
Consumer Finance Symposium: Trends in Consumer Finance Regulation

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Consumer impacts of the GFC

- Consumers have been directly impacted by:
 - Loss of value in capital markets – individual holdings and through pension/superannuation schemes
 - Poor quality consumer lending – especially in countries US, UK, Spain etc
 - Investment in highly leveraged products Storm Financial Opus prime, MISs eg Great Southern Timbercorp.



Philosophy of consumer regulation

- Efficient markets hypothesis (Fama 1965):
 - Wallis Report on reform of the Australian Financial System which states that “in designing regulatory arrangements, it is important to ensure minimum distortion of the vital roles of markets themselves in providing competitive, efficient and innovative means of meeting customers’ needs.” (Wallis Report p.15)
- Theory of Bounded Rationality (Simon 1957)
 - the rationality of individuals is limited by the information they have, the cognitive limitations of the mind and the finite amount of time in which to make decisions.
- The balance between efficiency and consumer protection



International policy responses

- OECD – financial literacy
- EU Directive on Credit Agreements
- UK Consumer Rights Bill
- US Obama Plan



Australian Consumer Regulation

- Trade Practices (Australian Consumer Law) Bill 2009
 - The Green Paper on Financial Services
 - National Consumer Protection Bill 2009
 - Corporations Legislation Amendment Bill (Financial Services Modernisation) Bill 2009
 - Parliamentary Joint Committee on Corporations and Financial Services
 - Inquiry into financial services company collapses eg. Storm Financial and Opus prime
 - Inquiry into Management Investment Schemes
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Research Questions

- Efficient Markets v. Bounded Rationality rationale for consumer regulation
- Responsible lending – regulatory contagion?
- Positive credit reporting
- Financial Literacy v. Responsible Lending
- Two parallel licensing regimes

