

## Encik Abdul Rasheed Ghaffour: Realising financial well-being

Address by Mr Encik Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Federation of Malaysian Consumers Associations (FOMCA) Conference 2017 "Towards an Effective Financial Education Strategy for Malaysia", Kuala Lumpur, 3 October 2017.

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It is my great pleasure to have the opportunity to speak at the FOMCA Conference this morning. I would like to express my appreciation to FOMCA for the commendable initiative to gather the minds of leading stakeholders in the area of financial literacy today. The theme of today's conference — 'Towards an Effective Financial Education Strategy for Malaysia' — is indeed relevant; and will certainly provide a great opportunity for government agencies; corporates; consumer associations; academicians and all of us present here today to exchange ideas and discuss this important issue on financial education.

Today, we are living in an environment that is becoming increasingly challenging. "Bits and bytes" are slowly replacing "brick and mortar". At the same time, Malaysians are facing socio-economic changes, including demographic shifts, urbanisation and increasing life expectancy. These factors affect, not only the way we experience financial services, but also the necessary knowledge for consumers to make good financial decisions to realise financial well-being. Therefore, ensuring Malaysians have the right knowledge, skills and behaviour – to make informed financial decisions – is an important agenda for our nation. Today, I would like to share with you – our vision to realise financial well-being for Malaysians through financial literacy and financial education.

Let me begin by sharing four observations on the state of financial literacy in Malaysia.

First, Malaysians tend to have low financial resilience and are vulnerable to financial shocks. Among others, based on Bank Negara Malaysia's Financial Capability and Inclusion (FCI) Survey conducted in 2015- more than 75% of Malaysians find it difficult to raise even RM1,000 of immediate cash money for emergencies. 32% of Malaysians – can only cover a week's worth of expenses, at most, should they lose their source of income. In cases of emergencies, Malaysians resort to cutting down on spending; or borrow from external sources, such as friends and family members; or even depend on credit lines, such as credit cards and instalment plans. An ideal situation is to have a financial buffer that is sufficient to cover living expenses of at least three to six months in the event of loss of income.

Second, the same survey also revealed that a significant number of Malaysians like to "live for the moment" and display short-sighted tendencies – focusing on "instant gratification". This observation tends to be true, particularly among the millennial generation. Millennials are more passionate in keeping pace with the latest digital lifestyle. A study by the Asian Institute of Finance in 2015 found a majority of youth to be living on high borrowing costs – 38% of youths rely on personal loans, while another 47% engage in expensive credit card borrowings. Often, they will soon find these debts to be burdensome and result in financial problems. From January to August this year, AKPK's data indicated that above 3,400 borrowers between the ages of 20–30 years have sought AKPK's assistance, as compared to 3,450 borrowers for the entire of 2016.

Third, majority of Malaysians do not practice long term financial planning. Only 40% of Malaysians consider themselves financially ready for retirement, despite the steadily increasing life expectancy of Malaysians. The poverty line in Malaysia is currently at RM950 per month, and based on the Employee Provident Fund (EPF), a retiree would need an estimate of RM228,000 upon retirement to generate sufficient investment income to live above the poverty line for the

next 20 years. However, according to Khazanah Research Institute, the average EPF savings of those in the 51–55 age group is only approximately RM160,000. Lack of awareness on the importance of having sufficient saving for retirement can lead to profound results, including the struggle to meet post-retirement standard of living.

Fourth, Malaysians still lack understanding on risk and return and are not able to make rational financial decisions. We remain prone to financial fraud and abuse. According to the Police, the number of financial scams reported in Malaysia has risen to an alarming 1,883 cases between 2015 up to the 1st quarter of 2017, accumulating a total loss of RM379 million. This suggests that greed and ignorance can give way to rational financial decisions for many victims.

Based on these observations, a lot more is left to be desired on the state of financial literacy to realise financial well-being for Malaysians.

It is acknowledged that improving financial literacy is an intricate and long term journey. Through continuous and effective financial education, consumers would be able to improve their understanding of financial products and services, and develop skills and confidence to make informed financial decisions in their daily life. Financial education would encourage consumers to better manage their finances, plan for the future and manage risks associated to financial matters.

While we agree that financial education plays an important role in elevating financial literacy, engaging in financial education alone is insufficient. It is equally important that the acquired knowledge and skills are put into practice and lead to a positive change in behaviour towards a healthy financial lifestyle. To this effect, initiatives to improve financial literacy must be implemented holistically. The ultimate aim is to promote sustainable behavioural changes at all life stages.

### **Announcing the development of a national strategy for financial literacy**

As reflected in the theme of this conference — “Towards an effective financial education strategy in Malaysia”, I would like to share with you that work is currently underway to formulate a 5-year national strategy to elevate financial literacy. The national strategy rests on three main thrusts – the three “Cs” – clarity, collaboration and commitment:

- ♦ Clarity: In terms of having a clear vision to realise financial well-being of Malaysians.
- ♦ Collaboration: Financial literacy is a shared responsibility and, therefore, requires strong collaboration of all stakeholders.
- ♦ Commitment: Is towards having an outcome-oriented approach to implementation.

Let me elaborate on each of these thrusts.

The first is “clarity”. We have a clear vision — to realise financial well-being of Malaysians by advancing and elevating financial literacy. Our vision aims to shape the society characterised by – responsible financial behaviour; the ability to manage finances well; and to achieve financial security. A population with a high-sense of financial well-being has the financial freedom of choice to enjoy life.

Financial well-being is a pre-condition for a more productive, resilient and inclusive economy. Indeed, the journey to attain individual financial well-being is a journey worth taking and it will be a long journey too. Thus, over the longer run, the implementation of the national strategy will be aligned to the longer term Government aspiration under the Finance Cluster initiative of the Transformasi Nasional 2050 — or the TN50. I therefore welcome further views and ideas from the audience during this conference on your aspirations to achieve financial well-being of our future Malaysia.

Financial well-being is not about being rich. Rather, it is about the ability to live within means and making responsible financial decisions. The state of financial well-being of an individual is a reflection of two factors — firstly, his or her level of financial literacy, and secondly, a person's economic background.

Unfavourable personal and economic circumstances, for instance, like most of us – coming from low and middle income families living in a city, may be more dependent on external factors and are not easily changed. Financial literacy, on the other hand, resides within an individual where we have control. Given the right intervention, motivation and discipline, an individual's level of financial literacy can be improved from within. More importantly, such interventions can also become an important element to uplift a person's personal and economic circumstances.

The reverse is also true – absence of financial literacy may reverse financial well-being. We have seen many situations where individuals with favourable circumstances, such as high income professionals, nevertheless, fall into financial problems due to poor personal financial management. On the other hand, we often hear of people with less favourable personal and economic circumstances living comfortably within their means by practicing a “prudent and modest lifestyle”.

The aspiration and objectives of a national strategy for financial literacy have been carefully articulated by the Financial Education Network (FE Network), which was established in late 2016. Strategic outcomes, priority areas and target groups have been identified. The national strategy for financial literacy have identified five strategic priorities which cover all life stages – from nurturing values among young children, to inculcating positive behaviour for adults and preparing Malaysians to retire comfortably. Specific action plans would be formulated to reach out to the masses as well as meeting the needs of specific target groups.

The second key thrust is “collaboration”. I believe that shared responsibility and concerted efforts are integral to the successful implementation of the national strategy to realise our desired outcome. It requires strong and long-term efforts by all stakeholders, including regulators, private and public sectors, non-governmental associations and the consumers themselves to realise the desired outcome of improving financial literacy.

Each stakeholder has its own strength. While some are subject matter experts providing reliable financial education to the targeted audience, others may have access to critical contact points to reach out to the masses. Often times, many agencies are also well-positioned to leverage on “teachable moments” such as at the stage of starting a job; getting married; or preparing for retirement, where key financial decisions are made. The national strategy will be a catalyst for the stakeholders to leverage on each other's strengths, resources, expertise or even authority in providing a holistic financial education and in reaching out to Malaysians nationwide. We would anticipate some nudges or policy changes by relevant stakeholders in order to influence behavioural change in consumers.

Over the recent years, concerted efforts between the private and public sectors have resulted in a number of specific financial education initiatives being implemented. For example, financial education elements are integrated into the school curriculum for Year 1, Year 4 to 6 and Secondary 1 following effective collaboration between the Ministry of Education and Bank Negara Malaysia. I am pleased that financial institutions and the private sector are also playing their roles to strengthen learning in the classroom through extra-curricular activities in their respective signature financial education programmes. Moving forward, more can be done to instil positive financial values among the 5 million school children through greater sharing of responsibility.

I would also like to acknowledge FOMCA's on-going initiatives in financial education over the years. Indeed, FOMCA has been a valuable partner in the education segment. I wish to take this opportunity to welcome FOMCA's willingness to join hands with the FE Network to elevate financial literacy of our consumers under the national strategy.

FOMCA, through its affiliates and extensive network nationwide, is well-positioned to contribute on two fronts. The following are my suggestions. Firstly, FOMCA can further expand outreach to educate and create awareness on the importance of financial literacy, particularly to the informal sectors. It is important that our financial education initiatives can be reached to the masses.

Secondly, FOMCA can serve as a medium to inspire the thinking and outlook of various non-governmental consumer groups – in order to place higher importance for financial education in their agenda. Engagements with associations for women, parents, youths, athletes and even artistes can help convey financial education concerns and realign mind-sets at the organisational level.

Financial education is also a two-way process. For it to be impactful, consumers themselves need to play a role and take charge of their financial well-being. Rather than 'living for today', the culture of 'living within means' should take centre stage in our society. This paradigm shift is critical to generate a financially responsible society.

The third and final thrust is "Commitment". Let me quote Abraham Lincoln, "Commitment is what transfers a promise into reality". Unless full commitment is made, elevating literacy levels and achieving financial well-being will remain as only hopes and dreams of Malaysians.

The FE Network is committed to play a leadership role to achieve the targeted outcomes of our national strategy. I urge other stakeholders to join us and to embark on this journey together. Commitment from various agencies at different levels is pertinent, especially in areas where they have the greatest strength.

Financial education initiatives under the national strategy will be inclusive, be evaluated and enhanced over time to ensure that they remain relevant and impactful. To this end, I encourage the agencies represented here today to identify the levers that contribute to better financial decisions by consumers in different circumstances through consumer behavioural studies. Results of such studies can help in the improvement of financial education initiatives, and serve as a powerful tool to instil commitment of consumers. Take the lead from FOMCA, which has the experience and expertise to embark on this approach.

In conclusion, I have shared with you our vision and aspiration for financial well-being of the nation. To realise the vision and aspiration, we need to elevate the financial literacy of Malaysians through a national strategy for financial literacy which will chart our journey in realising the financial well-being of Malaysians.

However, having a national strategy is only meaningful if it delivers what it is designed to achieve. This journey will indeed take time, but it is worthwhile, as 'big journeys always begin in small steps'. Let this conference be the platform for us to share our thoughts and discuss our ideas to realise this vision. Thus, let me conclude by wishing you a fruitful session and an engaging conference ahead.