

Overview and Strategic Plan 2013 - 2016



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Feedback

The Investor Education Centre welcomes any comments or feedback on this Strategic Plan or if you wish to let us know about a financial education project you are involved in.

You may contact the IEC via the online form at www.hkiec.hk, send an email to info@hkiec.hk, or write to us at:

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A copy of the IEC Privacy Policy Statement can be found on the IEC website at www.hkiec.hk.

Chairman's foreword

Financial education is essential and challenging in view of today's increasingly complex financial products and services which transcend the traditional market boundaries of the banking, insurance and securities industries. It complements effective financial services regulation, enforcement and dispute resolution.

Following the HKSAR Government's consultation and subsequent amendment of the Securities and Futures Ordinance, the Investor Education Centre (IEC) was formally established in November 2012 as an independent and dedicated body to raise and improve financial literacy in Hong Kong. Its launch signifies a cross-sector collaboration to equip Hong Kong people with sound financial decision-making as well as core life skills that they may apply and use to become knowledgeable and prudent consumers and investors.

With a broad mandate to cover education across a wide spectrum of financial services and products ranging from banking and insurance to investing, the IEC has developed a 3-year Strategic Plan to promote, support and expand financial education initiatives in Hong Kong. As we begin this journey, we strive to work closely with key stakeholders as well as the broader community to develop the IEC as the focal point for financial education.

Financial education work requires long-term commitment and strategic planning. On behalf of the Executive Committee, I would like to thank Hong Kong's financial regulators, the Education Bureau and numerous organisations for their concerted efforts to help achieve our shared vision of raising financial literacy in Hong Kong.



Professor Cheng Kwok Hon Leonard

Chairman, Investor Education Centre

June 2013

Executive summary

Financial education for consumers and investors complements regulation, encouraging sound financial decisions which best suit their needs as well as contributing to the overall development of financial services industries in Hong Kong as a major international financial centre.

With broad support for the HKSAR Government's proposals for an Investor Education Centre (IEC), the IEC was established in November 2012 to holistically cater for the financial education needs of Hong Kong people and improve their financial literacy and capability. Building on the results of the Government's consultation, as well as based on research, stakeholder feedback, international best practice guidance and other input, the IEC has prepared this 3-year multi-pronged Strategic Plan (2013-2016).

The IEC has been established as a subsidiary of the Securities and Futures Commission (SFC) because the SFC has a statutory mandate to educate investors in Hong Kong. However, the IEC's mandate goes beyond the jurisdiction of the SFC to include the provision of financial education across the entire financial sector. Reflecting this broad mandate, the IEC is supported by all four financial regulators in Hong Kong, namely, the Hong Kong Monetary Authority (HKMA), the Mandatory Provident Fund Schemes Authority (MPFA), the Office of the Commissioner of Insurance (OCI) as well as the SFC.

The key components of the IEC's strategy include reaching the general public with financial education messages through mass media campaigns; building

sustainable and tailored outreach programmes for different groups within the community; offering a dedicated self-service website which provides comprehensive, credible and impartial financial information, tools and resources; research and evaluation; collaboration with stakeholders; and engaging with international counterparts and networks to share best practices.

As a new organisation, the IEC will roll out its strategy in phases to allow for the gradual development and effective delivery of investor and consumer education initiatives. The first phase involves transition and development of the organisation and its programmes and resources.

Based on a foundation research study into Hong Kong people's financial knowledge, attitudes, behaviours and their abilities to manage finances, the following themes have been identified for future education work: financial planning; money management; investing concepts and financial product education; and consumer and investor rights and responsibilities.

Over the next three years, the IEC will focus its education initiatives and campaigns on these themes and other areas to meet the community's diverse financial education needs.

Investor Education Centre

Mission

The mission of the IEC is to better equip the general public with skills and knowledge to make informed financial decisions and manage their money wisely. It aims to improve their financial literacy and capability so as to help them make sound financial decisions.

Strategy

- Reaching the general public with financial education messages through mass media campaigns
- Building sustainable and tailored outreach programmes for different groups within the community
- Offering a dedicated self-service website which provides comprehensive, credible and impartial financial information, tools and resources
- Research and evaluation
- Collaboration with stakeholders
- Engaging with international counterparts and networks to share best practices

Education Themes

- Financial planning
- Money management
- Investing concepts and financial product education
- Consumer and investor rights and responsibilities

Background

This Overview and Strategic Plan sets out the background, mission and scope of the IEC as well as its high-level strategy for the coming three years, ie 2013-2016. It builds on the public consultation about the proposals for the IEC, and takes into account consultation with key stakeholders, research findings and international best practice guidance. It summarises the IEC's strategic approach to the development and delivery of financial education

Financial education and financial literacy

The aim of financial education is to support improvement in financial literacy. According to the Organisation for Economic Co-operation and Development (OECD), financial education may be defined as follows:

*“... the process by which financial consumers/ investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”.*¹

The OECD has also developed a definition of financial literacy as *“a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being.”*²

Financial literacy has been increasingly recognised as an important life skill in a majority of economies, especially in the aftermath of the financial crisis. The OECD identifies a number of reasons for this including the transfer of a broad range of financial

risks to consumers, the greater complexity and rapid evolution of the financial landscape, the rising number of active consumers and investors in the financial sphere and the limited ability of regulation alone to efficiently protect consumers.³

Financial education assists consumers and investors to better understand financial products, markets and participant behaviour so they are more likely to make informed and appropriate financial decisions that best suit their needs. Increased financial literacy also improves consumer and investor confidence in the financial system as well as in their dealings with financial services providers from different industries. Consequently, it encourages the development of an informed public which in turn contributes to the development of the overall stability and reputation of Hong Kong's financial services sector.

The OECD also noted that financial education has become an important complement to, not a substitute for market conduct and prudential regulation. It cannot prevent misconduct by individual service providers, nor can it prevent poor investment decisions from being made or fluctuations in the market.

1 OECD Directorate for Financial and Enterprise Affairs Recommendation on Principles and Good Practices for Financial Education and Awareness, OECD, July 2005, Principle 1.

2 Atkinson, A. and F. Messy (2012), Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study, OECD Working Papers on Finance, Insurance and Private Pensions, No. 15, OECD Publishing.

3 OECD/INFE High-level Principles on National Strategies for Financial Education, OECD, August 2012, P2-3.

initiatives, as well as some of the key themes identified for future education work. It also outlines how the IEC, as a new body, will roll out its strategy gradually in phases with a view to expanding its range of programmes and resources available to the public. The Plan is intended to be flexible to respond to market developments, and will be kept under review by the IEC to ensure that it continues to be relevant and appropriate.

Background

In February 2010, the HKSAR Government published a consultation paper *Proposed Establishment of an Investor Education Council and a Financial Dispute Resolution Centre*. In that paper, amongst other things, the Government proposed the establishment of what is now called the Investor Education Centre to operate as a dedicated investor education body to cater holistically for the financial education needs of the public across the entire financial sector and improve their financial literacy and capability.

The consultation paper outlined a number of factors supporting the rationale for the proposal to establish the IEC. These factors included:

- Hong Kong as a major international financial centre provides access to a wide range of products and services from different markets. A high proportion of Hong Kong people are active participants in financial markets investing in various financial products and using a range of financial services.
- As financial services have evolved, increasingly complex financial products and services available to consumers and retail investors that cut across the traditional boundaries of the banking, insurance and securities industries have been developed.
- The events of the global financial crisis showed that some investors need more support and protection than others as they engage in financial

services transactions. The complaints received by Hong Kong's regulators about Lehman Brothers-related products highlighted that some investors had committed to complex structured products that they did not understand.

- Among the financial regulators in Hong Kong, only the SFC had a statutory mandate to conduct investor education, but only in relation to financial products and services within its regulatory remit. Other financial regulators and organisations also conducted various education initiatives, but these initiatives were largely specific to each organisation's respective jurisdiction and the scope was fragmented.

The consultation paper also set out proposals for the scope, strategy and set-up of the IEC.

With broad support from respondents for the Government's proposals for the IEC, on 13 December 2010, the Secretary for Financial Services and Treasury announced the Government's decision to establish the Investor Education Centre. In May 2012, the Securities and Futures Ordinance (SFO) was amended to broaden the statutory investor education objective of the SFC to cover all kinds of financial products and services.⁴ This change to the legislation also allowed the SFC to delegate its statutory education function to a wholly-owned subsidiary, ie the IEC which was launched on 20 November 2012.

⁴ The SFO was amended pursuant to the Securities and Futures (Amendment) Ordinance 2012.

Overview

Mission

Scope

Governance

Funding and budget

Target audiences



The mission of the IEC is to better equip the general public with skills and knowledge to make informed financial decisions and manage their money wisely. It aims to improve their financial literacy and capability so as to help them make sound financial decisions.

Mission

To achieve this mission, the IEC will provide comprehensive, credible and impartial financial education and information to the public. It will seek to help them understand the importance of financial literacy and benefits of financial planning; acquire the general know-how to ask the right questions before making financial commitments; understand the trade-off between risks and returns; evaluate their own risk tolerance and their rights and responsibilities.

As part of Hong Kong's overall regulatory infrastructure for the financial services industries, the IEC's role in financial education will be complementary to the work of the regulators.

Scope

While the IEC is established as a subsidiary of the SFC, its scope is broader than the products and services under the SFC's regulatory remit to include those regulated by the other financial regulators. This extended scope is due to changes to the SFO noted above which broadened the scope of the SFC's education mandate to include all kinds of financial products and services in Hong Kong.

The scope of the IEC covers the entire financial sector, ranging from banking and insurance to investing and generic money management. The rationale for this is that the IEC should take a holistic approach to financial education not limited to the jurisdiction of any particular regulatory body.

Governance

The IEC has been established as a wholly-owned subsidiary of the SFC. It is governed by an independent Executive Committee appointed by the SFC.

Reflecting its cross-sectoral scope, the Executive Committee consists of a Chairman who is a non-executive director of the SFC, representatives of the four financial regulators, namely the HKMA, the MPFA, the OCI and the SFC, as well as a representative of the financial industry, the Education Bureau and the General Manager of the IEC.

The Executive Committee provides strategic oversight and advice to the IEC and approves important policies and decisions.

IEC Executive Committee Members as at 31 May 2013

Chairman	CHENG Leonard	Non-Executive Director of the SFC
Members	CHAN Ka Ki, Catherine	Education Bureau
	CHAN Sun Hung, Tony	Office of the Commissioner of Insurance
	CHAN Tze Ching, Ignatius	Industry Representative
	CHENG Yan Chee	Mandatory Provident Fund Schemes Authority
	LARBAY Miles Howard	General Manager of Investor Education Centre
	LEE Wing Sing, Vincent	Hong Kong Monetary Authority
	WAN Chi Yiu, Andrew	Securities and Futures Commission

Funding and budget

The IEC is fully funded by the SFC, with no extra levies or charges for the industry or investors.

As proposed by the Government in its 2010 consultation paper, the annual budget for the IEC is estimated to be around HK\$50 million, subject to inflationary changes and subsequent amendments. The approved budget for 2013/14 is approximately HK\$54 million.

This Strategic Plan has been prepared on the basis of the approved budget for 2013/14 and an assumption that a budget in the same order, subject to inflationary changes, will be available for 2014/15 and 2015/16. Many of the IEC's activities are scalable in the sense that they may be adjusted in response to any significant changes in the IEC's funding.

Target audiences

As recommended by the OECD, financial education programmes should be designed to meet the needs

and the financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial information. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information.⁵

The IEC aims to raise and improve financial literacy for all segments of the population and therefore has multiple target audiences ranging from the general population of financial consumers and investors to specific groups within the community who may require more targeted financial education support or resources. Such groups may include students, young adults, women, mature age consumers and investors, as well as those with lower levels of formal education or income. We also need to be mindful of the needs of investors from mainland China, as interaction and levels of investor activity between the Mainland and Hong Kong develops and expands.

⁵ OECD Directorate for Financial and Enterprise Affairs Recommendation on Principles and Good Practices for Financial Education and Awareness, OECD, July 2005, Principle 7.

International perspectives

Many jurisdictions around the world have enhanced their financial education efforts over recent years. One common theme has been the development of a coherent strategy and/or a focal point for financial education to assist consumers and investors with their financial decision-making. The establishment of the IEC in Hong Kong is broadly consistent with these developments. Some examples include:

Australia

In 2011, the Australian Securities and Investments Commission published a *National Financial Literacy Strategy* to promote a national approach to improving the financial wellbeing of all Australians. The *MoneySmart*⁶ website is one of the key initiatives in the Strategy. It offers independent guidance to help people make smart choices about their personal finances.

New Zealand

Established in 1993, the Commission for Financial Literacy and Retirement Income (CFLRI) is responsible for raising financial literacy amongst the New Zealand population. The CFLRI leads and coordinates the National Strategy for Financial Literacy and runs the *Sorted*⁷ website, the flagship product of the *Sorted* programme, which features free, independent and impartial information and calculators for the public and aims to improve the financial wellbeing of all New Zealanders.

Ontario, Canada

As an example from Canada, the Investor Education Fund (IEF)⁸ was established by the Ontario Securities Commission as a non-profit organisation in 2000. The IEF's mission is to help people make smarter financial decisions every day by providing unbiased information that is easy to use. It runs one of Canada's major financial literacy websites and plays an important role in making financial education part of the Ontario school curriculum through lobbying, teacher training and direct outreach to students.

Singapore

*MoneySENSE*⁹ is a national financial education programme launched in 2003. The programme covers three tiers of financial literacy, namely, basic money management, financial planning and investment know-how and five core financial capabilities. *MoneySENSE* works closely with various consumer, investor and industry associations, community organisations and institutes of higher learning to further financial education outreach to the population. In July 2012, the MoneySENSE-Singapore Polytechnic Institute for Financial Literacy was set up and offers free talks and workshops at workplaces and public venues to make it convenient for working adults to learn more about money matters.

6 www.moneysmart.gov.au

7 www.sorted.org.nz

8 www.getsmarteraboutmoney.ca

9 www.moneysense.gov.sg

United Kingdom

The *Money Advice Service*¹⁰ is an independent service set up by the UK Government in 2010. Its objectives are to enhance the understanding and knowledge of the public about financial matters and the ability to manage their financial affairs. The service offers free and unbiased money advice online, via telephone and through a network of money advisers. The Service also funds the provision of debt advice.

United States

Established by the US Congress in 2003, the Financial Literacy and Education Commission (FLEC) has developed a national strategy to promote financial literacy and education. Collaborating with private, public, and non-profit representatives, the FLEC sets strategic direction for policy, education, practice, research, and coordination in the financial literacy and education field in the United States. MyMoney.gov¹¹ is the US Government's website that serves as the one-stop shop for federal financial literacy and education programmes. The federal agencies that compose the FLEC provide educational materials to the public via the MyMoney.gov website.

International networks

In addition to national developments around the world, there are a number of networks which aim to increase international cooperation and information sharing on best practices, research and policy development in the field of financial education.

OECD International Network on Financial Education

Established by the OECD in 2008, the International Network on Financial Education (INFE) acts as a global forum to enable sharing of information, experiences and good practices between government experts; as well as to provide tools and guidelines to measure financial literacy levels and evaluate financial education programmes. In April 2012, the INFE produced the *High-level Principles on National Strategies for Financial Education* designed to offer non-binding guidance and policy options in order to develop efficient national strategies for financial education. These principles, which were endorsed by the G20 in June 2012 and by the Asia-Pacific Economic Cooperation (APEC) in August 2012, have been taken into account in developing this Strategic Plan.

¹⁰ www.moneyadviceservice.org.uk

¹¹ www.mymoney.gov

International Forum for Investor Education / IOSCO

Established in 2005, the International Forum for Investor Education (IFIE) serves as a clearing house for the exchange of information and ideas among providers of investor education from different jurisdictions, including organisations that are just developing or planning to develop investor education programmes. The vision of the IFIE is to create and promote the highest possible standards for the most efficient delivery of investor education around the globe.

Jointly with the International Organisation for Securities Organisations (IOSCO), the IFIE has held a number of investor education events to share best practices and improve the effectiveness of investor education programmes.

Strategy

Mass media and communications

Community outreach

Website

Research and evaluation

Stakeholder collaboration

International engagement



The IEC will adopt a multi-pronged strategy to fulfil its mission. The key components of the strategy include:

- Reaching the general public with financial education messages through mass media campaigns;
- Building sustainable and tailored outreach programmes for different groups within the community;
- Offering a dedicated self-service website which provides comprehensive, credible and impartial financial information, tools and resources;
- Research and evaluation;
- Collaboration with stakeholders;
- Engaging with international counterparts and networks to share best practices.

As a new organisation, the IEC's strategy will be rolled out in phases to allow for the gradual development and effective delivery of investor and consumer education initiatives. These phases are as follows:



During the transitional and development phase from 2012-14, the work of the IEC includes setting up the organisational infrastructure, recruiting employees, building stakeholder relationships, developing education plans and raising awareness of the IEC as the focal point for financial education in Hong Kong.

Core work and education campaigns

The core work of the IEC is to ensure Hong Kong people have ongoing access to comprehensive, credible and impartial financial education, information, resources and tips across a broad range of financial products and services. A diverse range of communication channels will be used to maximise appeal to different audiences.

The IEC will focus on one or more overarching themes in response to identified issues of relevance to consumers and investors which may benefit from an education response. These themes will be informed by different input including research findings; intelligence or feedback received from regulators and other sources; as well as issues featured in the media or public forum suggesting areas where members of the public may lack understanding or need support. Campaigns and programmes around these themes will be delivered using our varied resources especially mass media to promote educational messages around a particular theme.

Mass media and communications

The IEC will make use of mass media and other communications channels to educate the public on the key themes and promote topical and relevant messages to financial consumers and investors. This approach is effective in reaching large numbers of people and conveying headline messages about things the public should know or be aware to safeguard their financial interests.

The IEC will use a range of channels to enhance the appeal of messages to cater for different information preferences of the public. For example, the IEC will use traditional media channels including TV, radio and print media which are the major sources of financial information for most people, in particular older age segments. For younger age groups, who tend to be more technologically savvy, the internet and mobile applications are more effective and engaging channels.

There are many messages that the IEC can convey to financial consumers and investors in Hong Kong via mass media approaches. Such messages serve a number of purposes including:

- Reminding consumers and investors of the importance of understanding financial products before they commit.
- Promoting responsible attitudes towards investment and money management, reinforcing the fact that consumers and investors need to take responsibility for their financial decisions.
- Promoting awareness of the IEC.

Community outreach

While mass media campaigns are a useful way to disseminate messages to a broad audience, there is also a need to develop more tailored approaches to cater for the particular needs of discrete groups within the community using outreach activities such as community talks, presentations, seminars and training modules. Such groups will include those identified as having lower levels of financial literacy or where they may benefit from financial education messages specific to their circumstances.

In order to maximise the reach and distribution of our messages, the IEC will seek to work with partners and existing networks where appropriate. The community outreach programmes will be developed in phases to ensure the right approach.

The foundation research¹² identified the following as possible target groups for community outreach efforts:

- Young adults who demonstrate relatively lower levels of concern about their financial position and engagement with financial planning.
- Those with lower levels of formal education/ income who demonstrate relatively lower financial knowledge and literacy and may be more vulnerable than others as they have a relatively lower saving habit, personal budget and less clarity of their living expenses.
- Mature age consumers and investors, some of whom may have lower levels of financial literacy, including understanding of investment risks and financial planning, compared to the general population.

There will also be other target audiences that the IEC will focus on in response to specific issues or developments.

Schools

It is recognised under international best practice principles that financial education should be provided as early as possible in individuals' lives to equip the next generation with skills and understanding they need to become confident and informed consumers and investors in the future. Some countries have incorporated financial education into their school

curricula. In Hong Kong, learning elements of personal finance are covered in primary and secondary curricula in certain key learning areas.

As proposed in the Government's consultation paper, working with the Education Bureau and other relevant stakeholders, the IEC will seek to promote and support the learning and teaching of financial literacy in schools, for example through the development of resources, programmes and activities to cater for the needs of students and teachers.

Website

The internet is an increasingly popular source of financial information for consumers and investors. The IEC's dedicated website (www.hkiec.hk) went live on 20 November 2012 when the IEC was launched.

In common with financial education programmes around the world, the IEC will work to develop and promote the IEC website as a central place for comprehensive, credible and impartial information about all aspects of personal finance.

To achieve this vision, the IEC website has the following strategic goals:

- Offer a dedicated self-service website which provides comprehensive, credible and impartial information about all aspects of personal finance with interactive tools and resources to assist learning and enrich the experience of web users.
- Provide users with personalised and engaging content and resources to meet their needs at different life stages or events.

¹² Financial Knowledge and Capability in Hong Kong: A Foundation Study, Securities and Futures Commission, June 2013.

- Serve as a strategic communications and engagement channel for financial education supported by print, electronic, outdoor, mobile and social media.
- Provide a supporting resource for IEC's financial education campaigns and community outreach programmes.
- Promote the IEC brand as a trusted financial education organisation and partner.
- Build links and partnerships to raise financial literacy in Hong Kong.

The website will be supported by a range of other communications using digital, print, mobile and social media. In particular, recognising that not all consumers and investors have access to the internet, we will offer user-friendly hard copy publications that will cover key areas of personal finance information.

Research and evaluation

To ensure the most effective outcomes for the IEC's financial education programmes, the IEC will use a research-based approach to map the landscape, identify and prioritise the financial education needs of Hong Kong people. It will conduct research projects to look at consumers' and investors' experiences and behaviours in relation to financial matters to inform its strategic approaches and develop specific campaigns.

We will also take account of international research best practices in financial education to help tailor and refine our approach relating to the design and delivery of financial education.

Research will also play an important role in evaluating our financial education work, both in relation to the impact of particular programmes and measuring the change in financial literacy and capability of Hong Kong people over time. This form of measurement is inherently difficult due to various factors, including the long-term nature of attempting behavioural change and the possible presence of confounding factors.

To measure its effectiveness, the IEC will develop the following key performance indicators:

- Quantitative performance indicators will be measured in relation to specific education campaigns, such as numbers of website visits
- Qualitative feedback will be captured and evaluated for example through post-campaign evaluation or feedback from participants in outreach programmes;

Stakeholder collaboration

In order to enhance the financial literacy of Hong Kong people, the IEC will seek to collaborate with stakeholders to leverage synergies and to maximise distribution and promotion of messages. Relevant stakeholders include the financial regulators who are also represented on the IEC's governing body, government departments and agencies, as well as stakeholders from the financial services industry, consumer and investor representatives, education and training providers, etc.

The IEC will engage with stakeholders in a number of ways. For example, a standing Advisory Committee consisting of a range of relevant stakeholder interests has been established to provide high-level input and advice to the IEC and act as a forum for dialogue and consultation.

In addition, the IEC will establish project- or issue-specific working groups or advisory committees as needed to provide advice and facilitate distribution channels and contact points.

International engagement

There is significant international cooperation and information sharing in the field of financial education designed to promote best practices, research and policy development.

As Hong Kong is one of the world's leading financial centres, it is important that the IEC participates in such international networks and related developments, and engages with relevant organisations in overseas jurisdictions as well as those in mainland China. This will not only promote awareness of developments in Hong Kong, but also allow the IEC to benefit from the experience of international counterparts and share its experiences for the benefits of others.

Education themes

Financial planning

Money management
Investing concepts and
financial product education

Consumer and investor rights
and responsibilities



To prepare for the foundation of the IEC, the SFC commissioned the Nielsen Company to conduct a research study – *Financial Knowledge and Capability in Hong Kong: A Foundation Study*¹³ to understand Hong Kong people’s financial knowledge, attitudes, behaviours and their abilities to manage finances effectively. This research study on financial literacy was intended to help prioritise the direction of future investor and financial consumer education initiatives, shape strategy and track impact over time. As a result, and based on consultation with key stakeholders and other available input, the following themes have been identified for the IEC’s education focus and campaigns over the next three years.

Financial planning

Financial planning is a key skill that allows people to better achieve their financial goals throughout their life, whether those goals are relatively large such as buying a house, starting a business or planning for retirement; or relatively smaller ones such as paying for household appliances or buying a car. In this context, financial planning is a holistic concept, referring to the ability to plan and manage all aspects of personal finances including the ability to save, manage debt, protect assets through insurance and invest responsibly commensurate with a person’s risk tolerance.

The foundation research study indicated that financial planning, as a key aspect of financial literacy, was an area where Hong Kong people demonstrated the lowest levels of understanding and ability. The research also found that relatively few people had chosen to do a financial plan and the nature and benefits of doing so were not very clear.

Money management

The ability to make ends meet and manage day to day finances is key to sound financial planning. Such skills allow consumers to stay on top of their financial situation, keep track of spending and achieve their financial goals more effectively. The research showed that while in general most Hong Kong people have a good control of their personal finances, there may be groups within the overall population, such as young adults and those with lower education and/or income, who are less aware of their living expenses and/or have relatively lower saving habit or personal budget.

The IEC will seek to explore further issues relating to money management in order to prioritise its efforts and work with other relevant stakeholders.

¹³ Financial Knowledge and Capability in Hong Kong: A Foundation Study, Securities and Futures Commission, June 2013.

Investing concepts and financial product education

As noted in the Government's consultation paper leading to the establishment of the IEC, the proportion of the local population investing in financial products and services is high.¹⁴ As a major international finance centre, Hong Kong has a multitude of institutions and markets which provide a wide range of financial products and services to local and international consumers and investors.

The foundation research found that although some basic concepts about investing were generally understood by most people, not all segments of the population shared this general understanding. In particular, mature age, young adults and those who were not regular investors had lower levels of competence in this area. Further, some Hong Kong people do not understand certain investment and financial concepts very well, especially concepts which may be considered more advanced or complex. For example, some respondents are not able to recognise that "longer investment period would involve lower risks" and "investment products under the same broad category have the same level of risk" are incorrect respectively.

The research also found that there were certain financial products that caused greater difficulty in understanding either in general or for particular groups. In addition, new financial products are

continuously coming onto the market which may not be familiar or well understood; or market conditions may cause certain products to become more popular but investors may lack knowledge. For example, in the current low interest rate environment, investments such as high yield bond funds have been popular with retail investors in many jurisdictions. It is important that investors understand the products they are investing in as well as the impact of potential changes in market conditions on their investments and finances.

The IEC will seek to promote understanding of the various features and risks associated with different financial products. An example of such a financial product is investment-linked assurance schemes (ILAS). ILAS are life insurance policies that provide life insurance coverage as well as investment features. ILAS are widely held financial products in Hong Kong with more than 1.7m policies in force at the end of 2012.¹⁵ ILAS have also been the subject of regulatory and media attention in recent years.

In the first half of 2013, a number of regulatory measures to enhance the disclosure and sale of ILAS products have been announced by the HKMA, the Hong Kong Federation of Insurers (in close collaboration with the OCI) and the SFC. The IEC will seek to promote greater understanding of ILAS products as well as awareness of the relevant regulatory measures.

14 Proposed establishment of an Investor Education Council and a Financial Dispute Resolution Centre Consultation Paper, Financial Services and the Treasury Bureau, February 2010, P6.

15 Market performance of Hong Kong Insurance Industry in 2012 press release, Office of the Commissioner of Insurance, HKSAR Government.

Consumer and investor rights and responsibilities

Another key theme for the IEC's financial education work will be to promote awareness and understanding of consumer and investor rights and responsibilities when it comes to making financial decisions. Given the active participation of many Hong Kong people in the financial markets, this is a crucial aspect in terms of promoting a responsible attitude to investing and money management in general.

The importance of this key theme was underlined by the Legislative Council Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products. Amongst the recommendations contained in its report published in June 2012, the Subcommittee stated that *“investor education initiatives must unequivocally convey the message that investors should exercise vigilance and due diligence and should not invest in products they do not know or understand”*.¹⁶

¹⁶ Report of the Subcommittee to Study Issues Arising from Lehman Brothers-related Minibonds and Structured Financial Products, Legislative Council of the HKSAR, June 2012, P199-200.

Conclusion from *Financial Knowledge and Capability in Hong Kong: A Foundation Study*

The overall financial knowledge and capability in Hong Kong is reasonably good.

In general, most people in Hong Kong have demonstrated a good understanding of basic financial knowledge and principles and a majority seem to adhere to these principles in making financial decisions and managing their investments.

Of the four key aspects measured, Hong Kong people were found to have the best knowledge and capability in relation to “financial control and making ends meet”, followed by “choosing and managing investment”.

The high saving rate of Hong Kong people (eg 92% save regularly or occasionally), good control of their living expenses, and prudent spending mentality are relevant factors explaining higher knowledge and capability regarding “financial control and making ends meet”.

For the same reason, many people are active in “choosing and managing investment”. For example, 91% of respondents indicated that they monitor the performance of their investments.

In spite of their reasonably good knowledge on the basics, certain investment and financial concepts are not very well understood by some Hong Kong people, especially concepts which may be considered more advanced or complex. For example, 41% and 63% of respondents incorrectly responded that “longer investment period would involve lower risks” and “investment products under the same broad category have the same level of risk”.

When making financial decisions, Hong Kong people focus on the rate of return (52%) and downside risk (20%) as most important factors. The level of attention on other factors eg investment report (3%), investment advice from professionals (2%), and prospectus (2%) is low.

Regarding investment concepts relating to more advanced or complex financial products, about one-third of respondents show a lack of understanding when asked about the “price of underlying shares is the only factor affecting the price of a warrant” (32%) and “I would only consider the rate of return when investing in an equity-linked investment (35%).

Most people in Hong Kong recognise the need to take into account different factors in financial planning but the nature and benefits of doing this are not very clear to them. As such, there is an overall lack of conducting financial planning across different demographic groups.

Across demographic groups, the mature age, lower education and lower income groups consistently demonstrate a lower understanding of financial matters, especially on investment risks and financial planning. On many occasions, these three groups are self-reliant decision makers. However, they also have a greater misunderstanding about the potential risks involved in more advanced or sophisticated investment decisions.

Comparatively, the lower education and lower income groups are more vulnerable than others as they have a relatively lower saving habit, personal budget, and less clarity of their living expenses. Further, they do not seem to have a habit to read their account statements.

Although some young adults have established a reasonably good financial knowledge compared to other demographic groups, they seem to have the least concern or attachment about their financial position. Similar to other vulnerable groups, young adults also have the least engagement in financial planning.

About the research

Conducted in June and July 2012, the *Financial Knowledge and Capability in Hong Kong: A Foundation Study* research measured financial knowledge and capability of Hong Kong people in four aspects, namely, “financial knowledge and understanding”, “financial control and making ends meet”, “choosing and managing investments”, and “financial planning.” A total of 2,062 interviews in the format of a questionnaire were conducted in central locations via street intercept.

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