

Muhammad bin Ibrahim: Of TRUST, wellbeing of society and the role of financial ombudsman

Remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launch of the Financial Ombudsman Scheme “Of TRUST, Wellbeing of Society and the Role of Financial Ombudsman”, Kuala Lumpur, 3 November 2016.

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TRUST is the bedrock of a financial system. The numbers and figures we diligently report to reflect financial positions, the close regulation and scrutiny by supervisory authorities – all these ultimately serve to uphold the TRUST of our people in our financial system. But TRUST is fragile, and when it is eroded, the smooth functioning of the system becomes threatened.

We see this clearly in economies most affected by the Global Financial Crisis. Even today, societal and political backlash against financial institutions still continues. It is imperative that we rebuild and enhance TRUST.

This is especially important in an operating landscape that is undergoing rapid changes brought about by technological advancement, demographic shifts, changing expectations and norms of society. Over the years, financial institutions have responded to these changes in their offerings of products and services, in marketing strategies, and in the delivery and usage of financial services.

Consumers have also become increasingly discerning, better informed and assertive of their rights. With the advent of information and communication technology, we can only expect these trends to accelerate as information becomes more widely available, more transparent and more insightful.

It is in response to these developments that the consumer protection framework must evolve in tandem, to provide the right balance for consumers in terms of fair treatment, access to information to make informed choices, and the need for an effective mechanism to resolve disputes with financial institutions.

The Bank has consistently worked to build TRUST in our financial system. Much investment in resources has been made over the years. Significant progress has been achieved. The necessary institutional arrangements and a strong regulatory framework for market conduct were put in place. These measures were supported by efforts to continuously improve the transparency and comparability of financial products, and suitability assessments of financial products offered to consumers. At the same time, efforts to raise the level of professionalism of financial service providers and intermediaries have also been intensified.

Ensuring adequate avenues for consumers to resolve disputes through an equitable process has been another long-standing priority of the Bank. We embarked on this journey way back in 1991 with the establishment of the Insurance Mediation Bureau followed by the Banking Mediation Bureau in 1996. We integrated both these entities in 2004 to form the Financial Mediation Bureau. The transformation of the Financial Mediation Bureau into Financial Ombudsman Scheme backed by legislation marks an important milestone in this evolution, putting Malaysia on par with international best practices for consumer protection in terms of effective redress mechanisms.

The establishment of the Financial Ombudsman Scheme will further strengthen consumer confidence and market discipline in the financial sector. It will provide consumers with a user-friendly and efficient redress mechanism to resolve disputes. This mechanism will continue to benefit both consumers and financial service providers (FSPs). Our data bear proof to this point. Over the past 12 years, the Ombudsman for Financial Services has helped to resolve

close to 25,000 financial disputes. It saved significant costs and time for both consumers and FSPs. Assuming a cost of about RM15,000 to resolve a case through a court proceeding, it will translate to a cost savings of RM375 million.

TRUST is the vital ingredient for the Ombudsman for Financial Services' integrity and credibility in the delivery of its services. For this to happen, there are a few fundamental principles that are absolutely critical for success; namely, independence, fairness and impartiality, accessibility, accountability, transparency and effectiveness. These principles must be embedded in perpetuity into its governance and operational arrangements. Recognising its importance, these principles have also been enshrined in the legislation.

In line with the principle of accessibility, the services will continue to be treated as a public good and offered free of charge to financial consumers, with minimum formality.

The Ombudsman for Financial Services will also have an important role in identifying systemic issues and serious misconduct, and escalating these issues to FSPs and the regulator, where appropriate.

In recent months, further episodes of large-scale misconduct have again come to light, highlighting the growing concerns at the global level that misconduct increases systemic risks and will further erode confidence in the financial system. Addressing this risk will require closer coordination and understanding between FSPs, the Ombudsman for Financial Services and the regulator.

Expectations on Financial Service Providers

The fragility of TRUST is evident today in the news headlines. Time and again, we had witnessed how poor culture and misaligned compensation practices drive behaviours to the detriment of consumers' interest. These behaviours cannot be allowed to proliferate and ought to be unacceptable under any circumstances; it is particularly intolerable when it affects the most vulnerable segments of our society, whose wellbeing should be held in high priority by financial institutions. In recent years, financial institutions paid a heavy price for indiscretions in terms of heavier fines and loss of reputation. Even institutions that have not been at the centre of misconduct have had to work substantially harder to maintain TRUST with their customers.

Let me focus on three key areas that FSPs should strengthen to inspire TRUST, namely, instilling the right corporate culture, inspiring confidence through exceptional customer service and assisting efforts to empower consumers.

On instilling fair dealing into the core corporate culture

First, industry players must ensure that strategies, business models and governance arrangements are aligned with their underlying culture, shared values and an attitude that place customers' interests at the very core of the business model. Indeed, the true north of an organisation's culture is often tested when there are no written rules to dictate behaviour. This can only be cultivated over time through a consistent demonstration and enforcement of intended values and behaviours in every aspect of its business and operations. In this respect, it is critical that the Board and senior management 'set the right tone' from the top, and supplemented by incentive structures that reward appropriate behaviours.

Strengthening public confidence in FSPs' customer service

Second, FSPs should strive and commit to exceptional customer service. This should define their value propositions. A few things come to mind; simplify procedures to speed up service delivery, ensure complaints are properly handled, and develop a feedback mechanism that consumers can use to channel their views and concerns. One key aspect that FSPs should consider is to link organisational and staff performances to customers' satisfaction and

perceptions. We have learnt over the years that ultimately, a leading indicator of impending problems faced by an institution often started with abnormal trends in the number of complaints received.

As consumers ourselves, we should all agree on the rights of consumers to be treated with fairness, dignity and respect. This is the very reason behind the Bank's efforts to invest significantly in strengthening consumer feedback channels and ensuring that alternative avenues are available for consumers to resolve their disputes with financial institutions.

In Malaysia, the central bank is pleased that all financial institutions have reciprocated by creating a dedicated complaints units complemented by additional channels at the respective industry associations, BNM's LINK and the Ombudsman for Financial Services. These additional channels also provide an important feedback loop for insights on financial sector developments that may be useful in shaping regulatory policies and supervisory priorities.

Bank Negara Malaysia has handled 6,695 banking and insurance complaints in 2015, a slight reduction compared to 7,197 in 2014. The Bank expects this number to come down further as FSPs enhance and improve their complaints handling practices. Bill Gates once said, "Your most unhappy customers are your greatest source of learning." FSPs should mine customers' complaints data and use the insights to explore new opportunities to connect, learn and improve services, and build long-term relationships with customers.

Moving forward, the Bank will consider publishing the outcome of the FSPs customer service index to generate long-term benefits for consumers who can make informed decisions and exercise their right of choice.

Over time, the survey findings will drive industry's performance by facilitating comparison and performance measurement. Competition will also drive players to up their game.

Raising awareness on financial products and services

Consumer protection is however not a one-sided pursuit. To enjoy protection, consumers have to exercise some responsibilities too. Which brings me to a third point – it is equally important to empower consumers to make financial decisions that are well-informed, effective and responsible.

Malaysia ranked relatively low among 30 countries that had participated in the OECD/INFE International Survey of Adult Financial Literacy Competencies. The survey results corroborate the Bank's own findings which were published earlier this year that Malaysian consumers generally lack the capability to make good financial decisions. We are determined to improve this situation. Greater public and private sector collaboration is required to elevate the financial knowledge, skills and behaviours of our consumers. When consumers understand the characteristics of the financial products and transactions, they can make well-informed decisions and know their rights and responsibilities.

FSPs also stand to benefit from empowered and well-informed consumers. Greater participation from more informed consumers will increase demand for financial products, build competitiveness and promote alignment with consumer expectations.

Enhancing consumer awareness is therefore a shared responsibility, one that the Ombudsman for Financial Services and FSPs should embrace as an important part in their engagements with the public at large.

Conclusion

A sound financial system is a central pillar for a thriving economy and for the betterment of society. It plays a catalytic role and at its best, a financial system goes beyond managing risks and allocating resources. It uncovers and creates opportunities and facilitates entrepreneurship that creates value and drive innovation. And the higher the integrity of the

system, the more effective a force it will become to serve the public good. It is a symbiotic relationship that has always been built on TRUST. To uphold this TRUST is to preserve the functioning and advancement of our nation.

The financial ombudsman scheme is an essential part of our overall efforts to nurture and deepen this TRUST. It is this precious bond with society that will ultimately secure the objectives of enhancing our societal growth, prosperity and wellbeing.