ask today what has changed since that day?

Much has already been written and said about what has changed for financial institutions, the global economy and financial regulation. But I want to take a moment to focus on what has changed in relation to consumers of financial products and services. I see these changes as falling into two categories

- technological change
- changes to the way we think about consumer decision making.

I want to talk about both of these today, and also to touch briefly on the implications for consumer protection. We will look at many of these issues in greater detail over the course of today.

## **Technological change**

First, technology. There is no denying the impact that technology has had on consumers over the last decade.

In particular, I think there are three key developments for consumers of financial products and services:

- social media and the power of the crowd
- financial technology (or ‘fintech’)
- ‘big data’ and data analytics.

### **Social media and the power of the crowd**

Social media has given consumers a more powerful voice. While personal recommendations have always been effective in driving attitudes towards brands and purchasing behaviour, social media has now magnified and intensified the power of these recommendations.

On the flip side, social media and the 24-hour news cycle mean that companies are increasingly held to account for any perception of poor behaviour. If they are not behaving in the right way, the crowd will let them know.

However, despite this more powerful consumer voice, access to justice still remains a critical issue. Social media doesn’t necessarily make it easier to secure redress when misconduct causes loss or harm. And so effective dispute resolution and ombudsmen schemes remain a central focus.

Here in Australia, we have just completed a wholesale review of our dispute resolution framework and are in the process of implementing some significant reforms. We will be hearing more about this very soon.

### **Fintech**

Fintech is changing the way financial services are delivered to consumers.

### **Smart contracts**

For example, a few weeks ago, a global insurer announced the launch of a self-executing smart contract for the consumer travel insurance market. The new technology allows direct, automatic payment to policyholders whose flights are delayed by more than two hours. It uses the Ethereum blockchain and a ‘self-executing’ piece of code that automatically triggers payment once the flight delay conditions are met. This is a

substantial development for smart contracts – and, hopefully, consumers will also benefit from a more transparent product that is easy to use.

While there are plenty of opportunities for consumers to benefit, there are also risks. Policymakers and regulators must perform a careful balancing act in seeking to create the right environment to encourage financial technology that benefits consumers while also ensuring consumers can have trust and confidence in markets.

### **Mobile money**

Some of our overseas guests today will also have seen that fintech can play a huge role in increasing financial inclusion among the unbanked and underbanked through the rise of mobile money. For example, M-Pesa in Kenya has led to a 300% increase in the number of adult Kenyans who access financial services, with over 75% of Kenyans now having access to financial services.

On the other hand, technology also has the potential to exclude some consumers. For example, some older consumers may lack familiarity with the technology used to deliver financial services.

### **‘Big data’ and data analytics**

The increasing sophistication of techniques to capture, store and analyse data is another trend with very significant consequences for consumers, and there is naturally a link between this and fintech. My earlier example of a self-executing travel insurance policy would not be possible if flight status data was not readily available.

However, the move towards designing intelligent systems that analyse a wide range of consumer data raises many issues. Consumer data includes personal financial data, as well as other data that can impact financial outcomes. This may present challenges for the regulatory perimeter as our landscape evolves, as well as questions about how best to encourage the ethical and responsible use of data.

Despite these concerns, there are also tremendous opportunities for consumers in relation to data – something I will come back to in a moment.

## **Changes to the way we think about consumer decision making**

Moving on to the second big change relevant to consumers of financial services and products, how has our understanding of consumer decision making changed?

In the lead up to the global financial crisis, the dominant view was that disclosure was the best approach to consumer protection. However, the global financial crisis made it clear that we need to think differently about problems and solutions in retail financial markets. Since then, there has been increasing acceptance of behavioural economics and what it teaches us about the realities of consumer decision making in financial services.

This has also led to changes at ASIC. During my term as Chairman, we have established a centralised Behavioural Unit to lead and coordinate our work on consumer research and policy. The team has now grown to over a dozen staff, which is a reflection of the importance of their work to what ASIC does.

This evolving understanding of consumers, coupled with greater recognition that many consumers buy financial products and services out of necessity, rather than choice, has led to important lessons for policymakers and regulators.

First and foremost, we know now that disclosure has been expected to do far too much. We need to be more conscious of its limitations, and spend more time understanding the root cause of problems, rather than tweaking disclosure without evidence to support the change. And, we have to accept that, for some problems, intervening in the market may be the most effective solution.

These lessons have helped prompt a change in expectations about the role of government and regulators when it comes to consumer protection. Part of this is about making sure regulators have the powers and capacity to act more effectively to identify and address market problems. In Australia, there are proposals to give ASIC new powers, including a ‘product intervention power’ that would enable us to intervene where a product is identified as creating a risk of significant consumer detriment.

There is also a growing trend towards using data itself as a policy solution. There is increasing recognition that perhaps the ‘big data’ wave can also be harnessed by policymakers for the benefit of consumers.

This has three dimensions:

- providing consumers with greater access to or control of their data – this may help improve decision making through the use of new comparison or aggregation services, sometimes called ‘choice engines’
- increased publication of possible indicators of quality for financial services – this will likely prove a far more powerful basis for decision making than lengthy disclosure documents. For example, in Australia, there is work underway to collect and publish complaints data and insurance claims data
- regulators being smart about how they collect and analyse data about consumer outcomes – for example, using ‘regtech’ to better identify red flags and risks that require regulatory attention.

## Conclusion

I think we would all agree that the world has changed significantly over the last 10 years. It is an exciting time – there are huge opportunities – but there are also plenty of challenges to keep us all busy.

One thing that hasn't changed is the need for cooperation, both locally and internationally, as we face these challenges. That's why I think events like this are so important.

Thank you.