

FORBRUGERRÅDET

TÆNK

Unsafe investment products

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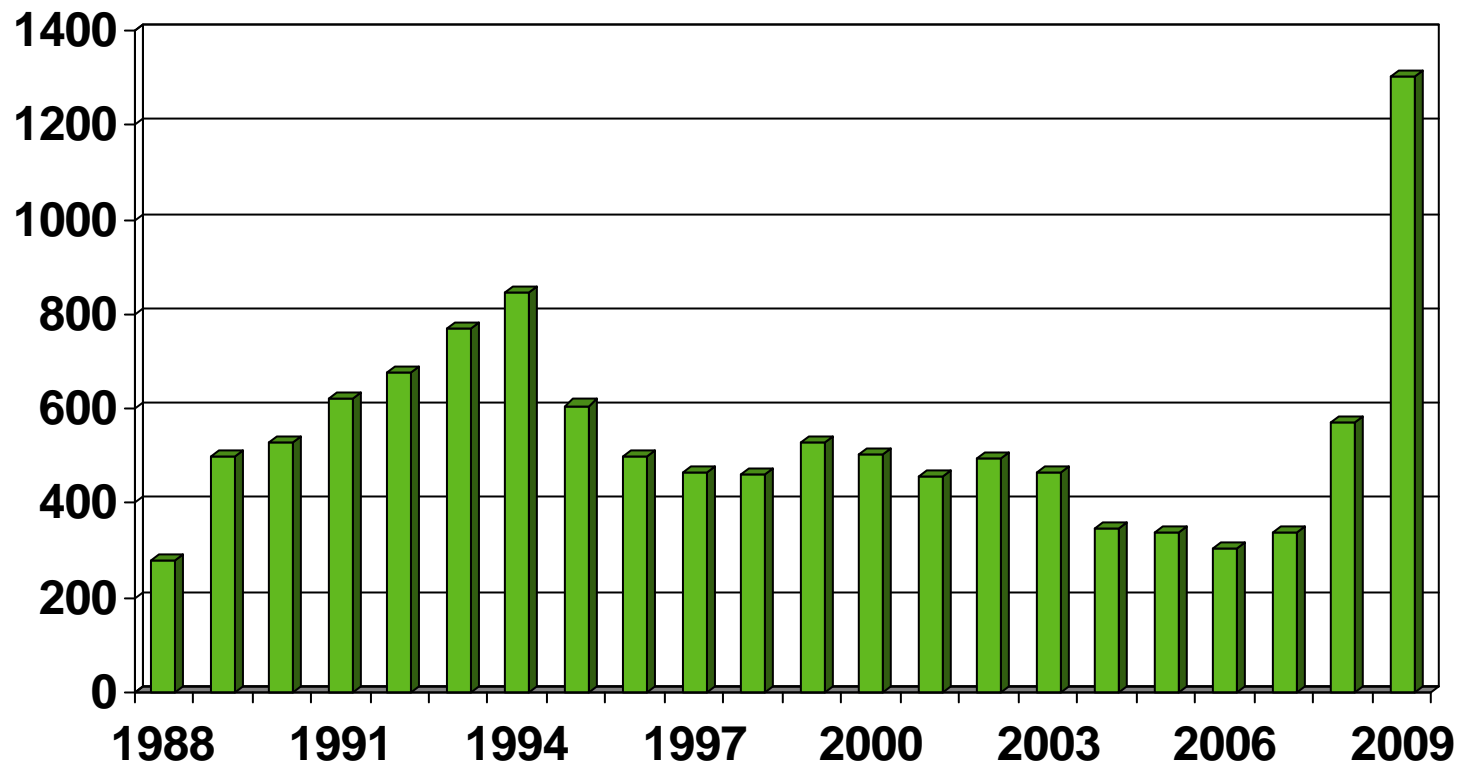
CEO

The Danish Consumer Council

Why investment products?

- The life savings of consumers are at stake
- Problems are on the rise

Complaints at the Danish Complaint Board of Banking Services



What's the problem?

- Consumers decision-making
- The incentives of banks

Consumers

- Behavioral economics:
”...in many cases, individuals make pretty bad decisions – decisions they would not have made if they had paid full attention and possessed complete information, unlimited cognitive abilities, and complete self-control.” (Thaler & Sunstein 2009)

The key problem

How can we allow consumers of varying abilities and financial sophistication to express their preferences for investment without making them vulnerable to sales-people selling "snake oil"?

(George A. Akerlof & Robert J. Shiller: 2009)

Banks

- No sharing of risk – only fee collection
- Higher risk for the consumer, higher profit for the bank

Some empirical examples

1. ScandiNotes Junior Bonds
2. Jyske Invest Hedge Market Neutral Bonds
3. Plus Invest Raw Materials
4. Bank Invest Emerging Markets

ScandiNotes Junior

- Anything goes!
- Junior Bonds = first loss tranche = 13% of capital
- Expected return: a maximum of 4,48%!

Jyske Invest Hedge Market Neutral Bonds

- Product innovation for whom?
- Interest rate spread – geared 25 times
- A market neutral bond: 85% lost overnight

Plus Invest Raw Materials

- The difference between AAA and AAA
- 100% safe
- Hiding behind a credit rating

Bank Invest Emerging Markets

- High risk with low risk label
- Reclassified: what about the investors?
- Large number of complaints

Lessons from the Danish experience

- No self-restraint
- Product innovation does not benefit consumers
- Heavy burden of proof

Is risk labelling a way forward?

New initiative from the Danish Financial Services Authority:

- 'Green' Investment products where the risk of losing the capital is merely theoretical. Investment products that are not complex.
- 'Yellow' Investment products where there is a risk of losing the capital partly or entirely. Investment products that are not complex.
- 'Red' Investment products where there is a risk of losing more than the capital. Or investment products that are complex.

Making it work for consumers

- The burden of proof
- Complaint boards
- Consumer organisations

Product regulation?

End