

## **Zeti Akhtar Aziz: Empowering consumers for a progressive and sustainable financial system**

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Third International Forum on Financial Consumer Protection and Education "Fostering Greater Consumer Protection and Education", Kuala Lumpur, 14 December 2005.

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Let me first of all extend a warm welcome to all of you to this Third International Forum on Financial Consumer Protection and Education. Malaysia is most honoured to host this conference. I understand that we have participants from across the globe, including for the first time, delegates from the Middle East and Africa. A forum such as this not only allows for greater engagement among regulators and brings about a better understanding on the issues confronting us but also contributes towards advancing forward the development agenda.

Promoting a sound and progressive financial system is a vital and key pre-requisite to achieving sustainable economic growth and development. This recent decade has seen a significant transformation of the financial landscape shaped by the forces of globalisation, advances in technology, the trend towards greater market orientation and financial innovation. In this more dynamic environment, the maintenance of financial stability has become increasingly more complex and challenging. The requirements and expectations of consumers are also changing rapidly in tandem with the increased education levels, growing wealth and greater affluence. Following these developments, consumers have become more discerning and demand for better product choices, more efficient delivery channels and more customer centric practices from financial institutions. These trends have also become important in reinforcing an increasingly more competitive environment in the financial services sector. A comprehensive approach thus needs to be adopted to address all the key elements of the financial system so as to form a solid foundation on which the soundness and stability of the system can be achieved. A major strategy that has been adopted has been the strengthening of the prudential regulatory and supervisory framework. The safety and soundness of the banking system however has to extend beyond prudential regulation and supervision. Maintaining financial stability of the financial system also requires the development of the financial infrastructure, in particular, the financial markets; building the capacity of financial institutions and finally to have in place an adequate consumer protection framework.

My remarks this morning will focus on the consumer protection and education from the perspective of maintaining financial stability and the development of a progressive and sustainable financial system.

Consumer protection and education initiatives empower consumers to be better positioned to take responsibility for their own well-being. It allows consumers to assume a more important role in exerting market discipline on service providers to drive greater efficiency, competition and innovation in the market place. In the design of a consumer protection framework, it needs to be recognised that financial products and services differ significantly from most other goods and services. Specifically there is asymmetry in the access to information and bargaining power between the consumers and financial service providers. These imbalances can be addressed by three mutually reinforcing strategies. Firstly, promoting stronger transparency and disclosure standards in financial institutions; secondly strengthening the mechanisms for consumer protection; and thirdly enhancing consumer education. An increasing number of countries have undertaken this more comprehensive approach in order to give greater focus to consumer protection issues for ensuring the soundness of financial service providers and ultimately to the stability of the financial system. This will also in turn promote more effective consumer participation in the economy, thus contributing more significantly to the economic growth and development process.

The approach and mechanisms adopted to protect consumers in individual jurisdictions will vary from one country to another, given the unique characteristics prevailing in the different respective economies and financial systems. Consideration of country-specific circumstances and contextualisation is important to evolve relevant and effective consumer protection and education infrastructures. Individual countries need to customise the consumer protection and education framework to their environment, taking into account factors such as the stage of economic and regulatory development, the structure of the financial system and the level of consumer sophistication.

Prudential safety and soundness, competition and consumer protection need to co-exist to effectively serve the various stakeholders' interests. Hence, implementing an effective consumer protection and education framework involves achieving an appropriate balance between providing adequate safety for consumers while promoting competition and financial innovation. In formulating policies to safeguard consumers' interests, adequate consideration needs to be given to ensure the appropriate level of consumer regulation without imposing excessive regulatory costs and burden on both financial institutions and consumers, and thus avoid compromising the benefits that the policies are designed to achieve. In this process, ethics and integrity cannot be legislated. Regulators, therefore, need to consider other approaches in preventing market abuses or misconduct and in promoting consumer confidence. Of importance is to evolve an appropriate incentive structure for financial institutions so that they recognise that it is in their best interests to foster fair and equitable business practices as part of good governance, corporate social responsibility and brand building. Good business practices need to be instilled and embedded in all aspects of the operations and at all levels within the institutions.

On consumer education, it is recognised that with more well-informed and financially astute consumers making better financial decisions, competition is promoted among the financial service providers. Moreover, market efficiency would improve with the creation of new products and services that are more responsive to the requirements of consumers. In relation to this, financial literacy has become a vital skill in this increasingly more complex financial world, characterised by increasingly sophisticated financial products and services and growing diversity in financial service providers and distribution channels. While the overarching objective of consumer education is to impart knowledge that will improve consumers' financial decisions, it cannot be assumed that equipping consumers with more information will automatically lead to improved financial behaviour. Research has shown that consumer decisions may not always be made based on sound advice and knowledge, but are at times made on impulsive intuition. The key challenge lies in determining how behavioural factors and other factors such as socio-economic and cultural backgrounds, life events and skill levels influence rational decision-making. The wide variation in information needs that arise from differences in prior experience, language and cultural background, current financial situation, and competing demands for consumers' time all pose challenges in the development and delivery of relevant information to consumers. In particular, the most effective means of engaging consumers that have a low level of interest in financial planning needs to be determined.

In relation to this, financial service providers need to provide consumers with information that accurately represents the features, risks and returns associated with their products and services and demonstrate integrity and good faith by offering products and services that are appropriate to the customers' financial needs and circumstances. The issue is how a consistent and comprehensive disclosure regime could be established, with the flexibility to apply differentiated rules in response to different situations and circumstances. Finally, disclosure as a consumer protection tool will only serve its purpose if consumers are able to understand the information provided. The challenge is to get the right balance between providing sufficient information to consumers to make informed choices, with the information being clear, concise and effective.

The increase in the number of delivery channels has not resulted in an equitable expansion in the access to financial services. Even in developed countries, there remains minorities that have limited access to basic financial services. For instance, a study conducted in the United Kingdom for the period 2002-2003 found that 2.8 million adults in households had no access to a bank account. In relation to this, regulators have to balance between the need for financial institutions to operate efficiently and the need to ensure access to basic financial services for both individuals and small businesses. In addition, rural communities have also tended to be underserved. The challenge confronting regulators is to ensure that all communities have access to financial services. This greater inclusion is vital to bring the lower income groups into the economic mainstream.

An important aspect in the development of a consumer protection framework is to ensure that the framework remains relevant despite changes in economic and financial environment. Changes in the profile of consumers following changes in the demographic structure for example needs to be taken into account. In most communities, the ratio of retired population relative to working adults is expected to rise more steeply in the next decade. In countries with growing ageing populations, there is an increasing demand for financial planning, life insurance, wealth management and mutual fund investment services. Consumers' interests in these areas would need to be adequately safeguarded while financial literacy among the various target groups need to be actively promoted.

While regulators have an important role in promoting consumer protection and education, it is equally important to galvanise support and collaboration from all market participants - financial service

providers, government agencies, educators and consumer associations and community-based organisations, toward effective implementation of the initiatives.

Let me take this opportunity to share with you the experience of Malaysia in promoting consumer protection and education. The Malaysian economy has transitioned from a production-based economy towards a knowledge-driven economy, with small and medium sized enterprises (SMEs) assuming an increasingly significant role in the economy. The financial sector has also evolved accordingly to facilitate this economic transformation process, with a growing trend towards greater deregulation and market orientation. To achieve a more efficient, competitive and resilient financial system, Malaysia has formulated a blueprint that outlines the roadmap for the development of the financial sector. The Financial Sector Master Plan which was issued in 2001 outlines the key strategies for the development of the financial sector. Amongst the important strategies implemented has been the development of the consumer protection framework and the enabling infrastructure to protect consumers' interests while at the same time to enhance their financial capability to participate effectively in the financial system.

Bank Negara Malaysia has adopted a multi-pronged approach in empowering consumers. As a central bank in an emerging market economy, our mandate is broader than our counterparts in the more advanced and mature economies. We have the important role of developing the financial sectors. In the area of strengthening the consumer protection infrastructure, the agenda covers a wide spectrum of initiatives involving infrastructure and institutional capacity development that includes financial education, advisory services, distress management, rehabilitation and putting in place avenues for redress.

Recent initiatives include evolving a more effective Financial Mediation Bureau (FMB) to ensure that consumers of all financial service providers under the purview of the Central Bank have recourse to an independent, fair and impartial dispute resolution mechanism. Earlier this year a deposit insurance scheme was introduced to further strengthen incentives for financial institutions to adopt sound financial and business practices and enhance public confidence in the financial system by providing explicit protection on deposits. Bank Negara Malaysia is also currently finalising the details for the establishment of a credit counselling and debt management agency to be introduced early next year, with the aim of providing individuals with credit counselling and assistance in restructuring of their debts.

To promote financial education at an early age, Bank Negara Malaysia embarked on an education programme in schools on basic financial knowledge in partnership with the Education Ministry since 1997. Further, in collaboration with the financial industry's associations, Bank Negara Malaysia launched a ten year Consumer Education Programme (CEP) for the banking and insurance sectors. We are now in the fifth year of this programme. Extensive information is being disseminated via the spectrum of distribution channels including newspapers, radio, websites, branches of financial institutions and outreach programmes.

The consumer education efforts are also complemented by initiatives to promote a higher level of disclosure and transparency so as to ensure that consumers have access to relevant, comparable and timely information on products and services. A significant focus has been on the insurance sector, given that a significant segment of the Malaysian consumers do not have good understanding of insurance products. In particular, guidelines on medical and health insurance and the requirements for marketing of life insurance policies, have been strengthened while rules for independent financial advisers have been introduced.

In meeting socio-economic objectives, there is also a need to ensure that the welfare and interests of all segments of society are protected and that no target group is excluded or marginalised. Indeed, an important component of our consumer protection framework is to ensure that all consumers continue to have access to basic banking services at reasonable costs. In this connection, a more interventionist approach has been pursued to require banking institutions to offer a list of basic banking services to all Malaysians and to set guiding principles for the imposition of fees and charges for these retail products and services for individuals and small and medium sized enterprises.

Efforts have also been taken by the Central Bank in collaboration with the financial services industry to enhance the integrity of the payments systems and instruments, aimed at promoting confidence and ensuring that consumers' interests are safeguarded. Specific measures include upgrading the funds transfer systems, migrating all magnetic stripe for ATM card and credit card infrastructure to a chip-enabled environment, and introducing payment platforms that leverages on the Internet to promote users' confidence and safeguard consumers' interests. Malaysia is the first country in the Asia Pacific

region that has mandated the migration of ATM cards to chip based cards and has also been the first to complete the implementation of a national migration to EMV chip based credit cards. This is essentially to combat fraud in payment instruments. A number of other initiatives have also been put in place to create greater awareness among the public regarding counterfeit banknotes and to promote increased consumer understanding on credit card usage and protection.

As we advance forward, changes in the financial landscape will continue to be dynamic and the level of complexity and sophistication in the financial markets will further intensify. While considerable efforts have been undertaken to empower consumers through financial education and enhance protection for consumers, much remains to be done in fostering the commitment of financial service providers to sound business practices and promoting fair and equitable treatment of consumers. Given the global dimension of financial services and the increasing interdependence of financial markets, efforts by individual countries to strengthen consumer protection need to be matched by efforts to enhance safeguards at the international level. Forums like this one provide a good opportunity for regulators to share information and insights, to discuss the issues and challenges at hand, explore potential areas for cooperation and lay the groundwork for future partnerships. Drawing on the experience and expertise of various countries, this forum provide a platform for participants to work together towards developing global best practice standards on consumer protection and education issues. I look forward to the outcome of your deliberations in fostering greater consumer protection and education.