

Zeti Akhtar Aziz: The importance of financial literacy among women in Asia

Special address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Citigroup-INSEAD Women's Financial Education Summit 2004, Hong Kong, 2 November 2004.

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Introduction

Asia represents the fastest growing region in the global economy. Of significance, is that more than half the population in Asia are women. The participation of women in the economy would therefore not only enhance their own economic well being but would also contribute towards raising further the economic potential of Asia. Women are already engaged in both the informal and formal sectors and are increasingly emerging as a more important force in the economy. The effective participation, however, needs to be an informed participation. Financial literacy among women becomes an important part of this process, regardless of the income constituency to which they belong. There needs to be a better understanding of their financial rights and responsibilities, and their opportunities for income generation and the associated risks and costs involved. This is particularly important for Asia, where rapid economic and financial transformation is occurring. Financial literacy among women is thus a vital part of this process, not only to promote greater engagement of women in the current economic environment, but also to prepare them for the future.

It is my great honour and pleasure to be here today to speak on the importance of financial literacy among women in Asia. My remarks today will first discuss some of the major structural and cultural transformations in Asia that are changing and impacting the economic environment faced by women in Asia, and their rapidly changing role in the economy. I will also touch on aspects of the challenges faced by women in Asia in their endeavour for greater economic engagement. This will be followed by a discussion on the important enablers for enhanced financial literacy and to share with you Malaysia's experience in driving a more financially literate society in particular, that enhances the inclusion of women in the economic mainstream.

Ladies and Gentlemen,

Asia is being transformed. For more than two decades now we have seen unprecedented structural and cultural changes in Asia that have resulted in the transformation of the environment faced by women. Asia has emerged as the fastest growing region in the world with GDP in Asia now accounting for 23% of the world economy, compared to 17% in 1980. Per capita income during this period has more than quadrupled. If these trends continue, by the year 2020 Asia will account for about 27% of the world economy while the income per capita would have further tripled. These dynamic changes have made financial literacy among women even more vital.

Indeed, against these favourable trends, there has been a growing participation of women in the growth and development process in Asia. In particular, there has been a strong migration from the informal to the formal sector, following the modernisation and industrialisation process. The increase in the relative significance of the financial sector in most Asian economies can be seen in terms of the momentum in the financialisation of savings and the increase in the volume of financial transactions being conducted through the formal financial sector. These trends are being reinforced by the shift of activities that is taking place from the traditional sectors to the industrial and services sectors. On average, the industrial and services sector now accounts for 74% of the economy in Asia, compared to 60% in 1980. In contrast, agriculture now accounts for 12%, compared to 26% in 1980. Involved in this transformation, women have demonstrated a high degree of mobility, participating in all segments of economic activity. Most discernable is the increasing participation of women in the services sector. Here in Hong Kong, the percentage of women in the services sector relative to the total population increased from 43% in 1980 to 87% in 1999. Similarly in Indonesia, the rise was from 32% to 42%, and in Malaysia, it was from 33% to 57% and in Thailand, from 18% to 34%.

In Asia, the demographic structure also reinforces the economic potential of Asia. The population in Asia continues to grow at a relatively high and stable rate to account for more than half the world's population. Of significance is the relatively young demographic structure in Asia. More than 50% of women fall in the age group 15 to 49 years, similar to that for men. This demographic structure thus not only contributes to enhance the potential of the economy but combined with rising incomes and improved standards of living, has resulted in increases in consumption spending. This resultant

increase in purchasing power has strengthened domestic demand, making it an important driver of growth in the Asian economies. Indeed, these trends have strengthened the sustainability of consumption-based growth. As part of this process, women have become an important consumer target group with enhanced purchasing power. In fact, in several of the Asian economies, women are emerging as a key target market. This greater capacity for earning, spending, saving and investing requires ability for financial management, and hence the urgency for greater financial literacy.

While financial literacy is important, regardless of economic status, it becomes even more important for those that are less privileged. For those that have less to manage, it becomes more vital to manage the finances even more effectively. It is also those that have been under-served by the financial system that need to be more aware of the financial services that they should be able to access, and the benefits that can be drawn from the various options available. They too have the same need for maximising the benefits from their limited resources, and to achieving financial and economic security. Strengthening their financial position becomes even more important for this target group. There needs to be awareness of the alternative assets that can be accumulated not only to generate an income stream but also towards building wealth. Of equal importance is to draw those operating in the informal sector into the formal sector, where their financial requirements, whether households or businesses can be better served.

A further phenomenon taking place in Asia is the increased regional economic and financial integration that is taking place. This has manifested itself in increased intra-regional trade, investment flows and the increased intra-regional presence of corporations and financial institutions. A more recent phenomenon is the increased mobility of labour in the region. Of significance is the number of women who have ventured beyond their own borders in search of new employment opportunities. While data on this is not available, the statistics on remittances of income show this is a growing trend. Overseas employment is particularly evident in the manufacturing and services sectors. Financial literacy under these circumstances becomes even more vital. In venturing to new areas where different systems, languages and cultures prevail, it becomes important to have knowledge of the basic financial matters so as to maximise the benefits the new employment is expected to yield.

As the formal economies of Asia prosper and grow, there is a greater need to integrate the informal sectors of the economy with the formal sector. There are millions of women in Asia involved in a wide range of economic activities from the home, making handicraft, assembling parts for international brand names and working in the fields. They work for a small income, and generally in difficult circumstances. Deliberate actions to integrate the informal economy into the formal economy will give this segment of society increased opportunities. In many countries, the success of various national and international socio-economic reform programs have resulted in women becoming an increasing part of the formal economy. Through the concerted efforts of women's rights movements, economic policy intervention and gradual shifts in cultural norms, women today have more opportunities for education, careers and political representation. However, in many instances the increase in participation in the formal economy has not come with a commensurate level of sophistication in financial literacy. As a result, women continue to face special challenges in their endeavour to be active participants in the economic system.

Challenges women in Asia face in financial literacy

Let me now turn to discuss some of the challenges faced by women in Asia in their endeavour to become more financially literate and financially independent. Firstly, with the socio-economic environment in Asia changing rapidly, there is greater uncertainty and volatility which represents a challenge even for financial experts. The financial system has also become more complex, with new risks emerging. This increased sophistication thus makes it increasingly difficult for those who are less financially literate to make sound decisions.

Secondly, the advances in technology has led to a proliferation of financial products and services. There needs to be a greater understanding of the basic concepts and practices of banking, insurance and equity so as to know how to make choices from the wide range of financial products available, and to assess the respective risks, costs and returns. Also important is the basic principles of debt management, wealth management and personal budgeting to be able to understand the importance of long-term savings in funding future requirements.

Financial literacy involves being able to identify and understand the opportunities for income generation, access to funding, and learning how to make the most of the range of financial products

available. It also involves learning how to manage financial risks in an environment where the financial infrastructure may be under developed. This may relate to the laws and procedures in the country. Also important is the need to be able to recognize illegal schemes and other exploitative practices such as predatory lending.

Thirdly, while women in Asia are being less stereotyped and given greater opportunities for entering into the economic mainstream, nonetheless the working conditions for women in many countries have tended to be less favourable. The exploitation of labour in the informal sector in some instances are particularly bad, not only for women, but also for children and minority groups. Women who are disadvantaged in this manner have found it difficult to escape from the trap of indebtedness.

Frequently, the disadvantaged and those who are not able to access the formal financial system have resorted to the informal financial systems. Recourse to these financial sources have also been due to the lack of awareness. These may be in the form of deposit schemes that entail high risk, access to financing from sources that are highly costly, and almost inevitably against high collateral. Very often, the practices are unfair and deceptive. Examples in predatory lending are found to be unscrupulous and highly disadvantageous to the borrower.

Fourthly, in some Asian societies, traditions continue to create cultural pressures that restrict a woman's choices and liberties. Though there is increased freedom for women to pursue education and careers, in some societies, cultural pressures still make it more difficult for a woman to get the exposure on financial matters. In addition, the increased incidence of divorces and single parenthood mean that more women are left to fend for themselves and their children. In certain Asian societies, single women may face unusual difficulties in arranging their finances. In some cases, a woman may even have difficulty claiming her legal rights in a contract, even though the law does not dispute such a right. Deeply entrenched human behaviour is not able to change as rapidly as the financial system is evolving.

Fifthly, statistics on life expectancy confirm that women tend to live longer. In segments of society where women earn less than men, combined with the fact that they may live longer, it is crucial to have financial acumen in order to increase the financial independence of women. This trend also magnifies the need to plan for retirement especially in an era of rising medical costs.

Ladies and Gentlemen,

Enabling environment for financial literacy

The promotion of greater awareness and understanding in financial issues in a dynamic and constantly changing environment has to be a continuous process. The effort needs to focus not only on providing education programmes but also on putting in place the supporting infrastructure to enhance the access to financial services, to ensure an environment of financial transparency and disclosure as well as adequate consumer protection. Enhanced financial literacy is about bringing people into the financial mainstream so that they are able to make well informed decisions regarding their earnings, spending, savings and investments. The effort thus has to encompass a comprehensive set of strategies including the education process reinforced by the supporting infrastructure.

The goal of any financial education programme is to increase awareness of the value of effective financial management, to show how it can contribute to financial security and improvement in the economic well-being. The most effective of programmes have been those that are targeted to specific groups. Fundamental education for greater financial literacy that will have most sustainable impact are those through the school system. Such educational programmes would provide the education to women from an early age. Essentially, it would not result in the marginalisation of anyone target group, in particular women. Such programmes would therefore best serve its purpose as part of the core curriculum. Indeed, the national education system can play a pivotal role in financial literacy within a country.

The responsibility of promoting economic and financial literacy needs to be a collaborative effort amongst the authorities, the financial service providers and the community to connect to the different target groups including all social groups. These would include the lower income groups, workers and businesses. Important are programmes directed to families where women have an important role and to engage those we have not been able to participate fully to benefit from the favourable economic environment prevailing in the region.

Among the successful financial education programmes are those with specific objectives that are tailored to meet particular needs. This includes programmes to promote savings for specific objectives; for education; or for retirement. The education programmes can also be linked to other objectives such as good health, house ownership and so on. Financial products can be tailored for such purposes to not only to promote interest but to also meet these objectives.

All distribution channels need to be relied on to maximise the effectiveness of financial education programmes. Formal training programmes can be reinforced by web based content via the Internet. The World Wide Web offers dramatic economies of scale in terms of distribution of content at low cost. Connectivity to the Internet can serve to bring information from all over the world to the local education system. Iterative programmes can be useful to encourage participation. Web based programmes while requiring computer literacy, has a wider outreach and allows for flexibility of time that is of particular importance to women.

A further means by which financial advice is provided is through financial advisors. Financial advisors are able to address the issues for the more sophisticated investors. Similarly, infrastructure for advisory services for small businesses is key. This can in particular be provided by financial institutions. Systems need to be in place where consumers and businesses are explained their rights and responsibilities. Micro credit institutions have also been highly successful in many countries in providing access to financial services to microenterprises. This will contribute towards greater reliance on the formal financial infrastructure and less on the informal structures.

Higher level of consumer education and financial literacy must be complemented with effective disclosure regime, fair and transparent market practices, simplification of financial products and enhanced communications in the marketplace to minimise information asymmetry.

While efforts may be taken to enhance transparency and disclosure by service providers, and while programmes for enhanced literacy can produce positive results, consumer protection is still needed. Given the asymmetry of information, consumers often do not have enough information to be completely protected. Building the confidence of consumers also requires that there be adequate avenues for consumers to seek redress to enable consumers to resolve conflicts through an equitable process. Also important are the requirements for complaints to be handled promptly by financial institutions.

Ladies and Gentlemen,

The Malaysian experience

Let me briefly take a moment to share with you the experience of Malaysia in developing an enabling environment to promote financial literacy.

For several decades, Malaysia has made significant economic progress. The economy grew by an average of 7% per year, while the per capita income has increased from USD 300 in 1970 to USD 4,236 in 2004. From a commodity-based economy, Malaysia now has a highly diversified economy, with significant contribution from the manufacturing and services sectors. Women account for about half of Malaysian population, and have played an important role in this economic transformation process. Women account for about 45% of the labour force, with increasing representation at the professional, managerial and technical levels. Such progress is achieved following increased educational opportunities that have been made available to women. Female primary and secondary students account for half of total enrolment, while at public universities, female students account for 55% of total enrolment. While women continue to play a major role in household financial planning, a new generation of women who are financially independent and sophisticated is emerging.

The financial sector in Malaysia has also experienced significant progress, with greater diversity of players, products as well as delivery channels with extensive distribution nationwide. The widespread distribution of financial institutions has been a conscious and deliberate policy to ensure the widest reach of financial services to both the urban and rural areas. With the improved access of consumers and businesses to financial products and services, consumer education on financial matters is an important priority for the Central Bank.

Consistent with the belief of the importance of instilling financial awareness at an early age, Bank Negara Malaysia introduced a pocket money book to inculcate smart financial management habits

among students in 1996. The programme also included Household Account Books to assist families in the management of household income, savings and investments. This was distributed to cover a wider group, including women, teachers and workers.

Following this, in 1997 together with the Education Ministry, the Central Bank embarked on a School Adoption Programme. Through this programme, more than 7000 schools have been adopted by banking institutions to play a leading role in educating school children on basic financial knowledge. In October this year, an online interactive version of the Pocket Money Book to be used in the School Adoption Programme was launched.

The Central Bank of Malaysia has also laid out a blueprint known as the Financial Sector Master Plan that charts the development of the Malaysian financial system over a ten year period commencing in 2001. A key component of that plan is the 10-year Consumer Education Programme for the banking and insurance sectors. This programme is known as BankingInfo and InsuranceInfo, and was launched in 2003. To reach a wide spectrum of the population, various channels are being employed to disseminate information, including through media, road shows, information brochures and a dedicated web site. There is also a dedicated outreach programme aimed at specific target groups, which includes women in rural areas, low income earners and disadvantaged women such as single mothers. To date, the BankingInfo website has received an overwhelming response - about 14 million hits and more than 2.5 million booklets were taken up by the public. In the insurance sector, over 1.4 million hits have been received on the InsuranceInfo website, and more than 1.3 million insurance info-booklets have been disseminated by the insurers to the public.

Ladies and Gentlemen,

Similar to many other Asian economies, microenterprises in Malaysia are a substantial contributor to employment. Women are extensively involved in microenterprises, often operated as family run businesses. To support the growth of microenterprises, dedicated agencies and funding mechanisms have been established. In order to equip the microenterprises with proper knowledge, education materials were developed on the fundamentals of starting a business, specifically addressing issues of getting access to appropriate financing within the constraints faced by microenterprises. Dedicated agencies, including specialist development financial institutions, were identified to provide training and advisory services to complement these initiatives.

In addition to the consumer education programmes, the Central Bank has put in place a consumer protection framework. In collaboration with the financial industry the Central Bank has established a Financial Mediation Bureau. The Financial Mediation Bureau aims to serve as a one-stop center for the resolution of retail consumer complaints against financial institutions regulated by the Central Bank. The Central Bank is also establishing a one-stop service centre in the Bank that will function as a Public Information Centre for the promotion of financial literacy among the Malaysian public. The service centre will provide advisory services on financial matters to small and medium enterprises.

Ladies and Gentlemen,

Concluding remarks

Financial literacy among women is all about having sufficient awareness of financial matters to enable women to protect and prosper for themselves and their families in a world that is becoming increasingly more complex and uncertain. To be an effective participant in this modern economy, we cannot take financial literacy for granted. It is a knowledge and skill that must be deliberately pursued. From a national and institutional perspective, promoting financial literacy must be an integral part of the overall agenda for financial and economic reform and development.

Let me conclude with the words of Jawaharlal Nehru, "We talk of revolutions, political and economic. And yet the greatest revolution in a country is the one that affects the status and living conditions of its women. It is in so far as our revolution has affected our women that it is basic."

Thank you.