Presentation by Tan Kin Lian

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1. What happened in Singapore

During the global financial crisis in 2008, retail investors in three countries, namely Hong Kong, Singapore and Taiwan, were badly hit by the failure of the credit-linked notes that were linked to Lehman Brothers.

You are probably familiar with what had happened in Hong Kong. Your investors were better organized and took to the streets to protests against the banks that sold these products to them, without telling them about the real risks. Your legislators were also more active in questioning the lack of due diligence by the regulators.

The situation in Singapore was somewhat subdued. There were strict laws against public assembly and protests. The only avenue for a public gathering, without applying for a police permit, was at a place called Hong Lim Park.

With the help of a few friends, I organized a series of weekly gatherings at Hong Lim Park to communicate with the investors on the developments of this matter. The first gathering, held in October 2008, was attended by an estimated 1,000 people. Subsequent gatherings attracted a smaller crowd.

During these gatherings, four petitions were organized and presented to the Monetary Authority of Singapore. They covered various aspects of the alleged mis-selling of the financial products and possible contravention of the securities law.

Apart from receiving the petitions, the regulator declined to meet the petitioners. They carried out their own investigation and issued several media releases.

They arranged a process for the complaints to be handled, in the first instance, by the banks that sold the product, and if the complaint is not resolved, by the Financial Industry Dispute Resolution Center (FiDREC).

Many investors found this resolution process to be unsatisfactory, as it placed them at a serious disadvantage. Most investors did not get compensation for the mis-selling. After spending considerable time and effort, they were found to have been negligent in investing in these products “with their eyes open”.

I am not able to recall the total amount that had been invested in the credit-linked notes, but it could be between SGD 500 to 1,000 million. More than half of the total was invested in the Minibonds issued by Lehman Brothers. These investors were more fortunate, as they were able to get back about 50% of their invested sums, following the unwinding of the various contracts linked to this product.

The other investors who bought complex products naming Lehman Brothers as a reference entity lost all of their investment. These products are the High Notes issued by DBS Bank and the Jubilee Notes issued by Merrill Lynch. Another product called the Pinnacle Notes

issued by Morgan Stanley failed due to the failure of the collaterals that had nothing to do with Lehman Brothers.

I wish to give some credit to the Monetary Authority of Singapore for taking the steps to facilitate the un-winding of the contracts involving the Lehman Minibonds. This allowed the investors to recoup some of their investments.

I understand that the regulators in Hong Kong were able to get a larger payback for the investors for a similar product sold in Hong Kong.

The coverage of the media in Hong Kong was quite extensive, compared to the scanty coverage in Singapore. Similarly, the legislators in Hong Kong were more active compared to the Singapore counterparts.

You can find some of the materials from these websites:
http://singaporewatch.org/?p=151

www.tankinlian.blogspot.com

(Search for "Credit-linked notes" or "Speakers Corner").

2. What was the mis-selling?

Many investors in Singapore blamed the relationship managers of the banks for mis-selling the financial products to them. The front line sellers failed to explain the nature of the risks and had, in many instances, innocently mis-represented the financial products during the verbal explanations of the complex products.

The investors were told that the risk of a failure is small (i.e. an opinion) and that in the event of failure of any one of the listed entities, they would suffer a proportionate loss (i.e. factually wrong). There were many other misrepresentations of various types, but all of them were made verbally and the investors were not able to provide the documentary evidence.

The investors were asked to sign a document stating that they were aware of the risks, when most of them did not understand what these risks were. Some investors were not even literate in English, the language used in the document.

It was likely that most relationship managers were not even aware that they were misrepresenting the complex products to the retail investors. They were given a briefing of the product and told about the key features that needed to be explained to the customers.

The materials used in the briefing were probably inadequate and inaccurate. One petition asked the regulator to check into these materials, but to my knowledge the regulators ignored it.

Some relationship managers had confided to me that they were ignorant of the risks and had sold the products to their own family members, leading to large losses for them.

The relationship managers were well paid, relatively to their friends who worked in other occupations, and had to achieve high sales targets. In their eagerness to achieve their targets, they might have been over-zealous in their sales.

3. What can be done in the future?

3.1 Approval of financial products

Financial products sold to retail investors have to be scrutinised and approved by the regulators. This is similar to the regime where medicines have to be approved by the health authority before they are allowed to be sold over the counter.

The financial regulator can ask some experts to certify the products. The experts can ask for relevant questions from the product manufacturers, e.g. to explain the nature of the risks and the assumptions used in pricing the products, before giving their certification.

The certification should cover the accuracy of the marketing presentations and the fairness in the pricing of the products.

This responsibility cannot be left to the retail investors who do not have the ability to analyse the products or access to the information that is needed to make an informed judgement.

3.2 Suitable investments

Investors need to have access to suitable investment that pay an adequate yield, in an era of extremely low interest rates.

The Government has to step in and take the lead to organize suitable investments for retail investors and educate them and on the nature of these investments and their risks and returns.

The regulator can set up conditions for the approval of "authorised investment products" that meet the following criteria:

a) Have clear guidelines on the scope of investments
b) Have expense ratios (including management fees) that fall within certain caps
c) Have a rigorous audit regime to ensure compliance with the terms of reference
d) Have a certain minimum size of investment funds.
e) Have low transaction fees

Many of the large stock market index funds would meet the above criteria.

The public can be educated about the benefit of diversification, long term investing and dollar cost averaging, when they invest in these funds.

The Government should consider taking up this responsibility to provide a fair and safe form of long term investment channels for the general public. This would be a good role for the Government.

Tan Kin Lian
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Panel member – Tan Kin Lian

Mr. Tan Kin Lian started his insurance career in 1966 and qualified as a Fellow of the Institute of Actuaries in 1975.

He joined NTUC Income in 1977 as the general manager (later re-designated as chief executive officer). During his stewardship of 30 years, the total assets increased 600 times from $28 million to over $17 billion as the time of his retirement on 28 February 2007.

From 1992 to 1997, he was Chairman of the International Co-operative and Mutual Insurance Federation (ICMIF), an international organisation representing 123 insurance groups in 65 countries.

After retiring from NTUC Income, Mr. Tan founded Tan Kin Lian & Associates Pte Ltd. He also lectures as an adjunct professor in Singapore Management University. He is the founding President of the Financial Services Consumer Association in Singapore.

What happened in Singapore


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Tuesday September 16 2008 timesonline.co.uk No 69430

Lehman collapse sends shockwave round world

ares and oil prices plunge, thousands lose jobs

Speaker's Corner, Hong Lim Park

Dispute center

FIDReC

Credit linked notes

Mis-selling

What can be done?


INDEX FUNDS
Mirror market index performance