

Zeti Akhtar Aziz: Challenges of financial education in Malaysia

Opening remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Launch of the Insurance Consumer Education Programme, Kuala-Lumpur, 29 August 2003.

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Saya berasa amat berbesar hati mengalu-alukan kehadiran tuan-tuan dan puan-puan ke majlis pelancaran Program Pendidikan Pengguna bagi industri insurans dan takaful pada pagi ini. Pelancaran program ini merupakan satu lagi perkembangan penting dalam pembangunan industri insurans dan takaful.

Ladies and Gentlemen,

The economic and financial landscape in Malaysia has undergone significant transformation. In the process, the economy has become more diversified with new sources of growth. In tandem with these changes, we have seen the modernisation of the financial sector that has also become increasingly more diversified to meet the new requirements of the economy. There has also emerged new distribution channels and channel convergence within the financial sector. The financial sector has also increasingly leveraged on advances in technology which has significantly changed the way financial business is being conducted. As market advances continue to expand the range of financial products and services, consumers are being faced with increasingly complex choices and options in the management of their personal finances and exposure to risk. In this more complex financial landscape, it becomes important for consumers to have improved access to information. Financial education for Malaysian consumers is central to this process. It is therefore a matter that is accorded high priority by the Central Bank.

It therefore gives me great pleasure today to launch the Consumer Education Programme for the insurance and takaful industries. This represents an important step in the ongoing evolution of the development of our financial system. Indeed, this also represents a part of the overall efforts to promote market integrity and consumer protection over the whole spectrum of banking, insurance and takaful activities in the market. For consumers to fully realise the benefits of increased opportunities available in this continuously changing financial environment, consumers need to be in a position to actively manage their financial assets while at the same time safeguard their financial future.

The public response to the launch of the Consumer Education Programme for the banking sector early this year has been most encouraging. To date, more than two million visitors have accessed the Bank Negara Malaysia's "Banking Info" website and more than 360,000 booklets have found their way into the hands of consumers. The launch of the Consumer Education Programme for the insurance and takaful industries today will be part of this on-going effort to enhance the ability of consumers to understand and draw meaningful comparisons of alternative financial products and make better-informed decisions in financial planning.

In formulating a consumer education strategy, the distinct features of the insurance industry have been taken into consideration to meet the information needs of insurance consumers. Insurance contracts are essentially formed on the basis of disclosures made by prospective policyholders about the risks to be insured. Such disclosures determine if an insurer will assume the risk and the price at which it is assumed. The ability to enforce a claim against an insurer will depend on the accuracy and completeness of the disclosures. This underwriting and claims assessment process distinguishes insurance from other financial products. There is also a wider range of intermediaries in the insurance industry compared with other financial service industries. The entire spectrum includes the insurance agents, insurance brokers and advisers in the distribution process, and the loss adjusters, managed care organizations, lawyers and auto repair workshops in the claims process.

The unique features of insurance have significant implications on disclosures and liabilities which directly affect the insuring public. The implications become even more significant as competitive pressures give rise to the rapid introduction of new products that require a better understanding of what they entail on the part of the average consumer. The specific objectives of the Consumer Education Programme for the insurance and takaful sector are therefore:

- to promote public understanding of critical information when buying insurance and takaful products and services;

- to familiarise the public with the underwriting and claims processes; and
- to create awareness of ethical market practices such that consumers can be more assertive and discerning in making decisions.

The Consumer Education Programme seeks to provide relevant information to consumers about insurance products, their costs and benefits, processes and documentation involved in the insurance cycle, and more importantly, the rights and responsibilities of the various parties to an insurance contract. It is also to promote greater awareness among consumers about the means and avenues for redress in the event of dispute or dissatisfaction with any insurance product or service.

This Consumer Education Programme for the insurance sector will extend over a 10-year horizon and will be undertaken on several levels under a step-by-step approach to reach out to the various target groups. Similar to the Consumer Education Programme for banking, the insurance education programme has been given the acronym: “InsurancelInfo” (or “InfoInsurans” in Bahasa Malaysia). Over time, it is envisaged that the acronym and the programme will become readily recognizable in the public domain.

In its first year, the Consumer Education Programme will focus on the wide dissemination of information in 12 priority areas that have been identified. These include issues on the fundamentals of insurance and takaful products and services, highlighting the important terms and conditions, rights and obligations under a policy contract as well as the redress avenues available, and the common insurance and takaful products. With participation from the insurance associations, Bank Negara Malaysia has produced 12 booklets that set out the important information for consumers in these areas. These booklets can be obtained from the principal offices and branches of insurance companies and takaful operators, as well as from selected branches of banks that have bancassurance arrangements with insurers.

Ladies and Gentlemen,

In addressing the challenges of financial education, collaborative partnerships are important. No single organisation can be expected to meet all the demands for consumer education. While Bank Negara will continue to actively engage the insurance industry in the development, production and dissemination of educational materials and initiatives, the process needs to be driven by the industry.

Insurance intermediaries provide the direct link to the insuring public and therefore is an essential part of the efforts to increase familiarity on insurance by the community. With approximately 147,000 agents currently in the market, the agency force can contribute significantly towards raising the level of financial literacy among Malaysians through InsurancelInfo. Similarly, the various consumer associations, through their direct contact with consumers, have an important role to play in promoting an active consumer movement by providing useful guidance to consumers in dealing with issues relating to insurance and takaful matters. Their wide network, close proximity, and good relationship with consumers can contribute towards the successful implementation of the Consumer Education Programme.

Just as the rapid deployment of new information technology has expanded the scope of financial services, so too, has it increased our options for meeting the challenges of financial education. In this regard, the InsurancelInfo website represents an important delivery channel which has significant potential to be used extensively to bring relevant and timely information to the public. All the pamphlets and booklets can be downloaded from the website. Over time, the website will be continually enhanced to provide for a more interactive and user-friendly interface with consumers that will also enable consumers to provide feedback on the programme and obtain prompt answers to their questions.

Ladies and Gentlemen,

The Consumer Education Programme represents one of several important elements in the overall strategy of enhancing the consumer protection infrastructure. To achieve the desired outcome of high standards of market conduct that are founded on principles of integrity, sound ethics and professionalism, Bank Negara Malaysia has adopted a combination of regulatory policy instruments. These include policy development, regulatory initiatives, compliance reviews and ongoing surveillance. Recent initiatives that have been implemented in the area of strengthening market conduct within the insurance sector include:

- The framework for the introduction of qualified independent advisers is currently being finalized. Such independent advisors will form a new distribution channel for the sale of life insurance products. These intermediaries will be licensed under the Insurance Act and will be held to the highest standards of prudential conduct, accountability and governance to safeguard the interests of consumers.
- The entry requirements for agents have now been raised under a graduated implementation programme that commenced in April 2003. Under the programme, examinations have been made mandatory to maintain continuing education standards of agents.
- Guidelines dealing with unfair practices in insurance business have been introduced in April 2003 to provide a more comprehensive framework for the regulation of insurance market practices. Among other things, the Guidelines provide for enhanced disclosures to consumers, requirements for insurance to be sold on equitable terms and conditions, and specific restrictions against misrepresentation and unfair discrimination.
- The Guidelines on Claims Settlement Practices introduced in 1995 have now been revised to incorporate new measures and improved market practices in claims handling, as well as the specification of minimum fraud control and risk management practices relevant to the claims process.
- A minimum standard on product disclosure and transparency in the sale of medical and health insurance policies was issued in May 2003. The standard requires insurers and their intermediaries to provide sufficient details of the essential features of medical and health policies so that policyholders will understand the important provisions of the policies, in particular, with respect to premiums, benefits, exclusions and limitations under the policies.
- A survey has also been commissioned to determine the level of consumer satisfaction with financial services, including insurance. The results of the survey will provide important input for the development of a service quality index for financial services that will serve as a benchmark for financial institutions to evaluate their service levels and identify areas for improvement.

In our efforts to promote a larger role for consumer activism, attention has also been directed at enhancing dispute resolution mechanisms for consumers to seek redress. Within the insurance sector, the Insurance Mediation Bureau established in 1992 constitutes the main avenue outside the court system for resolving disputes between policyholders and their insurers. To further enhance the role of the Insurance Mediation Bureau as a dispute resolution mechanism, an expanded scope for the Bureau involving higher limits for claims falling within its purview and the inclusion of third party claims is being considered. This will provide greater access to the Bureau for a wider spectrum of the insuring public. At the same time, efforts are also underway to merge the mediation bureaus of both the banking and insurance sectors into a single new Financial Mediation Bureau that will serve as a one-stop centre for the resolution of a broad range of retail consumer issues raised against the financial institutions that are regulated by the Central Bank.

With effect from 1 June this year, we have also made it a requirement for all insurers and takaful operators to establish dedicated complaints units in their respective organizations. The experience has been that most complaints can be resolved in-house by the service providers themselves, in particular those complaints that involve delays in claims settlements due to institutional procedures, which generally comprise the bulk of public complaints. The establishment of the complaints unit by insurers and takaful operators is expected to promote a more pro-active approach in the management of complaints. Such consumer complaints also provide valuable information regarding any shortcoming in the products and services. Responding to consumer complaints also promotes customer goodwill. Certainly, as consumer awareness and financial literacy increases with the implementation of this Consumer Education Programme, it is essential for financial service providers to recognise the opportunity to build customer loyalty and increase customer retention through this mechanism.

Ladies and Gentlemen,

The advent of new technology and other market innovations will bring new challenges and possibilities for businesses and consumers. We can expect that this pace of change in the financial services industry will continue to increase. In striving to adjust to these changes, we should not underestimate the significant improvements in financial and business practices that can be achieved by empowering consumers through education.

As we continue on this drive to raise the standards of individual economic and financial well-being through consumer education, the broad involvement of all parties involved in every stage of the programme's implementation is vital to encourage expanded linkages between business and consumer education on an ongoing basis. Our success in this important endeavour will have a significant bearing on how well prepared our society is to meet the challenges of an increasingly dynamic and complex financial environment.

Dengan itu, saya ingin mengambil kesempatan ini untuk mengucapkan terima kasih kepada semua pihak yang terlibat di atas kerjasama dan sumbangan serta komitmen yang diberikan bagi menjayakan Program Pendidikan Pengguna ini. Usaha-usaha sedemikian diharap akan dapat memperbaiki dan meningkatkan lagi prestasi dan keupayaan industri insurans dan takaful dalam memberikan pengguna produk dan servis bertaraf antarabangsa.