

Zeti Akhtar Aziz: Consumer protection and financial education

Welcoming address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Financial Inclusion Policymakers Forum on “Consumer Protection and Financial Education”, Kuala Lumpur, 5 April 2011.

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It is my great pleasure to welcome you to this Financial Inclusion Policymakers Forum on “Consumer Protection and Financial Education”. Bank Negara Malaysia is most honoured to host this event that brings together senior officials from the regulatory community from this region and participants from agencies with an interest in developing more inclusive financial systems.

Financial inclusion has now emerged as an important global agenda in ensuring sustainable long-term economic growth. The G20 summit in 2010 recognised financial inclusion as one of the main pillars of the global development agenda. This is a significant development as it reflects the global recognition and importance being given to social and economic development and for such growth to be inclusive in its outreach. Financial inclusion is an integral part of such an inclusive growth process. A high degree of financial inclusion will allow for the various segments of the economy, regardless of income levels, economic activity and regions to have access to financial services. At its most basic level, financial inclusion provides the means and opportunity for undertaking essential financial transactions for savings and the accumulations of financial buffers and having access to financing.

Promoting financial inclusion, however, remains a significant challenge. It is estimated that 2.7 billion adults in the world economy are currently excluded from the financial system. In addition to the G20 initiative, there are other global institutions such as the Consultative Group to Assist the Poor (CGAP), Alliance for Financial Inclusion (AFI) and the International Finance Corporation (IFC) that have assumed an increasingly active role at the international level in developing new research, setting standards and providing a platform for policymakers to share experiences. This improved visibility of financial inclusion on the global agenda has lent significant support to the initiatives at the national level to promote greater financial inclusion.

In this recent decade there has also been a growing body of research in the area of financial inclusion. This has contributed towards enhancing our understanding of the different approaches and policies that have been adopted and their relative successes in achieving greater access to financial services. This has also allowed for an enhanced appreciation of the issues that need to be addressed and on how sustainable financial inclusion might be achieved in our own countries.

While considerable progress has been made in improving the financial inclusion environment, the sheer numbers that remain excluded from the financial system suggest that much more needs to be done, both at the national and international level. Barriers to financial inclusion continue to exist in many countries. These barriers include problems that relate not only to the physical access to financial services but also the high costs of the services and conditions that deter such access that result in disengagement in using financial services.

Policymakers can contribute in five significant areas in advancing the financial inclusion agenda. The first is to give clarity to the financial inclusion agenda, in addition to driving the national commitment to financial inclusion. This includes defining the goals for financial inclusion that needs to be broad based and comprehensive. Universal access to basic financial services is desirable, but this needs to be differentiated according to the different segments within the economy. At one end of the spectrum, this may include those households and micro enterprises that will benefit from being brought into the economic mainstream while at the other end of the spectrum are those households and small and

medium scale enterprises that are already in the economic mainstream but are disadvantaged because they are not able to participate effectively in the financial system. The goal should also be to achieve sustainable financial inclusion outcomes.

Secondly, policymakers have an important role in creating the right incentives and competitive environment for financial institutions to respond to the opportunities in financial inclusion. Interventions by the Government should not result in market distortions. As part of the regulatory regime is, however, the promotion of responsible behaviours to ensure access to financial services will be fair and at cost effective pricing. Achieving the appropriate balance between these objectives can often be challenging, and different countries have approached this in different ways, with varying degrees of success. Intervention needs to be consistent with competitiveness, stability and sustainability of the financial system.

The third role for policymakers is to provide the enabling infrastructure that includes the mechanisms, systems, technology and institutional arrangements that will enhance the access to financial services. While technological advances have transformed the banking industry from a traditional “bricks-and-mortar” infrastructure to a system supplemented by electronic channels, the potential for greater use of technology to promote wider access to financial services still remains largely untapped. While mobile phone banking has been successful in enhancing outreach, the further use of IT can substantially reduce the costs of extending the outreach of financial services. The other infrastructure that is important to support financial inclusion is having in place a sound payment and credit information system.

The fourth is to evolve a comprehensive approach to consumer protection as an important complementary role to prudential regulation in mitigating risks. This includes putting in place a conducive regulatory environment in terms of the laws and regulations that protect consumers and undertaking surveillance and supervision to ensure the responsible behaviour by financial institutions. The international community is giving greater attention to consumer protection issues given the potential for high charges for such financial services and for borrowers to become over-indebted. While most countries have leveraged on the existing legal or regulatory frameworks developed for consumer protection in general, there is a need to recognise the limitations of such general frameworks in addressing consumer protection in the context of promoting a more inclusive financial system. A consumer protection regime that relies on full disclosures may mean very little to consumers that have neither the capacity to understand the disclosures, nor the ability to exercise the appropriate choice between the products being offered. Existing consumer protection frameworks may need to be adapted to address the specific needs of the more vulnerable groups.

Finally, the development of a financial education programme is vital to enhance financial capability for consumers to participate effectively in the financial system that is dynamic and fast evolving. We are now in an environment that is seeing the proliferation of financial products and services and the emergence of electronic finance. Greater financial literacy will also ensure that the financial industry will be responsive to the more discerning demands. Being ill equipped or having a lack of understanding of the nature of the products could increase vulnerability to misselling by financial institutions or to fraud and scams. Proficiency in financial knowledge will contribute towards greater empowerment and competent financial decisions. Studies have shown that financial education that is made available at an early age, in the school education system, will strengthen this potential and enhance the greater financial inclusion.

In Malaysia, the commitment to the financial inclusion agenda is legislated under the new Central Bank of Malaysia Act 2009 which provides as one of our primary functions – to promote the development of a sound, progressive *and inclusive* financial system. Malaysia’s financial inclusion agenda has been developed in concert with the development of the overall financial sector and encompasses the five broad strategies.

Our blueprint for the development of the financial sector for the next decade will give special focus on financial inclusion and consumer protection. In the previous decade, the focus was

to enhance the access to financing, financial education and putting in place the supporting institutional arrangements to enhance financial inclusion. While these efforts will be intensified further in this next decade, greater leverage will be made on technology and on new institutional arrangements to extend the outreach to the range of users from households to micro enterprises and small and medium scale enterprises. Also important is the development of the enabling environment conducive for innovation of the range of financial products and services needed for the spectrum of society and businesses and for cost effective pricing to take place. This will be reinforced by the supporting infrastructure for the effective management of risks by financial institutions; strengthening of the development financial institutions; and putting in place a comprehensive consumer protection, redress and education framework. These strategies are pursued under a collaborative approach that effectively combines with the efforts by the private sector.

Let me conclude. Policymakers have a critical role and a distinct opportunity in these present times to effect significant and positive change in the development of more inclusive financial systems. This change will not only catalyze progress for the poorest and marginalized segments of society, but also uplift those groups that are already in the financial mainstream but are highly challenged by the environment. This will ultimately serve to achieve truly inclusive growth and development. This is an important agenda, and our efforts must be trained on interventions that will encourage competition, provide the right incentives to both financial service providers and individuals, and help overcome access barriers in ways that will contribute to growth and stability. While the challenges are significant, the prospects for improved living standards and hopes for the millions of people in poverty and the struggle for survival should encourage us to persevere and advance forward with greater focus and purpose.

Before I end my remarks, allow me to express my appreciation to our key partners in making this forum a reality. I wish to record my appreciation to Her Royal Highness Princess Maxima for her support to this Forum in her capacity as United Nations Special Advocate for Inclusive Finance for Development. The Alliance for Financial Inclusion, the Consultative Group to Assist the Poor and the OECD's International Network on Financial Education have become important collaborators in our aspirations to promote more inclusive financial systems. I would also like to thank representatives from Aflatoun and CentiQ in the Netherlands and all the policymakers who are participating as speakers and experts at this forum.

On that note, I wish all of you a productive forum over the next two days.