

## Encik Abdul Rasheed Ghaffour: Shaping the future starts now

Speech by Mr Encik Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the launch of the Financial Management for Retirement Module "Shaping the future starts now", Kuala Lumpur, 7 April 2017.

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### Importance of financial literacy

There is a growing concern on the low financial literacy level of Malaysians as measured by financial knowledge, attitudes and behaviours. Based on the Financial Capability and Inclusion Demand Side Survey conducted by Bank Negara Malaysia in 2015, the main observations on the state of financial literacy of Malaysians can be described by:

- a. First – the majority of Malaysians have inadequate knowledge on financial matters to enable them to make informed financial decisions, particularly among the vulnerable groups;
- b. Second – a significant majority of Malaysians display short-sighted tendencies and are inclined to 'live for the moment' – that is to only focus on instant gratification at the expense of long-term financial planning;
- c. Third – more than 75% of Malaysians find it difficult to even raise RM1,000 to meet emergency needs;
- d. Fourth – only a quarter of Malaysians have any form of investment; and
- e. Fifth – most Malaysians indicated that they will face financial pressure should there be a loss of income.

Therefore, building the financial capability and literacy of Malaysians is certainly a priority for the nation. What we want to achieve is to improve people's ability – to manage money well – through their entire life cycle, and their ability to handle periods of difficulties. Financially literate population – will help to improve the well-being of individuals and households; ensure a sound and competitive financial system; as well as contribute to the sustainable growth of the economy.

Let me explain further on the importance of elevating financial literacy:

- a. For individuals and households – financial literacy has become a key life skill. Those who go through life by making sound financial decisions – will potentially be more resilient and end-up with a much higher standard of living throughout their lifetime, including during retirement. With the right knowledge and skills – individuals can live within their means; manage finances; and improve chances of achieving their ultimate financial goals. A financially literate Malaysian – would be aware of the importance of long-term financial planning and will actively save for the future.
- b. Empowered financial consumers – is an important element in enhancing market discipline and promoting financial stability. Financially literate consumers can collectively influence the behaviour of financial institutions to operate in a responsible, transparent and efficient manner. Financial institutions would be more competitive and motivated – to provide proper advice and offer suitable products, including that can support long-term financial planning.
- c. Successful channelling of savings into productive investment opportunities – will also promote better economic growth. Greater use of financial products; as well as prudent use

of credit among households – would promote wealth creation. A nation with a more literate population – can achieve greater financial inclusion through the access and appropriate use of financial products and services. Such households would facilitate in achieving the intended outcomes of macroeconomic policies.

Let me focus on three areas that are relevant towards shaping a better future in the context of financial literacy:

1. First – long-term financial planning begins at young age and relevant at each key life stages.
2. Second – on the individual responsibility to take charge of its own financial decisions and well-being; and
3. Third – building financial capability and enhancing literacy – is a shared responsibility. I will share the on-going collaborative efforts undertaken to raise financial literacy among Malaysians.

### **Talking about long-term financial planning**

Based on Bank Negara Malaysia's observation – there is a continuing concern – on the lack of attention to long-term financial planning among a majority of Malaysians. Only 40% of Malaysians are financially ready for retirement. A recent focus group discussion with retirees – shows that they would still rely on their children or purchase using credit in the event of emergency or for higher value items. This could be a result of lack of financial planning when they were younger. Generally, the younger population aged between 20–35 years old – perceive long-term financial planning apply to a time horizon of only the next 10 to 20 years.

Therefore, financial education introduced from an early age and throughout life events is certainly essential. With sufficient basic financial knowledge and relevant skills – ingrained into the younger individuals' behaviour and attitude – they will be more prepared and empowered to lead a healthier financial lifestyle as they move into adulthood. Financial education from young – serves as a firm foundation to influence behaviour for a more sustainable life-long financial planning. Towards this end, Bank Negara Malaysia, in collaboration with the Ministry of Education – has successfully integrated basic financial education elements into the school curriculums beginning 2014, which will be expanded to all primary and secondary school levels by 2021.

Similarly, greater attention should also be accorded to long-term financial and retirement planning from young, or when entering the workforce. There should be greater awareness on the importance of saving for the future. As most of us here represent employers throughout Malaysia, I would urge that financial education and planning aspects should be embedded in our training modules, including the retirement module developed by AKPK and KWSP.

### **Moving on the second focus area on – individual responsibility to take charge of its own financial decisions and well-being.**

The Financial Capability and Inclusion Demand Side Survey 2015 – also suggests that Malaysians are not adequately taking charge of their own financial decisions and well-being. For example, with regard to retirement – one-in-three Malaysians are very worried about their retirement. Despite the worries, Malaysians adopt a passive strategy for their retirement planning – such as relying mainly on the government or statutory bodies such as KWSP to fund their retirement needs. As mentioned earlier, many of KWSP's contributors have insufficient funds for their retirement. This brings us to another question – what are their fall back plans? Apparently, nothing concrete. The top three plans indicated in the survey are:

- a. First – to rely on passive savings, which may not be sustainable;
- b. Second – to rely on children or family members; and

c. Third – to always continue working.

Most financial decisions are influenced greatly by a person's behaviour and attitude. Notably, this will require behavioural change from within, which can be harder to initiate but not impossible to achieve. When equipped with the relevant knowledge and skills – an individual would acquire a positive attitude and be able to make financial decisions – rationally and responsibly, for his well-being in the short and long-term. The positive behavioural change includes prudent use of money and credit; not easily influenced by emotions; actively seeking of information for financial product comparison; as well as making adequate provisions for old age.

**The third and final focus area – building financial capability and elevating financial literacy is a shared responsibility**

Government agencies, schools, families, workplaces and the financial service industry – all play an important role in building financial capability and elevating financial literacy of our population. This is a long-haul journey and requires significant resources and perseverance by various parties. Hence, inter-agency collaboration -providing various touch points at different platforms – is needed to increase the impact of financial education initiatives for the Malaysian public.

This motivates the establishment of the inter-agency Financial Education Network – which was set up in November 2016. Apart from Bank Negara Malaysia, AKPK and KWSP, the Financial Education Network – also comprises representatives from the Securities Commission, Ministry of Education, Ministry of Higher Education, Perbadanan Insurans Deposit Malaysia and Permodalan Nasional Berhad. I believe all members of the FE Network are here today to lend support to this important initiative, and potentially to further boost its impact for the benefit of Malaysians.

The FE Network has the objective of co-ordinating and driving the National Strategy for financial education in Malaysia. The National Strategy – will identify key target groups; define priorities; set measurable and realistic goals; and conduct regular assessment on financial education initiatives. Long-term financial and retirement planning would be one of the key priorities under the proposed National Strategy.

The collaboration between AKPK and KWSP – to establish the retirement planning module is indeed timely and in line with the FE Network's objective. Today – we have a total of 80 trainers from all over Malaysia, who have completed the Train-the-Trainers programme by AKPK and will graduate as facilitators for this module. I would like to congratulate you and wish to emphasise that you now have an important role – as change agents in creating awareness and promoting behavioural change in the long-term financial and retirement planning, among Malaysians.

We also have representatives from the various government and private sector agencies here today. With such a comprehensive module in place, I would like to urge all of us to implement this module as internal training packages at our organisations for the benefit of our employees, including the younger employees during on-boarding programmes.

In conclusion, it is our aspiration to see a brighter future, with all Malaysians being knowledgeable; forward looking and achieve financial well-being throughout their entire life stages. Hence – it is important for us to shape the future and make a difference, starting from now! On this note, I hereby officially launch the “Financial Management for Retirement Module”.