

WORKING PAPER PRESENTATION

Re-evaluating the Information Disclosure Mechanism in the Sale of Bank-issued Wealth Management Products in China

Speaker: Dr Zhou Qin (Alex), Post-Doctoral Fellow, CBFL, NUS Law

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ABSTRACT

Information disclosure is perceived as a cure for information asymmetry. Mandatory information disclosure is expected to reduce information asymmetry and protect consumers from misrepresentation or misunderstanding. Empirical studies, however, show that a majority of consumers do not read the standard form contracts prepared by financial institutions. The 'no-reading problem' has been proven to be the main reason for the failure of mandatory information disclosure. This article provides empirical evidence for understanding retail investor behaviour when they agree to standard form contracts for bank-issued wealth management products. Drawing on a survey of 479 respondents, this article finds that the percentage (more than one-fifth) of respondents who read their contracts carefully is higher than the rate reported by previous studies. One possible reason is that risk-averse Chinese retail investors now have easier access to the relevant contracts. The survey results reinforce the arguments that an important reason for the 'no-reading problem' is because standard form contracts are generally not designed in a reader-friendly manner. However, the results also indicate that even where retail investors read their contracts, they hold optimistically mistaken beliefs about important terms. Based on the survey findings, this article concludes that the current information disclosure regime needs improvement and suggests some ways to better reduce information asymmetry.

ABOUT THE SPEAKER



Zhou Qin (Alex) holds a JSD from the City University of Hong Kong and an LL.M. from the Northwestern University, USA. Prior to joining CBFL as a post-doctoral fellow, he served as a senior research associate at the City University of Hong Kong and participated in several General Research Fund projects. Alex is skilled at analyzing research questions with qualitative and quantitative methods. His JSD thesis empirically examined the diverse contracting practices between commercial banks and retail investors in mainland China. He has presented papers at conferences such as the Law & Society Annual Meeting and the Asian Law Institute Conference.

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