



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Financial Literacy in Malaysia: Issues and Status Update

by

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Agenda

- 1 The importance of financial literacy and capability**
- 2 Financial literacy challenges – the Malaysian experience**
- 3 Approach & key strategies (including status updates) to enhancing financial capability towards empowering financial consumers**



Financial capability is important for life-long financial sustainability

- Financial literacy initiatives **provide the necessary knowledge, skills and tools** for consumers to make informed financial decisions with confidence
- Having capability to make informed financial decisions allows individuals to **build/accumulate, manage and preserve wealth thus further strengthen the position of consumers**
- Empowered consumers can **protect themselves against poor market practices and take necessary actions when treated unfairly by FSPs**
- Increased financial competence of consumers enable them to **demand for better financial services**
- More **active consumerism is envisaged to have a pivotal role in driving efficiency** in the financial services industry.
- Meaningful participation by consumers in the financial system also **supports the financial inclusion agenda** that helps raise their standards of living.



Meaningful and informed participation in the financial system can only be achieved when the environment is conducive for financial consumers

- Financial literacy initiative forms part of the consumer protection framework to ensure that consumers get fair deals (also an integral component to support financial inclusion agenda.)

Greater financial inclusion

Consumer protection and financial education

- Promote responsible conduct by FSPs for consumers to get fair deals
 - Ensure meaningful information provided to consumers to make informed decisions
 - Provide access to basic financial products
 - Put in place effective assistance & redress mechanisms
 - Effective safety net in the form of deposit insurance and guarantee schemes
 - ***Promote consumer empowerment through financial literacy initiatives***
- distribution channels with widespread access
 - diverse range of financial service providers
 - supporting financial infrastructure & enabling environment



Regulation has its limitation and, therefore, consumer empowerment forms the first line of defence

Conduct regulation (for consumer protection) focuses on establishing rules that minimise the risks of:

- Consumers receiving **bad advice**
- **Frauds and misrepresentation** by financial service providers
- Officers and agents of the financial service providers **acting incompetently**

Nevertheless, **regulation has its limits:**

- **Limited resources for regulators to enforce rules**
- **Financial innovation** makes products and services more complex for consumers
- **Information asymmetry** continues to persist
- **Cannot prevent intentional bad behaviour**
- **Cost of compliance passed to consumers**



Understanding consumer behavior is key for policy makers to design appropriate financial literacy initiatives and undertake policy interventions

Recent studies conducted

OECD (INFE) 2010
Data: Measuring
Financial Literacy
Among Malaysians

Financial Distress
and Debt
Management

Household
Preparedness for
income shock

with USM

with USM

Review on
Measuring
Effectiveness of
Financial Literacy

Impact of POWER!
Programme by
AKPK

with USM

with UPM



What do we know about Malaysian financial consumers from the studies conducted

OVERALL FINANCIAL LITERACY

- Financial literacy level runs parallel to education levels
- No major differences in financial literacy level by gender or by strata
- Joint decision making is most commonly practiced – spouse as joint decision maker
- Almost 1/3 did not comparison-shop when deciding on financial products
- Almost every Malaysian claims to be saving and recognize the need to save. Respondents in East Malaysia prefer to save cash at home or keep with someone they trust.
- Malaysians are less familiar with the concept of diversification or risk spread or reduction.



What do we know about Malaysian financial consumers from the studies conducted

PREPAREDNESS FOR INCOME SHOCKS

- Those entering pre-retirement age (age 50 and above) are poorly prepared for financial emergencies.
- Those with tertiary education are more financially prepared to deal with income shocks compared to those without.
- Those who claim to have sufficient savings are not financially prepared for income shocks.
- Prudent financial behavior did not translate to better financial preparation for income shock. There is a problem in self assessed financial behavior and attitude.

FINANCIAL DISTRESS AND DEBT MANAGEMENT

- Those aged between 30-39 years old are more likely to experience financial distress compared to those 50 years and above – consistent with current observation that those declared bankrupt are getting younger.
- Low income and seasonal income earners are more vulnerable to financial distress.
- Higher educated individuals, higher financial knowledge does not necessarily translate into better financial management unless the values of living within one means is cultivated along financial knowledge



The findings from the studies have several important implications

- The need to intensify **education at school levels**
- The need for financial literacy initiatives to ensure effective **planning for retirement and ability to sustain through retirement**
- Need to **educate households on the minimum level of emergency funds required**, as 2/3 of households are poorly prepared for income shocks with savings of less than 3 months.
- To **look beyond financial education in changing the behaviour** as cultural aspects and behavioral biases also play a role in decision making process
- Low earning power (of the young) + rising costs – **importance of educating the young on better financial management** & to cultivate the habits of living within one means
- Need to **focus education on risk diversification & management**, including to diversify savings by investing part of savings funds (for those with financial capability) and risk mitigation via insurance.
- To **re-examine measurement for financial behaviour and attitude** with less reliance on self assessment.



The need for enhanced financial literacy and capability is well entrenched in various national strategies

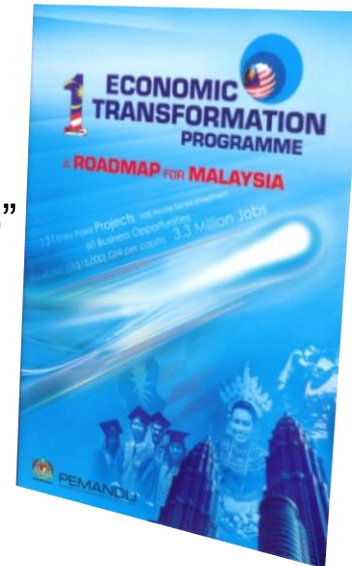
Economic Transformation Plan (ETP) 2010-2020

Ch 7 – Financial Services: “...BNM will lead the creation of a coordinated national financial literacy programme based on a public-private partnership”

- FE identified as an enabler to ensure financial services sector could contribute to propel Malaysia as high-income nation
- ETP highlights e-payment, insurance & pension as key areas for FE initiatives

Financial Sector Blueprint (2011-2020): Ch 5.2 - Empowering Consumers

- Recommendation 5.2.1 – “Promote financial capability as an essential life skill from an early age through the integration of FE into the formal curriculum...”
- Recommendation 5.2.2 – “Adopt life events approach to the development and delivery of programmes & encourage greater collaboration among stakeholders..”
- Recommendation 5.2.6 – “Strengthen the enabling infrastructure by providing comprehensive access to FE info and introducing a mechanism to gauge the financial capability of consumers and enhancing the effectiveness of the implementation of FE initiatives.”



Bank Negara Malaysia continues to drive financial education initiatives at the national level

● Formulation of policies & setting strategic direction

- Financial sector Master Plan 2001 – 2010 & Financial Sector Blueprint 2011 – 2020
- Defining roles of BNM, industry associations, other agencies
- Financial Education Network (currently informal)

● Setting strategic direction

- Integration into school curriculum; School adoption programme; school financial club; adult education via AKPK (Credit Counseling and Debt Management Agency)

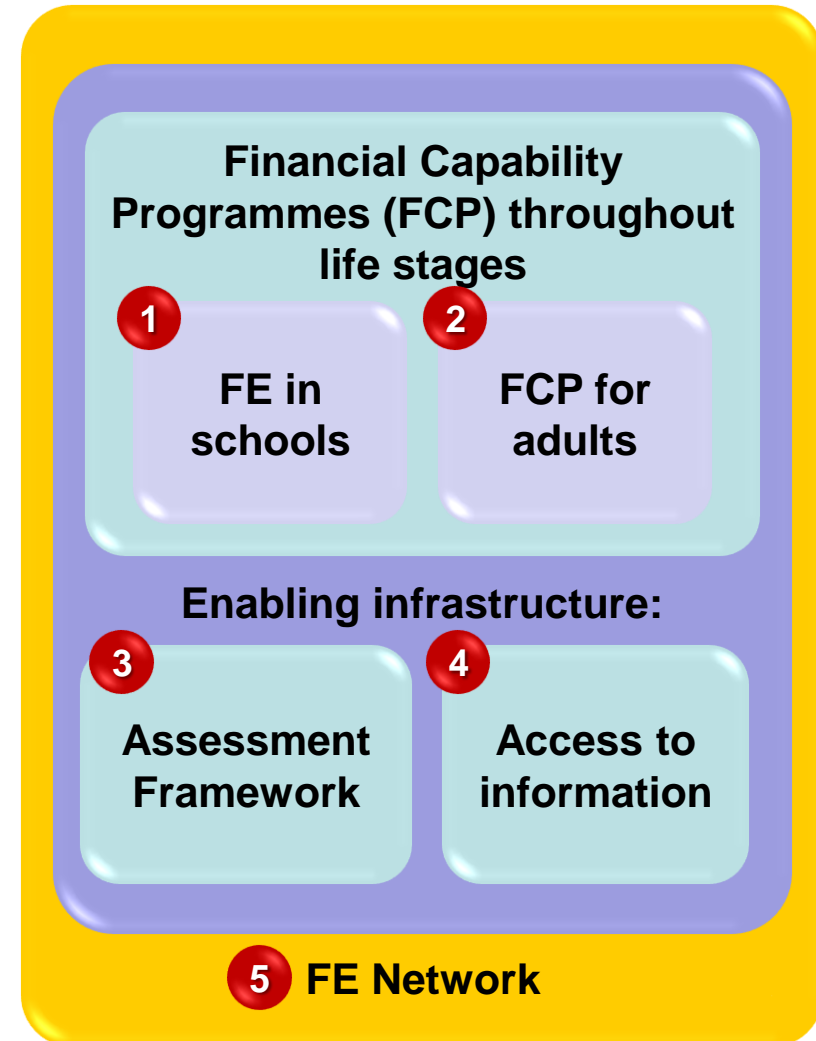
● Identification of target groups and priority areas

- E.g. school children; youths, lower income households; teachers



Financial education efforts to achieve 5 desired outcomes by 2016

- 1 FE promoted as an **essential life skill** from **early age**
- 2 Adult Financial Capability Programme made **available at all life stages**
- 3 Implementation of effective FE initiatives supported by **robust FE Assessment Framework**
- 4 Comprehensive **access to reliable and timely FE information**
- 5 **FE Network** to coordinate and drive **FE initiatives** at national level



Financial education in schools is pursued to inculcate basic financial management as an essential life skill from an early age

- **BNM leverages on strategic partnership** with the relevant ministries, industry associations and financial service providers

- In collaboration with MOE to **integrate FE elements into the core subjects of new school curriculum** [2014: primary; 2017: secondary].
Elements to be embedded:
 - Money, source of income and career choice
 - Financial responsibility and decision making
 - Money management and planning
 - Savings and investment
 - Credit and debt management
 - Risk management, wealth protection and insurance

▪ **Responsible money management through co-curriculum:**

- **School Adoption Programme** (since 1997) – FSPs conduct activities related to banking, insurance and basic financial knowledge in 10,000 adopted schools.
- **School Financial Club** (since 1999) – platform for schools
- **Making available FE materials, tools & info** – Pocket Money book (since 1999 – 1 million copies p.a.), interactive website duitsaku.com (since 2004 – 110k members) and FE workshops for school children (since 2002)

▪ **Capacity building and support for teachers:**

- **Equipping teachers** with financial management skills to be able to teach effectively
- **POWER!** Programme for teachers in **partnership with teachers' training institutes**
- Development of **guidebooks and lesson plans** for teachers



Notable achievements from BNM's collaboration with MOE in the integration of FE into the school curriculum (2011-2013)

Collaboration with MOE

FE embedded in school curriculum

- FE elements incorporated in year 3 **Bahasa Malaysia** and **Mathematics** text books in 2013
- FE elements incorporated in year 4 **core subjects** text books to be published in 2014
- FE in document standards of **Mathematics** for primary and secondary school
- FE in document standards of **Commerce** and **Economics** for secondary school
- FE in **English** year 4 and 5 curriculum under the theme **World of Stories**
- FE in **Bahasa Malaysia** year 4 and 5 curriculum under the theme '*Ekonomi, Keusahawan & Pengurusan Kewangan*'
- Lesson plans for year 4 & 5 Mathematics, Bahasa Malaysia and English embedded FE developed

FE in Malaysian Vocational Diploma Programme

- 40-hours **compulsory FE modules** as part of soft skills modules for Malaysian Vocational Diploma Programme

Increase capability of teachers to deliver FE in schools

- Increased in level of confidence and competence of about 600 MOE main trainers for Mathematics (year 4 & 5) to embed FE elements in the teaching of Mathematics
- 1,429 trainee teachers were exposed to Personal Financial Management (PFM) through POWER! Programme
- 14-hour-FE modules developed for semester 8 trainee teachers at IPG to equip them with FE skills (TOT based on the modules will be provided to 3,900 IPGs lecturers through IPG main trainers)

Integration of FE in school curriculum, moving forward....

1. FE embedded in curriculum



- Continuously provide input and guidance to integrate FE elements in primary and secondary school curriculum mainly:
 - Development of curriculum embedding FE in secondary school curriculum
 - FE in Mathematics as a stand alone topic
 - FE in English as a theme under *Financial Understanding*
 - FE in Bahasa Malaysia as a stand alone theme
 - Development of lesson plan embedding FE in primary school year 6 core subjects
- Development of new curriculum for year 1 to 3 embedding FE (revision after the implementation of Malaysia Education Blueprint 2013-2025)
- Development of text books embedding FE for year 6

2. Equip teachers with FE knowledge and skills



- Train teachers (in collaboration with BPG)
 - FE module to be integrated into teachers' professional development program modules
 - Equip trained teachers with FE via main trainers
- Educating trainee teachers (in collaboration with IPGM)
 - Personal Financial Management as a mandatory module in *Program Ijazah Sarjana Muda Pendidikan*

3. Provide support FE materials to teachers





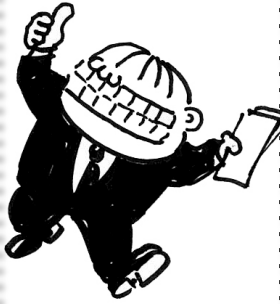



- Make available sufficient relevant and quality support materials for teachers and students
 - Lesson plans will be made available online in the e-portal
 - On line learning tools for students – games and quizzes

4. Elevating School Adoption Programme (SAP)



- Leverage on SAP platform to reinforce delivery of FE in classroom
 - Support (through workshops and guidance) FSPs in providing technical advice on financial matters based on 6 financial literacy elements to teachers

FCP should target at key life events throughout life stages

Life Stage	School	Tertiary Education	Entering Workforce	Starting a family	Raising a family	Retirement
Example of Key Life Events						
	<ul style="list-style-type: none"> • Open and operate bank account / pocket money mgmt. 	<ul style="list-style-type: none"> • Online purchases • Obtain study loan • Getting a part-time job 	<ul style="list-style-type: none"> • Use credit card • Buy a car/house • Pursue hobby • Provide guarantee • Pursue investments 	<ul style="list-style-type: none"> • Plan for marriage/ honeymoon • Have a baby • Childcare • Purchase insurance 	<ul style="list-style-type: none"> • Children's education • Family recreation • Change job • Healthcare • Support immediate & extended family • Planning for Retirement 	<ul style="list-style-type: none"> • Managing retirement fund • Support dependents • Pursue hobbies/ part-time job • Estate planning

Unexpected Life Events – e.g. losing job/money, untimely demise, divorce and receiving a windfall

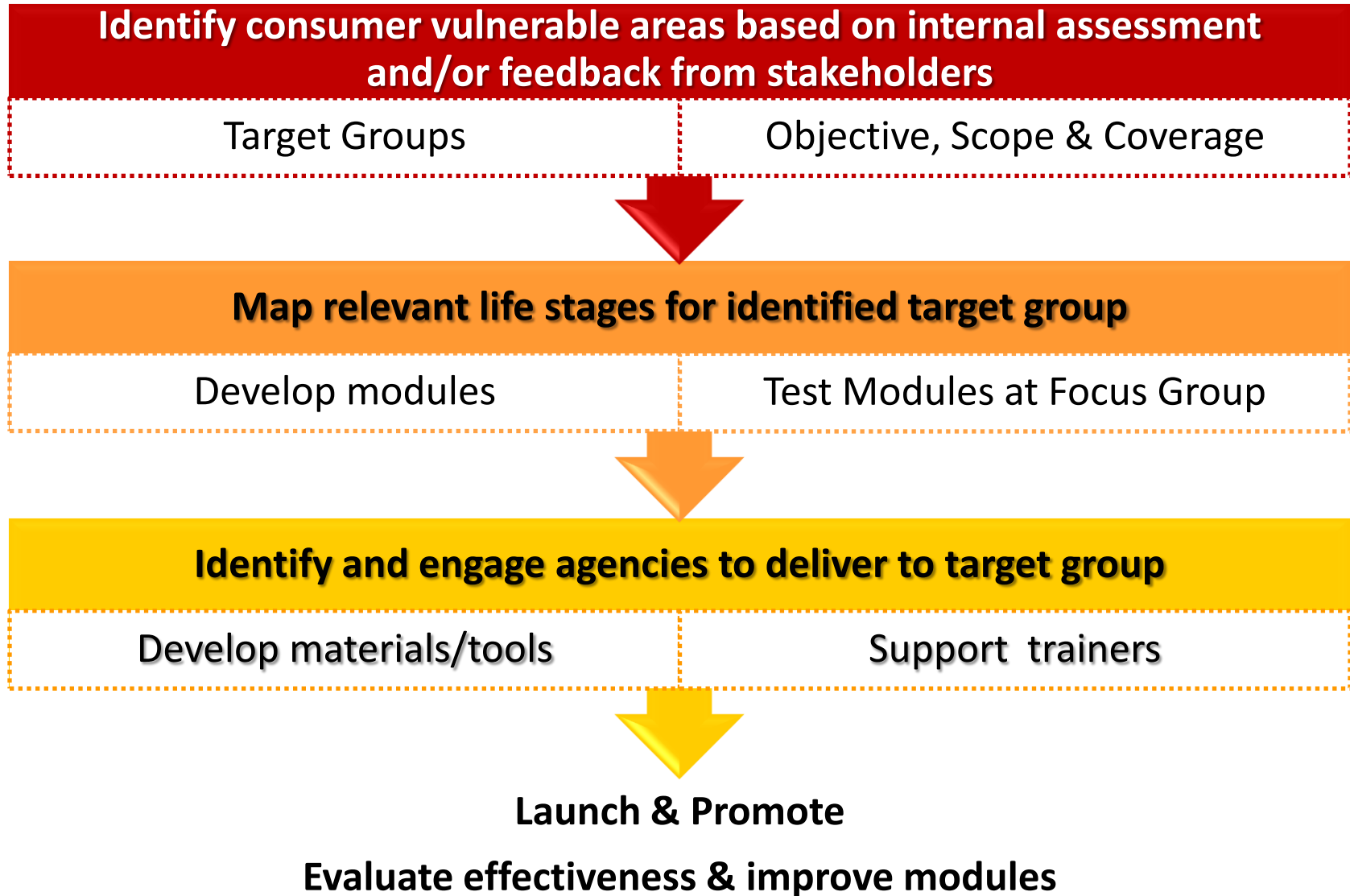


Services by Credit Counseling and Debt Management Agency (AKPK), a subsidiary of BNM, has benefited more than 300,000 Malaysians in the last 5 years



[Recently realigned to be the lead agency to deliver adult financial education](#)

FCP for adults to address specific risks & vulnerability



Targeted financial education programmes for adults are being pursued to address current challenges and address specific risks

- **Rising trend of young adults getting into financial difficulty** as a result of lifestyle pressure and lack of financial management skills
- **Highly leveraged low income household**, with large loan size relative to their income
- The **need to equip teachers with financial management skills** to ensure effective implementation of financial education in schools

POWER! Programme focuses on key financial disciplines

Chapter 1: Cash flow management

Chapter 2: Borrowing basics

Chapter 3: Using a credit card

Chapter 4: Buying a car

Chapter 5: Buying a house

Chapter 6: The importance of managing your debt

Delivered through: Workshops for individuals, National Service Training Programmes, Work place Financial education, Community based programme

160,000 attended POWER! programme since 2011. POWER2 accompanied by financial management campaign with greater focus on debt management will soon be introduced

Financial education
complemented with other measures e.g. counseling and debt management programme (where necessary) to promote change in behavior



POWER! Pengurusan Wang Ringgit Anda is a practical financial education programme managed by Agensi Kaunseling dan Pengurusan Kredit (AKPK).

POWER! is designed to equip you with essential financial knowledge, providing you the confidence and ability to make responsible financial decisions.

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PG-18 AGE 18 & ABOVE

Credit Counseling and Debt Management Agency (AKPK) was set up in 2006 as a subsidiary of Bank Negara Malaysia with a mission to "Make Prudent Financial Management A Way of Life" for Malaysians



Financial Education Assessment Framework (FEAF) is an enabling infrastructure that supports improvements in FE initiatives

Components

- A** Financial Literacy & Capability Measurement of Malaysian Consumers
- B** Evaluation of Specific FE Initiatives
- C** Study on Consumers' Behavior & Vulnerability

Objectives

- ▶ Monitor **progress of financial capability level & identify consumer vulnerability**
- ▶ Support **evidence-based FE policy formulation and implementation**
- ▶ Identify **effective FE delivery channel** and mechanism
- ▶ Better **prioritization of resources** by focusing on FE initiatives with **outcome and impact**

Broad based nation wide measurement to systematically measure financial literacy & capability of Malaysian population

- **Nationwide baseline measurement survey planned for 2014**
 - ▶ a minimum of 1,000 samples representative of Malaysian population (18 and above)
 - ▶ Identify vulnerable groups & risk areas for FE initiatives
- **Repeat measurement every 3 years to monitor progress in financial literacy & capability level over time**
- **Key Focus:**
 - ▶ Financial literacy & capability - knowledge, skills, behaviour, attitude & socioeconomic environment
 - ▶ Financial inclusion
 - ▶ Effectiveness of financial consumer protection



Evaluation of efficiency and effectiveness depend on the nature of the FE initiatives

Output

evaluation - for above the line FE initiatives

- Targeting **general public** and broad target group
- Focus on short term, **one-off**, touch and go,
- Suitable to evaluate **products of the programme: i.e. no. of participants, materials**
- **Follow-up** on consumers' feedback of FE information/ advice **may be challenging**

Outcomes

evaluation – for below the line FE initiatives

- **Targeted audience**
- Focus on **application/ use of output**
- Suitable to evaluate **knowledge level and skills**
- Where **follow-up actions** and further engagement with consumers **are possible**

Impact

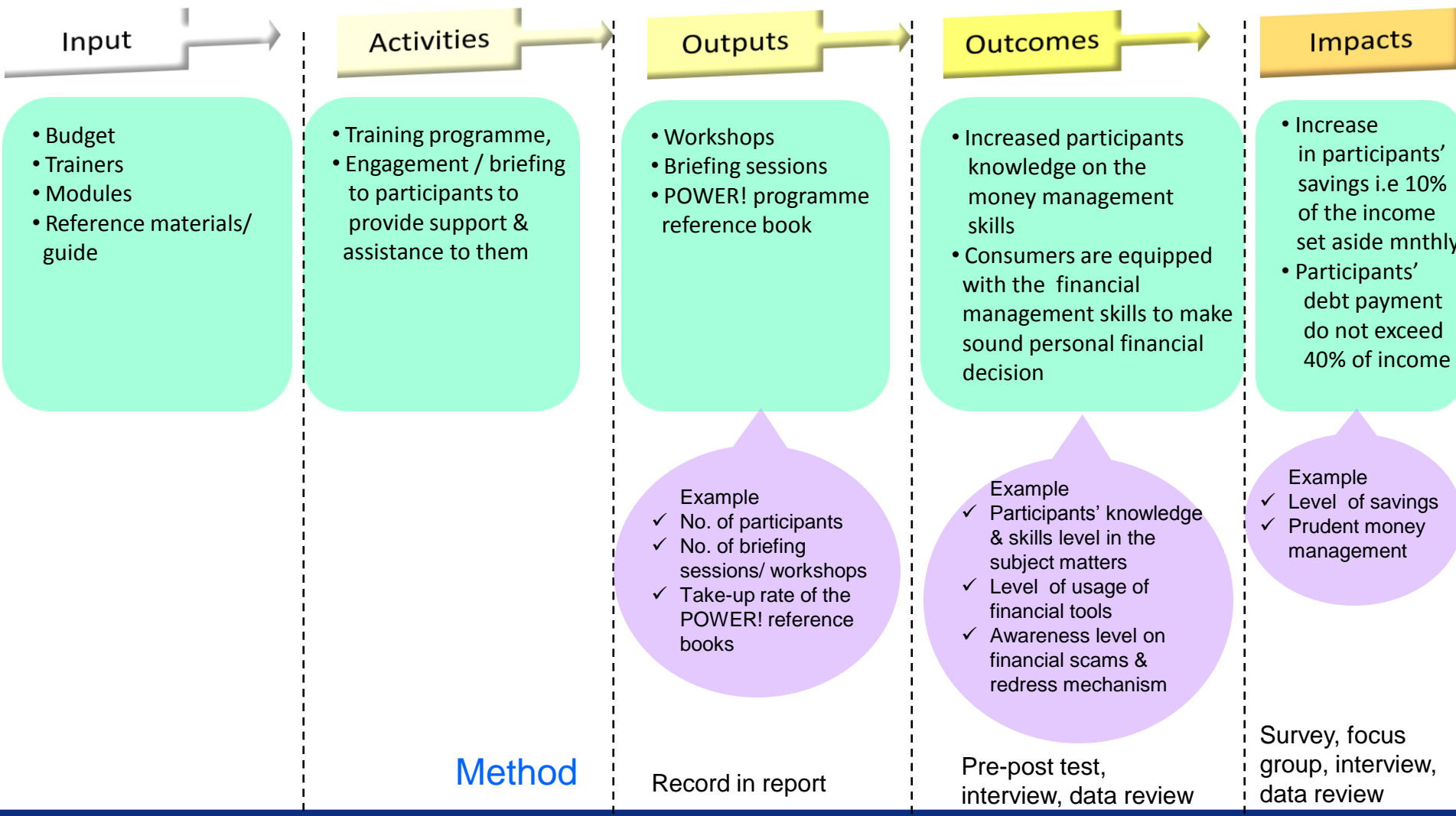
evaluation – for specific FE programme/ initiatives

- **Targeted audience - possibility of a controlled group** for comparison
- Focus on **longer term engagement, addressing certain financial issues/ vulnerability**
- Suitable to evaluate **behavior and attitude**
- **Possible to follow-up** through regular engagement with consumers & perform evaluation over time



Evaluation on Financial Capability Programme

e.g. POWER! Programme (Illustration)



Impact Evaluation of an FE initiative (Illustration)

- Pre and post-programme assessment indicated an **increase of 12% in level of knowledge & skills.**
- Survey to **compare the long-term performance (6-months or above) of those who have attended POWER! programme vis-à-vis a control group**
- **POWER! participants demonstrate higher financial knowledge**
- However, **mix results observed for financial attitude**
- **POWER! participants have not demonstrated much difference in improvement of behavior.** Changing financial behavior or habit requires more intervention & time



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More evidence based research to support FE policies in the future

- **Identify factors affecting financial literacy & capability**
 - ▶ What influence consumers' behavior in money & debt management
 - ▶ How consumers choose & decide on financial products & services
 - ▶ Effective measures to deliver FE & to elevate literacy & capacity
 - ▶ How best to support development of specific FE programme to address vulnerability & risk identified
 - ▶ Consumers' preferences in learning & accessing FE
- **Target 3 studies per year e.g. in 2014 on areas such as retirement planning, e-payment, insurance (appetite for buying, preferred distribution channels etc)**
 - ▶ BNM
 - ▶ Industry associations
 - ▶ consumer groups/ other FE providers
 - ▶ academicians/ research lab
- **Study observations/ recommendation to be published in relevant journals, media channels, websites**

Enabling infrastructure to support FE initiatives are being strengthened for more effective implementation

- **Elevate the usefulness of consumer education websites** through creation of a single interface platform for easy access and with more interactive features for meaningful interaction on issues relevant to financial consumers
- Financial customer centric **mobile applications are being developed** for real time access to key information and alerts both on iOS and android platforms (including leveraging on push technology)

bankinginfo - 26 booklets published. Also provides budget calculator, financial calculator, comparative tables, etc.

insuranceinfo - 25 booklets published. Also provides car premium calculator, consumer checklists, etc.

islamicfinanceinfo - info on Islamic banking & takaful products & services, concepts, principles & tools to manage finances



Smart partners' buy-in & commitment is key to successful roll-out of financial literacy initiatives

- **Enhancing financial literacy & capability remains an area of priority for BNM**
 - ▶ Provide advice and guidance on FE matters to MOE
 - ▶ Develop FCPs to complement existing government initiatives for poor household
 - ▶ Train the trainers (e.g. by AKPK) to widen delivery of FE to different segments of Malaysian consumers, both public and private sectors.
- **Leverage on smart partners' expertise, network & experience for comprehensive scope and broader outreach, examples:**
 - ▶ Securities Commission (Investor Protection)
 - ▶ Employee Provident Funds (Retirement Planning)
- **Partnership with Financial Services Providers and industry associations**
 - ▶ Realignment of School Adoption Programme
- **Joint effort with consumer associations**
 - ▶ Ringgit Magazine

FE Network to be formalized to facilitate systematic collaboration & ensure strategic approach to FE initiatives

<p>Setting policies & strategic direction</p>	<ul style="list-style-type: none"> • Development of “life-curriculum” for FE • Identification of consumer segments/vulnerabilities • Leverage on respective network members’ expertise & resources 	<p>Taking into account existing/planned FE initiatives by members</p>
<p>Facilitate implementation & evaluation</p>	<ul style="list-style-type: none"> • Collective implementation of FE initiatives • Broaden consumer outreach & engagement • Evaluate effectiveness of specific/respective FE initiatives 	
<p>Establishing infrastructure & shared identity</p>	<ul style="list-style-type: none"> • Adopt common goals & shared identity • Representation at international FE forum and discussions 	



Discussion

(sali@bnm.gov.my)



Financial literacy initiative forms part of an effective consumer protection framework to ensure that consumers get fair deals and supports overall financial inclusion agenda.

1. Financial consumer protection functions

Legal mandate, dedicated functions, industry driven codes, gatekeeping regime, FTFC, MCS.

2. Disclosure and sales practices

PTD, responsible financing, proper advice, prohibited conducts

3. Customer account handling and maintenance

Periodic statements, early notification of changes to terms, clear settlement process, fair debt collection

4. Secrecy and data protection

Secrecy provision, CCRIS, personal data protection, customer info protection

5. Assistance & redress mechanisms

Dedicated complaint mgmt functions, free access to financial mediation

6. Deposit insurance and guarantee scheme

PIDM – deposit insurance, takaful and insurance benefit protection

7. Financial education and consumer empowerment

Integration of FE elements into school curriculum, AKPK for adult financial edu., portals

8. Competition

Working arrangement with Competition Commission on competition matters.

9. Basic Banking

Basic savings account and basic current account at very affordable costs

distribution channels, widespread access, diversity of players, supporting infrastructure & environment

