Jessica Chew Cheng Lian: Empowering financial consumers in the digital age

Welcoming remarks by Jessica Chew Cheng Lian, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the BNM-OECD Conference on "Financial Education and Financial Consumer Protection in Asia-Pacific", Kuala Lumpur, 11 December 2019.

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As I made my way in to work this morning, I glanced through my smartphone to check on my monthly bills, how much pocket money my sons had spent over the week and on what. I also browsed for money changers offering the best exchange rates for my next trip. Having all this information available to me literally at my fingertips would have been unthinkable years ago. Today, I can organise my financial matters quickly and conveniently over a 20-minute car ride to work!

It is my great pleasure to extend a warm welcome to all delegates to Kuala Lumpur and to the Conference on Financial Education and Financial Consumer Protection in Asia-Pacific. We are delighted to co-host this event in collaboration with the OECD.

At risk of repeating what many others have already acknowledged, let me say at the outset that financial education and financial consumer protection have never been more important, or more confounding, than in the digital age that is upon us. At stake is our ability to preserve public confidence in the financial system, and seize an unprecedented opportunity to come within striking distance of at least six of the Sustainable Development Goals: no poverty, zero hunger, good health and well-being, quality education, gender equality and reducing inequality. This Conference, themed "Empowering financial consumers in the digital age", aims to help us untangle and develop sensible responses to the myriad of issues associated with the rapid digitalisation of financial services.

Digital financial services adoption in Asia-Pacific

The financial services industry has long been at the forefront of the digital revolution, benefitting from efficiency gains, cost savings and wider outreach. For traditional financial institutions, it has also been a matter of survival against an onslaught of highly innovative and nimbler competitors. In recent years, industry players – both traditional and non-traditional – have rapidly scaled up their use of technology to create better customer experiences by making financial products and services more accessible, flexible and competitive.

As adoption rates rise, online banking, e-insurance and e-payments are quickly approaching a tipping point at which they will eclipse physical branches, ATMs and cash as conduits for financial transactions. In some markets, this is already a reality. It has been reported that nearly two-thirds of consumers in the Asia-Pacific region are active fintech users. The adoption rates are even higher in trailblazer markets such as China and India, where the share of active fintech users is estimated to be about 87%. The region as a whole is an active hive of experimentation in digital financial services, supported by favourable consumer demographics, particularly the digitally savvy youth.

In Southeast Asia, digital financial services is estimated to contribute about 5% of the total revenue for the financial sector this year. This share is expected to more than double to 11% within the next five years, driven among others by digital lending, investment, remittance and insurance products. Here in Malaysia, the most recent demand side survey on financial capability and inclusion indicated that four in ten Malaysians utilise internet banking services, up from just one in ten as recently as three years before. This trend is expected to intensify, with the expansion in digital product offerings and growing acceptance of online financial services.

Building trust and confidence

Digitalisation can also be a powerful force for sustainable financial inclusion. By lowering costs and increasing scale and reach, it has become a means for providing access to essential financial services such as e-payments, micro-insurance and online remittance to previously underserved segments. Other innovations such as banking and insurance aggregators are also helping consumers make better financial decisions, in turn, increasing their confidence in using financial services.

For a region where socioeconomic disparities are wide, where the rural-urban divide is pervasive and considerable segments of society are still excluded from the economic and social mainstream, these developments have enormous potential to transform the current state to one where the financial needs of all segments of society are catered to.

Several pre-conditions however must exist to realise this potential, and they all have to do with securing the trust and confidence of consumers in the digital financial system. This includes a regulatory framework that is appropriate and proportionate, a secure digital financial infrastructure and incentive systems that are aligned with providers that are both responsive and responsible.

In Malaysia, efforts that are underway to enact a new Consumer Credit Act will further strengthen the foundations for the development of consumer finance in the digital age. The proposed legislation is important on several levels. First, it will reinforce fundamental protections provided to consumers in the provision of credit, including that provided by a growing number of non-traditional entities through digital solutions. Second, it will institutionalise inter-agency arrangements between authorities responsible for regulating consumer credit activities to promote consistent minimum protections and fair treatment of borrowers. And third, it will provide stronger assurance of more responsive and coordinated consumer protection arrangements to take into account the fast-evolving financial services landscape going forward.

Equally important is a strong focus on financial education to promote financially and digitally literate consumers. Safeguarding the interests of consumers without stifling innovation remains one of the most difficult balances to achieve for regulators. Regulators are constantly trading off considerations of privacy against efficiency; fragmentation against competition; access against risks of abuse.

In the digital age, these trade-offs become impossible without equipping consumers with the information, knowledge and tools that they need to protect themselves and make decisions that are in their own best interests. It is only through a complementary mix of appropriate but not excessive regulation, and enlightened and confident consumers, that we will find the right balance of guiding the development of digital financial services so that it is neither hurried nor hampered, and remains sustainable and well-functioning to promote financial stability and inclusive growth.

For Bank Negara Malaysia, our regulatory agenda is supported by a long-standing focus on financial education. This year, I am pleased to share that this has been elevated to a national-level priority with the launch of Malaysia's first five-year National Strategy for Financial Literacy. A key focus of the strategy is helping consumers protect themselves against fraud and exploitation, and embrace innovation more confidently in the digital era. This needs to start with the young, but without neglecting those for whom the digital world is both unfamiliar and daunting.

Specific challenges in a digital era

Let me just mention a few of the specific challenges that financial services authorities will have to contend with in the digital era.

Increasing incidents of data abuse on social media platforms, security breaches and cybersecurity threats can sow mistrust and confidence deficits in digital systems. In our respective markets, these incidents are likely to reveal gaps in existing data protection and consumer protection regimes and the need to explicitly address ownership rights and permitted uses of personal customer information.

Prospects of digital profiling, and decisions driven by the use of complex algorithms can also result in financial consumers being unfairly discriminated against or targeted by unsolicited and unscrupulous marketing campaigns. Rather than delivering on its vast promise, digitalisation could instead become a polarising and divisive instrument. Take the provision of online credit, for example, the use of algorithm-based online credit scoring tools have led in some cases to assessments that are gender-biased, with female candidates consistently assigned lower credit scores compared to male counterparts of equal financial standing. Behaviourally, there is in fact evidence in Malaysia and likely elsewhere, to suggest that the opposite is true.

We can and must do better.

Proportionate laws and regulations must be in place to hold financial service providers accountable for establishing effective safeguards against the theft or abuse of personal data, and discrimination or unfair practices. The focus on consumer protection needs to shift from just addressing customer touchpoints, to the consideration of consumer needs much earlier in the product design process, in the formulation of distribution strategies or in the setting of risk limits. Predictive models used for decision-making must be subject to regular reviews against consumer outcomes and redress channels need to be aligned with the digital experience. Indeed, we should be concerned that while the delivery of financial products and services is taking on increasingly digital dimensions, when something goes wrong, processes for consumers to seek redress are still heavily manual in nature.

As for financial education, I am reminded of the old adage by Sir Francis Bacon: “Reading maketh a full man, conference a ready man, writing an exact man”. Today’s digital consumer – at least many of them – has neither the patience nor time to read, confer or write. In fact, this is almost the entire premise of digital financial solutions – brevity, speed and convenience. The short attention spans of financial consumers are further constrained by an overload of information and misinformation.

Digital solutions that can efficiently deliver financial education to masses of people, while simultaneously providing capabilities to tailor knowledge and information to one’s personal circumstances (such as through loan affordability calculators), have gained increasing traction. However, the fact that digital interventions are more cost-efficient, accessible and scalable, do not automatically make them any more effective than more traditional interventions in the past that have failed to achieve a consistent and lasting impact in changing behaviour.

We need to develop reliable insights into behavioural influences that may help or prevent consumers from making good financial decisions. This sounds simple in theory, but is as complex as an understanding of human psychology itself. As our understanding evolves, the solutions that work best are likely to be a messy blend of digital and traditional, as well as mass-market and bespoke, approaches.

In navigating these challenges, there is much that we can learn from each other. No one has it all figured out. We each have successes and failures, and by sharing them, we can help each other move forward with greater confidence in a world that is constantly unfolding before our eyes with every new digital experience. We are therefore privileged and grateful to be able to gather such a diverse and distinguished group of speakers and participants to add to our collective body of knowledge and experience. On that note, let me thank you all again for being a part of this event here and I wish you rich and productive discussions ahead.