The importance of investor education and CIFA’s role in promoting this objective in Cyprus

By Angelos Gregoriades, President of the Cyprus Investment Funds Association

The aim of investor protection is wide-ranging. Effective investor education will provide to investors comprehensible explanations of products and practices, thus enabling them to evaluate potential investment decisions and even identify probable fraudulent activities. Informed investors are better equipped to take decisions about investing and assess not only the investments, but also the professionals in the field. Thus, its importance should not be underestimated as empowered and informed investors will lead to further expansion and growth.

Bearing in mind that the sector of investment funds is one of the fastest growing sectors in the Cyprus financial services industry, it is crucial that Cyprus also monitors and follows international developments, in order to ensure the highest possible levels of investor protection. I will aim to explore certain initiatives that are taken on a global scale and examine suggested steps to be taken in the domestic market.

Investor education as a global objective

The promotion and development of investor education is one of the objectives of the International Organization of Securities Commissions (IOSCO). IOSCO is the leading international body and is recognized as the global standard setter for securities regulation, whereas its membership, which also includes the Cyprus Securities and Exchange Commission, regulates more than 95% of the world’s securities markets in more than 115 jurisdictions.

The Objectives and Principles of Securities Regulation of IOSCO, which is the main instrument to develop and implement internationally recognized and consistent standards of regulation, oversight and enforcement, provides that “regulators should play an active role in the education of investors and other market participants”. A regulator is the most suitable body to provide such information in an objective and unbiased manner. However, investor education should complement regulation and not be mistaken as a substitute for solid regulation or vigorous sanctions. The goal is by no means to minimize the regulatory duties and obligations.

This is why IOSCO was one of the first to recognize the importance and role, as well as address the limitations, of investor education. Since 2001, it has been addressing this issue with various initiatives, including the publication of reports by its Technical Committee and the Emerging Markets Committee. Moreover, this topic has been part of various seminar and training programmes and specialised investor education trainings have been organized in different regions of the world.

In 2013 IOSCO published the report of the Committee on Regulation of Market Intermediaries on “Investor Education Initiatives Relating to Investment Services”, which offers a comparative insight to the practices followed by different jurisdictions. For instance, there is a wide range of approaches, ranging from the establishment of independent investor education bodies to setting up specialized units or departments within the supervisory authority that are charged with investor education.

However, other countries limit their actions to the issuance of investor alerts. A broadly common approach is the division of the population in target groups, so as to address each group on its specific characteristics, including their level of financial information, in order to enhance the effectiveness of measures adopted. The main means used to educate investors include conventional methods, for instance via conferences, websites and printed material, but also extends to social marketing and the use of media. It is
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It is noteworthy that in most countries, industry representatives and other stakeholders also carry out investor education initiatives.

Most importantly, in 2013 the IOSCO Investor Education Gateway was also launched. This is an online tool aiming to enhance the sharing of investor education information among IOSCO members and the public. The information contains online investor education materials from forty-one of IOSCO’s members, as well as published IOSCO reports and presentations regarding investor education. The main objective behind the establishment of the Education Gateway was to enhance the sharing of various ideas and initiatives about investor education.

The Education Gateway also acts as a valuable education and information resource for investors globally. All involved in this sector, ranging from regulators, investors and researchers, can learn much from these voluntary IOSCO member postings. Currently, 41 of IOSCO’s members have uploaded informative documents on the Gateway; however, further contributions are needed from more IOSCO members. Cyprus’ absence from the Gateway signals that a lot need to be done domestically in order to become part of the global efforts to promote this objective. Currently, investor education is also a program priority for IOSCO’s Education and Training Team. The latter’s current priorities include, among others, organising global and regional investor education workshops, providing forums to share best practices and ideas, as well as facilitating and conducting research in this field.

IOSCO is not the only international body that is taking such initiatives. The Organisation on Economic Co-operation and Development (OECD) has also taken various initiatives to raise awareness on this issue, including a project launched by OECD International Network on Financial Education (INFE).

The issue of investor education is also addressed on a European level as well. The European Securities and Markets Authority (ESMA), an independent EU Authority that contributes to safeguarding the stability of the European Union’s financial system, ensures the consistent treatment of investors across the Union, enabling an adequate level of protection of investors through effective regulation and supervision. ESMA’s Investor Protection and Intermediaries Standing Committee undertakes ESMA’s work on issues relating to the provision of investment services and activities by investment firms and credit institutions.

Particular regard is made to investor protection, including the conduct of business rules, distribution of investment products, investment advice and suitability.

In addition, the European Fund and Assets Management Association (EFAMA) advocates that a lot need to be done to improve levels of investor information and education.

A recent report by EFAMA on “Building Blocks for Industry Driven Investor Education Initiatives”, which is a selection of independent expert analysis, confirms widespread ignorance of financial matters in Europe. This is why coordinated action needs to be taken and this is an issue that concerns all stakeholders involved, ranging from regulators, national associations and members of the industry such as banks, as well as European and other international bodies.

The case for Cyprus and the role of CIFA in promoting investor education

As already mentioned the Cyprus Securities and Exchange Commission is a member of IOSCO, however, it does not yet participate in the Investor Education Gateway. This is even more pressing for the case of Cyprus, as over the past years as it has been revealed that the lack of awareness of investors was also an important factor for wrong decision making and investors have suffered losses that they never contemplated.
Although the primary role in most jurisdictions is taken by the regulatory authorities, the success of the measures to be adopted also depends on the appropriate involvement of all stakeholders of the sector, including national associations. Cyprus Investment Funds Association (CIFA), that has been established as the single unified representative body of the industry in Cyprus, is an important stakeholder and one of its main objectives is to protect investors in the investment funds sector and also support the development of the Cyprus investment fund industry.

One important component to achieve high level investor protection is via the formulation of comprehensive strategy on investor education. Subsequently, Cyprus can be more actively involved in the Investor Education Gateway, that will also facilitate the exchange of ideas. As IOSCO Objectives and Principles of Securities Regulation states, regulators should play an active role in the education of investors. This however, does not exclude CIFA from being part of the formulation of this strategy, in close cooperation with the Cyprus Securities and Exchange Commission.

In particular, one of CIFA’s Technical Committees, which is comprised of experts in the field, the Training and Human Resource Committee is well-equipped to promote the objective of investor education. Its mandate includes the organizing of training seminars, in collaboration with regulatory authorities. The main aim will be to set up an all-encompassing investor education programme that will enable investors to ask questions and have the necessary tools to assess both the investments and the professionals in the field. More specifically, this Committee can identify training gaps and the needs for investment fund professionals in Cyprus and subsequently promote the development and organisation of training programmes. It can also monitor and share information on the training developments on an international, as well as on a European level, and make recommendations on the training required for the various professional groups in Cyprus.

One important step will be to define the desired target groups for Cyprus, as different groups with a different level of knowledge, demand carefully designed investor education initiatives that will be adapted accordingly. These groups may range from existing investors, in order to assist them in managing their investments, but also to adults that need to improve their personal financial planning. Also, investor education may also target young people aiming to develop their understanding of key financial concepts and, hence, their competence to manage their personal finances. Some jurisdictions such as the United States, have aimed to address the issue of financial literacy from an early age, at high school level, through the integration of important concepts about finance into the already existing courses by teachers.

Moreover, CIFA and its members can support research initiatives, as there is still considerable work and research to be done in relation to this topic, especially as to the expectations on what investor protection can actually accomplish. Cyprus, as a competitive funds jurisdiction, should be part of developments and also take advantage of the different funding options that are offered by IOSCO to this end.

Is there a magic recipe?

Evidently, there are numerous challenges to be addressed in this field, not only domestically, but also globally. It is yet to be decided which practices work and which do not with respect to investor education. Also, by definition, the nature of financial markets is constantly changing. Thus, the quest for best practices will be an ongoing one, so as to achieve the overall objective of educating investors in order for them to invest with confidence. Although, investor education to achieve financial literacy is not a panacea, it is one element that will lead to contribute to good financial decision making, and hence, growth.

Therefore, best practices will keep developing, new methods will be presented and new challenges will be emerging. This is why research is key in developing our understanding of investor education and it should be a permanent objective for the stakeholders involved. This will contribute to addressing the real limitations of investor education and managing expectations with respect to what investor education can accomplish, whereas appropriate training programmes will play an important role in order to effectively address information asymmetries.

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