Zeti Akhtar Aziz: The financial well-being journey – building on the momentum and identifying new paths

Opening address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysia-OECD High-Level Global Symposium on Financial Well-Being, Kuala Lumpur, 30 September 2015.

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It is my great pleasure to be here at this Global Symposium on Financial Well-Being, an important area of priority in the current world economic environment. Bank Negara Malaysia is most pleased to host this important event in collaboration with the OECD. Let me extend a very warm welcome to all delegates to Kuala Lumpur and to our facilities here at Sasana Kijang.

The advancements in the provision of financial services in these recent few decades have had a transformational impact on financial well-being. Key features of this transformation have been the greater diversification of financial systems and the increased leverage on the advancements in technology. Today, a growing share of financial intermediation is supported by a wider range of financial products and services that are not only being offered by banks but also by capital markets and non-bank financial intermediaries that are now assuming a larger role in the financial system and the economy. This has contributed to greater flexibility in managing financial risks and it has expanded the avenues for businesses and households to meet their financial needs and goals.

Advancements in technology have also improved access to financial services to be undertaken more effectively. It has also contributed to lower costs of financial services. Additionally it has supported the development of a broad range of financial services, including advisory and product aggregation services that allow for more informed financial decisions. Ongoing regulatory and supervisory reforms, particularly in this recent decade, have further reinforced the potential benefits of financial development – by improving the resilience of financial systems to disruptions and reducing the harm it could have to consumers that may arise from market failure and financial crisis.

For the benefits of financial development to be fully realised, it needs to be complemented with the effective use of the financial system by consumers and businesses. With economic progress, individuals need to assume greater responsibility for financing their lifetime financial needs that may include education, healthcare and retirement. In addition, easier access to credit has also increased the risk of households falling under the crippling weight of excessive debt burdens, while the challenges associated with operating in a more complex financial system have also increased the vulnerability to inappropriate financial risk taking and to financial fraud. Indeed, the identification of vulnerable groups is no longer confined to the poorest segments of society as defined by poverty threshold levels, but it also includes young adults, households living in urban centres, those in temporary unemployment, and the older segments of the population.

The focus on strengthening the ability of consumers and businesses to effectively use the financial services must therefore be an important part of any effort to improve financial well-being. This would involve enhancing the ability of users of financial services to make discerning financial choices that best suit their needs, while increasing their confidence to take advantage of the new spectrum of channels and tools for financial management. This would result in better financial planning and more stable consumption patterns as well as the ability of individuals to better withstand the macroeconomic shocks that are now occurring more frequently in the global economic environment.

Increased financial capability would also contribute towards evolving more inclusive financial systems and the broader financial stability. There is greater expectations on the potential for financial education to deliver improvements in responsible financial behaviour; encourage stronger market discipline and lift the poorest segments of society out of poverty in addition to helping communities adjust to the changing economic and financial conditions. The achievement of these outcomes will increasingly hinge on consumers of financial services being financially competent.

Over the years, important progress has been made to provide the foundations on which enhanced financial capability can be built. These foundations include: (i) greater provision of truthful disclosures on financial products and services; (ii) expanded financial knowledge; (iii) an environment which is supportive of consumer choice, including the ability for consumers to exercise their preferences without impediments; and (iv) effective redress mechanisms. Policy makers, the private sector and market participants have a key role in building these foundations.

In the area of disclosures alone, there has been extensive improvements in the quality and consistency of disclosures, making it easier to understand through the use of plain language, and adopting the various approaches to bring important disclosures to the attention of consumers. For many regulators, the use of disclosures has been particularly useful to promote positive consumer outcomes, without creating distortions that could result from more intrusive policy interventions.

On enhancing further financial knowledge, more than 50 countries have accorded priority to this agenda and have implemented or designed national financial education strategies. This will gain further traction with the publication of the OECD high level principles on national strategies for financial education in 2012. It will be further reinforced with the reporting of progress made by countries in implementing their national strategies. Of significance has been improvements to better coordinate and achieve greater alignment between the financial education strategies, the financial inclusion agenda and the consumer protection regime in order to maximise the impact of the respective individual initiatives and avoid duplication so as to optimise the impact of financial education efforts over the longer term.

In the area of facilitating consumer choice, initiatives have been pursued to reduce exit and switching costs so that informed consumers can easily exercise their preferences and adapt to the changing circumstances. While measures to reduce financial exit costs have met with some success in reducing switching barriers within the financial industry, responding to other factors that discourage consumers from switching to a superior product or financial service has been more challenging. Such factors include the additional effort required to switch financial service providers or products arising from the higher marginal cost of switching.

Finally, the measures to strengthen redress mechanisms are also contributing to the enhanced capability of financial consumers, by providing an expedient and cost–effective means for consumers to assert their rights and protect their interests. Effective redress mechanisms also increase consumer confidence in using financial services, while serving to strengthen market discipline.

Looking ahead, strategies to further strengthen these foundations are likely to be significantly influenced by two important developments. The first is the broader application of behavioural finance so as to better understand and identify the levers that contribute to better financial decisions in the different circumstances. Recent insights from the study of behavioural finance suggest that emotional and psychological associations with finance are as powerful as the intellectual grasp of how to make wise financial choices. This will have important implications for the design and implementation of both consumer protection policies as well as financial capability strategies.

We have found that providing consumers with relevant information in Malaysia did not always lead to better decisions. This was frequently because it was not easy to understand the information and there was also too much of it. The Bank now requires for the simplification of disclosures by financial service providers and for the strengthening of the role of independent advisory services in the financial institutions. Financial institutions are also required to exercise a higher degree of diligence in ensuring that the respective products sold to consumers had to be commensurate with their financial capability and to steer financial consumers towards decisions that are in their interests, whereby choices are in the best interest of consumers.

Approaches to financial education have also become more targeted in an effort to more effectively influence financial behaviour. This reflects the growing customisation of financial education programmes to target audience groups that are delivered at the right time and using the right channels. Programmes are increasingly being tailored to behavioural traits, demographics and stages in the financial lifecycle of individuals so as to appeal to the intrinsic motivations and incentives that would drive financial behaviour.

The second development relates to the advances in technology that has had a profound impact on financial capability. While it presents new challenges for financial capability strategies, it also brings with it the potential to revolutionise how financial capability strategies can be designed and delivered, enabling policymakers and financial institutions to achieve what was previously not possible. Online classrooms and games, have for example, opened up new and engaging avenues for imparting important messages on financial management. The use of mobile applications has also made it much more convenient for individuals to monitor and control financial habits, in addition to helping consumers make financial choices. This has also enabled resources to go further by significantly expanding the reach of financial capability initiatives, and increased its potential to create a more lasting impact on financial behaviour.

In Malaysia, initiatives to strengthen financial capability began almost 20 years ago and is an important component of the Bank's business conduct and financial inclusion responsibilities. The Bank has in collaboration with the Ministry of Education and the financial industry, implemented financial education in schools to promote financial capability skills from an early age. This has now culminated in a process of formally integrating financial education elements into key subjects in the school curriculum.

Financial capability programmes among adults are closely aligned to the nature of financial decisions and exposure that individuals are likely to be confronted with at the different stages of their lives. This has therefore shaped the content, approach and timing of our financial education programmes. Of significance, has been the involvement of the private sector, through initiatives such as financial education in the workplace which are organised by large corporates in collaboration with the Credit Counselling and Debt Management Agency in Malaysia. The enabling infrastructure is also being enhanced to provide financial consumers with an integrated platform for easy access to financial education contents that are relevant for financial decision making.

The Bank assesses all major financial education programmes to evaluate their effectiveness in meeting the intended objectives through a Financial Education Assessment Framework. The Framework, developed in 2013, assesses the impact of financial education programmes on the overall level of financial literacy and on changes in behaviour.

Mobile applications have also been introduced to promote more informed financial decisions. These includes applications for personal money management, updates on important consumer news including financial fraud alerts issued by the Bank, and for consumers to make enquiries, obtain advice and raise their complaints with financial institutions. These mobile applications are customised for use in Malaysia and can be downloaded by individuals at no cost. It is envisaged that wider use of these applications will contribute towards enhancing financial competence.

The financial education initiatives in Malaysia has been advanced through collaborative efforts by the public and private sectors. Key agencies involved have included the Credit Counselling and Debt Management Agency, the financial industry, consumer associations and the Employees Provident Fund (which has more than 14 million contributors) to ensure that messages on financial management address all the key issues in savings, debt, investment and protection. These strategies are pursued together with the efforts to promote financial inclusion and to ensure fair treatment of financial consumers.

It is important to recognise that the financial industry itself plays a pivotal role in helping consumers improve their financial well-being. The global financial crisis significantly undermined confidence in the financial system, and the discovery of ethical lapses that continue to be reported today has further eroded public trust in financial institutions. There is an urgent need to restore faith in the utility of financial services, firstly through the demonstration of fair and responsible practices and reinforced with the provision of value-adding products and services that are meeting the real needs of consumers and businesses.

Financial institutions with their extensive reach and customer relationships are in a unique position to have a more significant role in advancing the financial education agenda. In Malaysia, this has included providing technical support and materials for teachers to improve their knowledge and increase confidence in teaching financial matters in schools. Financial institutions have also adopted more than 10,000 schools across the country under the School Adoption Programme with wide ranging activities in money management for the children. The financial institutions also work closely with the Credit and Debt Management Agency in the implementation of financial education programmes for adults.

Today, the focus on financial capability has become a global agenda. This has provided opportunities for policymakers to learn from their peers across countries and leverage on the international network of expertise in addressing common issues and challenges. This Symposium is a great example of realising such opportunities. The possibilities for meaningful cooperation at the regional and global levels are tremendous. This has already included research, technical assistance and guidance for policymakers. Leveraging on technology, financial education applications can be developed, tested and translated for adoption in different countries. International collaboration can not only be for training programmes, but also on the access to the network of international experts through online platforms and communication channels.

I would also like to take this opportunity to invite all the delegates of this Symposium to our Financial LATeracy exhibition that is being held in this building. This is an exhibition of more than 150 distinctive caricatures by a renowned Malaysian cartoonist that depict the promotion of good habits for money management. The drawings are compiled from the annual pocket money books for students which were published by Bank Negara Malaysia. More than 15 million copies of these pocket money books have been distributed annually to students since 1999 to more than 10,000 schools throughout the country to encourage good money management habits. The drawings also illustrate the many aspects of the culture and environment in Malaysia. I hope you will enjoy the exhibition and also draw inspiration from it.

Let me now conclude my remarks. The commitment to financial education is an important imperative. As the theme of this Symposium reminds us, it is to improve the financial well-being of our communities. It is the very reason why we are on this journey. It is so that members of our society will benefit from the effective utilisation of the financial system and avoid despair and desperation that is brought by poor financial decisions. Additionally, we will also help build more resilient and inclusive financial systems and thus contribute towards achieving more balanced growth and development.

Thank you and I wish you productive discussions at the Symposium.