Zeti Akhtar Aziz: Financial education for meaningful inclusion

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Citi-FT Financial Education Summit 2014 "Financial Education for Meaningful Inclusion", Kuala Lumpur, 5 November 2014.

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It is my great pleasure to be here this morning at the Citi-FT Financial Education Summit 2014. First of all, allow me to welcome the Citi-FT Summit back to Kuala Lumpur. It is my honour to once again address this Summit that has now become an important forum for advancing the financial literacy agenda. It was in 2004, at the inaugural Citi-INSEAD Financial Education Summit in Hong Kong that I spoke on financial education in the context of the demographic forces in Asia and their consequent implications for financial consumers, in particular for women in Asia. Today, another demographic shift – the "rapid urbanisation" – provides a new context to our discussion on the challenges in pursuing meaningful financial education strategies to achieve effective and responsible financial management in our communities. My remarks today will focus on the changing demographics and the role of financial education in enhancing the ability to cope with the realities of this new environment.

Asia has probably experienced the most rapid demographic change in the world. In these recent two decades, several Asian economies have had to deal with a number of new challenges including slower population growth, rapid aging, the intensification of urbanisation and the consequences of increasing life expectancy. Asia's urban population has risen from 33% of total population in 1990 to 43% in 2010. The United Nations projects that Asia's urbanisation rate would rise to 56% in 2030, and further to 64% in 2050. Accompanying this urbanisation has been the growth of mega-cities with populations exceeding 10 million. Twelve of the world's 21 mega-cities are in Asia, including Tokyo, Delhi, Mumbai and Shanghai to name a few.

Urbanisation has become particularly more pronounced in Malaysia during this period. The proportion of the Malaysian population living in urban areas has increased from less than 50 percent in 1990 to more than 70 percent in 2010, and is expected to rise further to 75 percent in 2020. The improved education and higher income levels that has come with urbanisation has enhanced opportunities for greater access to financial products and services. Indeed, financial institutions and markets have responded to the changing profile of financial consumers by offering a broader range of financial instruments and providing convenient access to meet the changing consumer preferences.

It is recognised however that economic growth and development, no matter how stellar, will begin to fade when inequality sets in and when income disparities widen. Balanced growth is therefore an important imperative if socio-economic progress is to be achieved and if conditions that limit opportunities for employment and which deepen inequalities of income and wealth are to be avoided. For several emerging economies, such conditions are reflective of the growing phenomenon of the urban poor, with significant implications for social stability and balanced growth. To address this, inclusive growth strategies have gained prominence in recent years among the policymakers in the region. This needs to be further reinforced by strategies targeted at preparing individuals at an early stage to be well equipped to adjust to the new economic, financial and social realities that confront them. This is where financial education has a fundamental role.

A key concern in this environment is to strengthen the capability of financial consumers, in particular household and small businesses, so as to avoid being marginalised by market forces and by the disproportionate impact of the changing financial and social landscape. Related to this is the need to reinforce socially responsible finance, and to address the new and growing risks of financial exclusion. Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and businesses to qualify for financial services. Among those that qualify, aggressive marketing practices and more complex financial products can also lead to poor financial decisions at a time when economic and financial reforms are also shifting greater responsibility to individuals to plan and provide for retirement and unexpected developments. Marketing practices that target select groups of consumers often further deprive the broader segments of society from new products that can better meet their financial needs.

The way in which financial services are delivered to consumers is also moving towards more cost-efficient channels that reduce the need for face-to-face contact. Enquiries and complaints are largely handled by phone or e-mail, and usually in a highly fragmented manner by different parts of a financial institution. This can mean less effective advisory support for the vulnerable groups of financial consumers. More recently, the wider adoption of electronic channels to make and receive payments has had enormous potential for greater financial inclusion. Key to this progress is the access to the relevant technology and safeguarding its security and thus gain the willingness to trust it. This will also involve the awareness of its benefits.

These developments can be overwhelming to consumers and businesses who are ill-equipped to make informed financial decisions due to their inadequate knowledge on financial matters, thus diminishing their effective participation in the financial system. Symptomatic of this has been the rapid growth in household debt and leverage in a number of countries. This has been particularly prevalent in an environment of ample liquidity and low interest rates. This is also being reinforced by changing social norms, such as social pressures to spend, which has further eroded financial discipline among households. Such pressures are further compounded by the rising cost of living in the urban areas. Financial capability levels have however generally lagged the socio-economic changes that are taking place, resulting in poor financial management.

While financial products and services have become more complex, new delivery channels are also having the effect of increasing the distance between product providers and consumers. For example, more pervasive non face-to-face channels can make it more difficult for consumers to seek information. Financial education messages are also often overshadowed by competing commercially driven messages that dominate the delivery channels. While considerable attention has been directed at reforming the incentive structure to better align the interests of financial agents and consumers, such changes need to go further to improve outcomes for consumers.

In this environment, the financial education agenda needs to be addressed by the collective efforts of policymakers, non-government organisations, consumer advocacy groups and the financial industry to deliver a sustained education programme that will equip all segments of the population with the necessary financial knowledge to save, invest and to insure against adverse events. The financial education strategies and learning interventions need to be tailored to the consumers' conditions, culture and education levels, and to be responsive to their requirements, thereby enhancing their prospects for improving their economic well-being.

A well designed financial education strategy can encourage greater effective participation in the mainstream financial system, and keep individuals already in the mainstream from being financially excluded as a result of changes in the financial landscape. A recent report by the OECD has highlighted that a lack of awareness of different types of financial products, low level of confidence and poor knowledge of how products work are barriers to financial inclusion. These factors will become more acute in an increasingly complex and technology-driven financial system. Financial education has an important role in breaking such barriers. This will require more innovative approaches, broader partnerships and a deeper understanding of the social attitudes. Our own experience in Malaysia through the work of Bank Negara Malaysia and the Credit Counselling and Debt Management Agency (a subsidiary of the Bank) has shown that the impact of financial education strategies depends on the ability to effectively combine broad-based and targeted strategies, and having a well-coordinated approach that relies on multiple channels to reach different groups.

Financial education is also a lifelong endeavour, from encouraging children to save their pocket money to helping adults attain financial security and independence for their old age. In supporting the inclusion agenda, financial education initiatives in Malaysia are designed as an important life skill, where consumers are exposed to knowledge on financial management during the different periods in their life. An increasing trend is for financial capability to be promoted from an early age through the integration of financial education into the formal school curriculum that covers basic money management, spending and savings, credit and debts, e-payments, financial risk management and consumer responsibilities. For the youth and adult segments of the population, Malaysia has also adopted a life event approach to the development and delivery of financial capability programmes. This is reinforced by a dedicated focus on the vulnerable segments of the society, such as how to plan for retirement, the importance of living within one's means and behaviours that can lead one into high indebtedness. These programmes are delivered to consumers in the workplace and colleges.

Our collaboration with employers has proven to be particularly effective in delivering financial education on responsible financial management. Under this approach, strategic alliances have been forged by the Credit Counselling and Debt Management Agency with more than 200 organisations in Malaysia to deliver financial capability programs at the workplace. Equal emphasis is given to developing the enabling infrastructure to support the effective delivery of financial capability initiatives. In Malaysia, the meaningful access to financial education contents and tools, a rigorous assessment framework and an effective partnership that involves the Government, educators, non-Governmental organisations and the financial industry form the vital components of the enabling ecosystem to support the overall financial education strategies.

In many instances, changes in consumer behaviour are needed for the intended benefits to be realised. In Malaysia this is the case in the efforts to promote e-payment as a means of improving economic efficiency, productivity and competitiveness. Central to this agenda has been the implementation of various financial education initiatives to encourage changes in consumer behaviour and to inspire confidence in the use of e-payments. Financial education has had a critical role in equipping consumers with knowledge to utilise e-payments responsibly, and to help consumers protect themselves from risks of financial scams that exploit specific vulnerabilities associated with online payment platforms. Financial education has also been a lynchpin in our efforts to encourage retirement planning. As life expectancy increases, consumers are expected to effectively plan and manage their finances for their retirement. Specific financial education are being introduced, particularly for individuals at the early stages of entering the workforce to provide the relevant information and skills to save and manage funds for their retirement.

A further objective of financial education is to reinforce the consumer protection agenda including to be adequately protected against market failures and misaligned incentives. This has become more relevant in the recent period with increasing global pressures being exerted to significantly strengthen prudential and market conduct regulation following the global financial crisis. Emerging economies in particular continue to face practical challenges in embracing global standards in a manner that is also aligned with enhancing opportunities for inclusive finance. Financial education is an important link in the efforts to build a financial system that is resilient against crises and abuse, while limiting the adverse socio-economic implications that can arise. While the government has a key role in driving the financial education agenda, the private sector also needs to be actively engaged in the education of financial consumers. A commitment to financial education should be a natural extension of the financial industry's commitment to professional and ethical conduct in doing business. In Malaysia, a national network for financial education is being pursued involving the several key stakeholders to provide a platform to drive, prioritise and coordinate the financial education initiatives.

Financial education strategies also needs to be accompanied by a strong focus on developing a robust consumer protection regime with emphasis on fair treatment, transparency and effective recourse that promotes a culture of responsible conduct by financial service providers. The experience of the global financial crisis has clearly demonstrated 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. A particular focus on consumer protection policies, and one that is key to advancing the financial inclusion agenda, should be to protect vulnerable groups and ensure that financial innovation is pursued in a responsible manner. The board and senior management of financial service providers have a key role in setting the right policies and incentive systems that support fair and responsible business practices. Financial service providers that embrace fair dealings are likely to enhance their competitive advantage by building stronger and more lasting consumer relationships and enhancing their brand value. Fair dealings can also reduce exposures to reputational risk arising from poor business conduct, as evidenced by recent incidents of mis-selling and resulting sanctions by conduct authorities.

Going forward, the challenges imposed by the rising trend of urbanisation and other demographic changes are set to become more pronounced. The implications of this for financial education strategies are far-reaching. It will require a fundamental re-thinking of current approaches to delivering financial education that will have its optimal impact. The approach will need to be comprehensive and with all stakeholders in the financial ecosystem. We have a shared responsibility to develop effective channels for delivering financial education, build the necessary infrastructure and continuously evolve relevant financial capability programmes that will facilitate consumers to make sound financial decisions with confidence, and cope successfully with the new emerging economic and financial challenges. This Summit provides an excellent opportunity for stakeholders to come together to generate new knowledge and ideas in our journey towards achieving effective participation in the financial system through financial education. It is such concerted efforts that will strengthen the potential to create an enduring impact that will make the difference in achieving a more balanced and sustainable economic future.