

Effectiveness of the Product Disclosure Sheet in Influencing Sound Financial Decisions

The product disclosure regime is an important component of financial consumer protection framework in Malaysia. This article evaluates the effectiveness of the current product disclosure regime and highlights possible improvements that the Bank will consider when reviewing the disclosure requirements.

In 2010, the Bank issued Guidelines on Product Transparency and Disclosure to improve information disclosures on products and services offered by financial service providers (FSPs). The Guidelines require FSPs to provide consumers with a Product Disclosure Sheet containing essential information about a product, presented in a consistent form, for each product that they offer. The aim of the Product Disclosure Sheet is to help consumers make informed decisions when purchasing a financial product based on a clear understanding of the main features and risks of the product. It is also intended to enable consumers to compare products and services offered by different FSPs when shopping for a financial product or service.

The Bank undertook a study in 2014 to assess whether product disclosure practices are meeting these objectives. With a focus on the Product Disclosure Sheet, the study examines if disclosure practices are aligned with how consumers make financial decisions by answering two main questions: (i) "Are consumers receiving information that is useful in their decision-making?" and (ii) "In what ways can the quality (coverage, access and presentation) of information be improved to help consumers make better decisions?" Over 400 consumers in the Klang Valley were interviewed as part of the study, with their views sought on the use and quality of the Product Disclosure Sheet.

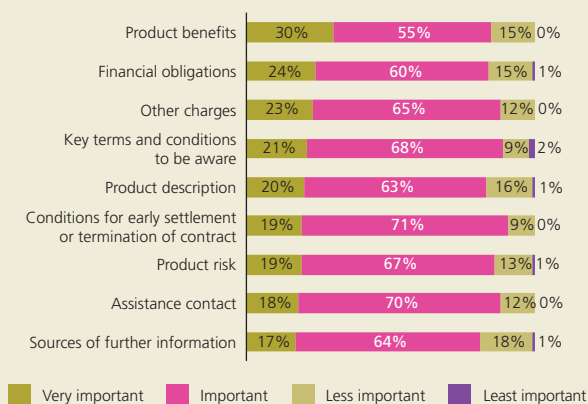
Awareness and Utilisation of the Product Disclosure Sheet

The study revealed a low level of awareness among consumers on the existence and purpose of Product Disclosure Sheets. While FSPs are required to present to consumers a Product Disclosure Sheet before purchasing products, only half of the respondents recalled seeing the Product Disclosure Sheet. In many cases, the Product Disclosure Sheet was presented to consumers only after a decision had already been made to purchase a product. Consumers are therefore not readily aware of the opportunity to use information contained in the Product Disclosure Sheet to compare financial products and services.

Among consumers who were aware of the Product Disclosure Sheet, a significant percentage (88%) made use of the document to look for information on financial products. These consumers found the content of the Product Disclosure Sheet to be relevant, with all categories of information currently captured in the Product Disclosure Sheet considered to be important information for decision-making (Chart 1).

Chart 1

Importance of Information Covered in the Product Disclosure Sheet for Consumers' Decision-making



Source: Bank Negara Malaysia

When tested against questions commonly asked by consumers, the Product Disclosure Sheet for various financial products answered most of the questions, with only a few exceptions (Table 1).

Table 1

Common Consumer Questions Not Answered by Current Product Disclosure Sheets Provided by FSPs

Type of financial product	Specific information not included in Product Disclosure Sheets tested
Mortgage	<ul style="list-style-type: none"> • Amount of applicable legal fees and stamp duty charges • Months of default in payments that would lead to property foreclosure
Structured Investments	<ul style="list-style-type: none"> • Amount of transfer fees • Keeping track of value of the investments
Investment-linked Insurance/ Takaful	<ul style="list-style-type: none"> • Possibility of reinstating lapsed policy due to failure to pay premiums/contributions • Deduction from premiums/contributions received upon policy cancellation • Limitations/conditions for withdrawal of investments • Time taken to make and receive claims

Source: Bank Negara Malaysia

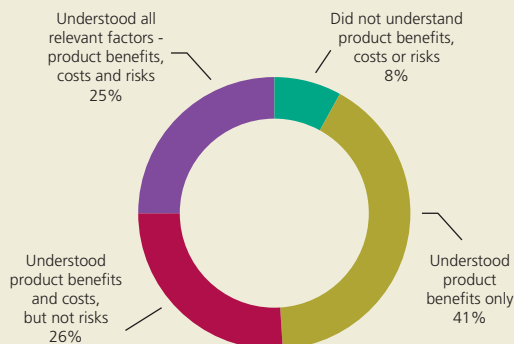
Financially literate consumers are also more likely to find information in the Product Disclosure Sheet relevant to their decision-making, suggesting the continued importance of financial education in helping all consumers make better financial decisions. Financial representatives have a significant role to play when explaining the content of the Product Disclosure Sheet to consumers and should pay particular attention to consumers with lower levels of financial literacy.

Factors that Influence Decisions by Consumers

Findings and observations from the survey provide useful insights into consumer behavior. A large proportion of consumers revealed that they make commitments to purchase financial products without fully understanding their characteristics. Returns (or benefits) are the most dominant factor in purchasing decisions, with 92% of consumers surveyed declaring that they understood the benefits of a product. In contrast, only 25% understood the costs and risks associated with a product (Chart 2). In addition, 36% of consumers surveyed do not actively consider affordability in their purchasing decisions. The study suggests a number of reasons for these observations, including the general tendency for individuals to actively seek out positive information while dismissing negative information, assumptions held about how a product works based on a general awareness of similar products, and trust placed in financial advisers, friends or family who recommended the product.

Chart 2

Factors Understood by Consumers Before Making Financial Decisions



Source: Bank Negara Malaysia

More effective use of the Product Disclosure Sheet can serve to address consumer biases given its emphasis on presenting information on benefits, risks and costs that is objective and balanced. Enhancements to the Product Disclosure Sheet will be made by the Bank to draw attention to affordability as an important factor in purchasing decisions. The study found that consumers who are conversant in English and Malay (the languages in which the Product Disclosure Sheet is currently required to be provided) were more likely to consider risk in their decision-making, likely attributed to these consumers having a better comprehension of disclosure information presented in the Product Disclosure Sheet.

The Internet could also be further leveraged to improve consumer understanding of product features. The study found that close to half of consumers surveyed identified the Internet as a key source of information on financial products. These were also the same consumers who had a better understanding of more factors, including costs and risks, when deciding to purchase a financial product.

Format and Language of the Product Disclosure Sheet

One in five consumers surveyed indicated that the Product Disclosure Sheet format could be made more user friendly by reducing its length (currently ranging between 4-8 pages), adding visual aids and simplifying the narrative in the document. Stronger (as opposed to neutral) language is favoured to convey the purpose of the Product Disclosure Sheet and important information.

Although disclosure requirements call for the use of plain language in communicating information on financial products, 40% of consumers surveyed still found the language used in the Product Disclosure Sheet produced by FSPs difficult to understand. Among the main reasons cited by respondents include the use of technical or legal jargon, the lack of explanations on product specific terminology (e.g. lock-in period, observation date, total permanent disability) and the use of complicated sentences. Consumers were also sometimes overwhelmed by the amount of information in the Product Disclosure Sheet, with key product information often buried in lengthy narratives. Many respondents agreed that the use of larger text and more concise language as well as the use of 'signposts' (e.g. through symbols, diagrams, and prominent titles and sub-headings) would enhance the readability of the Product Disclosure Sheet and help consumers navigate and locate key information in the Product Disclosure Sheet.

Conclusion

Insights drawn from this study will serve as input to the Bank's planned review of the mandatory disclosure regime. The findings of the study suggest that the Product Disclosure Sheet is an important document in helping consumers make informed financial decisions. There is good alignment between the information that consumers find relevant in deciding whether to purchase a financial product, and the information provided in the Product Disclosure Sheet. Efforts to increase awareness among consumers of the existence and purpose of the Product Disclosure Sheet will encourage wider use of the Product Disclosure Sheet in making financial decisions. The Product Disclosure Sheet should also be made more widely available through multiple channels such as at the branches and websites of FSPs. The Bank intends to work with the industry to implement improvements to make the Product Disclosure Sheet and financial agreements¹ more reader friendly, clear and engaging. This will include providing specific guidance to FSPs on more effective styles of presenting information based on consumer feedback from the study. Even with these efforts, there will continue to be consumers who do not seek out important information that they need to know about a financial product. Many consumers may also still not understand or be able to meaningfully compare the products offered to them. In order to bridge the gap, the Bank will work with key stakeholders including financial representatives to undertake targeted financial education strategies to elevate public awareness on the importance of reading and understanding the Product Disclosure Sheet and financial agreements. Efforts will also be pursued to ensure that the Product Disclosure Sheet will be prominently featured and explained during the product sales and distribution process. Additionally, strong enforcement actions will continue to be taken by the Bank against FSPs that fail to comply with transparency and disclosure requirements under standards issued by the Bank.

¹ The study also revealed that almost half of the respondents read no more than half of financial agreements.