

Proposal No.: 11

Achieving An Individual Investor Friendly System Using The Power Of The Internet

Some key alterations to the existing system of investor education and protection can introduce a lot of transparency and efficiency into it. The way to do this will be to introduce a major levelling agent which will do away with the opaqueness that the existing system is shrouded with. This levelling agent is the internet.

It has to be understood that the internet is primarily an information transfer agent and has a very vital role in our proposed system. However, my system is not restricted to a mere website and an email address. The website will act as a facilitator, very much like a lubricating system, but needless to say, human will and effort have to be the key forces that will make it a success.

This system will have the following functions :

1. **To effectively inform, educate and support the investor** through his business dealings. The information will have an **encouraging tone** rather than the unsympathetic and cold legal and financial chatter that is generally found in support documentation. This is not a rule booklet but a resource for the layman.
2. To give **prior warnings** to an investor about any investment or any financial firm to which he might be investing his money in where such a warning is required. For example, his investment profile may not match his choice of investment or his financial firm may have a long record of ill treatment of investors.
3. **To give the small investor the power to fight back** any threat to his hard earned money. This will be achieved by the Reputation Rating System (RRS) which is explained later. This particular rating system would also ensure that the opportunities for ill-treating or harassing investors diminish with the growing popularity of reputation ratings.
4. To **modify the arbitration and dispute resolution system** so that even smaller investors with very low net worth can also seek & obtain expedited justice.

This paper is divided into four sections that are as follows:

1. **The regulator and Internal affairs** : This is an addition that intends to check the ethical and moral code of conduct that regulatory officials observe when they interact with members of the public. This will provide the system with accountability of the officials so that they may not take their offices for granted.
2. **The Investor Education System**: This system is, as mentioned before, will be very actively involved in investor education which will provide the person with enough knowledge to make an independent informed decision as to where to put his money in a manner which would best suit his investment profile.
3. **The Reputation Rating System**: This section introduces give a new concept which will induce an amount of transparency and accountability never seen before in the existing investor protection system. This is a whole new investor complaint system on the internet that includes a company reply section and also would serve as a launch pad for investigations. Further, this system is capable of acting as a forwarding scheme for arbitration, thus minimising bureaucratic intervention.

4. ***Dispute Resolution***: This is a proposal for an additional dispute resolution scheme using an ombudsman system. This will help in quicker and cheaper method of dispute resolution.

Section 1

THE REGULATING BODY AND INTERNAL AFFAIRS

In the proposed system all the mechanisms are set so that the regulator's intervention is minimised as far as possible in the matter of investor protection. All functions like going after the defaulters, handling complaints are postponed till a time when all the transparency and investor protection that this system can afford has no effect on the situation. The added functions of the regulator in the new system will be:

1. **Screening the complaints** to be posted on the complaint boards for frivolous and mischievous ones.
2. Taking care of the web site and giving out **investor information** as and when requested of them.
3. Maintaining an **investigation team** which is adequately prepared and skilled.
4. **Internal check** to ensure that the employees and officers of the regulator in accordance with the moral and professional code of conduct that have been set for them.

That power corrupts is a well-known fact and such a corruption will eventually end with the weakest people in the system getting antagonized. These are most generally the small and individual investors. To avoid such cases I suggest an Internal affairs division which will oversee the ethics and conduct of regulatory body officials especially those who are in direct contact with the investors. This system is aimed at improving the relationship of officials with the public and setting standards of conduct seen nowhere else in the world.

Based on the Australian system of internal services I would like to suggest a new internal affairs division. Such a department will have to take complaints regarding the conduct and behavior of officials when dealing with investors and their queries/complaints or otherwise in their official capacity. They would also have to investigate more serious matters such as misuse of office for personal gain.

Given below are suggestions for a set of guidelines for conducting actions and investigations of complaints against the regulators officers.

Guidelines for managing allegations of misconduct against regulatory officers

Purpose

These guidelines set out the principles for handling complaints made by members of the public about the conduct of regulatory officers. The guidelines should ensure that such complaints are investigated promptly and fairly, and that officers of the regulator maintain high standards of behavior and conduct when dealing with members of the public. These guidelines can also be applied to any single exchange if it wishes to improve its customer relations.

Conduct of officers of the regulator

In brief, there are three main principles in these guidelines which can serve as a code of conduct for officials:

- (a) officers should perform their duties with professionalism and integrity;
- (b) fairness and equity are to be observed by all officers in dealing with colleagues and members of the public; and
- (c) real or apparent conflict of interest is to be avoided.

In addition, officers have to be bound by various state and federal statutes on privacy, confidentiality and criminal conduct. The priority here is to see that efficiency is maintained and the regular 'Sarkari Daftar' atmosphere does not creep in. I believe that the key to this will be absolute accountability.

What is a complaint?

A complaint is any attempt by a member of the public to make allegations of unacceptable conduct against an officer. The reasons why a complaint may have been made should not be considered when deciding whether a matter is a complaint.

All complaints should be recorded, acknowledged and appropriately investigated.

Types of complaint

We can divide complaints into Primary complaints and Secondary complaints.

Primary (or serious) complaints

Primary (or serious) complaints are those involving allegations of abuse of office or powers, or alleged breaches of legislation whether criminal or not. Such complaints include (but are not limited to): assault, insider trading, intimidation, using one's office for personal gain, breach of confidentiality and breach of privacy.

Secondary complaints

Secondary complaints are those which are not considered to fall within the Primary category. They include (but are not limited to): rudeness, poor or inappropriate service, harassment and breach of public service guidelines or standards of conduct.

Making a complaint

While all complaints, both oral and written, would be assessed, people wishing to lodge a complaint (complainants) would be encouraged to put any complaints in writing, setting out the name of the officer involved and the circumstances of the alleged conduct.

The regulator will acknowledge receipt of complaints in writing (or through signed email) within seven working days of receipt. Resolution of complaints will be as prompt as possible but may take time because different procedures will apply depending on the seriousness of the allegation.

Investigating complaints

All complaints will be referred to the Internal Affairs Commissioner.

On receiving a complaint the office of internal affairs will:

- record the complaint;
- review the complaint and decide whether it is a Primary or Secondary complaint;
- decide whether the complaint needs further investigation and, if it does, nominate an appropriate officer to carry out the internal investigation in the manner set out below.

Investigations must be conducted in a fair, open and objective manner with the purpose of establishing the facts.

The officer against whom the allegation/s are made will be notified of the complaint and will be given an opportunity to make submissions about it at the earliest time possible without jeopardising the investigation.

The officer, the subject of the complaint, will be instructed not to discuss issues raised in the complaint with the complainant or a witness to the complaint during the course of the inquiry. If the officer considers that this restriction may impact on an ongoing investigation he/she must first raise the issue with the investigating officer before raising a complaint-related issue with the complainant or a witness.

The officer will have a right to union or legal representation, at their own expense, in any discussions or submissions concerning the complaint, if they choose to.

When the investigation is completed (or reviewed, if the matter is not to be fully investigated) a report of the findings of fact, statement of reasons and a recommendation will be sent to the Internal Affairs Commissioner. They will review the report and decide on the appropriate course of action.

Both the complainant and the officer will be advised in writing of the result.. The officer should, in most cases, be given a copy of the final report. An exception may be in cases when criminal prosecution has been recommended.

Investigating primary complaints

As a general rule, investigations of Primary complaints will be conducted using the exchange or regulator's resources. The Internal Affairs Commissioner will appoint an officer (who has had no significant previous connection with the alleged offender) to conduct the investigation. However, when there is reasonable cause to suspect that an officer may have committed offences under either state or federal law, it will usually be more appropriate to refer the matter to the Concerned Police force.

When an investigation of alleged misconduct discloses prima facie evidence of a breach of state or federal law amounting to a criminal offence, that matter may then be referred to the relevant public prosecutor. If the person is convicted of an offence then disciplinary action may follow.

Investigating secondary complaints

Complaints about regulator staff members' conduct which are not considered to be in the category of Primary complaints will be dealt with by the Internal Affairs Commissioner (or equivalent). They will be responsible for determining what action, if any, is to be taken on the complaint.

Section 2 **INVESTOR EDUCATION**

Education of investor is always meant as the **first line of defense** in any investor protection system. The aim here is to empower the investor with enough knowledge so that:

1. He should have the **knowledge of all the available investment instruments** so that he can choose the best one according to his risk profile, his monetary condition, his time of investment, rate of return expected and any other major financial commitments in the future.
2. He knows what the **universal methods of assessing an investment** are. He should also know what **questions to ask** while making any investment decisions. In case he is receiving professional advice he should know if the person giving the advice is professionally qualified to do so.
3. He should know what is **the ideal way to operate his investments**, what all **documents he should keep** always with him, other kind of documentation and copies of correspondences that he should keep in case he might need them later.
4. He should have the **knowledge of how people have got swindled** till date. What are the popular cons and misrepresentations that could cause losses to him, how he can identify them and how he can protect himself against them.
5. He knows about all the **investor protection schemes** available to him and how he can avail of them. Further, he has to be instructed on what is the best possible method to go about protecting his interests.

Imparting education through the web site:

Care has to be taken to use a **simple, understandable and concise language and a comforting tone**. Already any investor is under the tension of getting his money in the right place. The last thing he needs is pages of complicated legal and financial jargon to deal with. Most international regulators have understood this and this is reflected on their web sites. This kind of a language treatment would also help **to remove the intimidating aura of inaccessibility** that surrounds the financial authorities.

There are quite some of financial sites available which provide quite a good amount of quality material to educate investors. Hence sites like indiainfoline.com, equitymaster.com have made pretty good advances in this field. However, their information is not **comprehensive enough as is needed for complete investor education and protection**. Further, I believe it is the duty of the regulator and other related governing bodies to provide such information to the public.

Sections of the investor education web site should be as follows:

1. **Why one should invest**, how will investing be better than putting the money in banks, how it will protect the investor against inflation etc. This section should also contain information that outlines the advantages of saving for the future in a manner that will correspond with the

persons future monetary requirements. Further, it should encourage young people to save more and also invest so that the idea that there are other places to put ones money than bank accounts becomes more prevalent.

2. **The very basics:** The Investing basics area provides articles that will teach the layman the fundamentals he needs to start a successful investment program. The area also serves as a useful refresher course for those who need to brush up on the basics. This section will have to include:
 - **The investment objectives:** Every individual has different monetary requirements. Before investing in anything he has to look into various aspects like his **risk tolerance, his expected return, the timeframe of investment** etc. This section should help the individual to decide on this. Of particular use in this regard might be an **online form to assess these conditions for an investor** and suggest various avenues where he can invest. This would be somewhat similar to the wealth builder assessment form in indiaonline.com's personal finance section.
 - **The various avenues of investment available:** This section has to give a good idea of how **practical** it is for the person to invest in different instruments like equity, debt, commodities etc.
 - **Analysis of various instruments:** This section has to give a fairly comprehensive idea of how to analyse the different types of investment instruments. For example, the stock section should give the user an idea of how to go about selecting stocks to suit his portfolio. Further, an emphasis has to be given on the importance of **long term business perspective investing**.
 - **Actual process of investment:** A good amount of information has to be given on how to practically approach intermediaries and brokers after **proper background check** which would also be available on the web site. Stress has to be given on choosing the broker with as high a reputation rating as possible. Furthermore, a **complete list of all the documents that an investor should maintain** should be given. Also, the investor should be given a good idea of what kind of questions he should ask before entering into any kind of a deal. For example here is a portion of a web page from the **Hong Kong Securities & Futures commission web site**

CHOOSING YOUR BROKER OR FINANCIAL ADVISER

MAKE SURE THE PERSON AND THE COMPANY YOU DEAL WITH ARE BOTH LICENSED

By law, companies and persons engaged in dealing in, or giving investment advice on securities and futures contracts must be licensed by the SFC. There are two types of licence, covering Dealers and Advisers.* Staff acting on behalf of Dealers or Advisers must also be licensed as their representatives, and can only act for the company as specified in their licence.

Brokers and financial advisers are legally required to display their licence prominently at their place of business. You can also ask to see a licensed representative's Certificate of Registration to make sure he is licensed. Remember to check whether the SFC has imposed any conditions or restrictions relating to the type of service that is being offered: this will appear on the certificate. Remember also that a business title does not necessarily indicate the type of licence a person holds - you should check the licence for yourself.

Investors can call the **SFC Investor Hotline** on **2840 9333** to check if a person or company is licensed. Alternatively, visit the Registry Section of **SFC Website** at <http://www.hksfc.org.hk>, in which provides a full list of licensed companies and representatives.

Not all financial intermediaries are supervised by the SFC. Banks and insurance brokers/agents, for example, are regulated by other bodies, and depending on the nature of the service offered, may not be required to hold an SFC licence. There are also some types of trading activity, such as bullion trading, which are not currently subject to regulation.

An SFC licence is not a guarantee either of honesty or future performance of a licensed person or company : an investor may still suffer loss due to the inefficiency, carelessness or negligence of an intermediary. Nor does licensing by the SFC protect you in the event of fraud.

Vetting of a licensee by the SFC consists of imposing 'entry' requirements, ongoing supervision and taking disciplinary action if necessary.

**Note: Leveraged forex traders are subject to similar licensing requirements and financial resources rules*

WHAT THE SFC REQUIRES TO GRANT A LICENCE

An applicant must prove to the SFC that he is a 'fit and proper' person to be engaged in the securities and futures business.

In assessing an applicant's 'fitness and properness', the SFC will consider a person's:

- **Financial status**
- **Educational qualifications and work experience**
- **Ability to operate efficiently, honestly and fairly**
- **Reputation, character, financial integrity and reliability**

Licensed firms are required to be financially sound, and at all times must comply with certain financial resources rules to ensure they have sufficient resources to meet their obligations. *Brokerage firms, which hold clients' money, must maintain a higher level of capital than firms who simply act as advisers.* These rules are subject to continuous audit and strict enforcement, both by the SFC and self-regulatory bodies such as the Stock Exchange of Hong Kong and the Hong Kong Futures Exchange.

The SFC licensing system attempts to ensure that the licensed person you are dealing with is honest, based on his past behaviour. But a licence should not be regarded as a guarantee of future behaviour or quality of service. You should ask your broker or adviser about his credentials and expertise and the financial viability of the firm he is acting for, and make your own judgement.

Step 1 : FIND THE RIGHT EXPERT TO HELP YOU

First, decide what type of investment you wish to make. If you are primarily interested in investing in stocks, stock options, bonds or warrants, contact a licensed securities dealer. If you are thinking of trading in index options, futures contracts, contact a licensed commodities dealer.

If you want to obtain general advice, or invest through managed funds, contact a licensed investment adviser.

Remember that sales staff will often only provide information about products from the company they represent. While these products may suit your needs, their price/investment performance may not be the most competitive.

Step 2 : ASK QUESTIONS - FIND OUT ALL YOU CAN

Whether you are doing business with your broker or adviser in a traditional manner, or on-line through the Internet, you should find out everything you can about the company you're dealing with, the way your account will be handled, the agreements you have to sign, and the person who will be handling your account. Some of the following questions are relevant to choosing either a broker or a financial adviser; others apply specifically to one or the other.

"What category of licence do you hold?"

A person's business title does not indicate the type of licence that person may hold. *A licensed investment adviser, unlike a broker, may only give you advice, but may not hold your money or assets.* Find out what category of licence he holds, and check whether there are any conditions imposed on it. Do not make any financial deposits with someone who is not licensed to look after your money or securities. If you have any doubts about the category of licence, contact the SFC.

"What types of service do you offer?"

Before you select a brokerage/advisory firm with which you wish to deal, compare the service and fees of different brokers or advisers, and ensure that the company you select handles the type and size of trading which suits your needs. Some companies, for example, only handle large accounts. Evaluate your own needs and decide which type of service suits you best.

Some brokers will provide a range of services such as research and recommendations; others may concentrate on "execution only" business, which is simply dealing for clients on receipt of an order where no investment advice is provided. Some offer discretionary account trading. Others may wish to deal only with margin accounts.

Some financial advisers specialise in selecting and recommending managed funds such as unit trusts or investment-linked insurance plans, while others will offer advice on a wide range of investments.

Find out whether the person you are considering will offer a genuinely personal service, or whether other parties could be operating your account. You may also ask about their qualification, experience and track record, especially if you wish to rely on their expertise to manage your investments.

Depending on the type of service rendered, the documents you have to sign on account opening may vary. Make sure you understand the terms of the contracts before signing.

"What are your fees and charges?"

There are several types of intermediaries who can act for you, with different payment practices:

- An agency broker, who carries out your instructions, will be paid commission on the trades made. Moreover, he may charge service fees on handling matters like share transfers.
- A financial adviser may be paid a straight fee, fee plus commission, or commission only.
- A fund manager is usually paid a percentage of the funds managed.

Providers of financial services, be they brokers or financial advisers, vary widely in their charges, and in the range and quality of the service they offer. So it is important to clarify the fees and charges to which you will be liable right from the start. Ask which kind of arrangement would be in your own best interest. Shop around.

"How do I know my instructions will be carried out properly?"

Find out if your broker will confirm an order execution first by phone, then with a contract note issued on the next working day. Ask how frequently statements of account are produced to enable you to check your position in money and securities. Do not agree to an arrangement where your contract notes, confirmations, statements or any other information about your investment transactions are delivered or mailed to your sales representative as a substitute for sending them to you.

"What can I do if I think my order is incorrectly executed?"

Although not mandatory, some firms tape all clients' telephone instructions for later verification in case of any dispute. Ask what channels of complaints are available and how long an investigation would take.

"How do you hold my money?"

Clients' money which is not owed to settle transactions must be kept segregated from the broker's own funds, as required by current legislation. Monies held on clients' trading accounts are required to be held in a separate trust account opened with a licensed bank, which must acknowledge the special trust nature of the funds.

Your broker must maintain full records of sums paid into and withdrawn from such a trust account, together with the names of all the clients concerned. This requirement prevents brokers from using investors' money held in the trust account for their own business purposes, for example to meet their own debts or as collateral for other loans or advances.

"What about safe custody of my securities?"

Not all investors choose to receive a physical certificate as proof of ownership after making an investment. Some investments are also 'scripless', i.e. no certificates are available. If you purchase stocks listed in Hong Kong, your broker should, as soon as practicable, register the shares in your name or in the name of its nominees, or deposit them in safe custody in a bank or in CCASS. Note however that with shares held in CCASS, it is your broker, not you, that is being recognised as the direct holder. In order to enjoy better legal protection, you can set up an Investor Account in CCASS to exercise direct control of your shareholdings.

By law, a broker is not allowed to pledge clients' securities in its custody unless specific authority in writing is given. Normally, a broker will not require a cash client to give such an authority, but will usually ask a margin client to provide written authority to use the securities as collateral to support its borrowings from a financial institution. (See "Margin Accounts" below.)

While current laws insist that brokerage firms segregate their clients' monies and securities held in safe custody from their own, you are still relying on the integrity of brokerage staff and the adequacy of their control procedures to prevent misappropriation. This again means it is important for you to select a trustworthy and reliable organisation.

Investors should also note that in the unfortunate event of death of a broker who is a sole proprietor of an unincorporated brokerage, securities and monies held in the accounts of the broker may be frozen and not subject to release until an administrator or executor is appointed by the court to deal with the assets of the deceased broker. It may take some time before these appointments occur, so investor clients may not be able to get back their money and securities as quickly as they would like.

Step 3 : MAKE A PROPER, CONTRACTUAL AGREEMENT BEFORE YOU TRADE WITH A PROFESSIONAL

You must have a clear, written agreement in place before you start trading. The agreement should explain the nature of the service you are buying, the risks involved, the obligations and liabilities of each party, the terms of dealing and the ways of closing your account. For example, if you trade futures or options, or trade stocks on margin, then the agreement should explain the circumstances under which your positions may be closed without your prior consent. Do not rely on verbal representations from a sales representative that are not contained in the agreement.

Client agreements, and in particular the risk disclosure statement, are often written in legal language which makes them difficult to read and understand. As a prospective client, you should always ask for a clear explanation of the contents of such an agreement, and make sure you understand and agree with it before signing. Be wary of signing away your rights in the client agreement. If you wish to open a cash account for shares trading, make sure you are not signing a margin account agreement.

The basis of calculating commission, and the schedule of fees and charges, can be incorporated either in your client agreement, or shown separately - but again, this must be in writing. Examine the details, so that you are aware of the types of charges that you will be liable for later. Do not leave any section 'blank' on your agreement if it needs to be completed. It is also a good habit to ask for and retain a copy of all documents that you have signed for reference.

WATCH OUT FOR THESE DANGER SIGNALS

Beware of unsolicited sales calls from strangers. Cold calling and hawking of securities are illegal. Never send money to buy an investment based simply on a telephone sales pitch.

If you receive promotional literature about investment arrangements from any overseas company, check with the SFC that it is cleared to operate in Hong Kong, and also that its product is authorised for sale in Hong Kong. It is an

offence under law to deal and advise in securities and futures contracts in Hong Kong without holding an appropriate SFC licence. Never hand over any money to a salesperson until you have checked that he is properly licensed by the SFC, that he is the person whose name appears on the Certificate of Registration, and that he is acting on behalf of the company of whom he is a registered representative.

Never make out a cheque payable to a sales representative, and never send cheques to an address different to the business address of the brokerage company or a designated address listed in a prospectus.

Be suspicious of brokers or financial advisers who do not ask you about your investment objectives or your other financial commitments - they may not care about giving, or be able to give, sound financial advice.

Beware of advisers whose information about a product differs from that given in an offer document. For example, on the matter of charges. If there is any inconsistency, seek a second professional opinion. In any case, ask your adviser to set out his recommendations and the reasons for them in writing before reaching a decision. This makes it easier to establish your position should there be any subsequent problems with the advice you were given.

Be cautious of brokers or financial advisers who promise you quick and easy profits, or 'guarantee' that you will not lose money, or agree to share in any losses in your account. The rule is, if the promised returns sound too good to be true, then they probably are. Always take time to consider an investment, and if you are at all worried, seek a second professional opinion. And if a financial adviser invites you to put money into a special scheme run by him, which he cannot explain in detail, be very careful.

Don't allow yourself to be pressured into making a hasty or impulsive decision simply to take advantage of a promotional commission-reduction offer. Beware of such terms as 'inside or confidential information', a 'prospective merger or acquisition', or the launch of a 'dynamic new product'.

Take your time and shop around. Remember that going for the cheapest option is not always the best move. This is an important decision which should be made carefully, with all the knowledge at your disposal. Once you have invested, you should also remain alert for signs that things are not going as they should.

- **Mutual funds:** A good amount of stress has to be given on educating investors on how to select their mutual fund managers and their schemes. This should be included in the investment avenues available section. However, I am repeating it here separately so that we understand how important this field is because of its low entry barriers for small individual investors. Each **MF firm page also has an RRS section** as is discussed in the RRS (Reputation rating system) section
- 3. **The frauds and scams history page** : This web site should include a primer on the **most common types of schemes, scams, and fraud about which investors and entrepreneurs need to know**. In addition, it would provide questions for potential investors to ask themselves before committing capital to any investment; a list of ways to spot fraudulent investments and con artists. Let us take the example of the affinity fraud that plagues the American system. The following is an excerpt from the **North American Securities Administrators Association, Inc. (NASAA) web page on affinity frauds** :

Affinity Fraud: Beware of Swindlers Who Claim Loyalty to Your Group

State securities regulators are warning investors to be on guard against a rise in affinity group fraud. What is affinity fraud? It's simple, but the causes that give rise to it are often more complex.

Everyone, in some way or another, is connected to a group or association. Our interests, backgrounds, and other factors will naturally lead us to those organizations or affiliations that serve our needs. Race, culture, and religious beliefs also play a role in identifying us as members of unique groups that we often come to trust -- sometimes to our detriment.

In a world of increasing complexity, many people feel the need for a short-hand way of knowing who to trust. This is especially true when it comes to investing money. Unfamiliar with how our financial markets work, too many people don't know how to thoroughly research an investment and its salesperson. So, many fall prey to affinity group fraud in which a con artist claims to be a member of the same ethnic, religious, career or community-based group.

"You can trust me," says the scamster, "because I'm like you. We share the same background and interests. And I can help you make money."

Another equally effective pitch, if the con artist is not a member of the group, is to lull members into a misplaced trust by selling first to a few prominent members, then pitching the scam to the rest by using the names of those previously sold. The effect is the same: Once the connection to the group is understood, the natural skepticism of the individual member is overcome, and one more group name is added to the sales column.

Once a victim realizes that he or she has been scammed, too often the response is *not* to notify the authorities but instead to try to solve problems within the group. Swindlers who prey on minority groups play the loyalty angle for all its worth.

With immigration at levels not seen since early this century, many new arrivals to our country are seen by financial swindlers as ripe for the picking. Immigrant groups are particularly vulnerable to this type of fraud because they are sometimes isolated from the larger community and their flow of information may be limited because of language and other barriers.

Some members of other long-established minority groups have accumulated savings and achieved a certain standard of living through years of hard work. Often, they want to "give back" to the community in order to help others like themselves. However, such inclinations often make these group members sitting ducks for deceitful con artists who, despite sharing the same ethnicity or culture, are really motivated solely by greed.

Religious affinity group fraud also continues to be a widespread problem, according to state securities regulators. And swindlers who prey upon people of their own religion come in all denominations.

Among the Victims...

A 35-year-old Chinese-American writer who lost \$55,000; a college student from Bangladesh who lost \$17,000; an elderly African-American woman from Washington, D.C. who was swindled out of \$20,000; a Christian couple from Arizona who lost their home and savings and were forced to move back to Wisconsin to live with relatives.

The States Take Action...

The **California Department of Corporations** is investigating more than 20 cases of commodity dealers targeting various Asian communities in the Los Angeles area for foreign currency and precious metals investments -- supposedly being made on their behalf on the Hong Kong exchange. In one case, the Department issued a Cease and Desist order in April and filed a civil action for an injunction in the case of a Los Angeles company called Asia Mercantile, Inc. The company advertised in the "China Daily News" in December 1996 for executive positions at a new bank in Shanghai, China. Victims were told the company was looking for people without any experience in the banking business, so they could be trained from scratch. All 15 people attending the subsequent seminar were from China. After three days of training, the marketing manager said that every person expecting to get a job from the "bank" in Shanghai had to put in practice what they had learned about foreign currency exchange transactions by putting up money as a test to see if they were qualified. The investments were touted as "no-risk" money-making opportunities and ranged from \$15,000 to \$300,000. Investors lost over 90% of the money invested.

According to the **Kansas Office of the Securities Commissioner**, at least a dozen Wichita State University students from Bangladesh have been left without cash -- and possibly without a chance to finish their education -- by the alleged action of Asif Ameen. A former stockbroker with Primeline Securities Corp., Ameen, who is also from Bangladesh, is alleged to have absconded with the students' investments of between \$17,000 and \$175,000 apiece. Investigators are looking into allegations that at least 100 people from several states lost money, the total perhaps reaching into the millions of dollars.....

How to Avoid Affinity Group Fraud...

- Beware of the use of names or testimonials from other group members. Scam artists frequently pay out high returns to early investors using money from later arrivals. Accordingly, early investors may be wildly enthusiastic about a scheme that may collapse entirely once you've invested.
- Obtain a prospectus or other form of written information that details the risks in the investment and procedures to get your money out.
- Ask for professional advice from a neutral outside expert not in your group -- an accountant, attorney or financial planner -- to evaluate the investment.
- Ask your state or provincial securities agency for help. Before investing any money, call your local securities agency in order to learn more about the salesperson and firm. The simplest inquiry is to ask if they are registered to do business in your state. And is the investment allowed to be sold. If one or the other is not registered, that is a sure warning to inquire further. *Don't take the word of a salesperson! Check out the investment yourself.*

Another interesting aspect of the American system is that they have concentrated a whole web page on **how to spot and avoid con artists**. That would be something very unique in the Indian scenario. This can have applications much beyond the financial markets. An example of this is as shown below from the **NASAA web site** :

How To Spot A Con Artist

Investing in securities is risky enough without worrying about whether your salesperson is out to fleece you. To be an informed investor, you must know what danger signs to look for. Some are subtle, and some are easier to spot.

Rule Number 1: Con Artists Do Not Like To Be Found

Con artists know that being themselves hurts business. Effective con artists must disguise their true motives. Whether your first contact with the con artist is through an unsolicited telephone call or a stranger ringing your doorbell, the con artist takes great pains to look, sound and speak like you or me. Often, con artists like to blend in with others in your group whether that group be political, community (such as the local senior center), religious or other. They quickly get to know a lot of people in the group so they can count on this common bond to spread the word about their questionable investments and reel in unsuspecting investors.

Rule Number 2: Con Artists Dress For Success

Even though con artists would like you to believe that they are "just plain folk," they are smart enough to realize that this alone will not sway you to part with your money. They work very hard to come across as smooth, professional and successful. Con artists may dress like they are wealthy and work out of impressive looking offices. If your only contact is by mail, the office may bear a prestigious sounding address. Often, this is nothing more than a mail drop. Your best bet is to look behind the surface and do some serious investigating before you part with your money.

Rule Number 3: Con Artists Often Push Poorly Understood Financial Products

Today, a variety of institutions, from banks to brokerage firms to financial planners, offer a wide range of financial products. With such a confusing mix to choose from, it is no wonder that many people turn to financial advisers for guidance. Con artists know this and stand ready to assume full responsibility for your investment decisions. Don't let them! When it comes to your money, think things through for yourself after getting all the facts. Never give someone control over your purse strings just because you think you are too old, young or financially inexperienced. If you really need help, only deal with financial advisers, broker-dealers or financial institutions with a proven track record.

Con artists also appeal to the dreamer in you. Many people secretly believe that Horatio Alger's rags-to-riches story can become a reality for them -- if only they get the right break. To them, investing in untested technologies and cutting edge products before anyone else does is a sure-fire way to make money. International instruments such as letters of credit supposedly issued by foreign banks may spell stability for some people. Con artists sabotage your dreams. They promise you the investment chance of a lifetime without giving you any meaningful written information on the product or the pitfalls involved.

Rule Number 4: Con Artists Bring Out The Worst In You

Skilled con artists can bring out your worst traits, particularly greed, fear, and insecurity. Fear comes into play when the con artist warns you that complaining about a failed investment to the government may result in your spoiling it for others or "rocking the boat." Con artists try to make you feel inadequate if you don't believe them. In addition, con artists know how to make you believe that if you lack confidence in them, this is a personal slight to their abilities. If you find yourself making investment-related decisions based only on your emotions, watch out!

Rule Number 5: Con Artists Are Fair Weather Friends

Before you invest, con artists are very friendly. They take a personal interest in you out of the blue. They call back when they promised they would. Each time, they tell you even more good things about the investment. You may feel you're being pressured into investing. You are. Face it. Despite his or her kind words, the con artist will do anything in his or her power to make a sale. In fact, the contacts may become so repeated that you may wish that your first contact had been your last. Too often, however, once you have invested your money, contact with the con artist dwindles and then stops altogether. If you cannot get answers to your questions following your investment, this may signal danger.

Rule Number 6: For Every Silver Lining, There Is A Cloud

Every investment involves risk. But to hear the con artist explain it, the investment may be too good to be true. Trust your inner voice if you hear claims like these:

- "I just got a hot tip from an inside source that this stock will go through the roof."
- "The rumor on the Street is that this deal is ready to take off."
- "Your return is guaranteed. There's no way you can lose money."
- "Gotta get in on the ground floor now or you'll be left out in the cold. In fact, we'll send a messenger over tomorrow to pick up your check." (Con artists often use this device to avoid federal mail fraud charges.)
- "Where else can you earn such a large return? Not in CDs or in a savings account."
- "In just a short while, your profits will come rolling in."
- "This deal is so great, I invested in it myself."
- "If this doesn't perform as I just said, we'll refund your money no questions asked."
- "Everyone else that invested in this did very well."

Be especially careful if the salesperson downplays any downside or denies that risk exists. Con artists usually are not very good at answering important questions. Watch out if the salesperson becomes reluctant to provide information on the following:

- The background, educational history and work experience of the deal's promoters, principals or general partners
- Information on whether your investment monies will be segregated from other funds available to the business
- Written information on the business' financial condition, such as a balance sheet and bank references
- The prior track record of the business and its principals
- The salesperson's name, where he or she is calling from, who he or she works for, his or her background and what commission or other compensation he or she will receive

- The salesperson's connection with the venture and any affiliates

In addition, be wary if the salesperson doesn't ask you questions about your past investment experience and your ability to withstand risk. Even if the salesperson does ask a few related questions, take heed if you get the sense that he or she is merely going through the motions.

Rule Number 7: Watch Out For The Man From P.20.N.Z.I (Pay-Out now, Zero Imminent)

No self-respecting con artist would actually admit that he or she was involved in a Ponzi scheme. The Ponzi scheme was named after Charles Ponzi, an Italian immigrant who, after being jailed in Canada for fraud, moved to Boston in the early part of this century. Ponzi solicited people to invest in International Postal Reply Coupons which could be redeemed for stamps. He promised them a 40 percent return in just 90 days. Ultimately, the authorities discovered that there weren't enough coupons in circulation to support Ponzi's schemes. Ponzi was imprisoned in Massachusetts and then deported to Italy. The scheme he created, however, continues to survive in many forms.

In a typical Ponzi scheme, large returns are paid to initial investors out of the funds of later investors. Not only does this give the first investors confidence in the deal, but it motivates others to invest. Unfortunately, the later investors lose all or most of their money to the con artist. If you are promised high, guaranteed profits and given no written explanation concerning the investment vehicle, the promoter's background or the risks involved, be careful. A Ponzi scheme may be at work. Ponzi operators also tend to persuade you to "roll over" your "profits" into still another investment - so your return only ends up being on paper.

Rule Number 8: Steer Clear Of Pyramid Schemes

Pyramid schemes are a variation of the Ponzi scam. Think of a pyramid. Money is collected from people on the bottom to pay off other individuals farther up the pyramid. As more people invest, new pyramid levels are created, and your position in the pyramid rises. In theory, you would be entitled to more money. Many times, you must also buy a product to join.

However, unlike a true multi-level marketing plan, selling the product is less important than recruiting others to join the network. Ultimately, there comes a time when no new money flows in. When this happens, the pyramid collapses.

Tips On Not Falling Prey To A Con Artist

Avoiding being hurt by a con artist is as easy as doing your homework -- before you invest.

- Contact your state or provincial securities regulator to see if the investment vehicle and the person selling it are registered.
- Your state or provincial securities regulator will also be able to tell you if the salesperson has a disciplinary history, that is, whether any civil, criminal or administrative proceedings have been brought against him or her.
- Contact your local Better Business Bureau to see if any complaints have been filed against the venture's promoters or principals.
- Deal only with financial advisers, broker-dealers or financial institutions having a proven track record.
- Ask for written information on the investment product and the business. Such information, including financial data on the company and the risks involved in the investment, is contained in a prospectus. Read it carefully.
- Don't take everything you hear or read at face value. Ask questions if you don't

understand, and do some sleuthing for yourself. If you need help in evaluating the investment, go to someone independent whom you can trust such as an attorney or an accountant.

- Steer clear of investments touted with no downside or risk.
4. **The RRS Section:** An extremely important section would be the one for the Reputation Rating system for financial firms. The details of this system are given under the RRS section. The RRS starting page would actually explain about the RRS and how to use the system.
 5. **Arbitration section:** Also, the arbitration and dispute settlement section would have to be put in place. This section would have to include details of different types of dispute settlement and online forms for investors to apply online for dispute settlement. It should also have a counseling section where the investor can ask the Ombudsman office counselor (discussed in the dispute settlement section) for advice regarding his/her case.
 6. **Feedback section:** The most important aspect of this site will have to be the feedback section. Often, suggestions of others is downplayed simply because we have to take the trouble of listening to them. The mindset that should be adopted should be one of improvement by experience, of ours and those of others. There should be an online query/suggestion/statement form which has to be considered by the web site council. Again as I mentioned in the beginning we must want to improve, otherwise we cannot.

For the **first time investor**, we can have a section which will be a guided tour of the website. This facility would take the person through hyperlinks which would connect all the web pages in an orderly manner suited for the first time investor. For example, it would start with the why to invest section, then go on to the types of investment section, then according to the investment chosen by the person move on to the analysis of that particular instrument, then move to the broker rankings section to choose the correct broker and so on.

Promotion of the website: The investor education site **has to be promoted as the first stop for the investor** before he makes any decisions to invest in any kind of instrument. To maximise the hits we can add **an initial statement in any investment prospectus** that investors are suggested to visit the Investor Education Website before making any investment decisions.

Section 3

THE REPUTATION RATING SYSTEM (RRS)

Note : By financial firms and/or brokerages we would mean firms or individuals who collect money from investors and/or conduct financial transactions for the investors. **These bodies will be collectively referred to as 'Firms'** from now on.

Reputation rating is meant to serve as an effective deterrent for firms from committing fraud and to give the investor an effective tools to protect himself from such incidents irrespective of his own net worth.

The RRS serves the following purposes :

1. It serves as a **measurement of the ethical and moral standards** that firms follow while conducting their businesses. This will act as a **reassurance or warning** (as the case may be) for any prospective investor. It will be a tool for the investor to check out how safe his money is with a firm.
2. It gives a **transparent view of the firm and it's method of dealing with investor grievances**. Then the regulator can investigate a firm if necessary with the least hassle. In such a transparent system lying or cheating should become almost useless simply because everybody knows what's going on.
3. This system should serve as a **massive deterrent for firms to cheat or commit fraud**. This is because the system makes it easy to lose points (which will make them lose business) however gaining points will require a lot of hard work on the part of the firm and the time taken to gain points will also be made quite long.
4. It will **punish rogue and cheating** firms by disgracing them publicly and **reward the honest ones** by giving them the highest points which in turn should increase business for them.
5. It will also include an **investor complaint system**. This will automatically pass on the method of investor handling by the firm to the regulator and after a threshold level of non-compliance by a firm it'll trigger an investigation by the regulator. All this will **happen automatically** after the investor posts his complaint. Further, it will act as a forwarding system for the arbitration cell.
6. Finally and most importantly, this system will **give investors just the tool they require to be heard**. Firms will now have to understand that even the smallest investor will have the power to destroy their business if they do not treat them right. People who are afraid of going to courts because of the prohibitive costs and time taken will now have an alternative in directly affecting the lives of people who they feel have cheated them. It will remove the feeling of helplessness and the question of " What can I do. I'm just a small fish?" from small investors' minds.

The RRS will consist of an **investor complaint board on the web site** and **firm reputation points out of a maximum of 100**. This scheme will have be implemented on the proposed web site.

There shall be a firm page for every firm registered with the regulator. **The Firm page** will be a public document posted on the proposed web site which will give details of

- The firm's name,
- SEBI identification or registration number,
- The firm's main and mailing addresses
- The types of business in which the firm is currently engaged like
 - Broker or dealer retailing corporate equity securities over-the-counter
 - Broker or dealer selling corporate debt securities
 - Broker or dealer selling interests in mortgages or other receivables
 - Government securities broker
 - Government securities dealer
 - Municipal securities broker
 - Municipal securities dealer
 - Mutual fund retailer
 - Private placements of securities
 - Put and call broker or dealer or option writer
 - Solicitor of time deposits in a financial institution
 - Trading securities for own account
 - Underwriter or selling group participant (corporate securities other than mutual funds)
- Details of the firm's legal status (i.e. corporation, partnership, etc.)
- State or country and date of formation, and its fiscal year end
- All approved registrations with SEBI and other institutions
- Disclosure matters involving certain criminal charges and convictions, regulatory actions, civil judicial actions, and certain financial actions (e.g., bankruptcies, unsatisfied judgment/liens.)
- A message board having investor grievances (we will come to this later in detail.)
- A forwarding email address which will forward mails to the firm as well as the regulator. This is explained shortly

Based on the last and second last points a ranking system will be enacted which will give the public a good idea of the reliability of each firm.

The system will function as follows :

1. The investor complaint message board on the firm web site will have **three parts**. The first will be the **investor's complaint/query**, the second will be the **firm's reply** and the third will be the **regulator's views**.
2. The investor has to first approach the investor grievance cell of the firm first. The firm will be given **one week** to respond. To ensure this, the investor must send the first email to the forwarding address at the firm page which will automatically forward the message to the firm as well as regulator's mail address at the web site. Hence, the date of the complaint is recorded.
3. In case of silence on the part of the firm for seven days after receipt of a written complaint, the customer will have the **right to post a message** on the investor complaint message board. I would suggest that there be a receipt centre in each major city for the complaints. The investor must submit proper documents of transactions and other agreements and a signed undertaking

that he has contacted that firm and has not received any response for more than seven days. These documents **may be scanned and mailed or faxed for speeding up the process initially** but it can be made mandatory to produce them for authentication.

4. After the message is put up on the board of the firm's web page. Automated mails would be sent to the firm which should maintain two separate email addresses so that there is no data loss in case of server problems. Also each company has the **obligation to check its complaint board regularly**. Hence, '**No knowledge of the situation**' will not be accepted as an excuse.
5. The firm has to reply to this complaint **within three days** of its posting on the board. In case it fails to do so, **points will be deducted** from its reputation rating. Further, for each set of three days that the company delays its reply points **double** that of the previous deduction will be subtracted.
6. After a fixed number of days, say 15, **the regulator has to start an investigation** into this matter. Any investigation will also lose valuable points for the firm. But if any investigation points in favour of the firm, the points will be restored to it. Further, any judgements against the firm also loses points for it.
7. In case of reply from the firm within the first seven days **which amounts to procrastination or not a reasonable reply or solution**, the investor has the right to warn the firm of message posting with a notice of three days. However, if such a message is posted, it would be done under the **subject " First communication did not work out."** The regulator will decide the validity of the second claim.
8. Any case, which might lead to a deadlock, can be **automatically forwarded to the office of the ombudsman or the arbitration office** after consent is received from the investor. All the additional documents have to be submitted by the investor to the office of the ombudsman. Initially these can be scanned & mailed or faxed for quick start. The original documents will be automatically forwarded from the grievance cell to the arbitration department.
9. In any case, the **regulator must review each case so that frivolous/mischievous complaints do not get posted and must check for their validity by reviewing the submitted documents**. Further, a firm can produce proof that a particular person has a history of posting such messages (At least 5) then that **person will be barred from posting any more complaints** against that company.

Proposed point scheme :

1. According to the scheme each firm will start with a maximum of 100 points. Points will be deducted in instances as given below.
2. In case the firm fails to reply within the first three days that the message is posted for a 2 point deduction will be executed. Further delay of each period of three days will cost the firm double the points deducted in the last period.
3. In case an investigation is commenced against the firm a 10 point deduction will be effected. These points will be restored in case the investigation finds in favor of the firm.
4. Any civil or criminal judgements against the firm by a court of law will cost it 15 points.
5. After **each four months** the firm will be entitled to a number of points equal to **20 – 4Y points where Y is % value of the ratio of outstanding complaints and number of investors**. This will give an incentive for the firm to keep their outstanding complaint to number of clients ratio to less than 5%. No points will be awarded if this ratio is greater than 5%. The %age value is taken here rather than the absolute to take into account the size of the firm also.

Now, a question might arise that we could have used a percentage scheme to deduct points as well. However, this scheme is intended to empower all investors equally and if a percentage scheme is used investors in larger firms will find their powers diluted.

Significance of Points

In case the points of the firm are below a threshold limit (let us call it **Yellow Limit**) the regulator must conduct an investigation into the working of the firm and issue a stern warning .

In case the points of the firm are below the lowest threshold limit(let us called it the **Red Limit**) the firm will have to freeze all operations and repay its investors. It would be illegal for a firm to conduct business when it is under the red limit.

These points can be used to create a **ready list of rankings** of firms according to their investor sensitivity.

Apart from this the web site will have a **search engine** which can be used to search for firms region-wise with the highest and lowest reputation rankings.

COMPLAINTS AGAINST COMPANIES

There are always instances where complaints are directed against companies. These could be from brokers as well as investors. Hence, the web site will also have to contain a list of companies and the number of outstanding complaints against them. In the investor knowledge phase, the investor has to be directed to this page to ensure that he does not buy the proverbial lemon. Such a list is already maintained to an extent by BSE. This list has to be accompanied by a search engine also so that an investor can look at his company straightaway from the home page and where it stands in the outstanding complaints list.(i.e. its ranking and the number of investor rating points). The higher it ranks the riskier it is to invest in it.

A mechanism similar to the one proposed previously to lodge complaints and effect a change in the rankings can be used here as well. The mechanism will be as follows :

1. The investor complaint is checked and verified for authenticity, validity of reason and proof of adequate time given to the company to respond.
2. It is then posted on the **company investor complaint message board**.
3. The company is given two days to respond after which its points are decreased by 1. Further delays of periods of two days will lead to an exponential decrease by a factor of 2.
4. After 6 days the regulator will have to pull the company up and investigate.
5. After a fixed reduction in points (YELLOW LIMIT) or the investigation finding against the company the court system has the to order immediate payment to the investors and a major fine payable to the investor protection fund maintained by our system regulator.
6. In cases of further procrastination or inability to fulfil its obligations, a company can be threatened to be delisted from the exchanges and can be made to repay investors through any means necessary INCLUDING LIQUIDATION OR AUCTION OF ASSETS. This limit can be called the RED LIMIT.

Further, the reputation points can be mentioned on the investment prospectus as well as its website with an idea of its standing as compared to other companies.

However, to implement such drastic measures, SEBI and the exchanges must be given enough powers to be able to enforce these methods. SIMPLY IMPLEMENTING RRS WITHOUT THE POWER TO GIVE PRACTICAL MEANING TO THE POINT SCHEME WILL ONLY DECREASE THE SCHEME'S OWN REPUTATION AND RENDER IT WORTHLESS. There must be commitment on the side of the policy makers to make the maximum out of the power that technology can offer.

Listed companies must be brought under the jurisdiction of the regulator and the exchanges as far as investment and listing deals are concerned. There must be definite laws to do this. **One way to do this would be to make such an arrangement a part of the listing agreement.**

Resources needed for RRS implementation

The strength of RRS lies in its user friendliness and its minimal resource usage. Any web site creation is a cheap affair nowadays. The important fact to note is that there is no need to employ more people to implement such a system. But the people handling this system must be technologically capable. Further, the intervention of the regulator or the exchange in this case will be minimised until absolutely necessary. This is because during the initial stages of grievance handling only authentication of preliminary documentation is necessary. This can be achieved by using scanned or faxed documents for preliminary check and the message is allowed to be posted while full authentication can be done at the regional centers after a day or two by the investor. The investor can be given a time frame in which to complete formal authentication without which his message will be removed from the board.

Reputation conscious firms will not let cases get too far but even if that happens, forwarding to arbitration can automatically be done from the grievance cell (RRS section). Again there is a decrease in administrative costs this way.

Section 4

Dispute Resolution

NSE was kind enough to let me observe a few arbitration proceedings at their office in New Delhi. From what I had observed of the current system of Arbitration at NSE, Delhi, it was clear to me that the entire process of arbitration was pretty efficient in itself. Equal treatment was given to the respondents and the claimants and the entire process was conducted with professionalism and dignity. In fact, I am confident that any reason for justice to be delayed would have nothing to do with the system. However, to improve efficiency in case the RRS is implemented and decrease the time taken to solve cases with small claim amounts I would suggest that the **documentation submitted to the grievance cell (or the RRS system) be directly forwarded to the arbitration cell.**

Other data (Especially investor grievances collected from the indiainfoline.com investor grievance board.) has led me to the conclusion that people with typically small claim (and investment) amounts (Rs.5,000 to 25,000) had not even the faintest idea of how to approach the investor grievance cell of the exchange or how to go in for arbitration. A number of these complaints have been with **mutual funds and share transfer agents.** Although the RRS that has been suggested previously hopes to avoid such incidences, we must analyse a last line of defense for the individual and small investor. I believe that these investors generally do not opt for arbitration because of the current outlook that the process is cost intensive and time consuming. The problem is that the time spent sometimes may not be justified by the amount of money that can be recovered. This problem has also been addressed to some extent by the NSE rule that no hearing is required if the claim amount is less than Rs.25,000.

What is suggested here is a different type of arbitration that is tailor made for small and individual investor. What is particularly useful here is a study of the British system of arbitration which, although spread out into quite some departments, lends a good structure to start with. A point to be noted here is that even the British authorities intend to take steps to reduce the number of departments that their system is spread into.

Ombudsman System

The ombudsman's role is to be impartial and to investigate a dispute between a client (the investor) and a firm. He or she will try to help both of them to reach agreement – a process of conciliation.

If conciliation fails, the ombudsman usually will have the power to make a decision which, in most cases, the firm must accept. Usually, the investor can choose whether or not to accept the decision. If he does not accept the decision, he can take his case to court if he wants to.

An ombudsman can choose the way he/she carries out his/her investigation and reaches his/her decision. For example, he/she might:

- ◆ look only at paperwork from the investor, the firm and other sources;
- ◆ take into account codes of conduct and normal standards of good practice in the financial services industry;

- ◆ take any special circumstances of the particular case into account;
- ◆ consider the purely legal position;
or
- ◆ (in exceptional cases) ask the investor and someone from the firm to come in person and tell him or her about the case.

Generally, an ombudsman can consider all aspects of the case and reach a decision based on what seems reasonable and fair, not just on the strictly legal position.

Here is an example from the British system to illustrate the functioning of an Ombudsman

- A boy was aged just 16 and still being looked after financially by his parents when he was sold a life insurance policy that required him to make regular monthly payments.
- The policy would build up a cash-in value, but only after many years. Its main purpose was to provide a lump sum of £28,000 to be paid out to his dependants if he died.
- **What happened?** The boy's parents were concerned about the policy their son had been sold. They contacted the firm but were unhappy with the treatment they received. The boy and his parents took their case to the ombudsman. The ombudsman ruled that the policy was inappropriate for the boy's circumstances and he received his money back with interest.
- **Why?** This 16 year-old had neither dependants nor any other need for life insurance.

Hence, the Ombudsman scheme provides a **quick, economical and easy way** of wrapping up small and non complicated disputes. The bottomline here is that if it's a small problem it most probably has a simple solution. If instead, an investor had decided to go to a civil court or even for arbitration, it would have cost him much more time and money than the he would have bargained for.

Advantages of Ombudsman system :

1. **Less time is required to solve disputes.** This is because time required to select arbitrators is eliminated. Also, some time is also spent in making the arbitrator aware of important exchange or investment procedures and other market mechanisms. Appointing an ombudsman who is familiar with market procedures can save this time.
2. **Possibility of fixing and corruption can be checked.** Since the office of Ombudsman is a full time post under the regulator it can come under the purview of the Internal Affairs division.
3. Also the same **ombudsman's office can be used for solving disputes in other investment instruments** where small investors are expected to put their money like insurance, NBFCs, pension funds etc. This way the number of dispute settlement departments that need to be instituted for such different instruments will be reduced, thereby increasing efficiency. However, in this case the purview of the Internal Affairs Division will also have to be increased.

What this kind of an arrangement must do is encourage people to come forward with their problems. It must be made clear to the public that small claims will also be dealt in manner that the whole process will be worth it. Apart from getting them justice it will discourage firms from inappropriate and unethical conduct. The Ombudsman's office should **employ a counselor** to help investors with their cases and advise them as to how to solve their problems. Such comforting

assistance will definitely help investors feel more confident and come forward with their cases. Further, it will improve the outlook of the public about the arbitration and investor protection system.

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