

## A Primer on Taking Control of Your Finances

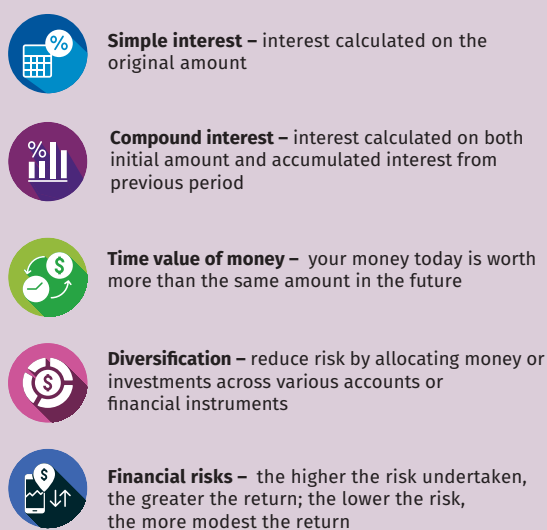
Managing our finances well is an important life skill. As with any skill, it requires knowledge, patience, perseverance and practice to be successful.

The way we make financial decisions is influenced by many factors<sup>1</sup>. Being aware of these factors and understanding our individual strengths and weaknesses help us tune our behaviour to be consistent with our goals. For example, if we want to retire comfortably, we need to save, not overspend and manage our finances accordingly. This will require planning for the long term and discipline in making the necessary lifestyle adjustments.

The first step on this journey to manage our finances is to be financially literate. The survey conducted by Bank Negara Malaysia in 2018 showed that one in three Malaysians considered themselves to have low level of financial knowledge<sup>2</sup>.

There are many aspects of financial literacy. The first is to understand basic financial concepts (Diagram 1) such as the time value of money, inflation, interest rates and compounding interest. There is also a need to understand the nature of financial risks and the benefits of diversification.

**Diagram 1: Basic Financial Concepts**



Knowing these key concepts will help empower consumers to make informed financial decisions throughout their lives. They will be more likely to achieve their goals of effectively managing their finances.

Understanding these concepts will help consumers better appreciate the importance of managing their finances prudently. This especially applies to saving and building emergency funds. A good guide of sufficient buffer is to have savings of between three to six months of monthly expenses. As with most habits, it is important to start small and be consistent in saving. Perseverance is key. There are also many other simple tips that can make a huge difference in improving our finances. Diagram 2 highlights some of these important tips.

<sup>1</sup> This relates to the concept of behavioural biases. For example, see Kahneman, D. (2011). Thinking, fast and slow. London: Allen Lane.


<sup>2</sup> Excerpts from Bank Negara Malaysia Financial Stability and Payment Systems Report 2018 on Financial Capability and Inclusion Demand Side Survey (page 102-104).

**Diagram 2: Tips on Prudent Financial Management**





-  Pay yourself first – spend what is left after savings and not the other way around
-  Protect your wealth against losing it. You work hard for it
-  Start saving now, no matter how small. Don't forget emergency funds. Automate your savings, e.g. auto-debit or salary deduction
-  Identify risks, e.g. higher educational and medical costs, natural disaster, loss of income. Include insurance/takaful as part of financial planning
-  Try to pay in full, otherwise have small outstanding balance due on your credit card. Review statements periodically to monitor usage
-  Be alert. Avoid falling prey to financial scams
-  Have a budget to keep track of your expenses, even the small ones
-  Plan for retirement regardless of your age
-  Diversify your investment portfolio to minimise risks
-  Review and align your financial plans with the changing reality

Part of managing our finances may include borrowing prudently to fund large purchases such as our home, cars and motorcycles or to expand our businesses. In doing so, one should not only be aware of how borrowings work (e.g. how interest is calculated), the terms and conditions, but also the rights that consumers have (Diagram 3). As a good guide, the total monthly debt repayments should not be more than 60% of a borrower's net income, after taking into account statutory deduction for taxation, contribution to the Employees Provident Fund and the Social Security Organisation.

**Diagram 3: Tips on Responsible Borrowing**

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- 1** Borrow within your means
  - 7** Understand key terms and fine prints in loan agreements before signing (ask if you are not clear)
  - 2** Shop around and consider options
  - 8** Understand costs and other charges for different loan products
  - 3** Understand debt to income ratio (learn how to keep it low)
  - 9** Negotiate the terms (e.g. instalment amount, loan tenure) with your bank
  - 4** Ensure sufficient balance after loan repayments for daily expenses and buffers for emergencies
  - 10** Know when and where to seek help when financially distressed
  - 5** Do not forget additional costs (out of pocket expenses) related to the borrowings, e.g. legal fees, car maintenance, insurance premium
  - 11** Notify financial institutions if you change your contact details
  - 6** Make loan repayments by due date (to avoid additional charges)
  - 12** Respond to financial institutions promptly when contacted via letter, email or phone

#### Diagram 4: Rights of Borrowers to Disclosures

-  To be given a Product Disclosure Sheet which contains key information on effective financing rate, monthly instalment, total repayment amount, fees and charges
-  To be provided with a loan statement at least once a year
-  To be notified 7 days in advance when your monthly instalment is revised due to a change in financing rate
-  To be notified 21 days in advance before the financial institution makes any changes to the terms of your loan agreement

Being prepared for changes in life circumstances is important. Just as the recent pandemic has shown, unexpected challenges can alter our lives in many unexpected ways. Consumers should be aware of steps that they can take when this happens. In this regard, consumers who are struggling to repay debt should seek help early and discuss their situation with their financial institutions.

Alternatively, consumers who are financially affected can reach out to *Agensi Kaunseling dan Pengurusan Kredit* (AKPK) for help. This help includes financial counselling and practical advice on money management. AKPK also provides financial education on the responsible use of money and debt management at various life stages.

In the event that borrowers experience difficulties with financial institutions, they may lodge a complaint with BNMTLELINK at [bnm.my/RAsurvey](http://bnm.my/RAsurvey). Consumers seeking redress can also approach the Ombudsman for Financial Services (OFS) at [www.ofs.org.my](http://www.ofs.org.my). The OFS provides an independent, fair and efficient avenue to resolve disputes against financial institutions.

#### Diagram 5: Assistance and Advisory Services for Consumers



##### AKPK

- ✓ Financial counselling and advice on financial management
- ✓ Financial education on responsible use of money and debt management at various life stages
- ✓ More information at [www.akpk.org.my](http://www.akpk.org.my)



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##### BNMTLELINK

- ✓ Complaints on Repayment Assistance via [bnm.my/RAsurvey](http://bnm.my/RAsurvey)
- ✓ Complaints and advisory services for financial consumers via [www.bnm.gov.my/complaint-redress](http://www.bnm.gov.my/complaint-redress)



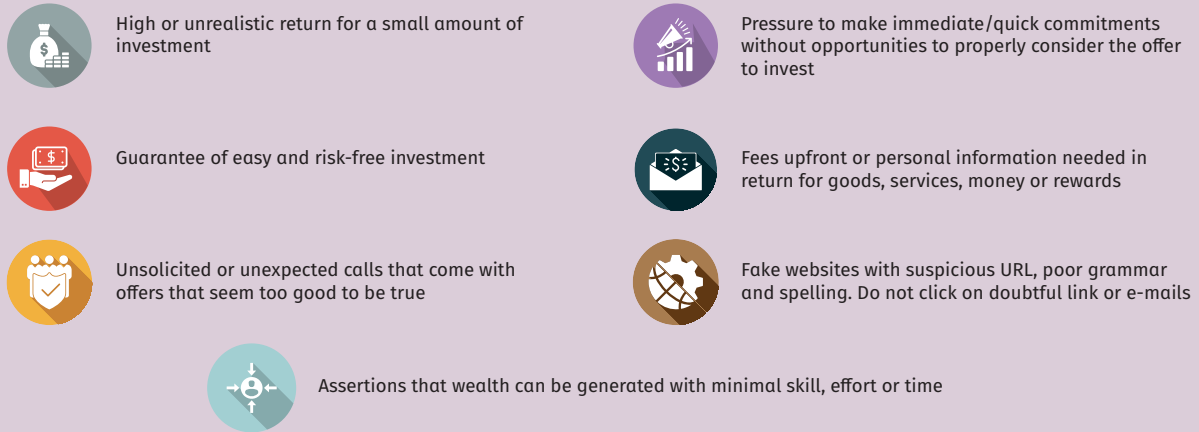
OMBUDSMAN FOR FINANCIAL SERVICES  
OMBUDSMAN PERKHIDMATAN KEWANGAN

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Last but not least, an informed consumer will also be able to differentiate between genuine investments and financial scams. This comes from understanding that risks are inherent in financial activities, and promises of high returns without risk is more often than not, a warning sign. Diagram 6 below highlights some of the key features of scams to look out for and Diagram 7 highlights some ways on how to avoid being victims of financial scams. For more information, consumers can visit *Amaran Scam Facebook* at <https://www.facebook.com/amaranpenipuan>.

**Diagram 6: Key Features of Financial Scams to Look Out for**



**Diagram 7: How to Avoid Being Victims of Financial Scams**



In conclusion, managing our finances well is a responsibility that we have towards our dependents and ourselves. By taking control, we can avoid considerable difficulties and challenges in life. Taking control of our finances can improve our lives by giving us more freedom and peace of mind. Financial consumers can benefit from practising useful money management tips readily available from books, webinars, podcasts, articles and sharing by legitimate financial experts.