OTORITAS
JASA
KEUANGAN

A NEW ERA OF CONDUCT SUPERVISION:

Consequences • Challenges • Opportunities

PROCEEDING BOOK

8 – 9 September 2014
GRAND HYATT HOTEL
NUSA DUA BALI
INDONESIA

Proceeding Book

A NEW ERA OF CONDUCT SUPERVISION

CONSEQUENCES • CHALLENGES • OPPORTUNITIES

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OTORITAS JASA KEUANGAN (OJK)

Seminar, Panel Session, Workshop and Case Study
International Seminar on Market Conduct 2014

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Day 1

Muliaman D. Hadad
Chairman Board of Comissioners FSA

Excellencies, Distinguished Colleagues, Speakers and all participants.

Ladies and Gentlement, Good Morning.

First of all, I would like to thank AUSAID, World Bank and all parties for their collaborative works to make this event successful. Furthermore, let me express my appreciation to the Vice Chairman of Australian Securities and Investment Commission, Peter Kell for your key note speech.

I greatly appreciate all speakers from all over the world who made your valuable time available to come to Bali and share experiences and views. I welcome my colleagues, members of the Board of Commissioners of the Indonesian Financial Services Authority and all participants for joining this event.

I am really enthusiastic to be joining all of you in this International Seminar on Market Conduct. I believe this event is a great forum to raise national and international awareness of the market conduct risk. Sharing valuable experiences on challenges and opportunities in market conduct will give all of us broader knowledge on how market conduct supervision works in different market situations.

OJK and Market Conduct Illustration

As mandated by Law Number 21 of 2011 on the Indonesia Financial Services Authority, OJK has 2 (two) important mandates, namely (a) integrated regulation and supervision of all activities in the financial services sector, and (b) Consumer Protection.

The mandate of conducting consumer protection has been translated into one of the strategies of OJK which has established an integrated financial protection system and is implementing the massive and comprehensive financial education and socialization.

OJK will streamline and strengthen forms of consumer protection, which is still scattered, so that together with the education and socialization activities will achieve the same level playing field between financial services and consumer finance.

With the rapid developments in the financial services sector in the world, both products and services are increasingly sophisticated, and its operation is also increasingly difficult to be controlled by regulators. The condition also occurs in Indonesia, where the variation of products and financial services become more complex and the limitless access of financial institutions to reach consumers.

The supervision of financial institutions in Indonesia this far, which is implemented by the OJK, needs standarization. Market conduct is already embedded in the capital market sector. Meanwhile banking and non-banking financial institutions sector supervision is more focused on prudential supervision. In other countries, like the United States, United Kingdom, Australia, Malaysia and other countries, supervisors have already implemented market conduct supervision. According to the World Bank, market conduct is an element of financial regulation and supervision of financial institutions focused on their behavior in relation to distortion practices and abuse of power through information disclosure and on ensuring they provide good service to consumers. OJK Regulation No.1 emphasizes the required behaviors of financial institutions in designing, organizing and delivering information, offers, making agreement on the products and/or services as well as dispute resolution and complaints handling.

It is certainly different from the prudential supervision as conduct surveillance is considered from the psychological side, where supervision is looking into the behavior of both the consumer and financial institutions.

The Board and Senior Management being responsible for good consumer outcomes

- *Consumers' focus on outcomes, not legislation*

From the consumers' perspective, consumers' main focus when dealing with financial institutions is outcomes, what they can get from certain financial institution compare to others. They don't really care or want to know about the specific legislative requirements.

Their first concern is they want to deal with financial institutions that put the interests of their consumers first. Second, the consumer wants to deal with financial institutions who offer products and services that suit their wants and needs. Third, consumers want to deal with competent and nice representatives who provide advice that meets their financial objectives and suits their personal situation. Fourth, they want to receive simple information on the products or services in easy to understand language. They don't appreciate complex figures and language the firm presented in their flyers. Sometimes they don't even read them. Finally, if consumers do have problems, they expect their financial institutions to handle their problems as soon as possible and equitably. But, however, we have to remember that consumers also have responsibilities. They need to understand the basic of investments and financial products, that there's nothing free in the financial market. The higher the return means the risk is also higher.

These consumer's outcomes also important to OJK. Our regulation focus largely on the processes and procedures that financial institutions need to put in place. Strong systems and processes go a long way to help achieve our regulatory objectives. But we do not want to lose sight of the consumer outcomes these regulatory rules were designed to achieve.
Furthermore, we will need to consider how we can use our supervisory work to better assess whether the activities of financial institutions translate into practical outcomes for

consumers. Some of the regulatory tools we will use will include thematic supervision, surveys of financial institutions and consumers, company visits, interviews with Senior Management as well as mystery shopping. We will also take enforcement action when we find complete disregard for the rules.

The one thing that I hope you will take away from my speech today, it is this -- increasingly, OJK will be looking to the Board and Senior Management to take responsibility for ensuring that they embed good consumer outcomes in all their business practices. We expect the Board to set the overall direction on market conduct policies and their implementation, and for Senior Management to be responsible for ensuring that these measures are in place. That is, the Board and Senior Management should set the overall culture of the organization so that all its processes are focused clearly on achieving good outcomes for consumers.

There are few main reasons why OJK is so focus on Board and Seminar Management. First, it is not an easy task to fully succeed in achieving good standards of market conduct unless they are embedded in the very culture of financial institutions. Second, as I stated before, most of costumers only care with the outcomes from interacting with financial institutions. They do not read the text of the Consumer Protection Act, Regulations or guidelines. Third, OJK as well as stakeholders, need to have a clear focus on the outcomes that we expect to achieve in order to know whether our efforts have made a difference to the standards in the industry or not.

OJK will look at how best we can assess whether the Board and Senior Management is delivering good consumer outcomes as an integral part of its business operations and strategy. This will parallel our focus in OJK's prudential supervision on how well the Board and Senior Management are managing the risks of the financial institution.

At the end, what's important is Putting Consumer Needs First. After all, this is what financial institutions say they do as a matter of good business. Whether the better phrase is "Fair Dealing", "Treating Customers Fairly", "Putting the Interests of Consumers First", or just setting out the outcomes we expect without any label are issues we can explore in more detail on other occasions as our thinking progresses, including in our regular industry dialogues.

Whatever label we use, our main focus should be on transforming the way financial institutions implement market conduct standards to achieve positive outcomes for consumers. We need to change from a rules-based compliance-led approach to one where the Board and Senior Management take greater responsibility for embedding good market conduct practices into their organizational culture, and they do so on the basis they consider this will be good for their business.

Financial inclusion related to market conduct regulator

OJK considers that financial inclusion programs should continue to be developed and stimulated in order to accelerate expansion of access to financial services for disadvantaged society and micro and small enterprises. The results of the OJK financial literacy survey in 2013 showed that the literacy level of Indonesian society is still at the level of 21.84% and the level of utility products and financial services is 59.74%. With this condition, there is still a big chance for us to increase the level of financial literacy and utilization of financial services products through a program of financial inclusion and literacy education.

OJK's existence is expected to become a solution to this problem, considering that we have the authority to regulate and supervise the whole financial sectors, and therefore OJK has two advantages to stimulate financial inclusion programs. First, financial inclusion programs and monitoring of resulting achievements can be conducted more comprehensively and integrated in the matters of supply, demand, and infrastructure. Second, with authority mandated to OJK to provide education and protection over financial consumers and society, it gives additional value to more acceleration in financial inclusion, especially in the matter of demand.

Programs to create an inclusive financial system are not only designed to stimulate one aspect, but must complement each other and create synergy. From the supply perspective, it requires industry that offers customer-centric financial products or services along with excellent financial infrastructures. This can be delivered only if supported by programs that stimulate the demand aspect, such as financial capability, education and public trusts, and also qualified financial access. These two aspects may run well if they are facilitated with policy and regulations that are supportive of an inclusive financial system.

Improving financial literacy requires a multi-stakeholder framework. It demands action by consumers, industry, and also governments. If consumers are to fulfill their role of enhancing market discipline, other actors must also play their roles. Consumers should be educated and able to voice their opinions about the financial services they are purchasing. Financial institutions should actively participate in providing an environment where consumers are protected. And ggovernments, which means OJK's responsibility in this case, should provide oversight and enforcement to ensure both sides are meeting on a level playing field.

Distinghuised Speakers and Participants, Ladies and Gentlemen,

All in all, the financial consumer protection is not only the responsibility of regulators, but also all stakeholders. Such mission is going to be successful as long as all parties concurrently give adequate attention and work in their proper fields respectively.

Ladies and gentlemen, in closing, I would like to convey my high hopes of the outcomes of this seminar. I understand that there is a full agenda for this two day seminar and I wish for everyone to have a great day and enjoy your stay in this exquisite island.

Thank you very much.

Bali, 8 September 2014

Muliaman D Hadad
Chairman Board of Comissioners FSA

Executive Session – Changes Bring Opportunities

Day 1

Peter Kell
Deputy Chair of ASIC

Ladies and Gentlement, Good Morning.

Thank you for the opportunity to speak today. I am honored to be asked by the Financial Services Authority of Indonesia [Otoritas Jasa Keuangan (OJK), pronounced "Oh Jay Kaa"] to discuss the role of the Australian Securities and Investments Commission (ASIC) as a consumer protection regulator.

Before I begin, I would like to express my commitment to working with OJK, to build on our long history and our good co-operative work to date. We appreciate the size of the task you are facing in effectively regulating the financial market of a large and diverse country, and dealing with a wide range of financial sophistication.

I also congratulate OJK for being the 100th signatory to IOSCO's Multilateral Memorandum of Understanding that facilitates our exchange of information for enforcement purposes. ASIC looks forward to our ongoing engagement and strengthened ties.

Today – I would like to:

- share my perspective on the role of consumer protection in market conduct regulation, including international developments;
- outline ASIC's role as consumer protection regulator; and
- set out some of ASIC's recent consumer protection activities, with a focus on consumer credit and insurance.

A Focus on Consumer Protection

Financial service markets pose particular problems for consumer choice and competition. It was traditionally assumed that consumers are best placed to know the type of financial product and service most suited to them, based on their personal circumstances and needs.

However, a consumer's ability to make an informed choice is limited by a number of factors.

- Financial products and services can be complex and difficult for consumers to understand – especially as the benefits and risks are often not apparent at the point of sale and may not become apparent until later.
- Developments in behavioral economics suggest that consumers may not always make financial decisions in their best interest, regardless of the information available to them.

Behavioral biases in consumers, such as 'over-confidence' may lead to flawed decision-making.
- Decisions may be facilitated by an adviser, broker, or other third party whose incentives, such as commissions or 'pay-backs', are not aligned to the interests of the consumer.
- If things go wrong for consumers, the consequences can be severe – such as the loss of their home or their retirement savings.

The global financial crisis has also shown that the increased complexity of financial products, rapid technological change, and mis-aligned incentives for financial services providers can increase the risk that consumers face fraud, abuse and misconduct. Certain classes of financial consumers, such as those with low levels of financial literacy or low income may experience higher rates of misconduct, exploitation or unethical behavior. As a result, market solutions, 'after the event' laws, or regimes focused on transparency of the sales process – such as through disclosure – may not be sufficient to address market failures in financial products and services.

We are now seeing a greater focus on consumer protection and regulatory interventions intended to better address the limitations of consumer decision-making – including actively promoting the consumer's interests in the decision making process. It is now considered an integral component of market conduct regulation. This does not just benefit financial consumers – it ensures that businesses can compete fairly, and helps promote public confidence in financial markets.

International Developments

The focus on financial consumer protection is supported by a range of international developments. The G20 Consumer Protection Principles established in 2011 identify that consumer protection is an essential component of a well-functioning market for financial services. Consumer protection creates public trust and confidence in financial products and services. This promotes financial stability, growth, efficiency and innovation over the long term.

Among other things, the G20 Consumer Protection Principles support that:

- All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers;
- Consumers should be provided with key information that informs the consumer of the fundamental benefits, risks and terms of the product;
- Financial services providers and authorized agents should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection. Financial services providers should also be responsible and accountable for the actions of their authorized agents; and
- Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.

In recognition of the importance of financial consumer protection, the International Financial Consumer Protection Organization (FinCoNet) was recently formalised as a new international organization of financial consumer protection supervisory authorities. The goal of FinCoNet is to promote sound market conduct and enhance consumer protection through efficient and effective financial market conduct supervision, with a focus on banking and conumer credit. It is endorsed by the G20 and the Financial Stability Board. FinCoNet's recent work on consumer credit regulation and their consequent *Report on Responsible Lending* released in July 2014 found that there is a growing focus in a range of jurisdictions, of not only assisting consumers make good decisions about their borrowing, but actively promoting consumer interests in the decision-making process. It also found that market conduct requirements to support responsible lending helped address any imbalance of power between a consumer and credit provider – including 'information asymmetry'; and promoted financial stability. The reports sets out a range of good practices to assist jurisdictions promote responsible lending based on a survey of the responsible lending regimes of 20 jurisdictions.

The International Organization of Securities Commissions (IOSCO) has also recently convened a new Committee focused on retail investors. The Committee on retail investors was established in June 2013. Its policy work is focused on retail investor education, financial literacy and investor protection. The Committee is intended to be a forum to share experiences and develop approaches in those fundamental areas.

In December 2013, IOSCO published a final report on *Regulation of retail structured products*, which provides a toolkit outlining regulatory options that securities regulators globally may find useful to regulate retail structured products. This is intended to enhance investor protection issues.

ASIC's Consumer Protection Role

I would now like to discuss ASIC's consumer protection role. ASIC regulates Australian companies, financial markets, financial services organizations, and professionals who deal and advice in investments, superannuation (pension funds), insurance, deposit-taking and credit. ASIC has been market conduct and consumer protection regulator of financial services in Australia since 2001. We see our market conduct and consumer protection roles as integrated. There is significant overlap – what protects consumers, generally improves the integrity of the market. Specifically, we are:

- a *financial services regulator* – we have responsibility for investor and consumer protection in financial services. We administer the Australian financial services licensing regime and monitor licensees to ensure they operate efficiently, honestly and fairly; and
- more recently, a *consumer credit regulator* – we regulate people and businesses engaging in consumer credit activities. This includes banks, finance companies, small amount lenders, and mortgage and finance brokers.

We administer the Australian credit license regime and monitor compliance with responsible lending obligations. ASIC also promotes *financial literacy* to ensure investors and financial consumers can have greater confidence when buying financial services, and are able to make sensible and informed financial decisions.

While we are discussing financial literacy, I would encourage you to take a look at ASIC's MoneySmart website. It helps consumers understand more about their finances and financial decisions. It attracts over 415, 000 unique visitors to the website every month. We also have a number of popular calculators and tools – such as the budget planner and the mortgage calculator.

At this point, I would like to unpack some of our key supervisory activities. As financial services regulator and credit regulator, we license or otherwise authorize people to operate or participate in the markets and industries that we regulate. We see licensing as a key regulatory tool to assist us proactively address both consumer protection and market conduct risks. To maintain their license, our licensees are required to comply with a range of conditions – including the requirements to:

- act honestly, efficiently, and fairly;
- meet their conduct and disclosure requirements; and
- have adequate arrangements and systems to ensure compliance with their obligations.

Our licensees must also have in place an internal dispute resolution procedure to enable consumers to get effective and timely resolution on disputes. Consumers can approach their product provider directly to seek a resolution. The licensee is considered to be best placed to deal with complaints from its own clients and consumers in the first instance.

A licensee must also be a member of an ASIC-approved external dispute resolution scheme. Where a complaint is not resolved, or the consumer is not satisfied with the decision from internal dispute resolution, they can make a complaint to the relevant scheme. ASIC has a direct and ongoing oversight role of approved external dispute resolution schemes. We set standards for the schemes and require them to report any systemic issues or serious misconduct to us. Having an efficient and effective dispute resolution and compensation is integral to our market conduct and consumer protection regime. Not only does it enable individuals to resolve their disputes and obtain their legal rights, it can improve market conduct.

ASIC also provides guidance to industry about how we will administer the law to provide clarity to industry participants about their obligations under the law. For example, we have a regulatory guide on how financial product advisers can meet their conduct and disclosure requirements, including the requirement to act in the best interests of the client. ASIC set standards for such conduct by enforcing and promoting compliance with the law through a range of regulatory tools. We deal with misconduct through our 'Detect, Understand, and Respond' approach. We detect wrongdoing through surveillance, breach reporting, and reports from the public and whistle blowers.

We adopt a risk-based approach to surveillance so that our actions are focused and proportionate. Our focus is in those areas that pose a higher risk to investors, financial consumers, markets and market participants. In this way, we allocate resources efficiently for the greatest market impact.

We analyze intelligence to assess risks early and, where appropriate, respond quickly. We respond to wrongdoing or the risk of wrongdoing by:

- disrupting harmful behavior;
- taking tough, fast enforcement action;
- educating investors and financial consumers;
- providing guidance;
- providing policy advice to Government; and
- reviewing our regulatory responses.

Recent Consumer Protection Activities

ASIC's focus is not on removing risk for financial consumers and investors – but to ensure that consumers can have confidence in our financial markets, and trust in the financial products and services they choose. We also want to ensure our markets are fair and transparent.

Our challenge involves not only addressing the misconduct of individual entities, but shifting the behavior of industry where we detect systemic or structural concerns in the market. This not only improves consumer outcomes, but promotes market integrity.

I would now like to highlight some of our recent consumer protection work in four key areas.

Promotional material

Firstly, I would like to discuss our work on promotional material. ASIC has been increasing its focus on financial services advertising and sales practices. Advertising and sales practices play a significant role in a consumer or investor's perceptions and expectations and can sway their decision-making. It also enables a business to distinguish itself from its competitors. While it can help consumers understand the product or service - advertisements and sales practices that do not fairly represent a product or its key features and risks, or the nature and scope of services, can create unrealistic expectations that lead to poor financial decisions.

Misleading advertising can also distort the market – giving some an unfair competitive advantage or encouraging industry in a 'race to the bottom' to keep up with their competitors. We administer general consumer protection provisions which prohibit misleading, deceptive and unconscionable conduct for financial services. We proactively monitor advertisements to identify potentially false and misleading representations. Importantly, this includes a growing focus on advertising and marketing through online and mobile channels. Over time, our focus on advertising has taken into account the insights of behavioral economics and how consumers make decisions.

This helps consumers have trust and confidence in financial products and services they choose, and enables industry to operate on an even playing field – making markets fair and transparent. We also monitor promotional material to detect emerging issues. This allows us to catch problem products before they are sold to consumers, or talk to industry about systemic concerns. This can stop detriment and prevent further or worse harm to consumers.

We set out good practice guidance (Regulatory Guide 234 Advertising financial products and advice services (including credit): Good practice guidance) that illustrates where we consider advertising is false and misleading. We can take a broad range of action where we detect false and mislead representations – ranging from requesting advertising be removed or amended, using infringement notices (fines) and enforceable undertakings, seeking an injunction to stop the advertising, to undertaking civil action for breaches of the law.

The type of regulatory action we take depends on the particular provision that was breached, and the seriousness of the contravention. For example, in October 2013, we commenced court proceedings against consumer credit provider GE Capital Finance Australia (trading as GE Money) for making false or misleading representations to more than 700,000 of its credit card customers. In July, the Federal Court ordered GE Money to pay a civil penalty of $1.5 million. The court found that GE Money told certain credit card customers that to activate their credit card, or apply for or obtain an increased credit limit; they also had to consent to receiving invitations to apply for credit limit increases.

These representations were false or misleading because GE Money did not require such consent for credit cards to be activated or for credit limits to be applied for, or increased. GE Money engaged in the conduct shortly before the Australian Government's prohibition on unsolicited invitations to increase credit card limits came into effect.

In April we obtained $30, 600 in penalties after we issued three infringement notices for potentially misleading online and television advertising for a life insurance product. We were concerned that representations were made that:

- 'No health or lifestyle questions' would be asked, when in fact the application form contained specific health and lifestyle questions around smoking habits. Responses to these questions were then used to calculate premiums; and
- 'Weight is not a factor that affects coverage of the Product', when in fact weight could be a relevant factor in determining the coverage offered.

Consumer credit

Secondly, I would like to discuss some of our consumer credit work. ASIC obtained jurisdiction for the regulation of consumer credit in 2010. A key feature of the new regime is responsible lending obligations. The law imposes conduct requirements on lenders and brokers to take into account the interests of a consumer when entering a loan. The obligations were introduced following significant concerns about practices in the consumer credit market, particularly the mortgage broker industry. This included concerns about poor advice, conflicts of interest, risks in loans arranged by finance brokers on the fringe of the market such as 'low-documentation' loans, and in some cases – fraudulent practices in loan documentation.

Our new regulatory regime recognized that disclosure alone was not sufficient to address these concerns. The obligations require lenders and brokers to assess and determine whether a credit contract is unsuitable for a consumer, and limit the circumstances in which credit products can be recommended or provided. Lenders and brokers are required to make a formal assessment to determine whether a contract is 'unsuitable'. In making the assessment, they must make reasonable inquiries into the consumer's needs, objectives and their financial circumstances and take reasonable steps to verify a consumer's financial circumstances – for example, by checking documents such as payslips, bank accounts and tax returns.

A credit contract or agreement will be considered unsuitable for the consumer if it is likely that the consumer is unable to comply with the credit contract or agreement, or could only comply with substantial hardship; or if the contract does not meet the consumer's requirements and objectives. We see industry compliance with consumer credit laws and responsible lending obligations as fundamentally linked to consumer confidence.

ASIC has commenced a number of reviews into responsible lending in areas we consider were likely to raise compliance challenges. In addition to identifying compliance risks and instances of misconduct, we have set out reports that have helped us inform industry of our findings and highlight our expectations of industry. For example, we have looked in the compliance of brokers of their responsible lending obligation, particularly for home loan promoted as low documentation. These loans contributed to consumer's loss of equity through inappropriate refinancing and debt consolidation – including instances where a consumer's ability to meet their obligations were not verified. A consequent ASIC report after our responsible lending obligations commenced suggests that these practices improved after the introduction of the responsible lending laws. We have also taken strong action against loan fraud – often where brokers included false information in applications to lenders. In the last financial year alone, we have banned 17 individuals and obtained 4 criminal convictions for loan fraud.

A further area of concern is the payday lending market. In Australia, micro-lenders provide small-amount, short-term loans, to consumers, often known as 'payday loans'. They generally attract significantly higher interest rates and costs than other types of loans. Consumers who use these loans may be excluded from access to other parties of the credit market. Consumers using this market were identified as more likely to end up in an ongoing debt cycle, increasing their reliance on credit for day-to-day living expenses (a 'debt-spiral'). Their financial vulnerability made them susceptible to unethical behavior and predatory lending.

In November 2011, we published our review of micro-lenders' responsible lending conduct and disclosure obligations. Our report found a number of instances where payday lenders were at risk of not being able to demonstrate compliance with the law. This included failures to adequately verify a consumer's financial situation, including expenses. We have recently reviewed their responsible activities and will provide an update shortly.

In a landmark case for our new credit regime, last year, we commenced legal action against a payday lender 'CashStore' Pty Ltd (CashStore) for breaching responsible lending obligations and engaging in unconscionable conduct. We were of the view that the lender provided unaffordable loans to a large number of their customers who were on low incomes or in receipt of welfare benefits. In addition, the payday lender has acted unconscionably and unfairly in selling insurance in relation to loans to these customers when it was unlikely that they could ever make a claim on that insurance. In September, the Court found that CashStore had breached its responsible lending obligations and engaged in unconscionable conduct.

In July 2013, the Australian Government introduced a national tiered maximum cap on costs (including interest and fees) that a credit provider can charge. This was particularly targeted at the payday lending market on the basis that even existing responsible lending obligations had limited effect to deal with underlying problems with the cost of credit and the effect on vulnerable consumers - including 'debt spiralling'.

This is a difficult area to regulate. A significant challenge to our supervisory regime is dealing with lenders who restructure their business models or adopt reactive or creative legal structures to avoid having to meet conduct requirements. We have encountered entities employing sham transactions in order to avoid the application of the consumer credit regime – including licensing, responsible lending obligations and interest rate caps that relate to payday loans.

In August last year, we commenced legal action against a payday lender for its elaborate diamond trading scheme designed to avoid the operation of the consumer credit laws. This matter is currently still being heard. In February, we accepted an Enforceable Undertaking from a payday lender where we found they breached the new payday lending laws. They kept part of the loan funds it should have paid directly to consumers by charging a subscription fee for a Membership Rewards Program. As a result, the lender refunded a total of $14,000 to more than 650 consumers.

In July, we commenced legal action against two payday lending businesses alleging they are avoiding their responsible lending obligations by claiming to structure their products under an exemption. We are seeking declarations from the court that the exemption did not apply to those loans and that they entered into prohibited loans; and orders prohibiting them from offering those type of loans, or obtaining fees and charges from those loans. This provides us with the opportunity to establish clear boundaries for lawful and appropriate conduct.

Insurance market

Thirdly, I would like to highlight some work we are doing on insurance. A key issue for us has been home building under-insurance and the clarity and transparency of cover. This was highlighted by Australia's recent experience in natural disasters, such as the Queensland floods. Many consumers were unaware that their home building and contents insurance policy either failed to cover flood or limited the cover, or did not adequately cover all 'types' of flood damage. This raised concerns about consumer understanding of home insurance products.

We are currently examining consumer experience when taking out home building insurance. In understanding the consumer experience, we are looking to identify steps that can be used to enhance consumers' understanding of policy coverage – including taking into account behavioural insights.

Another area we are looking into is 'add-on' insurance products. These are insurance products that are sold with other products, for example, consumer credit insurance sold with a loan, and various insurances sold with motor vehicles such as gap insurance or tyre and rim.

Common selling practices associated with some 'add-on' insurance products exploit consumer behavioral biases, including a tendency to over-estimate the risks attached. This is influenced by more aggressive sales practices and the greater reliance on statements by sales representative. Bundling insurance products also affects the capacity of consumers to understand their costs, coverage and exclusions.

We have commenced a scoping study on 'add-on' insurance sold through car yards – including looking at the consumer experience. We have also negotiated for $15 million to be paid to more than 30,000 car owners following ASIC's industry-wide review into the financing of tyre and rime insurance premiums by some of Australia's largest car financiers after detecting systemic breaches in the law.

Conflicted Remuneration

Finally, I would like to discuss some recent work we have been undertaking on conflicted remuneration. While we can, and do, take action against individual entities – tackling structural problems is more challenging. For example, car financing in Australia has a common practice known as 'flexicommissions'. Financiers and dealers have arrangements in place in which the dealer can determine the interest rate on a loan, within a range set by the lender. The higher the interest rate, the greater the commission earned by the dealer. This is a clear example of where commission arrangements directly affect the price paid by the consumer, and where the dealer has a financial incentive to charge as high a rate as possible.

A similar concern has also been identified in life insurance premiums. We have almost completed a major piece of work looking at the quality of personal life insurance advice consumers are receiving. This involved looking at the policies distributed by life insurers, their remuneration arrangement with their advice distribution channels and a review of personal life insurance advice.

We have identified industry-wide problems in the way conflicts are handled and the quality of advice provided to consumers. This is primarily a result of conflicted remuneration structures. Our analysis shows that life insurance policies sold under personal advice models lapse at high rates. We also found a correlation between lapse rates and adviser remuneration models, such as:

- up-front commission arrangements; and
- the expiry of the 'claw-back' period – that is the period an insurer can recover commission if the consumer cancels the policy, typically within the first year.

Our analysis suggests that there are structural problems in the distribution and remuneration of advisers giving personal life insurance advice to consumers. Conflicts of interest have a significant bearing on the quality of advice consumers receive. Both issues of conflicted remuneration suggest market failure and raise consumer protection concerns – consumers are either being encouraged to pay too much for a product, or are not able to benefit from it. However, it also raises the 'first mover' problem – that if a single firm moved away from their adviser remuneration model, they would lose out to their competitors. We continue to review conflicted remuneration and take action where appropriate.

Closing

ASIC's work highlights how consumer protection is an integral component of our market conduct supervision. Ultimately – financial regulation, whether categorised as consumer protection, market conduct, or even prudential regulation, is for the benefit and wellbeing of all.

I thank you for the opportunity to present today.

Bali, 8 September 2014

Peter Kell
Deputy Chair of ASIC

Panel Session 1: Global Trends in Market Conduct Supervision – Regulators' View

Day

1

Kusumangtuti S. Soetiono*, Member of Board Commisioner Indonesia Financial Service Authority*

Moderator: Rista Kathrini Manurung, Vice President, Legal and Compliance Director PT Sun Life Financial Indonesia

Market conduct in Indonesia is relative new. This is a new trend that all economies are starting to focus. This market conduct and customer protection are very essential in our effort in achieving financial sector stability.

What is actually definition of market conduct? There are several definitions provided by World Bank and other prominent institutions. Market conduct is always related with the behaviour of financial market participants, both the providers and the consumers. Based on the regulation of OJK no.1/2003, market conduct is the Financial Institutions behavior in designing, organizing and delivering information, offers, make an agreement, on the financial products and services as well as dispute resolution and complaints handling. Why market conduct is important? The most important a pre-requisite in maintaining stability, growth, efficiency, and perhaps market conduct will create consumer's confidence and consumer's education in the long term. There are also other reasons why market conduct is important, such as moral reason, economic reason, low level of financial literacy, cases (consumers loss) and mitigate financial crisis.

From the moral perspective, the inequality of parties where financial institutions are usually in stronger position than consumers, and consumers are more vulnerable to fraud. Regulator is required to ensure level of playing field between financial institutions and customers. The other perspective is economic. An adverse condition that can cause economic loss can be created. There are 3 examples, such as: 1.) Asymmetric information. In asymetric information, one party who has more information may have more benefit, limited selection and more moral hazard rather than other parties; 2.) Negative externalities or fraud; 3.) Economies of scale.

In order to monitor behavior, it is logical that the regulator assumes this assignment to supervise financial behaviour. Besides that, there are also other reason why market conduct is important. Last year, OJK conducted a national baseline survey, and the result shows that literate people in Indonesia still stand at 21.8%, which is very low. This is also the reason why market conduct is important.

The next perspective is the large number of market conduct cases. Evidence shows that high number of cases will still arising and we analyze from the complain that coming to our contact center which has been operating since last year. Those cases can be typically divided into three: 1.) Offering of exccessive rate; 2.) Lack of explanation on insurance police coverage; 3.) Misleading advertisement. Those are only the three or the few example of evidences. Lastly, we still remember the 2008 US subprime mortgage crisis. It was set that it was due to lack of market conduct supervision and regulation in mortgage scheme. Lack of supervision create misconduct behavior. At that time, financial institution seeking high profit, and later it causes high rate of payment failure.

As market conduct is still new in Indonesia, so it still needs to look at international experience. Based on research in world bank in 2013, there are three types of exercise in market conduct supervision or it's called as market conduct regulatory structure, as the following:

1. *Internal twin peak .*
   This type where one supervisory agency in charge of prudential and market conduct supervision. This type is applied in Thailand, Malaysia and Singapore. Pros of this structure are this type is good in flow of information and good in supervisory coordination, but it can cause potential conflict with long standing prudential supervisory role.
2. *Twin peak structure*
   This type established a specialized financial consumer protection and market conduct agency. This type is applied in United Kingdom, Franch, Switzerland, Australia and Canada. Pros of this structure are clearly define the objective and mandate, but this stucture often lack of resources in establishing a specialised market conduct authroity with the required expertise.
3. *General protection*
   This type where general consumer protection agency dealing with financial products and services. Pros will face challenge of sufficient resources.

Regulatory framework of market conduct based on Law no.21/2011 article 4 said that OJK is formed with the aim that the overall activities within the financial services sector are:

1. implemented in an organized, fair, transparent and accountable manner
2. able to realize the financial system that grows in a sustainable and stable manner
3. capable of protecting the interests of consumers and the society

Principle of market conduct is that the balance between the growth of the financial sector and the protection of consumers and society.

The initial stage of market conduct framework consist of three policies, such as financial inclusion, financial literacy, and consumer protection. These three market conduct cannot be separated and complementary, and those policies can enhance stable economy growth, poverty reduction, and smaller inealuity. National financial inclusion strategy has been launched 3 years ago. All the effort to eliminate barriers in using financial service at an affordable costs. The statistics mentioned that 62% still live in rural area.

Vision of financial inclusion is to achieve a financial system that is accessible by all layers of the community to promote economic growth poverty reduction and income equality in Indonesia. Strategy to get the financial inclusion consists of 6 pilar, e.g:

1. *Financial education*. This pilar focused on increasing the pillar of financial institution in the financial services. There are massive programs carried out by lots of entities since 2011.
2. *Financial public facility*. This pillar is to identify the role of government to give financing at the most basic society. There are several important program related to this pillar, e.g Bantuan Tunai and Keluarga Harapan, bansos, etc
3. *Financial information mapping*. Aim to improve the eligibility the productive poor from unfeasible to feasible and becoming bankable in later stage.
4. *Supportive regulation*. The need of adding or modifying the regulation to increase access to Financial services
5. *Intermediation and distribution channel*. Alternative method are encouraged and some of you perhaps know and heard about branchless banking and digital payment and launched by the central bank. Those are the innovation to increase distribution of the financial services
6. *Consumer protection*

Second policy is financial literacy. It is launched in 2009 by President Republic of Indonesia. Since last year, there are a lot of program in literacy of financial, such as education and national campaign, strengthening the infrastructure and development of products and services. It is important because it will change from not literate to literacy.

The third policy is consumer protection. Beside the act, it is explicitly mentioned that the mandate is not only that financial condition's healthy, but as well as to protect the customer. Indonesia is entering into a new era because of the legal mandate. In some of the articles it is explicitly outlined to ensure that there is a dispute settlement. Based on Regulatory framework law no. 1/2013 about dispute resolution mechanism, the principles of consumer protection are transparency, fair treatment, reliability, data privacy protection, and effective complaint handling/dispute resolution.

In conclusion, market conduct supervision which includes the financial services sector is necessary and urgent. There are two different functions needed to be present in OJK, e.g Market Conduct Supervision and Prudential Supervision. those functions are are two different functions but complementary.

Panel Session 1: Global Trends in Market Conduct Supervision – Regulators' View

Day 1

***Suhaimi Ali**, Director of Consumer and Market Conduct Department, Bank Negara Malaysia*

Moderator: Rista Kathrini Manurung, Vice President, Legal and Compliance Director PT Sun Life Financial Indonesia

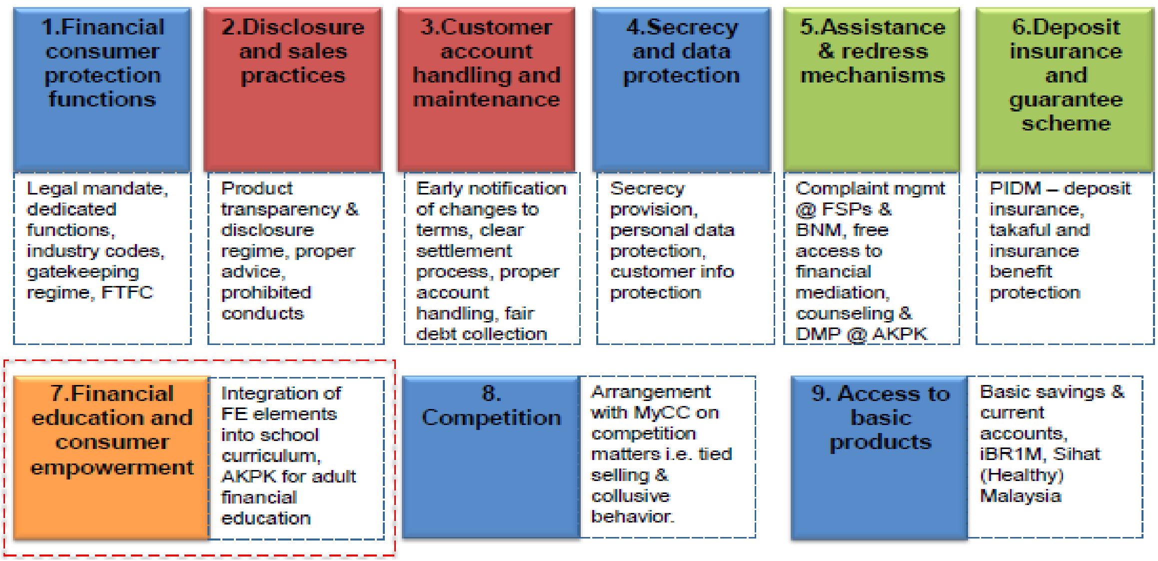
Market conduct in Malaysia is under Bank Negara Malaysia (central bank of Malaysia). When we talk about financial regime in Malaysia, it's telling us about how it will effect in consumer protection and how it will support bigger national objective.

Consumer protection (including financial education) initiatives support formal mandates of financial stability and financial inclusion. Effective consumer protection regime allows informed participation by consumers in the financial system, thus further strengthen the position of consumers e.g. the household sector. Increased financial competence of the households and small businesses has seen greater demands for better suited financial services. More active consumerism is envisaged to have a pivotal role in driving efficiency in the financial services industry.

Consumer protection regime in Malaysia is premised on "fair treatment of consumers" as the main outcome, which are the desired outcome for consumer protection frameworks are fair dealings & fair treatment of consumers, responsible business conduct by market players, enhanced informed participation in the financial system by consumers, and sustained public confidence &trust in the financial system.

Consumer protection initiatives are pursued in concert with efforts to promote financial inclusion, such as consumer protection & market conduct supervision, inclusion initiatives, and developing financially competent Malaysians. A well functioning consumer protection regime focuses on 4 core policy objectives of transparency, fair treatment and effective recourse that co-exist with financial capability strategies, as showns in the picture below:

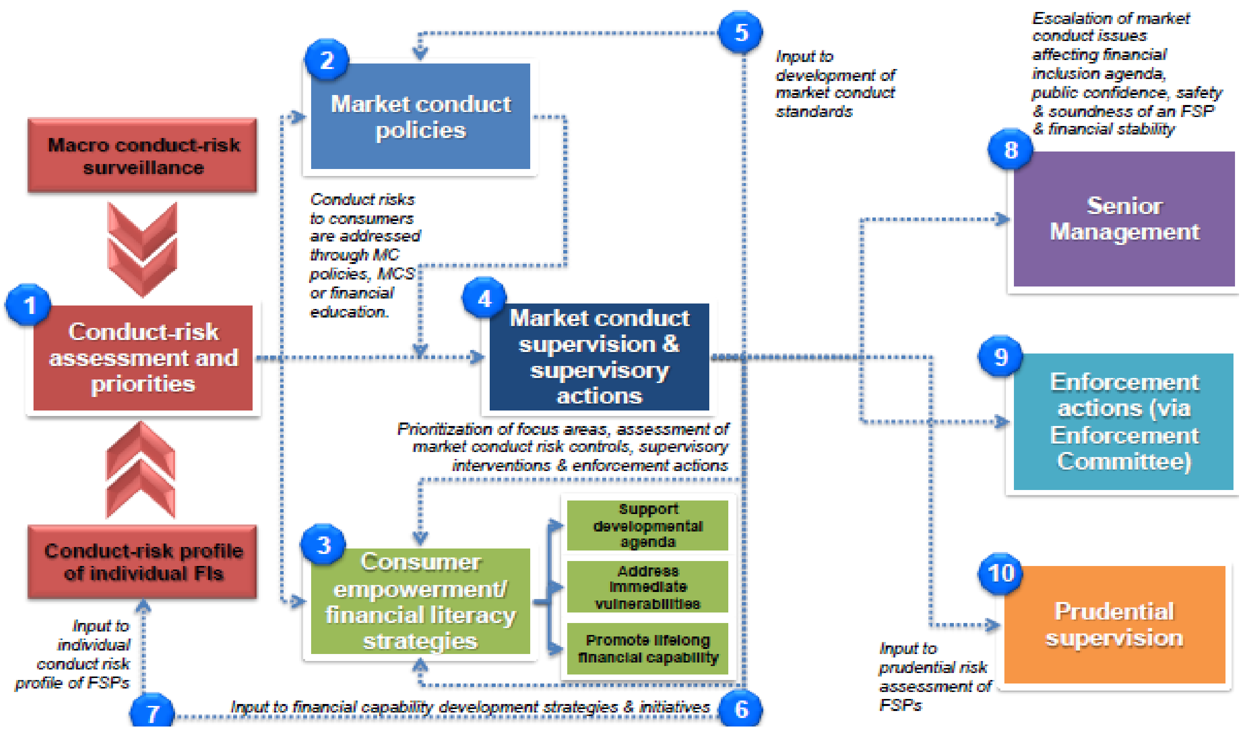
Figure 1 Core Policy Objectives



Source: Bank Negara Malaysia

In Malaysia, financial consumer protection and market conduct supervision is placed with the central bank to leverage on existing internal synergy. In order to protecting financial consumers, Malaysia adopts a risk-based approach, as the following:

Figure 2 A Risk-Based Approach to Protecting Financial Consumers



Source: Bank Negara Malaysia

Legislative framework adequates power to enformcement and penalty. Policy objective in consumer protection and market conduct supervision, inclusion initiatives and developing financially competent malaysians.

Inclusion initiatives focused on distribution channel with widespread access e.g agent banks, FA, direct channels, iBR1M, diverse range of financial service providers, and supporting financial infrastructure & enabling environment.

Developing financially competent malaysians focused on equipped with the necessary knowledge, skills and tools to make informed financial decision with confidence, capable to bold, manage and protect the wealth, strong consumer activism that helps drive efficiency in the financial sector, empowered to take necessary actions.

4 core policy objectives:

1. *Transparency*
   Disclosure and sales practices, customer account handling and maintenance
2. *Fair treatment*
   Financial consumer protection functions, secrecy and data protection, competition and access to basic products
3. *Effective recourse*
   Assistance & redness mechanism, deposit insurance and guarantee scheme
4. *Financial capability*
   Financial education and consumer empowerment

In malaysia, financial consumer protection and market conduct supervision is placed with the central bank to leverage on existing internal synergy.

Panel Session 2: Market Conduct Challenges from Customer Protection Perspective

Day 1

***Djauhari Sitorus**, Senior Financial Sector Specialist at The World Bank*

Moderator: Destry Damayanti, Chief Economist Bank Mandiri

The presentation I made has three agenda.First, good practices for financial consumer protection and then I will presentate about Global Survey : Trends and Challenges in CPFL and last about responsible digital finance.

Good Practices Financial Consumer Protection

This is a quitely new area, it started in 2006 in Europe and central Asia and in 2011 there was a revision of good practices of financial consumer protection, based on benchmark developed by a number of a number of international bodies, such as Basel Committee, IOSCO and IAIS also OECD. The world bank has done more than 30 diagnostic review, spending over 4 continents. And if you want to get more detail, you can go to our website to see the result. The last one was in 2013 and 2010.

Good practices financial consumer protection cover the whole sector in financial sector, include banking, securities markets, non-bank credit, credit reporting, pensions, and insurance. It focusses on five area: 1. Legal, Regulatory and Institutional Framework 2. Consumer Disclosure 3. Business Practices 4. Dispute resolution and mechanisms, and 5. Financial Education.

Global Survey : Trends and Challenges in CPFL

Respondents of this survey are financial regulators, different forms in different countries. Range between central bank, bank supervision agency, financial consumer protection, market conduct regulations and other forms of financial regulators. In the last survey the participant were 114 regulators. The rationale of this survey is to review the trend and benchmarking the practices around the world. It is useful for Indonesia to look what happen globally. Who are covered by the survey? It is basically all credit and saving institutions and other FI that takes credits and deposits.

Lets look at the legal framework. The respondent who says that regulation of financial consumer protection is actually embedded, there are 103 out of 114, and Indonesia was one of them. From the survey, the number of countries that has the framework has increased. The second model is the general consumer protection law or UU Perlindungan konsumen, where Indonesia has it with a reference to financial services. The least, the smallest percentage number of respondent, out of 114. The breakdown of legal framework, the dark blue area (31%) is whether there is a general consumer law only, explicit law or the mix between consumer protection law and financial regulation consumer protection and other models. So Indonesia falling under these largest category.

It is also important to look at the institutional arrangement of the CPFL. Basically the survey asked questions about what kind of institutional arrangement exist. and this will be give a brief description of Indonesian system. Indonesia has in the multiple agencies of the authorities for consumer protection , for instance there is OJK, bank Indonesia, Ministry of cooperatives and SMEs, Trade Ministry, and National Protection Consumer Council. There are number option how this institutial arrangement can be set up. The first model will be to have integrated financial consumer protection within prudential supervision either in single entity of multiple entity of authorities. The second model is basically creating a specialized dedicated agency, this is what we know as twin peak model. The third model give consumer protection function within the general consumer protection agency and let the supervisor of financial sector focus on prudential supervision. and the forth model is to intergrated prudential financial consumer protection agency working closely with general protection agency. Look at the result of the survey, the dark blue and the green is where the responsibility of consumer protection and financial literacy actually rest in either a single authority or multiple. The next one is the twin peak model, the rest is the variant of the model. So what we found there is a different in institutional structure among 114 countries. It is a challenge to implement CPFL in terms of coordination and distribution of work responbility of the agency.

More on the institutional framework. More countries assign legal responsibility for consumer protection/more role to financial supervisor or unit, so this is the trend between 2010 and 2013. If you look at Indonesia, Indonesia has a system where the agency of consumer protection is not in a separate unit but within financial sector authority . There is another model that the country make dedicated consumer protection agency. Comparison between the survey and the respon between 2010 and 2013, more model like the one on top. At the right side, institutional arrangement, Indonesia is part of the system in blue, and the other is the green one with separation. there is about 20 countries that says they do not specific consumer protection or the function currently. Indonesia is not that far off the practices of other countries.

Move to the monitoring tools . We have a listed a number of tools, on the left and the right graphic. The difference is that the left is the result of total respondents (114) and the right side of those who have consumer protetion unit exist. In those countries who have consumer protection unit, the range of tools actually broader. If you compare they have more tools. Out of these tools, we noticed that Indonesia does not have a number of this (for instance: number 2 from the left which say monitoring , number 4 conduct interviews, and number 5 mystery shopping at the time). Looking at the right hand side, all of this tool has been used in other countries.

Moving into how the authority has been handling complaints, this the very important component for consumer protection frameworks. There are Number of actions that can be taken by authroity. We learn that a couple of tools Indonesia has not been using. One of them is binding decision on the right side, including fines and penalties, withdraw advertisement and license, where tools can be considered can adopted by Indonesian authority.

Moving to disclosure requirement, we have two types of disclosure: first disclosure at opening and also periodic disclosure. This range of tools or system that exist now but if you want to benchmark against Indonesia, not currently applied based on the study that we did recently. In Indonesia is not required to have insurance and also minimum balance requirement, method of compounding withdrawal of penalties, prescribed standardized disclosure format, recourse right and process. For disclosure at pregime include the annual percentage yield, the amount of interest loan and the account balance. This does not mean that Indonesia is actually far behind, but there is other regime that could considered.

Moving into dispute resolution. Most countries have what we called third party dispute resolution mechanims that already exist. Financial supervisor acting as ombudsman like MPP. This is the case of Indonesia. Number of other institutions like mediation, nos dispute resolution system and general ombudsman and if you look at the right side, Indonesia part of 32 countries within supervisory agency.

In terms of the role financial literacy and financial education, Indonesia has done very well. Indonesia has all of this function implemented by the authrotiy and supervisor. Develop training material, provide training directly, develop strategy for financial literacy, conduct survey and issue guidelines on FL to FI's, all of this is already exist in Indonesia.

Responsible Digital Finance.

Final slide more like international sharing from the world bank. We actually publish a book what we called the opportunity of digital payments. What the governments can do in digital payment? Government play catalytic role, moving the payment from cash to digital and the government should construct a supportive regulatory environment and also government should take the role of establishing the consumer protection framework, and last but not least establising the consumer education.

Panel Session 2: Market Conduct Challenges from Customer Protection Perspective

Day 1

***Catherine Simmons**, Regional Head of Government Affairs for Asia Pacific, Citi Group*

Moderator: Destry Damayanti, Chief Economist Bank Mandiri

Catherine Simmons, Managing Director Citibank address the importance of market conduct implementation, not only because of compliance to regulation, but also further, to the growth sustainability of financial institutions. An understanding toward conduct risk is required before actors in financial industry implement market conduct policy.

Based on Thompson Reuters Conduct Risk Report 2013, comprises wide variety of activities and behavior, but are different from other known risk, such as market risk, credit risk, liquidity risk, operational risk, etc. Conduct risk, to be specific, refers to type of risk that occurs as a result of corporate or its employee behavior in doing business.

Policy makers need to equip itself with behavioral economics to understand consumer, as well as corporate behavior. Behavioral economics postulate that consumer and corporate behavior and decision making as well, are affected by various psychological aspects, not only economical aspects. So, sometimes consumer is not act in their best interest. FSA in UK list several biases that consumer tends to exhibit, which are:

1. Present Bias, immediate gratification, self-control problems, procrastination, tendency to overconfidence, we choose something that we want know instead of waiting. The example is that we don't save on retirement; we overspend on credit card now.
2. Reference dependence and loss aversion, we keep comparing various products that we don't actually need. As a result of having various options, we tend to choose the status quo that we afraid to loss on selecting the wrong product. For example: people delays to sell falling stocks and keep waiting.
3. Regret and other emotion-driven preferences, when consumer avoids choice, but in fact they pay more because if they don't choose it, they will regret it. For example, consumer that buy insurance they don't need.
4. Overconfidence, tendency to overconfidence of our skills to get things right.
5. Over-extrapolation, use of small example and you make decision based on that. For example: you select stocks with high growth, based on short-historical growth assessment on the past.
6. Projection bias, you consider that everything will go the same as it is now and you don't project on future. For example: people failing to predict their kids expenses as they growing up.

7. Mental accounting and narrow bracketing, about treating money and asset differently and taking decision in isolated and not as whole. For example, people don't match their asset and their liabilities.
8. Framing, salience, and limited attention, people are taking decision depends on how it is framed, they might look at benefit but not cost
9. Decision making rules of thumb, consumer will try to use several examples to make rules of thumb, but not doing comprehensive analysis. For example: when applying for insurance policies, consumer tends to read section that they think is important.
10. Persuasion and social influence, we buy product because of social affection that affect our decision making. For example: We buy product because the salesman is kind to us, or might be because your friend is buying it and then you started to buy it too.
11. Bounded willpower, we have difficulties to stick to rational plan, because sometimes we seek for instant gratification. For example: when we use credit card for shopping.
12. Bounded rationality, we might make decision not based on our best interest because we have limited brainpower, then we tend to make shortcuts and rules of thumbs.

Citibank currently implements three concept on doing business that already cope with market conduct, which are *responsible finance*, *treating consumer fairly*, and *customer charter*. Thus, given its commitment to responsible finance, Citibank is put its effort to create transparent, prudent and dependable business conduct.

To accelerate the implementation of those three concepts, Citibank creates code of conduct for internal purposes, that all employee must do, and it should shape their work. There are four elements on the code of conduct, which are *outcomes, treatment, commitment, and trust*. Each employee, from below to upper level, need to understand these code of conduct so then they could brings optimal services to their clients.

Besides, a company needs to design its conduct risk program, like Citi did, by doing conduct risk targeted reviews, to assess whether corporate policy and strategy are already in line with market conduct framework. In Citibank case they implement targeted reviews on four aspects. *First*, business strategy. Where Citibank assess business plans and strategy for forward looking indicators of conduct risk, such as products with asymmetric bargaining power, and/or and imbalance of risk/return ratio. *Second*, conflict of interest, by paying attention to areas that could give rise to conflicts of interest.

Third, incentive based compensation, re-examine incentive compensation plans through the lens of conduct risk. Place an emphasis on those plans that might increase the risk of miss-selling *Fourth*, new product approval, review process governing approval of new and their output to identify potential conduct risks.

Other than responsible finance, Citibank is also implementing responsible marketing, a program that aims to make all promotional, marketing campaign, as well as any application form material easy to read, and easy to understand by customer. Lawyers and/or compliance officers review corporate advertising and marketing to ensure that clearly and fairly represent the offer, satisfy any product-specific disclosure and contractual demands, and comply with all legal and regulatory requirements.

In Japan, Citibank is put effort to simplify the application form. This program, according to Catherine, has a positive impact to employee. Employee is showing its enthusiasm to implement it. In USA, Citibank develop an easy to read credit card application guideline. It's available on physical and digital form.

Catherine also addressed the importance of designing external programs for societies to show our responsibility to helps government program to increase financial inclusion in Indonesia. It is important that consumer has the ability to understand the product that is offered to them, and what is behind the product (benefit and cost).

Citibank design its financial program by holds on two pillars *: First*, business responsibility, responsible advice to customers and other customers. For example, Citibank creates Save and Invest Wisely program. This program includes publication of financial literacy survey, launching MYWEALTH website – a website dedicated on financial education, creating use credit wisely guideline – a localized credit tools and advices, and conducting seminar and events to outreach customer and investors in collaboration with major industry players.

Second, community responsibility, support for low income, disadvantages, advocates, and practitioners. This is done through financial education to youth, businesses and woman, supporting microfinance, and cooperates with TVRI to lauch "Uang Anda" TV Program on financial education.

The intermediate outcome is to reach financial capability, an ability to make informed judgments and effective decisions about the use and management of one's money. The final outcome is to achieve full financial inclusion, by enabling access for individuals to appropriate financial products and services. This includes people having the skills, knowledge and to make best use of those products and services.

Catherine ends the presentation by recommend industry players to seek through themselves how they could give better services toward customer by implementing market conduct, not only just to comply to regulator. She stated that we should remember "A happy customer is going to recommend us to their friends, and that mean more business for us".

Panel Session 2: Market Conduct Challenges from Customer Protection Perspective

Day 1

***Rimawan Pradiptyo**, Senior Lecturer at Faculty of Economics and Business UGM*

Moderator: Destry Damayanti, Chief Economist Bank Mandiri

Thank you for reminding us of the importance of behavioral economics. In Indonesia the behavioral economics and game theory is more difficult we promote. Even behavior economics is not sufficient, at the moment most of behavior economics' theory collapse in Indonesia.

One of them is loss aversion theory, has been suggested by Tversky and Kahneman. Today I want to explain the complexity if we are trying to promote market conduct especially for consumer protection. Because as we knew Indonesia has very vast country and so many island. in addition, many of Indonesian still live on below the poverty line and don't have access to financial sector (about 60%).

In this slide we can see the structure of financial sector and formal and informal institution. One of the big challenge OJK faces for market conduct is limitation of solid data (most of them small scale data, ex: informal UKM data).

We can see the pattern of length of financial network and regional economic performance and structure on BPD is reverse u-shaped. From low until middle economy we can see the financial network is mmore complex, but move towards the more advance economy, the network will simple again. The simple model networking you can see in Bank Kalimantan Tengah, Bank Sulawesi Utara and Bank Papua.

We can move as I can say this is a more medium networking which we have a BMT, this is a sharia banking and we have a BPRS. The link is very complex. This is very interesting for such a development. People are talking about high interest rate for instance and I said please becareful when you work with Indonesian data. Why is that for microfinance interest rate very high for instance? Because traditionaly we have Indonesia rule, as example in java's term there is a rule named 13 which If you borrow 100 percent, repay 130%. So how you deal with traditionaly rule like this? simple don't talk about the interest rate but the time frame. You are lucky if this interest is for 3 years but otherwise you are very unlucky if this just overnight loan. This is part of the problem that we have. I just want to show the evolution of financial supervision. The structure prior to OJK have Bank Indonesia and the other side have Bapepam LK, Ministry of Finance, Ministriy of Cooperative, etc. and then there are many cases of no man's land. in this prior OJK situation for instance we have BMTX, very aggressive in marketing and collect money from people and if collapse, who will take the responsibility? if we say BI, it will reject because they say it's not a bank , and then we go to address it to BAPEPAM, same it will be rejected and send it to Ministry of Cooperative and etc. This is problem because we don't support an intensive supervise.

And we move to post OJK, but now we have a big problem after the ratification SMEs act because there are so many number of financial institutions that shold be supervised by the OJK. Basically if we talk about market conduct there are two things: prudential supervision and market conduct supervision. We have financial institution behavior and consumer behavior market conduct supervision, which make complexity. Prudential and market conduct supervision often have contrast objective, therefore it makes more complex. In addition, because we need is totally different individuals with different skills for prudential and market conduct supervision. Market conduct supervision should focus on four objectives: Consumer protection, prudential, promoting competition and financial market integration.

Before OJK, many people said Indonesia is a very free country and there is no regulation. No license or anything. In Indonesia can do whatever what you like. The presence of the state is very minimum. Now, the people see the direct benefit of OJK which is very good. There are some factors that why do we need market conduct supervision, 1. Assymetric Information 2. The Role of Government 3. Low Financial Literation 4. Complexity of Financial Product 5.Mitigating Potential Financial Crisis. And as a game theorist which concern in assymetric information we should focus on product, capital owner, but also the transactional networking. Financial literacy is important as well. Some of our colleague got a problem. They are professor but not in economic subject, often have problems with financial transactions. Existing supervision, market conduct supervision is only applicable in stock market, so this is the situation in Indonesia. What would happen in the future? At the moment we have the market conduct supervision within prudential supervision but in the future we should separate it in the future because both is totally different requirement (One thing you say mathematic and the other you talk about behavior).

What is the complexity on market conduct supervision? You know any dispute sometimes will involve not only borrower and capital owner but also debt collector, telemarketer and the solicitors. The other thing is low enforcement. This is very complicated way to deal with. This is very interesting, we dont have freedom of information, but on the other side we don't have data protection either. This is why often we are called by telemarketer. We need to promote data protection act in conjunction with freedom of information act.

How to model this? Game theory call it inspection game between financial institution/consumer and OJK. From the result no such thing of pure strategy nash equilbirum. There's no such strategy can suit everything. You can't supervise everything because it would be too costly. That doesn't mean not to supervising but we use the mixed strategy nash equilibrium. No one strategy for all ensure success. We cannot eliminate the crime for reason but we can do is minimize it. In law economics, sometimes we become so frustrated, as example we tackle one corruptor but there will be other corruptor. We can't eliminate all the crime because this is the nature of the crime. Its like similar to when we wash our clothes, we know there is a time the clothes will dirty again.

We conduct simple experiment to informal trader in Jogjakarta . We distribute 100 questionaires in 7 traditional market in Yogyakarta and 81 informal trader participated in the experiments. In the beginning we give them endowment of 100.000 Rupiah, after that we expose them to 40 pairwise-lotteries on decision making under risk. First we talk about Allais Paradox. This paradox hold in many countries and also in Indonesia. And we also talk about certainty effect which people prefer to choose a certain way rather than probable way, although the probable way has more advantage or higher expected value. As the result from experiment, Allais Paradox hold, certainty effect was violated and independent axiom is also violated. This is the killer of the theory. In 1979, tversky and kahneman produced papers, provided kahneman with noble winner. Many papers that support loss aversion. There are 10 anomalies, that cannot be explained by loss aversion. Loss Aversion collapse in Jogjakarta. When you change from the positive to negative and the behaviour should change but not in Indonesia.

Loss aversion, people tend to risk averse in the positive domain but become risk loving in the negative domain. It examine the premium equity puzzle: why the the return of the stock 7 percent while bond is 0.25 percent in 100 years but that collapse. The significant variable is only gender Behaviour of Female and male trader apparently. The male hold loss aversion theory, but not with the girl. One of reason is female feel they have a lender of last resort, in this context his husband.

The Behavioral theory is correction of economics theory, but now we have new theory which is the anomaly of behavioural theory.

Various experiments on prisoners'dilemma show the evidence of tacit cooperation even if the game is played simultaneously both for one shot and finitely repeated setting. The research in Indonesia wants to know does the concept of "Gotong Royong" is exist in Indonesia? The result show BB option which make more loss then AA option is chose by most of the sample and imply "Gotong Royong" and coordination is very expensive in Indonesia.

And the last Many things to do to make a good market conduct. A division of market conduct supervision should be formed within the OJK in order to improve the quality of financial sector supervision. The market conduct supervision division is the complementary for the existing prudential supervision which already in place for banking, capital market and non-banking industries. Furthermore a series of further researches in the area of experimental economics/ behavioral economics should be conducted to improve our understanding on the rationality of Indonesian: Fairness and altruism, decision making under ambiguity, intertemporal decision making process, bargaining, and decision making in negative domain, etc.

Panel Session 3: Developing Market Conduct Supervision

Day 1

***Ian Tower**, AIPEG Consultant*

Moderator: Lily Widjaja, Director of Bank of America-Merrill Lynch Indonesia

There are 3 issues that are discussed: development of market conducts supervision internationally, elements of effective market conducts supervision, and whether the prudential and market conduct supervision should be carried out by the same people or organization or should be separated. The discussion will be drawn based on the experience in the United Kingdom. The financial crisis exposed a lot of problems in the United Kingdom's financial system. It might be looked compex and highly developed, since the United Kingdom has a big conduct issues with the behavior of banks and other financial institutions, and the challenge faced by the United Kingdom is different from other countries.

Regarding the international development, the point that is highlighted is that currently we have a number of agencies and a new mandate. The financial conduct authorities in the United Kingdom has been taken from the United Kingdom's Financial Services Authority (FSA) as the conduct regulator. In London, the prudential regulator, which is now part of the central bank (Bank of England), covers banks and insurance companies with 1,200 staffs,but the financial conduct authorities that covers market oversight function of capital market and conduct consumer protection has around 3,000 staffs. The other new player in this field isthe Consumer Protection Financial Bureauin the United States, which set up in 2011 to bring together and develop consumer protection function that was previously conducted by the United States' federal agencies. It looks at banking and credit sector, not insurance, at the broader sense. They have around 800 to 1,000 staff, with a mandate that is not only regulation, but also supervision. Also there is Otoritas Jasa Keuangan (OJK), with mandate ofconsumer protection, capital market, and as well as prudential regulation.

There is also new standards from OECD, G20, FSB, World Bank, and also IAIS. There also a new emphasis on the conduct supervision. Many regulators have this function briefly in the past and attached to the regulation function, but then regulators think that it is not sufficient to have regulation and enforcement retroactively when there is a breach and there should also be supervision on the compliance. Thenew focus is onconsumers' behavior, which is considered as a big issue developing in the United Kingdom and elsewhere, based on several academic works. Culture in the organization is also another big issue. Related to the product life cycle, in the past the discussion was limited to point of salesprocess of the products, for example the complaints, but now the focus is much more directed to after sales complaints, therefore covering the whole life cycle of the product.

Regarding the competition, In the United Kingdom, the conduct regulator fromwould be fully fledgedcompetition authority as well a financial regulator. They will take action on the breach of competition law, and indeed some cases related to the bad impact on consumers in the financial market caused by imperfect competition.Therefore, if you can make competition work, you will get better results for the consumers ultimately. Remuneration related to the incentives, which drives the sales process or the ways customers are treated, should also become a concern. Finally, the other aspect is increased regulatory actions since the crisis. There was USD 50 billion fines for banks in the United States related to the selling of mortgage backed securities (MBS), and in the United Kingdom,USD 37 billion fine was paid for misselling insurance products.

The key drivers are rising incomes and access to financial services, and the risks shifted from provider to consumer is the classic answer. We also talked about the limits of customer's financial literacy. Additionaly, there is a limit of national strategy to deal with the problem of financial literacy. This is a 5, 15, or 20-year program to raise the standard. In addition, this is not just about unsophisticated consumers. In the United Kingdom, that is considered as one of the most developed countries in the world, only about 1/3 of the consumers really understand the difference between real and nominal rates of interests. Maybe only 30 – 40 percent do not understand percentages. There is a lot of grant for the education of consumers. We cannot rely on financial literacy strategy in the short to medium term.

There is also a problem on abuses exposed by the financial crisis. In the case related to LIBOR, which is fixing the interest rate in London and also in other developed markets, you can argue thatthe problem is more related to market integrity issue, such as bank lending, interest rate, etc, and not really with the capital market directly. A good example is the market conduct failure, in which the problems are might be outside of the scope of market conduct regulation previously, and more complex than just consumer protection regulation.

The other thing that drives the problem is that the management of financial groups is focusing on operational and reputational risks. The process of better risk management is really for financial risk management. Companies are becoming more focus on consumer protection, because they realized that the cost of not doing so is very substantial in terms of operational risks and charges to banks' capital or profit. We have now recognized that market integrity is a pre-condition to develop financial sector. In the United Kingdom, there is a product of life insurance with profit policy, but the market has disappeared, because of the problem of the product after sale and how the product is managed, as well as bad name in the press.

We know that there will be growth of cross border business as in European Union and ASEAN. We need the minimum standard for the products to be sold across borders and provide confidence. The other issue is the realization of the regulation on shadow banking, which is outside the regulated banking sector, as part of a matter of conduct. In the past, we tended to say that if we regulate the banks, that will be covered. Now it is no longer the case.Even if it is the case, we will only get microlenders, leasing companies,etc, outside the regulated sectors which carried conduct risks as well.

The first implication is that market conducts will become much bigger and broader concept, not just about retail consumers. For example, in Malaysia there is a wholesale conduct. Market conduct will also not only just about retail or capital market, but also the rest of financial market. Also it is not just about the usual traditional tools, such as the point of sales, disclosure, complaints, product approval, but also further than those and build in the consumer behavior as well. There will also be a shift from complianceto risk based supervision and preventive based supervision. More awareness is brought up to the board level. Mr. chairman talked that one of the results will be to hold the senior and board management to be responsible for the conduct as well as sound capital adequacy, liquidity, etc. Market conduct will also be the specialist regulatory, and there will be new relationship between prudential and market conduct regulators. In many countries, market conduct regulator was regarded as the second class regulator, but now it has equal statute and there is a need for more communication and coordination.

There are 4 key elements of good market conducts: first, supervision should be risk based. We have heard from Bank Negara Malaysia about this. Risk based is supervision should be also be applied in the conduct side. There should be a good reporting. Some countries reports not just their complaints, but also the breakdown of products by customers classification. So there will be a need for more reporting as well. There are also mystery shopping and complaints.One thing that conduct regulator should not do is handling individual customer complaints. It is really good that in Indonesia this is done wholly by the industry through the alternative dispute resolution mechanism. Resources are needed to be located in the higher. There is also a need for proactive and reactive investigation and enforement, and recognize the responsibilities of customers.

The second element focuses on products and markets. A capacity to pre-approve or to banproducts as well as some capacities of market intervention are needed, including how to influence pricing charges. Sometimes prescribing the products are also needed. Supervision should not be only about individual firm, but also the market, product, or process, and there should be thematic supervision, with thematic publication of findings from the thematic work.

The third element would bethe firm's supervision. In addition to the thematic supervision, we still need to have strong supervision of individual firms or groups, just like the prudential supervisors have supervising program with dialogue with the internal management, on site work, and some detailed work in particular areas. The conduct supervisor needs dothe same, but the focus on the higher impact firms, which include larger firms withmore retail customers, retail products, or sales. A focus on culture and government as well as on the details of selling practices.

Finally, the fourth is the credible enforcement and sanctions, which is what should be done after supervisors found problems in institutions. Supervisions will be ineffective if there is no credible threat of sanctions against the institutions. The really difficult thing found in the United Kingdom is to move the sanction from individual firm to sanctions against management or individual people, whether senior managers or sales people. But when we do make this work, it will be very effective in underlining the message of supervision. The other thing that is useful is to provide redress or compensation, for example the large number of USD 37 billion for credit insurance that requires firms to put to customers back.

There are 3 questions that should be answered regarding how conduct regulation should be organized. The first is whether there should be separation between the prudential and conduct, i.e. whether the twin peak model is appropriate. The other question is if you think of market conduct, as a combination of oversight of market and the associated conduct work related with that,there are some argument to have separately organized market oversight from general conduct supervision. In addition, there is a question on whether we can do the market conductsupervision today, which emphasizes more on consumer protection's, across the sector. In other words, whether we can take the same approach to bank, insurance, pension fund, multi-finance companies, and fund managers.It is good that OJK tries to do that across the sectors. This is a big advantage in the beginning, but in the end OJK will have to do supervision on individual sectors in some details, because the risks and the issues are different in fund management, insurance, and banking, since the products are different. You also need to have anti money laundering regulation as well.

The final point about the separation of prudential and market conductoversight receive a lot of interest and there are a lot of views on this. Based on the experienceworking with the fully separated and fully integrated environment in the FSA, and also internal twinpeaks, where there was separate functions within the FSA for a period of time before the FSA was dissapeared, there was no problem having that conversation with the firms that are supervised

There are strong arguments for a degree of separation between the two. The arguments are different approaches, different skills, and much more product legal based. One difficulty within the conduct area is defining the different responsibilities of insurance companies and the advisers, agents, and brokerages who distribute the products. That is a very legal, contractual, and product based, which a long way removed from what we asked prudential supervisors to do. Equally, separation has challenges for communication and coordination, but not in a organization like OJK, where all in one supervisor. I also think that the separation the two is better that if there is a conflict, that conflict is there and they happen, andthey should be resolved by the senior level, but not every day. Combination is really the other side. The argument is, whatever approach we use, there is arecommendation for some degree of separation between product and market. Good mechanism for information exchange between the prudential and conduct and a process of resolving conflict are needed.

In conclusion, international expectation of market conduct supervision are increasing, although it is different in every country. There is a need for each country to develop its own speed at one step of the time. But improving market conduct supervision, understanding the risk better, and responding to them with a wide range of tools,and taking a broad interpreration of conduct issues, is the right way forward. Some separation between the prudential and market conduct is important. But in the end, it is not the organization that matters, but the style and quality of the market conduct supervision that matter in the right way and right tools. All of this is also the challenge for the firms.

Panel Session 3: Developing Market Conduct Supervision

Day 1

Fachry Ali, *Co-founder and former director of the Jakarta-based the Institute for the Study and Advancement of Business Ethics (Lspeu Indonesia)*

Moderator: Lily Widjaja, Director of Bank of America-Merrill Lynch Indonesia

Market conduct has generally been defined as the behavior of market actors in pursuing material benefits within the scope of a free mechanism. Although this definition applies to any economic activity, viewing the recent 2007-2008 financial-related global economic crises, it has become particular and crucial issue in the financial world.

As will briefly be described below, this financial world's particular attention of the market conduct stands on the assumption that the failure of complying a "good market conduct" in the financial realm would destabilize the world economic system as a whole. In other words, the global economy is fundamentally prone to be destabilized by the reckless behavior of the financial actors. Recent economic catastrophe suffered by the United States of America (USA) and the euro zone countries are the conspicuous examples of susceptive nature of the world economic system produced by the uncontrollable conduct within the financial system. And in the context of England alone, this recklessness has taken a toll of fine mounted to £148 billion which was imposed upon 10 of the largest global banks.[1]

This "toll of fine", however, directly sends signs that the surveillance authority of the market conduct in the financial realm has already existed. This is important to stress for theoretically the market actors possess optional room of either complying with or violating the rule of laws. When the actors, the theory goes on, sense that observing a law-bound compliance behavior is cost less, they will be compliant with the rule of laws. Adversely, they tend to turn their back from the laws when they see the opportunity and deem it materially lucrative by evading the rules.[2] The fine imposed on the aforementioned 10 largest banks thus vividly indicates the evolving of two phenomena. First, they simply are revealing that the already existed surveillance authority had done its job well by levying the fine on banks' misconduct. Second, they prove that the optional logic adhered by the financial actors remains in place. The fine imposed upon them was thus deemed simply a misfortune.

This incorrigible nature is quite problematic, for the financial service industry is a complex world. It is uneasy to the part of this world since the financial products "tend to have multiple features and complex charging structures and for many can be abstract and

1 Bank Governance Leadership Network View Points, "A New Era of Conduct Supervision: Consequences, Challenges, and Opportunities", *Tapestry*, p. 1.

2 P2EB, *Pengawasan Market Conduct: Kajian Akademik* (Jakarta: Direktorat Pengembangan Kebijakan Perlindungan Konsumen Bidang Edukasi dan Perlinungan Konsumen OJK, 2014), p. 14.

intangible."[3] As a result, the unsophisticated people, which are the majority of the potential participants in the financial industry, would become the gullible victims in this venture. There has been a need, therefore, a serious effort of formulating a more specific definition of the market conduct in dealing with this subject matter. It is this presented by the Indonesia's Financial Service Authority (OJK). Namely that the market conduct is the financial service industry actors' ways of designing, formulating and transmitting information, offering, making business contracts of their products and/or services and settling both consumers' complaints and business disputes. Based on this, the surveillance of the market conduct should be upheld assiduously, through a systematic action in keeping a "good market conduct" prevails. This is conducted through observation, examination, analyzing and intervention into the financial actors' market conduct, governed by a special authority of the financial sector.[4]

Although, this definition has encapsulated the core tasks of financial supervision, yet their effectiveness is insufficient according to the standard of the developed countries, such as prevails in England. Presumably, the demand for a more thoroughly measures related to the traumatic experiences the advanced world have been repeatedly suffering from the financial crises.[5] These experiences have compelled them to create a more complex and sophisticated financial surveillance system. No wonder then in order to make the surveillance effects ingrained into the market actors' minds, the British's FSA established two separate special agents to conduct these tasks: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).[6] Even more, in order to create a convincing execution in the realm of "good market conduct", there have been developed the ideas that specifically "regulate" the conduct itself in much more meticulous ways, by dividing the focus into three areas: the firm and its organization, the individual in the firm and the impact of either the first two elements outside the firm.[7] By setting a more focus surveillance's division, the advanced countries seriously determine to ensure that the imposition of the "good market conduct" among the financial actors is really in place. A steadfast stability of financial markets is therefore the main objective of these regulations.

However, this statement is by no means left nothing for a further question. Namely, in addition to what have been mentioned; is there any non-technical reason as to why the governments or states are "forced" to impose such an extraordinary stringent regulations upon the financial world? As suggested by this paper's title, something beyond technical economic and financial realm should also be explored.

In this case, let me say that beneath all of these regulation efforts, the political aspects are peeping. Reflecting on the 2008 global financial crisis, Andrew Sheng writes:

[3] PricewaterhouseCooper LLP, "Behavioural Economics: Driving Better Customer Outcomes", February 2014, p. 4.

[4] P2EB, *Pengawasan Market Conduct*, p. 1.

[5] On the history of repeated financial crises, see Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, Third Edition (New York et-al: John Willey & Sons, Inc., 1996).

[6] "The Seven Key Challenges of Conduct Risk Management", Stratexsystems White paper (London: n. d.), p. 1.

[7] Norton Rose Fulbright, "Beyond Law: Understanding the Scope of Conduct Regulation", April 2014, p. 1.

> *A reality is that whilst national governments may have in the past been successful in managing development within the national borders, it does not mean that they can be successful in managing shocks emanating from the borderless world of unfettered finance.*[8]

Sheng's conclusive point of view reminds us to the question posed by Philip Cerny more than two decades ago: "If a nation state can no longer control international money, then who will?"[9] This anxious tone question seems taking its roots on the history of the "struggle for sovereignty" between the states and financial actors. Although it is true that at the outset it was the states which had taken a major role in flourishing financial markets,[10] in a gradual manner the latter had found its autonomous position against the government or state.

In Cerny's point of view, the advent of the post-hegemonic era had become the springboard for the financial actors to capture the almost full-fledged financial system autonomous status. This era was marked by the absence of a political power which capable of providing international public goods in the form of political and economic stability in the capitalistic world order. In the end of 19th century, British appeared as a hegemonic state, in a sense that it was capable of creating international public goods. By the mid of the 20th century, the US had come to the fore to fill the position left by the British.[11] In this context, Cerny defines the capability of providing the international public goods as the capacity of the state to design the structure of financial markets and systems. To some extent, this capacity was manifested in the form of capital control, the imposition of gold standard (firstly introduced 1914), the establishment of the World Bank and the International Monetary Fund (IMF) and the United Nations (UN) in the 1944 Bretton Woods Agreement.[12] In short, these efforts were wholly devoted to control the financial markets under the heading phrase coined by Helleiner: "finance is the servant".[13]

However, for the historical and economic reasons below, we witness that the US hegemonic power had gradually waned. This dwindling capacity derived from a complex combination between the depletion of its gold reserves held by the US central bank, the Federal Reserve System, to back up the price of its currency and the unfettered spread the dollar as the US currency. In case of gold, the US dramatically suffered from its declining stock that hit at US$10.3 billion in 1968. This was a remarkable decrease for in 1949 the bullion reserves

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8 Andrew Sheng, *From Asian to Global Crisis: An Asian Regulator's View of Unfettered Finance in 1990s and 2000s* (Cambridge: Cambridge University Press, 2009), p. 9.

9 Philip G. Cerny, "Preface and Acknoledgement", in Philip G. Cerny, (ed.), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era* (England and the USA: Edward Elgar Publishing Limited, 1993), p. X.

10 For this issue, see the works of Niall Ferguson, *The House of Rothschild: the World"s Banker 1849-1998* (London, New York: Penguin Books, 1998) and *The Acent of Money: Financial History of the World* (New York: Penguin Press, 2008). See also Jonathan Barron Baskin and Paul J. Miranti, *A History of Corporate Finance* (Cambridge: Cambridge University Press, 1997).

11 Philip G. Cerny, "The Political-Economy of International Finance", in Philip G. Cerny, (ed.), *Finance and World Politics*, p. 5.

12 David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005). P. 10. See also Robert J. Samuelson, *The Great Inflation and and Its Aftermath: The Past and the Future of the American Affluence* (New York: Random House, 2008), p.p. 59-60.

13 Eric Helleiner, "When Finance was a Servant: Institutional Capital Movements in the Bretton Woods Order", in Philip G. Cerny, (ed.), *Finance and the World Politics*, p.p. 20-48.

stood at $24.4 and in 1959 went down further to US$19.4 billion. This decreasing stock went hand in hand with the uncontrollable of dollar circulation. By the 1950s, for instance, currency in circulation grew at an average rate of 1.5 percent a year. But in 1960s its circulation increased to 4.7 percent a year. For the ratio between the Federal Reserve's gold stock and the currency circulation depreciated up to 25 percent in 1968, namely the bottom level the law could tolerable, the US President Lyndon B. Johnson urged the Congress to eliminate the requirement of gold reserves to back the price of the US dollar. Johnson's effort fruited a success when Congress issued in 1968 the Gold Reserve Requirement Elimination Act.[14] However, its consequence was extraordinary: a great leap in the US paper currency credit expansion up to 50 times from 1964 to 2007.[15] It is the unfettered of the US paper currency credit expansion that had waned the power of the US hegemonic state. In a sense that since then, the US ceased to have the capability in designing the structure and the systems of the financial world.

This led not only to the creation of the vacuum of power, but had also produced a new period: the post-hegemonic era where none of the world forces since then was capable of taking a conclusive leading position. As has been mentioned, it is on the stage of this post-hegemonic era the financial actors grew and captured their own autonomy vis-a-vis the national states. In the technical economic realm, the rising autonomous of financial power had been problematic for it has encroached a swath role of "the real economy". But, in relation with this paper, the autonomous status of the financial system has been leading to an ongoing tug-of-war between national governments and, as stated by Cerny, "transnationalized markets for control of the design of the international financial system."[16]

This financial world supremacy had radically increased for it was able even to override a state's plannings as "mighty" as the US. While bearing the destructive effects produced by the 2008 financial crisis, the US government was left alone by its domestic private capitalists. Instead of using their capital to boost the job creation for their fellow country, these US private capitalists brought their wealth abroad to be invested in the emerging markets.[17] And at the same time, in an effort of resuscitating its economic financial-related destruction, the US government's steps, as suggested by former of the Fed chairman Paul Volker, to revive the imposition of the ideas that fall within the 1933 Steagall Act that stipulated sharp separation between commercial and investment banks had been blocked through lobbies conducted by the banking lobbyists.[18] The US government even had no autonomy to appoint Lawrence H. Summers to replace Ben Bernanke's position as the chairman of the Fed, for he was rejected by the financial actors.[19]

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14 Richard Duncan, *The New Depression: The Breakdown of the Paper Economy* (Singapore: John Wiley and Sons, 2012), p. 3.
15 Richard Duncan, *The New Depression*, p. IX.
16 Philip G. Cerny, ""The Political Economy of International Finance", p. 10.
17 Rana Foroohar, "Don't Hold Breath", *Times*, June 20, 2011, p. 21.
18 Arthur I. Cyr, "Great Recession vs Great Depression", *The Jakarta Post*, Friday, September 27, 2013, p. 6.
19 James Shaft, "Brilliant but Too Rush for the Fed", *International Herald Tribune*, Wednesday, September 18, 2013, p. III.

How would we interprete such an extraordinary phenomenon? I tend to say that we are witnessing an animated and fierce competition for political sovereignty between actors within the financial system and the governments or states as the holder of political authority.

The roots of this competition are historical in nature. Although both of them are structurally forced to interact each to other, their emergence started from different socio-economic and political foundations. The national-states, as they are understood today, on the one hand, are the products of the 17th century political struggles, driven by the political determination to be independent from the clutch of so-called "universal kingdom" of the Medieval Age Roman Catholic. The social and cultural binding forces behind their existence were the spirit of nationalism. A kind of "social pact" that bound the people together based on a shared of a particular home land. Thus, what is sought is the authenticity of shared social and cultural roots adhered by a distinct people, where the place of individual should be override for the sake of the highest value: the harmonious-based unification of society within a particular realm of land.[20]

As one of sectors in the economy, the financial world, on the other, is a particular field whose mushrooming development was increasingly felt in the 17th century. Within this field the people have had pursued material benefits by means of launching "non-physical" wealth investments and transactions in the forms of money and money derivative-assets (shares, bonds, stocks and so forth) which were governed and conducted by individuals, corporate and institutions that specifically girded to its systems. Although initially the firms in the financial world were private initiative, such as pioneered by the Medici family in the 14th century Italy,[21] the radical advancement of financial world was politically created. This related to the successive wars staged by the European states in the 16th to 18th centuries that inevitably had wracked their fiscal sustainability. In order to make an endured fiscal stability to continue the wars, a visionary steps must be taken. It was England rulers who took the initiative to encourage the "financial revolution" as a response, write Linda and Hobson, "to the higher military costs." And against this background, Linda and Hobson go on, "the Bank of England was created in 1694 in order to rationalize the system of war-loans."[22] At its turn, this England rulers' initiative led the creation of war-based credit that had facilitated the establishment of the City of London,[23] as the central of its financial system. Gradually, this European states' "war ritual" proceeded to the sprouting of the international financial system:

> *The expansion of credit transactions was linked to the period of absolutism [as well as constitutionalism] to the general development of financial markets and independent*

[20] This formulation of the sense of nationalism is concocted from Elie Kedourie. See his *Nationalism* (London: Hutchinson University Library, 1961), p.p. 9-19.

[21] On this, see Niall Ferguson, *The Ascent of Money: A Financial History of the World* (London: Penguin Books, 2008), p. p. 42-50.

[22] Linda Weiss & John M. Hobson, *States and Economic Development: A Comparative Historical Analysis* (Malden: Polity Press, 2007), p. 75.

[23] On this, see Jerry Coakley and Laurence Harris, *The City of Capital* (Oxford: Basil Blackwell, 1983).

> *financial organizations, gaining a major momentum through the provision of resources for war.*[24]

In short, the emergence of the national-states had taken different roots from that of the financial world. The problem is that, while the national-states had bound themselves based on the "Westphalian model" —the points resulted in during the 1648 the Peace of Westphalia which stipulated that legitimate systems of governance took the form of territorial defined, fixed and mutually exclusive national entities— the financial world since its earlier period has structurally been tending to deterritorialize itself.[25] After being significantly bolstered by fantastic rapid development of communication technologies in the aftermath of the 19th century, the territorial boundaries suddenly have been shranken by the huge and continued pressures of the global scale progressive expansion of the financial world. In the eyes of financial actors, the world, even in its remotest area, is a runway upon which the capital expansion could freely be launched. No wonder therefore if Lowell Bryan and Diana Farrell mention financial-based global market in a dramatic tone: "A 'global' market operates across national boundaries as if it was a single market."[26]

It is this structural contradiction that has prompted political authorities to rein in the unfettered movements of the financial actors in world-wide collective efforts.[27] The destruction of the global economy produced by the financial actors' irresponsible actions had not only given rise to the traumatic experiences the world suffered in the 1930s and recently in the 2008, but also threatening the existence of the national states themselves. It is in this context we have a reason to say that the imposition of stringent and sophisticated supervisions of the market conduct unconsciously reflecting a political consciousness. For, what would be at stake is not confining related to the sustainability of economic system, but also the fate of the world of national states as a whole.

[24] Anthony Giddens, *The Nation-State and Violence* (Cambridge: Polity Press, 1985), p. 156. Quoted by Linda Weiss & John M. Hobson, *States and Economic Development*, p. 76.

[25] Benyamin J. Cohen, *The Geography of Money* (Ithaca and London: Cornell University Press, 1998), p.p. 13-21.

[26] Lowell Bryan and Diana Farrell, *Market Unbound: Unleashing Global Capitalism* (New York, Chichester, Brisbane, Toronto, Singapore: John Wiley & Sons, Inc., 1996), p. 22.

[27] Chandra Kusuma, "Restructuring Financial Supervion", *The Jakarta Post*, Wednesday, May 7, 2014, p. 6.

Workshop: Conduct Risk Assessment

Day 2

***Edmund Larkin**, KPMG Partner in charge of financial risk consulting*
***Daniel Ostermeyer**, KPMG associate director, financial risk management*

Moderator: Pungky Purnama Wibowo, Executive Researcher, Banking Research and Regulation Directorate, Bank Indonesia

Market conduct has been defined from the risk of inappropriate poor customer treatment. Some countries have established market conduct agencies. This shows that market conduct is important to establish sound financial system.

How to conduct risk strategy and risk assessment?

We are going to talk about what conduct risk is, why it is important for practitioners and also for industry, how to manage conduct risk, how organization look to embed management to conduct risk in their organisation, as well as framework that is used by KPMG, and then we will talk about culture, and last one is case study.

Definition of Conduct Risk

There are examples of 5 different organizations define conduct risk.

First definition of conduct risk:

The risk of regulatory censure and/or a reduction in earnings/value, through financial or reputational loss, from inappropriate or poor customer treatment.

-Firm A: Large Retail Bank-

If we put highlight on some keypoints, in definition one specifically talks about the impact of reputation, not about financial loss, but it is about the impact of fine and sanctions and also the costs. Here is the example from the commonwealth bank. The commonwealth bank had an incident with financial advisors, this case caught a lot of attentions and receive senate inquiry. The financial impact from this case is minor, even share price increase, but there is reputation impact.

Second definition of conduct risk:

The risk of creating detriment to a client, counterparty, the Group or market arising from inappropriate conduct of business.

-Firm B: Investment Bank-

Second definition provide rooms for improvisation. From customer's perspective, conduct risk not only affect the organization but also it can impact the market.

Third definition of conduct risk:

The risk that we treat our customers unfairly and deliver inappropriate customer outcomes.
-Firm C: General Insurer-

Third definition is more traditional and more simplistic.

Fourth definition of conduct risk:

The risk that detriment is caused to our customers, clients, counterparties or the Bank and its employees because of inappropriate judgement in the execution of our business activities.
-Firm D: Large Retail Bank-

Fifth definition of conduct risk:

The risk that the conduct of the Group and its staff towards our customers or within the markets in which we operate might lead to damage arising from breaches of regulatory rules or law, or of our customers' or regulators' expectations of us.
-Firm E: Large Retail Bank-

While definition from firm E is rather long and complicated, but what is interesting it talks about falling short of expectation of regulators and customers. No one size fits all definitions.

There are 2 key components. The first is that the conduct risk is related to the conduct or behaviour of the organization. The second is how the behaviour can impact the key stakeholders. Customers more broadly, the group itself, the shareholders, the regulators, or the markets, and this is one important aspect over the last couple of years. The poor behaviour/conduct of the financial institution has a significant impact on that institution. That is needed to be borne in mind. That is in the market itself.

Market conduct risk is something that necessary. Definition of market conduct risk is relatively simple and straightforward, focus on customer itself. The important thing is that FCA provided the definition of conduct risk is the risk that firm behavior will result in poor outcomes for customer. In most cases, regulators will not define conduct risk for each indivdual organization, but they have to find the one that fits their organization.

In the opening address yesterday, we heard that how important conduct risk is embedded in the organization. Operational risk and conduct risk is not the same, they do overlap but not the same. If you think about an example the failure of adequate training lead to misspelling, operational risk even gives rise to conduct risk. Impacted by other risk in operation risk. Clear areas of overlap between operational risk and conduct risk can be seen on the picture below:

Figure 3 How Conduct Risk Differs from Operational Risk

Source: KPMG, 2014

In developing a Conduct Risk framework, firms need to be aware of how Conduct Risk interacts with other risks and needs to structure the framework so that Conduct Risk can operate neatly alongside other risks.

There are fines and sanctions in the US and UK, literally bio of dollars. When you step back, the premier institutions (JPM, BoA, HSBC, Lloyds, BNP Paribas) all have major incidents that cause financial impact and reputation of the organization. These are not just issues to US or UK, but very much exist in the Asian market. Involved in DBS in relation to major incident after the GFC, about the misselling of structured notes to the customers. Conduct risk is very real.

The CFA survey of global market sentiment identifies ethical culture in financial firms is the greatest factor eroding the consumers' trust. Issue that is impacting the actual stability of financial sector. The survey goes on by saying that 96% identify that ethical conduct as important as financial success. There is a real struggle that market conduct is being appropriately managed. We have established a definition of market conduct and why it is important.

There are four key areas in organizations to explain about why market conduct is important from regulator's perspective: First in relation to product design. Identify the target audience and design a product that meets their needs and to test the products to make sure they can deliver fair outcomes looking to see how the product would fare under different scenarios to see if it will do what it says on the tin. This is really a critical phase. We heard yesterday that we are challenging thing to do. As Catherine talked a bit about behavioural economics on how unfortunately customer needs and wants are not necessarily aligned.

Second is the sales process. A robust sales process that includes approval process in place before the products sold is essential. Sales should be monitored to see who is buying the product. Its the customers within the organization that is originally targeted.

Third expectation is post handling performance. In relation to the performance of the products, this is particularly important for complex products. As we have seen in the GFC especially in the market.

Fourth expectation is governance culture and controls. It's not just about selling it and moving on, but taking an interest in how it is actually working in practice. A culture that puts customer first and to implement control.

There are some conduct risk hot topics for regulator. One of the thing is what ASIC focus on. From Peter Kell, conduct risk has been focusing on areas such as the role of advice, rate manipulation and alignment of product design with customer needs. We have seen regulators and the markets what they are looking at.

Secondly, what FCA future areas focus on? There are some areas, such as technological development, poor culture and controls, large back-books, retirement income products, the growth of consumer credit, rapid asset price growth and complex terms and conditions. Retirement income products are particular hot area with aging population in the UK. There are a lot of people seeking for additional income for their retirement. Unsophisticated investors are looking for higher income and earning on their life. Products with complex terms and conditions are likely to be misunderstood by customers.

The SEC has three areas to focus: the valuation of investment, remuneration arrangements, and verification of existence of client assets. There is great focus on fees generated by financial advisors.

Conduct risk can be applied throughout the lifecycle. What do we mean by conduct risk framework? We talked about the agreed approach. It is something that should be implemented and worked in the practice. We believe that there is five key pillars:

1. *Culture of the organization*. This is fundamental component of the conduct risk. An effective culture that supports the business model and business practices to focus on the fair treatment of customers and encourage behaviours that do not harm market integrity.
2. *Conduct risk definition and risk appetite*. We need a definition of conduct risk and define risk appetite. Conduct Risk is defined in a way that is meaningful for the firm. The risk appetite clearly articulates your values and the extent to which you are willing to accept Conduct Risk in the business. The risk appetite statements as it relate to conduct risk set out qualitative and quantitative articulations of the level zero of conduct risk that the business is willing to accept.
3. *Risk assessment*. The design of your strategy and business model and its execution demonstrates the importance of delivering fair customer outcomes. Business model and strategy reflects the needs of the customer.
4. *Government, policies and controls*. Governance and controls focus on the outcomes delivered to customers rather than focus purely on commercial interests. Senior managements have clarity on accountabilities across the firm. Roles and responsbilities that are clearly defined, and embedding conduct risk in the governance, policies and control. Clearly defined roles and responsibilities for senior management including an accountable owner for conduct risk. Clear reporting and escalation lines.

Governance committees and forum include conduct risk and/or customers as a standing agenda item. A defined role for second and third lines of deface in monitoring conduct risk. We need conduct risk policies to embed in organization as well.

5. *Management information and reporting*. It is crucial that we have access to the right types of the information, need to be up to date. Management information is structured to give a current and forward-looking perspective on conduct risk exposures. Conduct risk is the things that we really concern in emerging risk. Management information identifies emerging risks not just crystallized issues.

This is linked closely to financial stability board. Their behaviour must reflect this value. Conduct risk is the heart of everything that we do. And secondly there is accountability. We need employees at all different levels and how to approach risk. They need to be aware that they themselves are responsible to their own actions.

Third we need effective challenge. When we make decisions, we should be promoting a range of views of people around the process. Programs and rewards and recognition need to encourage and reinforce risk management behaviour.

Conduct risk can be defined in various ways. There is not central definition that is set by the regulator either. We need to perform risk assessment to ensure its delivering this. This includes looking at the governance and control, customer and target market, product design and development, pricing and value for money, customer communications, sales process design, and ongoing product assessment.

We need to have responsibility for three lines of defense. We need the conduct risk policy to be embedded on practices and procedures across the business, as an example from the UK a number of banks has been called out for sending out letters for their customers and proposing bank debt collection agencies. Actually they are not the real bank debt collection agencies but debt collector which intimidate them to pay. Mr. Suhaimi told us that BNM regulation is about debt collection. Its adding to the problem of the UK that people not having trust to the banks.

The key to get right management information and reporting is start by identifying a business requirement. Too many firms are simply collecting data that is available and providing to decision maker the best way that they can. We need to ensure that the report goesto management appropriately detail and they can have more access to data available. When we talk about conduct risk we really concern about emerging risk and risk with negative trend. With some exceptions firms already managing conduct risk cristalyze, we normally looking ahead on what might happen.

We have the complete picture of conduct risk framework. Definition of five pillars and core design elements of each pillar.The five pillars are culture; Conduct risk definition and risk appetite; risk assessment; Governance, pollicies and control; and MI and Reporting.

Now consider conduct risk at the conduct level. We have identified seven key stages from the product development life cycle. Number 1, from conduct risk perspective, we need to see how product are developed, maintained, and governance so organization should make effective judgement in launching new products. Second, we move to how customers are identified and how it is understood. Before we aiming target market analysis, we should identify the customer need. Product should be developed by define the market and customer need. One of the things that I have seen from my time in UK was that major banks are crossselling the products aggresively and three channels was shaped intended for the product. Third we need to consider how the products are designed and the risk of the products.

Fourthly, business should insure business deliver product that value for money. Product pricing should reflect the value that customers can retain the value of the products. Product should value for money on an ongoing basis and not just at the initial time of the launch. Fifth, A products should be known clear and understandable by consumer. Communication strategy should be consistent and with sophistication of target markets , and customers need to understand the way we provide information.

In sixth phase, sales and distribution process needs to be designed in great competency. Sales, incentives, should not encourage misselling. When I was work at a bank in UK, I feel first hand experience which incentivize the product without full customer needs assessment. And the last phase ongoing product assessment customers must be implemented across the whole cycle of the products. If we take an example from the UK, there was an insurance product sold to customer, Payment Protection Insurance which sold to everybody, but not to targeted. There are failure in product design didnt offer value for money either. So thats a number of product life cycle where conduct risk has emerged and clear the obstacle.

A bit deeper on some of these. Conduct stress testing as part of the tool of risk management. Now we gonna take the concept of risk testing and apply it to conduct risk from the customer's perspective. We need to understand whatever product will behave as they are design to and customer will react under different scenarios. We need to understand whether there is a circumstances of the product feature or elements that would fail. We are looking at stressing how the products behave in accordance with change customers' level of income, condition of economy, stock market, etc. During the stress testing, enable us to know some of the key risk before the product is launched for customers. Of course we cant simply use this in isolation process but in whole risk assessment process. This is an example where the FCA in the UK use this concept to put the structure of complex product . But now a lot of banks domestic their products.

Next we look for value for money assessment, at some of the consideration of behavioral economics. Where the customers did not ended up in getting the value for money because of failure. This test has three stage: Assess product characteristic, apply context scalars and finally, we calculate value for money score. We combine product characteristics and it's value and this method can be used to highlight outliers of the product scope. We can compare score where value for is accetable, and product value overtime. Next, the management information that firm produces should clearly produce conduct risk identified and the role of management. We need to identify the right indicators and supporting the executive for find a good information from KRIs and for any other risk potential. What we do not want is to provide management with low level of information. Make management interactive dashboard so they can access in their iPad. This is like a live reporting.

There is a trend that increasing the expectation of the involvement of board of management. Line 1 about the business unit and the key requirement is to take ownership to the risk, Line 2 inluding risk and compliance. So it is common to the thinking and development of the conduct risk that should comply to the act or regulatin. Deployment of conduct risk policies. And line 3 is internal audit. This include providing assurance and control of the environment.

Some of the practical challenges that firms and banks face when implementing. There are 12 challenges, and we group this for to five pillars. The key ones here. Culture, one of the main challenges to produce a good customer outcome. Change the mindset of firm mindset and behavior. Immediate supervisor has the largest effect on their behavior so it is not something that the board can say or do. In terms of defining and conducting risk appetite, defining the optimal level to do that can be difficult. There are wide range of stakeholders, including regulators who are focus on consumer protection but firms will also focus on shareholders viable and producing high profits. One of the main ways to get the credibility of conduct risk implementation is to have a head of business unit attending and participating in workshop or session which is part of the conduct of risk assessment. As touched earlier with operational risk, market conduct risk is interact with other risk or framework. This interaction require careful consideration. Finally with management and information, firms struggle to produce the report quickly and at the level of detail is required, especially for large organization that have large data, and small firms' problem is manual reporting system.

Managing the firms risk culture can be divided into four key parts. Defining the framework, assessing existing culture, make changes to that culture, performing ongoing measurement. We need a framework as a reference point. Here we have risk attitude to the risk decision making and then we have across diagram risk behaviour, this is everyday that we see, for example in direction and leadership it can show the level of engagement low level staff and selling the risk appetite. This could include anything customers' outcome and compliance' breach. There are a number of different key roles in the culture. The board has a role in defining risk appetite and appropriate organization culture. Clear understanding of what culture they want and the measurement. The CEO has delegate culture to the board, and is the key executive that is set up from the top. The CRO has strong ability for ensure risk culture has strong component across the organization. The CRO will be driving the risk culture promoting and implementing appropriate mechanism to manage the risk. Internal audit will be defining the audit methodology and measures the appropriateness and efficiency of that mechanism.

Closing Remarks

Day

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Rahmat Waluyanto
Vice Chairman Indonesia Financial Services Authority

Excellencies, Distinguished Colleagues, Speakers and all participants.

Ladies and Gentlemen, Good Afternoon.

We have reached the end of the ***International Seminar on Market Conduct***, and it is my task to provide some closing remarks. It is a sad task, because we shall be closing the door on lively and valuable discussion, as well as bidding farewell to colleagues and friends. However, it is also an honor to be entrusted with such a task, at a gathering of such significant people from different parts of the world of financial institution, in the fields of regulator, industry, consumer, and academia.

In my view this has been an extraordinary meeting. Extraordinary in the sense of the complexity of the issues we have been discussing. Extraordinary, too, in the wide range of views that we have heard expressed. I believe we have achieved a great deal.

Over the last two days we have come a long way in clarifying what it will take to make a real difference in raising national and international awareness of the market conduct risk, highlighting international best practices in implementing market conduct supervision.

Ladies and Gentlemen,

Overall, the Speakers have emphasized that:

- There is a greater focus on consumer protection and regulatory interventions intended to better address the limitations of consumer decision-making.
- Consumer protection is considered an integral component of market conduct regulation. This is supported by a range of international developments – including G20, FinCoNet and IOSCO.
- Market conduct is about firms' behavior in the financial sector to maintain good outcomes for customers. The result of good market conduct is fair, open and transparent treatment.
- Why we do market conduct? The aim is to ensure consumer to have access to financial services product that meet their needs, from firms they can trust. Furthermore, we also want to promote effective competition in the financial services industry and regulate firms to make sure their giving consumer a fair deal. A strong market conduct will support financial stability and financial inclusion.

- Market conduct emphasize on the activate role of regulator to ensuring stakeholders interest is accommodated.
- A well functioning consumer protection regime focuses on four core policy objectives of transparency , fair treatment and effective recourse that co-exist with financial capability strategies
- Currently, international developments on market conduct regulation can be seen from the establishment of new agencies/mandates (such as, UK (FCA), USA (CFPB), OJK); new standards – IAIS (insurance), G20/OECD/FSB; new emphasis on conduct supervision for example in EU countries; new focus on culture, consumer behavior, product life cycle, competition, remuneration; as well as increased regulatory action since financial crisis.
- Indonesia as part of global financial community should have strategic role to promote market conduct. In addition, the following drivers have pushed Indonesia to develop market conduct urgently: rising incomes and access to financial services – with shifting of risk from provider to consumer; limits of customer financial literacy; abuses exposed by the financial crisis, e.g. LIBOR; focus on operational and reputational risks; market integrity as a precondition for development; as well as growth of cross-border business, including regional markets.
- In Indonesia case, OJK mandate for market integrity and consumer as well as investor protection, stated in OJK Law. This also has been translated on the issuance of OJK regulation number 1 of 2013 on consumer protection. In this context, OJK has been conducting massive and comprehensive financial education and socialization.
- Going forward, Indonesia is challenged to create an effective consumer protection regime that allows informed participation by consumers in the financial system which will further strengthen the position of consumers. It also requires more active consumerism to drive efficiency in the financial services industry. Another big challenge for Indonesia is to define suitable institutional framework. The approach could be thought around separation or combination of prudential and conduct (e.g., "twin peaks"); or separation of market oversight from general business conduct/consumer protection; sectoral or cross-sector approach (or mix).
- Highlighting all developments in legal, regulatory and institutional framework, business practices, and financial education; an opportunity in implementing market conduct supervision is the development of strong market conduct will expand variety and innovation of financial products and services thus boosting financial market growth.
- Establishing credible supporting infrastructure is required in implementing market conduct supervision. It is vital on determining the success of FSA effort to increase customer literacy as well as confidence to financial institutions and its product.
- Potential conflicts of interests between prudential and market conduct supervision can be addressed through proper governance.

In conclusion, I hope that the awareness of the need to do market conduct will be improved and encourage a balanced environment of prudential and market conduct supervision. I would like to encourage us all to concentrate our energy to think of how market conduct works consistently across financial sector.

Distinghuised Speakers and Participants, Ladies and Gentlemen,

Finally, on behalf of the committee, I should like to thank the Governor of Bali Province, colleagues Members of Board Commissioners and fellow regulators who made it to the event.

We are also grateful to the support we have received from the Australian Aid, World Bank, Australian Embassy and all the parties who have been involved in the organization for this event.

We would especially like to thank all the speakers and moderator who have come from all over the world and shared their experiences and views on market conduct with us here.

For the organizing committee, I also would like to express gratitude for making this event reality and a successful one.

And finally, of course, we cannot fail to thank all the participants. A seminar becomes a success only if participants arrive. They are the lifeblood of a seminar. Thus, we do express our sincere thanks to all of you who have come. We do thank you for being interested in this International on Market Conduct seminar. Your active participation has been the key to the success of this event.

For closing, I am glad the seminar was able to address many aspects of the issues. And of course the discussion will not stop here. But the more we can promote discussions like now, the better we will be prepared to cooperate in the future for entering the world of market conduct completely.

Thank you very much.

Bali, 9 September 2014

Rahmat Waluyanto
Vice Chairman IFSA