Zeti Akhtar Aziz: Working to achieve a truly inclusive financial system

Welcoming remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the 5th AFI (Alliance for Financial Inclusion) Policy Global Forum, jointly hosted with the Central Bank of Malaysia, Kuala Lumpur, 11 September 2013.

*   *   *

It is my great honour to welcome Her Majesty Queen Máxima. Let me express our deep gratitude to Her Majesty for gracing this event. Her Majesty, Queen Máxima, as a major advocate for the development of financial inclusion, has had an important role in bringing the attention of the international community to this important agenda. Her Majesty has also been an inspiration to us to persevere in achieving our aspiration of greater financial inclusion. Let me also take this opportunity to welcome our distinguished speakers, guests and all the participants from the member countries of the Alliance for Financial Inclusion (AFI) to this 5th AFI Global Policy Forum in Kuala Lumpur. Bank Negara Malaysia is indeed most honoured to jointly host this Global Policy Forum together with AFI.

We are gathering at a time when global economic and financial conditions remain highly challenging. While there are now some positive signs emerging, global growth prospects continue to remain uncertain. While the unprecedented and unconventional policy measures introduced by several of the major advanced economies have achieved some degree of success in improving their economic conditions, their global implications have been profound, in particular in emerging economies. Indeed the repercussions from their impending exit from these measures may be even more significant. Therein lies the importance for emerging and developing economies to strengthen our economic and financial foundations, reduce our risks and vulnerabilities and spur a balanced and inclusive growth.

The events since the eruption of the global financial crisis have also altered our view of the world in a number of other fundamental ways. Global reforms in the financial system are re-shaping the regulatory landscape. The lines that define financial intermediation activities, and which connect the financial system to other parts of the economy and other parts of the world, are also being re-drawn. In this environment, emerging and developing economies need to be engaged to ensure that unintended consequences on our financial systems and consequently on our economies are minimised.

A key concern in this environment is thus the strengthening of the protection of segments of society, in particular, small businesses and households, from being marginalised by market forces, and from the disproportionate impact of instability, crises and reforms. Related to this is the need to reinforce socially responsible finance, and to ensure that financial systems serves the real economy and to address the new and growing risks of financial exclusion which can result in part of our community to be disenfranchised, particularly, but certainly not only, during periods of financial crises.

In this environment, financial inclusion has gained greater prominence as a key priority for the reform and development agenda.

The theme of the AFI Forum this year, ***"Driving Policies for Optimal Impact"***, underlines the need for us to have a better understanding of the interactions between the objectives and effects of financial inclusion, financial stability and integrity, and consumer protection policies. This need has become more pronounced with the recent global developments. Global prudential standards have been significantly strengthened and are increasingly applied to financial institutions in developing countries. This has heightened the practical challenges faced in implementing these standards in a socio-economic setting where promoting inclusive opportunity is an important objective. The same is also true with stronger standards to combat money laundering to safeguard the integrity of the financial system. In building a financial system that is resilient against crises and abuse, we cannot neglect the socio-economic impact of policies pursued. Our efforts to build a stronger and more stable financial system would also work to strengthen linkages between finance and development and not to weaken it.

Consumer protection regulation is also being significantly strengthened in many countries following the global financial crisis. This has been driven in large part by the recognition that an effective consumer protection framework serves not only to protect individuals from excessive risk; it also has an important role in protecting the financial system from systemic risk. While this has positive spillovers for financial inclusion, more can and must be done to ensure that consumer protection policies are designed to adequately protect vulnerable groups, and ensure that financial innovation is pursued in a responsible manner.

To address these issues, we are delighted this year to have the participation of the global standard setting bodies together with members of the AFI at this Forum. We share a common interest in seeking to lower the barriers to financial inclusion and to create a larger positive impact of policy measures on financial inclusion. An important starting point is for the global standards to reflect financial inclusion perspectives. The standards setters have pointed out that this is supported by the concept of proportionality which underpins the global standards. Of great importance is how this is going to be translated into practice. By drawing on the diverse experience of AFI members present at this Forum, it is hoped that we can start to build a common understanding of "proportionality in practice". This is important not only to support the financial inclusion agenda, but also achieve the outcomes of financial stability and consumer protection that were intended by the global standards. This would also promote the wider adoption of these global standards.

Increasing risks of financial exclusion

Financial inclusion has now progressed from access to financial services, to also being concerned with whether the financial services are appropriate to individual circumstances, and are being used effectively to improve individual welfare. In addition, it needs to be concerned with whether vulnerable groups face increased risks of financial exclusion. This is particularly important in a rapidly changing financial and social landscape. Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and small businesses to qualify for financial services. Aggressive marketing practices by financial institutions and more complex financial products can also lead to poor financial decisions.

The way in which financial services is delivered to consumers is also moving towards more cost-efficient channels that reduce the need for face-to-face contact, except for high net worth customers. Enquiries and complaints are handled largely by phone or e-mail, and usually in a fragmented manner by different parts of a financial institution. This can mean less effective advisory support for vulnerable groups of financial consumers. While the wider adoption of electronic channels has enormous potential to increase financial inclusion, also needed is to ensure access to the relevant technology, in order to avoid being disadvantaged from using alternative channels that will become relatively more costly. A delicate balance therefore needs to be achieved in developing solutions that will allow the financial system to grow and innovate in support of the economy, but without widening the divide in our economy.

The role of non-bank financial institutions

In many of our countries, non-bank financial institutions are being envisaged for a greater role in increasing financial inclusion and thus to contribute to sustainable economic and social development. For some time now, particularly after the global financial crisis, stronger regulation and balance sheet constraints of the banking sector have also led to the rapid expansion of non-bank credit. For the most part, however, this expansion has not been well-managed, resulting in growing concerns with over-indebtedness in many parts of the world. One response has been to strengthen the regulation of such institutions, and reduce the inconsistencies in prudential and conduct standards that apply between banks and non-banks. Another has been to capture better information on the activities of non-banks as a basis to inform more targeted policy measures.

The question of how to evolve the role of non-bank financial institutions to continue to contribute in sustainable way to financial inclusion is a complex one. While we can agree that a different approach to regulation from that applied to banks is justified, it cannot be at the expense of protection for financial consumers, and risks to financial stability. This middle ground is what is needed, taking into account the specific context of our own economies.

The role of financial education

Another important strategy for financial inclusion is the enhanced role of financial education. This is not only to encourage greater participation in the mainstream financial system, but also to keep individuals already in the mainstream from being financially excluded in future as a result of changes in the financial landscape. In a recent report by the OECD, a lack of awareness of different types of financial products, low level of confidence and poor knowledge of how products work were identified as barriers to financial inclusion. These factors will become more acute in an increasingly more complex and technology-driven financial system. Effective financial education will however, require more innovative approaches, broader partnerships involving the Government, educators, and non-Governmental organisations collaborating with regulators and the financial industry. The AFI network provides an important platform to examine these and other issues.

Conclusion

Through the AFI platform, we have a unique opportunity to work together to improve lives through financial inclusion and to have an enduring impact on global issues and developments. In this connection, a specific outcome of this Forum will be the commitment of AFI members to an Accord. This Accord will build on Maya Declaration of 2009 to extend the commitment of AFI members to take the financial inclusion agenda a step further forward towards achieving the vision of a truly inclusive financial system.

Let me conclude by expressing on behalf of Bank Negara Malaysia our deep gratitude to Her Majesty Queen Máxima for gracing this event. I would also like to thank the distinguished speakers and resource persons who have travelled from various parts of the world to share with us your valuable insights. To all participants, I hope this will be a memorable event, and one that will generate new knowledge and new ideas to spur your own country's journey to deeper financial inclusion. Once again, "Selamat datang" to Kuala Lumpur and thank you for being here.