



IFC Workshop on Financial Inclusion Indicators
Co-hosted by Bank Negara Malaysia
5 – 6 Nov 2012, Sasana Kijang, Kuala Lumpur

Measuring financial literacy: the Malaysian case¹

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¹ This presentation was prepared for the workshop. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the workshop.

Measuring Financial Literacy

[The Malaysian Case]

Session 5
Workshop on Financial Inclusion Indicators
5 - 6 November 2012

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Outline

- Participation in OECD/INFE pilot survey 2010/11 on measuring financial literacy provided a demand side measurement
- Survey identified consumer vulnerabilities for financial inclusion and education intervention
- Evidence-based initiatives to enhance financial literacy level and to promote financial inclusion

OECD/INFE pilot survey provided a demand side measurement

- Survey covered financial knowledge & skills, behaviour and attitudes relating to various aspects of financial literacy
- Survey aimed to obtain robust, internationally comparable data to measure the levels of financial literacy in each participating country
- Observations from the survey facilitated implementation of evidence-based financial inclusion and education initiatives
- Participation in the survey provides opportunity to conduct repeat studies to measure and identify change over time

KNOWLEDGE & SKILLS

Knowledge of financial concepts
– Inflation & investment risk
Financial numeracy
– Division & time
– Return
– Simple & compound interest

BEHAVIOUR

Basic Money Management

Decision maker
Household budget incidence
Decision making - P2Y new ownership
Sources of information - P2Y new ownership

Savings Behaviour

Past 12 months savings method
Savings sustaining power in the event of income loss
Financial deficit – incidence / response

Financial Participation

Financial products awareness
Current holdings
Past 2 years purchase

ATTITUDE

Attitude towards money
Financial responsibility

The survey findings were published in March 2012 & can be found at http://www.oecd-ilibrary.org/finance-and-investment/measuring-financial-literacy_5k9csfs90fr4-en

Survey guided by parameters & sampling methodology set by OECD

Based on OECD's Core Questions

- ✓ Translation to retain same meaning

Obtained **samples representative** of Malaysian population

- ✓ a minimum of 1,000 samples
- ✓ individuals aged 18 and above
- ✓ personal interviews/telephone and/or face-to-face. No internet or online surveys
- ✓ minimum 60% success rate

Allowed **internal requests** to collect

- ✓ extra samples on low income households to gauge level of literacy among low income households
- ✓ supplementary questions on household consumption pattern
- ✓ data on awareness of consumer education initiatives

Guiding principles

- ✓ Clear survey objective, not be distracted with other objectives
- ✓ Whole process < 30 minutes for good attention span of respondents
- ✓ Supplementary questions must not overshadow or distract attention from core questions
 - should consume < 30% of interview process
 - must be related to main issues being surveyed
 - weaved in within core questions to minimise possible disruption
 - Must exhaust other possible sources of information before inclusion in survey (e.g. census, other survey or studies)

Our experience in preparing and implementing the survey

Pilot Interviews

- Questionnaire in 3 languages - Bahasa Malaysia, English & Mandarin
- Focus groups - assess applicability of questionnaire in local context
- Pilot interviews - assess translation, comprehension, clarity and questionnaires duration in all 3 languages

Data collection

- Fieldwork conducted nationwide within six-week period - house to house random visits, interview individuals within each household based on last birthday
- Difficulties and/or reluctance of respondents to elaborate necessitate prompting, eg. 'QM3 - What did you do to make ends meet?' - respondents relieved when able to choose an answer
- Conventional banking and insurance have different underlying principles to Islamic banking and Takaful
 - adjustments to reflect the co-existence between conventional and Islamic banking systems without compromising original intention
 - Interviewers need to clarify the differences

Quality control

- Call back, visit by our staff, further verification for peculiarities, data test run
- Compare with other readily available data shows similar trend (eg deposit accounts, insurance ownership)

Majority of respondents have some basic knowledge of key financial concepts

	Division	Time-value of money	Interest paid on loan	Calculation of interest plus principle	Compound interest and correct answer to previous question	Risk and return	Definition of inflation	Diversification
Albania	89%	61%		40%	10%	77%	81%	63%
Armenia	86%	83%	87%	53%	18%	67%	57%	59%
Czech Republic	93%	80%	88%	60%	32%	81%	70%	54%
Estonia	93%	86%	84%	64%	31%	72%	85%	57%
Germany	84%	61%	88%	64%	47%	79%	87%	60%
Hungary	96%	78%	95%	61%	46%	86%	91%	61%
Ireland	93%	58%	88%	76%	29%	84%	88%	47%
Malaysia	93%	62%	93%	54%	30%	82%	74%	43%
Norway*	61%	87%	61%	75%	54%	18%	68%	51%
Peru	90%	63%		40%	14%	69%	86%	51%
Poland	91%	77%	85%	60%	27%	48%	80%	55%
South Africa	79%	49%	65%	44%	21%	73%	78%	48%
UK	76%	61%	90%	61%	37%	77%	94%	55%
BVI**	84%	74%	60%	63%	20%	83%	87%	41%

Source: Atkinson, A & F.Messy (2012), "Measuring Financial Literacy: Results of the OECD/International Network on Financial Education (INFE) Pilot Study", *OECD Working Papers on Finance, Insurance and Private Pensions*, No.15, OECD Publishing

Large proportion of respondents are active savers and carefully consider their purchases

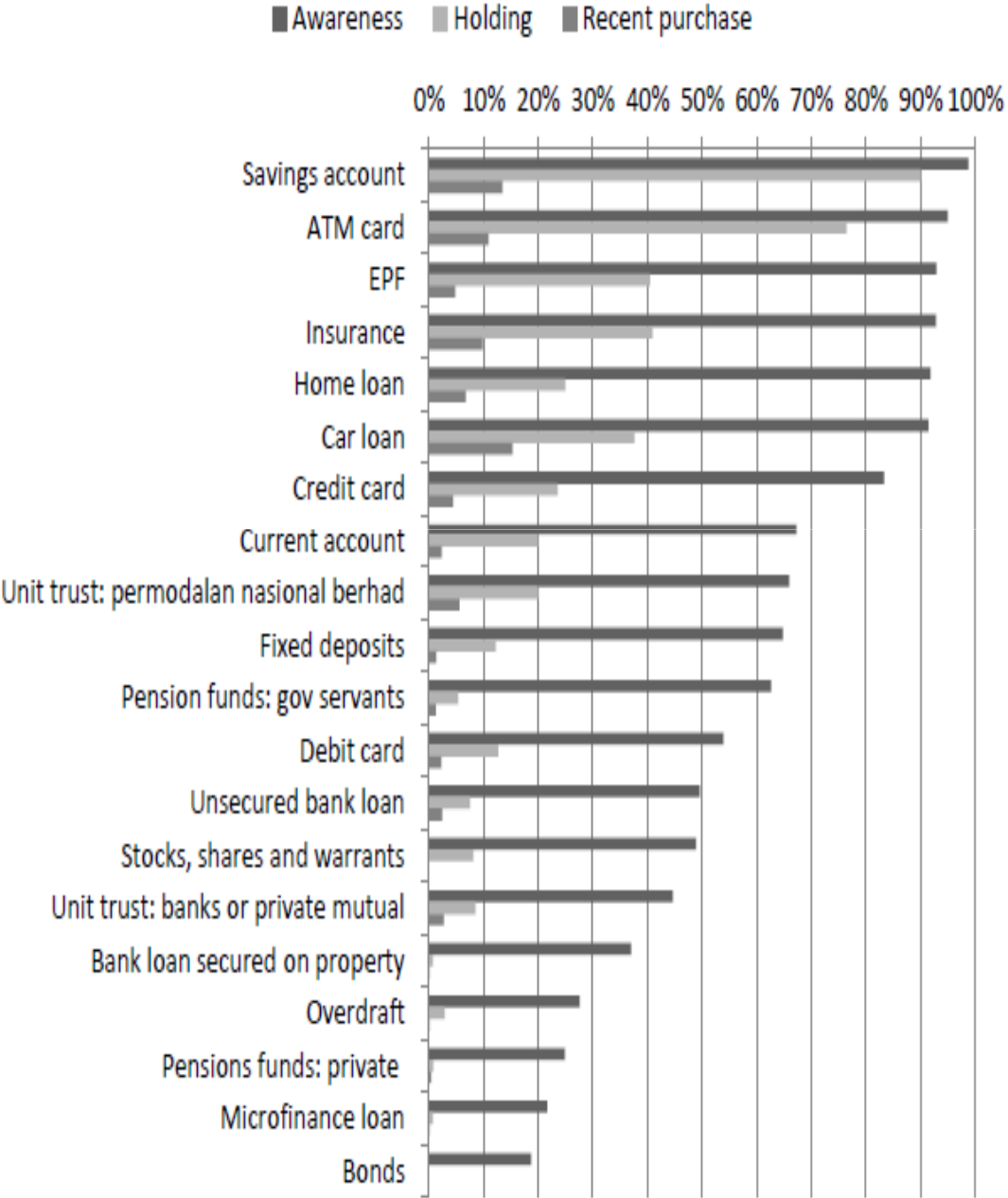
	Behaviour statements				Responsible and has a household budget	Has been actively saving or buying investments in the past year	Financial product choice		
	Carefully considers purchases	Pays bills on time	Keeps close watch on personal financial affairs	Sets long term goals and strives to achieve them			...after gathering some info	... after shopping around and using independent info or advice	Has not borrowed to make ends meet
Albania	87%	77%	71%	30%	59%	42%	49%	2%	69%
Armenia	91%	94%	81%	58%	51%	36%	42%		53%
Czech Republic	75%	85%	76%	36%	37%	72%	28%	10%	89%
Estonia	68%	83%	78%	41%	28%	36%	24%	8%	78%
Germany	82%	96%	87%	61%	22%	86%	52%	5%	96%
Hungary	86%	82%	71%	52%	31%	27%	48%	4%	86%
Ireland	83%	85%	85%	56%	54%	53%	39%	10%	86%
Malaysia	92%	69%	78%	64%	74%	97%	39%	3%	79%
Norway	72%	79%	89%	59%	25%	71%	57%	5%	93%
Peru	91%	86%	82%	71%	49%	62%	52%	4%	73%
Poland	70%	78%	81%	46%	54%	51%	32%	2%	79%
South Africa	83%	61%	65%	55%	43%	53%	56%	3%	74%
United Kingdom	77%	89%	80%	43%	43%	68%	29%	16%	91%
BVI	87%	83%	80%	68%	43%	83%	70%	2%	87%

About half of the respondents displayed positive attitude in planning for the future

	Disagrees with the following attitude statements:		
	I find it more satisfying to spend than save it for the long term	I tend to live for today and let tomorrow take care of itself	Money is there to be spent
Albania	61%	66%	45%
Armenia	8%	60%	2%
Czech Republic	45%	69%	29%
Estonia	39%	49%	24%
Germany	49%	65%	26%
Hungary	56%	68%	33%
Ireland	38%	54%	30%
Malaysia	47%	57%	26%
Norway	57%		
Peru	64%	72%	45%
Poland	19%	45%	12%
South Africa	48%	60%	39%
United Kingdom	35%	50%	29%
BVI	60%	66%	31%

Source: Atkinson, A & F.Messy (2012), "Measuring Financial Literacy: Results of the OECD/International Network on Financial Education (INFE) Pilot Study", *OECD Working Papers on Finance, Insurance and Private Pensions*, No.15, OECD Publishing

With high awareness on existence of products, holding of products can be promoted further



- High basic awareness of existence of products
- 90% of respondents have savings accounts and 75% have ATM cards to access banking services
- Financial education on product features, benefits and costs can increase holding of new financial products or benefit from products currently held

Survey identified some consumer vulnerabilities for financial inclusion and education intervention

Low literacy in specific components

Knowledge

- Compounding interest
- Concept on diversification of risks

Behaviour

- Insufficient information gathering before acquiring financial products
- Lack of comparative shopping

Attitude

- Lack of cashflow and financial planning

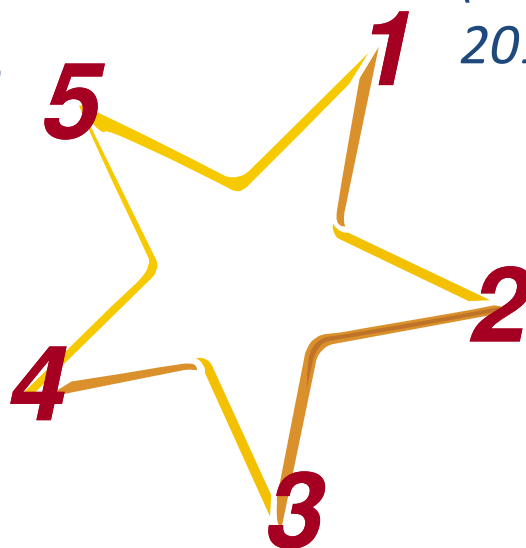
Other observations

- Financial literacy runs parallel to education level
- Lower literacy for respondents with low household income
- Higher literacy for respondents in Central region
- High awareness on existence of products, with potential to increase product holding

Examples of evidence-based initiatives to enhance financial literacy & to promote financial inclusion

*Strengthen enabling infrastructure for **easy access to FE information**, eg. single interface platform/portal & mobile application*

*Enhance **outreach to low literacy regions – BNM MobileLINK & consumer engagement at semi-urban & non-urban areas***



*Start financial education (FE) at **an early age** - integrate FE elements into school curriculum (to be implemented beginning 2014)*

*Empower young adults & first time borrowers to manage finances & deal with financial service providers with confidence – **POWER!** programme*

Vulnerable groups as targets for financial capability programme – financial literacy programme for low income households

Financial education at an early age is key...

Objective: Inculcate money management habits among students at a young age

FE in curriculum

- Collaborate with MOE to integrate financial education into school curriculum (work in progress)
- Integrate FE elements in selected key subjects:
 - i. Money, Source of Income and Career Choice
 - ii. Financial Responsibility and Decision Making
 - iii. Money Management and Planning
 - iv. Savings and Investments
 - v. Credit and Debt Management
 - vi. Risk Management, Wealth Protection and Insurance

FE in co-curriculum

- School Adoption Programme (since 1997) – Adoptive banks conduct activities related to banking, insurance and basic financial knowledge in 10,000 adopted schools
- School Financial Club (since 1999)
- Making available FE materials, tools & information
 - Pocket Money Booklet – since 1999
 - Interactive website *duitsaku.com* – since 2004
 - Workshop for teachers – equip teachers with knowledge & skills in money management

Tailored programmes for identified target groups

POWER! Programme

Manage your finances with confidence

POWER!

pengurusan wang ringgit anda

POWER to be Different

POWER!
POWER! Pengurusan Wang Ringgit Anda is a practical financial education programme managed by Agensi Kaunseling dan Pengurusan Kredit (AKPK).

POWER! is designed to equip you with essential financial knowledge, providing you the confidence and ability to make responsible financial decisions.

Get powered now!




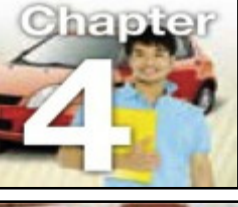



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1800 88 2575
www.akpk.org.my

THIS PROGRAMME IS DESIGNED FOR
PG-18 AGE 18 & ABOVE

AKPK
Agensi Kaunseling dan Pengurusan Kredit
Credit Counseling and Debt Management Agency

- A targeted education programme conducted by AKPK for young individuals and first-time borrowers aged between 18 - 30 years
- Provide skills and knowledge to effectively manage finances
- Provides useful information, tips and a financial toolkit to encourage prudent money management and financial discipline
- Highlights consequences of financial decisions in real life situations, focusing on common financial products such as credit cards, hire purchase and housing loans

POWER! Programme focuses on key financial disciplines

 Chapter 1	Module	Key Contents
 Chapter 2	Cash flow management	<ul style="list-style-type: none">• Smart living: identify needs and wants• Develop personal budget and cash flow/ net worth statement• Knowing financial position and net worth
 Chapter 3	Borrowing Basics	<ul style="list-style-type: none">• Common sources of personal credit & key features of credit facilities• Key lending criteria• Cost of borrowing & setting own debt limit• Rights & responsibilities of a borrower
 Chapter 4	Using A Credit Card	<ul style="list-style-type: none">• Different types of cards i.e. debit card, credit card & charge card• Understanding terms & conditions of credit cards• Using credit cards wisely• Responsibility to protect credit cards
 Chapter 5	Buying A Car	<ul style="list-style-type: none">• Factors to consider when buying a car - affordability, maintenance expenses• Terms & conditions of hire purchase agreement - term charges, early settlement & repossession
 Chapter 6	Buying A House	<ul style="list-style-type: none">• Buying a house -- affordability, types of house ownership, location, etc• Understanding terms & conditions of housing loans/house financing• Understanding rights & responsibilities of a borrower• Consequences of default
 Chapter 6	The Importance of Managing Your Debts	<ul style="list-style-type: none">• Contributions to over- indebtedness & consequences• Importance of building & maintaining good credit history• Advisory & redress services available to assist in better debt management

Reaching out to vulnerable groups of consumers



Financial Capability Programme – 1AZAM

- A targeted financial capability programme conducted by Credit Counselling And Debt Management Agency (AKPK) in collaboration with relevant ministries
- Target poor households (with household income below RM1,000)
- Focuses on knowledge and skills to
 - effectively manage household budget; and
 - cultivate savings habits
- The programme is expected to benefit approximately 120,000 low income households by year 2015

MobileLINK



- Introduced in December 2011 to provide and innovative channel for consumers in semi-urban and non-urban areas to interface with BNM
- Serves consumers through the deployment of a custom-made coach equipped with facilities and technologies
- Provides an avenue for BNM to engage directly with consumers and gather feedback



Financial Awareness Week 2011 was implemented in Kedah

Reaching out to the vulnerable groups at Northern region of Peninsular Malaysia

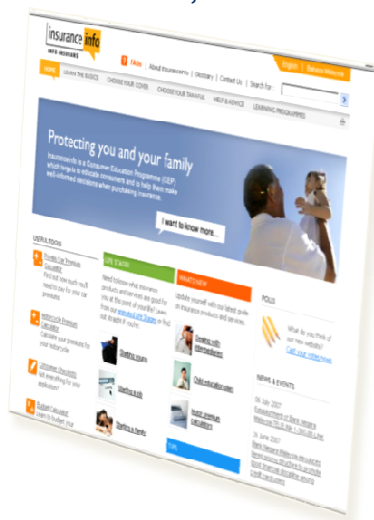
Enabling infrastructure to support financial education initiatives are being strengthened for more effective implementation

- Elevate the usefulness of consumer education websites through creation of a single interface platform for easy access and with more interactive features for meaningful interaction on issues relevant to financial consumers
- Financial customer centric **mobile applications are being developed** for real time access to key information and alerts both on iOS and android platforms (including leveraging on push technology)

bankinginfo - 26 booklets published. Also provides budget calculator, financial calculator, comparative tables, etc.



insuranceinfo - 25 booklets published. Also provides car premium calculator, consumer checklists, etc.



Islamicfinanceinfo - info on Islamic banking and takaful products and services, concepts, principles and tools to manage finances



Thank you