Financial Education and Financial Stability

International Conference on Financial Education and Financial Awareness: Challenges, Opportunities and Strategies
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Challenges and Trends in Financial Consumer Education and Protection in the Next Decade

1. **Ageing population & increasing life expectancy**
   - Malaysians expected to have longer life expectancy of 76 years average
   - Approx. a quarter of population will be middle income

2. **Borderless & virtual transaction**
   - Emergence of electronic finance is reshaping the financial landscape globally
   - Highlights greater need for review of consumer & investor protection and safety & soundness

3. **Proliferation and increased complexity of financial products and services**
   - Requires ability to discern financial needs to successfully manage personal finances
   - Financial education required at earlier age as young adults have greater accessibility to credit

4. **Financial literacy and behavioral biases**
   - Consumers often overestimate their financial capability
   - Incorporate behavioral policies into financial education to maximise intended behavioral changes

5. **Imbalance in bargaining power**
   - Financially literate consumers enhance competition by demanding products more responsive to their needs
   - Encourage financial service providers to innovate and improve quality

6. **Rise of financial scams/ fraud**
   - Result in significant consumer injury & undermine integrity of economy

7. **Financial markets regulatory reforms post global financial crisis**
   - Consumer protection an important complementary role to prudential regulation and mitigating systemic risk
Drawing Lessons from Recent Global Financial Crisis

- Financial products are becoming more varied and complex, however, financial literacy levels of consumers have not kept pace with innovation
  - Some were ill-equipped in understanding the product terms and risks as well as the financial implications on them
  - Some ended up purchasing financial products that were clearly unsuitable to their needs

- Poor financial literacy coupled with abusive and deceptive business practices by financial institutions (FIs) led to mis-selling of credit and investment products
  - Aggressive advertising and predatory lending practices trapped uninformed consumers into debt that they can’t afford
  - Uninformed investment decisions spelt disaster to some consumers who invested all their savings in high-risk products

- Triggered a series of events that impacted livelihood of borrowers/investors, soundness of FIs and led to disruptions in intermediation process
Imbalance of Information and Knowledge between Consumers and Financial Institutions Could Lead to Poor and Uninformed Financial Decisions by Consumers

**Consumers**

Low financial literacy
- Poor financial knowledge & skills
- Make poor financial choices
- Unable to cope with increasing financial responsibilities

- Lower household savings
- Over-indebtedness → financial fragility
- Greater susceptibility to fraud and abuse

**Financial Institutions**
Enhancing Financial Literacy Helps to Reduce the Imbalance in Information and Knowledge Between Consumers and Financial Institutions

**Consumers**

Empowered consumers who are:

- Resourceful in obtaining info and advice
- Proficient in financial knowledge
- Competent in making informed financial decisions
- Accountable for decisions

Leads to

- ↑ Financial inclusion
- Greater transparency by FIs
- Fair dealings by FIs

**Financial Institutions**
Financial Education Contributes to Financial Stability and Sustainable Economic Growth and Development

Develop consumers’ knowledge to understand
- Financial products
- Concepts
- Risks

Develop financial skills & confidence
- More aware of financial risks
- Make informed decision
- More responsible in improving financial well-being

Healthy consumerism
- Know and exert rights
- Agents of change

Promote Sound Money Management
- Better household budgeting & planning
- Strengthen understanding on rights and responsibilities
- Inculcate good credit culture

Increase Consumer Confidence
- Financial literacy increase household savings
- Promote financial inclusion & use of financial services

Protect Personal and Household Wealth
- Protection from unexpected events through savings & insurance products
- Good investment decisions
- Avoid being victim of financial scams

Promote Efficiency of Financial Markets
- FIs compete to offer better products & services → sustainable business model
- Informed consumers demand for better products & services
- FIs embed fair dealings in their corporate value

Market Conduct Regulation and Supervision in Malaysia

- Regulation and supervision of market conduct practices of FIs
  - Address information asymmetries
  - Set clear expectation on fair, responsible and transparent practices by FIs in dealings with consumers

- Comprehensive and sustainable financial education programme
  - Empower consumers to make sound financial decisions

- Comprehensive supporting credit infrastructure
  - Promote sound credit culture among consumers
  - Robust credit assessment by financial institutions

- Qualification and competency standards on sales / marketing
  - Set and enforce standards for FIs personnel / agents and other financial intermediaries

- Effective and expedient redress mechanism
  - Complaints and mediation channels
  - Financial counselling services
  - Debt management programmes
Enhancing Financial Literacy – Malaysian Experience

**Provision of Information**
Target: General Public

- Develop & disseminate information on financial products through booklets, websites, print media, 3rd party publications
- Launched 2 consumer education programmes in 2003:
  - bankinginfo
  - insuranceinfo

**School Programme**
Target: Primary and secondary students

- Promote money management through school adoption programme in collaboration with Education Ministry & financial institutions

**Outreach Programme**
Target: Rural folks, women, university students, workers, young parents, PWD

- Conduct briefings & workshop sessions

1 Person with disabilities
Some Best-Practices in Financial Education

- Conducted as **early as possible** and focus on **key “teachable moments”**
- A life-long and continuous process, considering needs at different life stages
- Conducted in a coherent and transparent manner between main stakeholders
- Consumers develop **financial understanding, knowledge, skills and confidence** to make informed decisions
- Not substitute for, but **complements prudential and market conduct regulatory frameworks**

Credit Counselling And Debt Management Agency (AKPK)

• AKPK is a wholly owned subsidiary of Bank Negara Malaysia, set up in 2006.

• AKPK’s vision is “Make Prudent Financial Management a Way of Life for all Malaysians.”

• AKPK offers the following services:
  ✓ Financial education on the responsible use of credit and basic money management skills;
  ✓ Counselling and advice on financial management, including financial budgeting to manage expenses; and
  ✓ Debt management programme to assist financial consumers to regain financial control.
POWER! Programme

- A targeted education programme conducted by AKPK for young individuals and first-time borrowers aged between 18 - 30 years
- Provide skills and knowledge to effectively manage finances
- Provides useful information, tips and a financial toolkit to encourage prudent money management and financial discipline
- Highlights consequences of financial decisions in real life situations, focusing on common financial products such as credit cards, hire purchase and housing loans
Further Initiatives to Strengthen Consumer Protection

- Specify supervisory expectations on financial service providers in their dealings with retail customers
- Refine disclosure requirements to encourage consumers to focus on key risks
- Strengthen institutional arrangements for the regulation and supervision of market conduct, including enhancing existing inter-agency coordination arrangements
- Conduct thematic and focused supervisory reviews of market conduct practices of FIs
- Intensify consumer financial education efforts through specific programmes e.g. POWER! Programme
- Promote healthy credit culture among borrowers
Challenges in Enhancing Financial Literacy

- **Limitations** on the rationality of consumers in the decisions that they make. Cannot assume that consumers will make decisions based on objective assessments of the information presented to them. What are the extent of decisions that are based on good knowledge versus emotion and intuition?

- How **behavioural factors** affect the way consumers make decisions?
  - Socio-economic, cultural backgrounds and skill levels
  - Personal characteristics
  - Life events
  - Consumers’ wants and aspirations

- How do we engage consumers who have a low level of interest in money management and financial planning?
  - What information should be provided
  - Which delivery approach is the most effective
  - When information should be delivered

- How do we measure **effectiveness** of financial education?
Additional information
Definitions – Financial Education

• “Financial education is an effective form of consumer protection, but cannot substitute for regulation. Focus financial education on “teachable moments” and systematically evaluate programmes. “ World Bank

• “The National Strategy for Financial Literacy will focus on reaching people, through extending the delivery of financial education, and sharing what works in order to achieve the outcome of a financially literate population.” New Zealand

• “Our national strategy must reflect the diversity and values of Canadians from every region, as well as from all walks of life. It must be based on the needs of individuals and families and offer solutions that Canadians can readily adopt and engrain in their daily lives, as they have to make decisions to achieve lifelong financial security.” The Task Force on Financial Literacy, Canada

• “Financial literacy is the ability to make informed judgements and take effective decisions regarding the use and management of money throughout the life course “ The Russian Retirement Commission

• Financial capability is a broad concept, encompassing people’s knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market” Ireland
Pocket Money Book

Purpose:
A learning tool to inculcate culture & habit of smart personal money management among students at a young age

Introduced in 1998
9.98 million copies distributed nationwide
A tool to assist students to manage pocket money & control personal finances
Contains articles, exercises & games related to money & finance
Financial education – Students Financial Club

Objective:
Educate students to be smart & prudent in personal money management & spending through co-curriculum activities

Established > 2,000 Clubs

Workshops for students & teachers

Money & finance related activities through workshops & games

Lesson plan for teachers distributed to schools
Financial Education Website for Students

Purpose:
An interactive financial education tool to enhance financial literacy among students

Since 2004: > 102,000 registered members
Activities relating money management, e.g. contests, games, quizzes
Hits: 18,000-22,000 p.m.
2010: 10,172 students took part in duitsaku.com website competitions
Consumer Education Programme – General Public

bankinginfo - 24 booklets published
Website also provides budget calculator, financial calculators, etc.

insuranceinfo - 25 booklets published
Website also provides private car premium calculator, consumer checklists, etc.
Objectives:
Provide relevant information for informed decision making
Facilitate comparison of financial products & services

Comparative tables
Conventional banking products
Islamic banking products
Micro finance product