Market Conduct and Consumer Empowerment

Financial services affect the lives of many segments of society. The Bank in keeping with its regulatory objective to foster fair, responsible and professional business conduct of financial service providers (FSPs), continued to undertake measures to strengthen the fair treatment of financial consumers in Malaysia. In 2018, greater focus was given to ensuring that banking institutions take reasonable measures to help retail borrowers in persistent debt, and protecting financial consumers from unfair contract terms for credit-related products. In the insurance and takaful industry, further steps were taken to elevate the professional conduct of intermediaries. Alongside these measures, the Bank strengthened redress mechanisms and will be introducing principles on fair treatment of financial consumers to foster high standards of professional conduct among FSPs. The financial education agenda continued to make progress as a key strategy to empower financial consumers and promote their financial well-being, in particular by improving financial literacy levels among the youth and workforce, and raising awareness on financial scams and fraudulent investment schemes.

MANAGING RISKS TO FINANCIAL CONSUMERS

The focus of market conduct regulation and supervision by the Bank is guided by an assessment of key trends and developments in the financial sector that could heighten risks to financial consumers. In 2018, risks to financial consumers from the elevated level of household debt remained a key focus of the Bank to promote greater household resilience. The Bank also continued to focus on ensuring that incentives and governance arrangements within FSPs are compatible with fair and responsible conduct towards financial consumers. With the increasing pace of financial innovation, the Bank has further raised its expectations for FSPs to meet standards of disclosure and competence that are commensurate with the need of financial consumers to understand and manage the associated risks.

Repricing practices associated with retail loans/financing in arrears

Amid rising costs of living, especially when coupled with unfortunate life events such as loss of employment or the onset of illness, financial consumers may be more likely to encounter difficulties in servicing their debt and other financial obligations. When a borrower fails to make repayments on time, banking institutions generally reprice the loan/financing to reflect changes in the credit risk profile or creditworthiness of the borrower. The Bank has noted that industry repricing practices vary considerably and in some cases, do not reflect sufficient evidence of a weaker repayment capacity of borrowers. The variability in repricing practices was also observed to be more pronounced following requirements for banking institutions to make earlier provisions for impairment (in particular for loans under Stage 1 and 2), based on an expected credit loss approach with the implementation of the Malaysian Financial Reporting Standards 9 (MFRS 9) on Financial Instruments in early 2018.

Given its impact on household debt which remains elevated, the Bank consulted on proposed requirements to ensure that borrowers are treated in a fair and transparent manner when repricing provisions are triggered by banking institutions following missed repayments on loan/financing facilities. In particular, the requirements addressed principles relating to: (i) the triggers for repricing due to missed repayments; (ii) the determination of the quantum for repricing; and (iii) the timing for reversion to the contracted financing rate. The requirements take into consideration the higher loan loss provisioning, recovery efforts and opportunity loss by banking institutions when borrowers default on their repayments. Nevertheless, they must ensure that borrowers are treated in a fair and transparent manner. Banking institutions are expected to provide borrowers with clear information about the revision in their financing rate along with its impact on their monthly instalments and steps that they should take to restore their repayments to the original contracted financing rate. There is also the expectation that the increase in financing rate should not be higher than necessary to cover the additional cost incurred by the banking institutions because of missed or late repayments. The Bank aims to finalise the repricing requirements in the first half of 2019.

Unfair terms and conditions in housing loan contracts

The Bank continued to place emphasis on expectations for FSPs to ensure the fairness and clarity of terms and conditions in the contracts entered by them with retail customers and small and medium enterprises. During the year, the Bank conducted a thematic review on housing loan and financing contracts to identify terms and conditions that were inconsistent with reasonable expectations of fair conduct towards financial consumers. The Bank found that some of the terms and conditions were disproportionately skewed in favour of the banking institutions and to the detriment of consumers. These included terms and conditions that provide absolute exclusions or limitations of a banking institution's liability and obligations, and place undue reliance on signed declarations to assert that financial consumers have read and understood a contract. In addition, some terms and conditions were found to be unnecessarily complex with the use of excessive legal and technical jargon that did not aid clear understanding by consumers.

Following the Bank's review, banking institutions were required to revise the unfair terms and conditions and improve clarity through the use of plain language for both new and existing housing loan and financing contracts by end 2019. In addition, the Association of Banks in Malaysia (ABM) and the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) are working with banking institutions to review the standardised key terms and conditions for housing loan agreements involving a principal sum of RM500,000 and below to address concerns that have been raised by the Bank.

Banking institutions required to revise the unfair terms and conditions as well as use plain language for new and existing housing loan agreements

Credit card debt

Credit cards are widely used by financial consumers to make payments and manage short-term financial needs. There are, however, risks of financial consumers building up excessive debt on their credit cards, particularly among more vulnerable financial consumers who repeatedly make only minimum payments and carry forward large balances on their credit cards for extended periods. Such persistent credit card debt, which attract higher interest rates compared to other short-term credit facilities, have also contributed to the elevated household debt levels. In order to address this growing concern, the Bank will further enhance the conduct requirements for credit cards to encourage greater financial discipline while helping individuals to pay off their credit card debt faster. FSPs are required to identify vulnerable financial consumers

Federal Court ruling on liability clauses in contract loans

These initiatives are consistent with a recent landmark ruling by the Federal Court (FC) in December 2018,[1] which held that a commercial bank could not rely on absolute exclusion of liability clauses, typically found in most banking agreements, to shield itself from being sued for negligence by financial consumers. The FC opined that, in reality, the bargaining powers of the parties in banking agreements are unequal, whereby if a financial consumer wished to obtain financial services from banking institutions, the financial consumer has to accept the terms and conditions of a standard contract prepared by the banking institutions. In this regard, the FC was of the view that there would be patent unfairness and injustice to allow the banking institutions' absolute exclusion clause to deny the plaintiff's rights in this case and applied the principle of public policy in arriving at its decision. Further, the FC emphasised that section 24(c) of the Contracts Act 1950 provides that the consideration or object of an agreement is not lawful if it is opposed to public policy.

[1] In the case Anthony Lawrence Bourke & Anor v CIMB Bank Bhd [2018].

who habitually make payments at or near the minimum amount for an extended period, and offer to convert their outstanding credit card balances into term loans at lower interest rates to help them repay their credit card debt within a reasonable period, thus avoiding higher financing charges and persistent debt traps.

Fair treatment of financial consumers

The Bank consulted on a set of overarching standards in upholding fair treatment of financial consumers and ensuring responsible conduct throughout the product life cycle. The standards set out expectations for the board and management of FSPs to promote a culture where the interests of financial consumers are an integral part of business operations. FSPs are also required to establish reward and remuneration systems that drive the right attitudes and behaviours of staff at all levels to support the outcome of fair treatment of financial consumers. In addition, FSPs must act in good faith by ensuring the fairness of contract terms, providing clear and concise product information, offering advice or recommendation that is appropriate to an individual's needs and financial circumstances. They must also exercise due care, skill and diligence when dealing with financial consumers. While these standards have long underpinned the Bank's requirements on market conduct, bringing these standards together aims to promote and reinforce a 'whole-of-institution' approach to ensuring that FSPs do not behave in a way that could harm financial consumers. This in turn will provide greater confidence to financial consumers that they will be treated fairly at all stages of their relationship with FSPs. The Bank expects to issue the final standards in the first half of 2019.

Overarching standards to uphold fair treatment of financial consumers and ensure responsible conduct of FSPs throughout the product life cycle

Disclosures and service standards in motor insurance/takaful

The implementation of Phase II of the motor tariff liberalisation has paved the way for greater differentiation in the pricing of motor insurance/takaful products as well as the introduction of new motor products and extensions of cover by insurers and takaful operators. In facilitating informed decisions by consumers when purchasing and renewing their motor cover, insurers and takaful operators are required to provide adequate disclosures of premiums/contributions and product features that can be easily compared both across products and insurers and takaful operators. A thematic review conducted by the Bank on practices by motor insurers and takaful operators in the first half of 2018 identified several gaps in meeting these requirements: (i) some insurers and takaful operators were taking more than 24 hours to respond to customers' requests for quotation and enquiries; (ii) the premium/contribution amount was not disclosed in the renewal/expiry notice issued to customers; (iii) there was insufficient notice provided in the renewal/expiry notice that add-on covers included in the notice are optional for customers to purchase; and (iv) sales staff and agents were unfamiliar with benefits and exclusions associated with new products introduced. The Bank will continue to closely monitor corrective actions required to be taken by insurers and takaful operators to address these gaps.

Notwithstanding the above, overall customer experience following the implementation of Phase II of the motor tariff liberalisation appears to be favourable as reflected by the higher take-up rate for new motor products (19%) that are mostly tailored to suit specific individual needs such as Guaranteed Asset Protection (GAP), usage-based insurance and e-hailing.[2] Based on the product filings by insurers and takaful operators, an estimated 34% of policy owners/takaful participants also enjoyed lower premium rates of up to 15% from previously applicable tariff rates.

Insurers and takaful operators also published and implemented the Customer Service Charter (CSC) to affirm their commitment to deliver consistent higher standards of customer service quality, a move that is expected to encourage healthy competition and further elevate service standards.

Professional conduct of intermediaries

Intermediaries continue to play a major role in providing financial advice and helping customers improve their financial well-being. As part of efforts to raise the qualities of services by agents, insurance/takaful brokers and financial advisers, the Balanced Scorecard (BSC)

[2] GAP insurance covers the differences between the actual market value of a vehicle and balance owed on the financing in the event of total loss. Usage-based insurance is a type of motor insurance that determines the premium based on the actual usage of the vehicle, while e-hailing motor insurance provides coverage when vehicle is used for transporting e-hailing passengers.

framework came into effect as planned in 2018. The framework introduces changes to the remuneration structure of insurance and takaful intermediaries with the aim to align sales incentives with better quality sales and policy servicing by intermediaries. The Bank also elaborated its expectations for intermediaries to be led by persons of integrity, credibility and competency through the publication of standards on Fit and Proper Criteria for Approved Persons in December 2018. These standards require intermediaries to assess and determine the fitness and propriety of individuals in oversight and management positions as well as Financial Adviser's Representatives (FAR), guided by a set of criteria.

Further enhancements were also made to the Basic Certificate Course in Insurance Loss Adjusting (BCCILA) offered by the Malaysian Insurance Institute (MII). Revisions were made to existing topics covering business ethics, code of conduct and customer service excellence, in addition to new topics introduced on technical standards for the investigation, verification and estimation of motor claims. The enhanced content aims to promote ethical conduct and raise the competency levels of new and existing loss adjusters in support of broader ongoing initiatives to improve claims handling processes for motor insurance/takaful.

Diagram 4.1: Supervisory and Enforcement Actions Taken in 2018

6 FSPs

IMPOSITION OF FEES AND CHARGES WITHOUT THE BANK'S APPROVAL
Six FSPs which imposed fees and charges without the Bank's approval were required to refund total of RM1.8 million to 47,984 affected customers

23 FSPs

INADEQUATE DISCLOSURE
- 15 FSPs were required to improve the quality of disclosures provided in advertisement and marketing materials
- Eight FSPs were required to improve disclosures on pertinent information provided for their motor product offerings to facilitate comparison and informed decisions by consumers following the motor tariff liberalisation

12 FSPs

BREACHES OF CUSTOMER INFORMATION
- Warning letters were issued to 13 individuals and a Debt Collection Agency, involving nine FSPs
- Administrative monetary penalties amounting to RM4.8 million were imposed on three FSPs

3 FSPs

IMPROPER ADVICE PRACTICES
Three FSPs were required to put in place stronger controls and monitoring to curb aggressive selling tactics and improper financial advice by intermediaries

10 FSPs

GAPS IN IMPLEMENTING BALANCED SCORECARD (BSC)
10 FSPs were required to strengthen governance and operational arrangements and enhance training provided for agents to ensure the smooth implementation of BSC

10 FSPs

UNFAIR TERMS IN TAKAFUL PROPOSAL FORMS
10 FSPs were required to revise a clause in takaful proposal forms which requires a fair benefit payout to certificate holders upon specified events, such as surrender, maturity and payment of surplus

25 FSPs

INCOMPLETE CUSTOMER FACT FIND (CFF) FORM
25 FSPs were required to ensure that their intermediaries are adequately trained and supervised to obtain sufficient information about their potential customers in order to recommend suitable products at the point of sale

3 FSPs

OPERATIONAL LAPSES
Three FSPs were required to refund a total of RM24.7 million to 578,195 affected policy owners/takaful participants due to misstatements of participants' cash values in the takaful fund, excess motor loading imposed on consumers, and excess premium charged on consumers

Source: Bank Negara Malaysia

Supervisory and Enforcement Actions

In protecting the rights and interests of financial consumers, the Bank undertakes surveillance, supervisory and enforcement activities to identify and prevent conduct by FSPs that can cause harm to financial consumers. In 2018, supervisory and enforcement actions were taken against 51 FSPs (2017: 59 FSPs) for various non-compliances with financial conduct rules and regulations (Diagram 4.1).

ENSURING EFFECTIVE REDRESS MECHANISMS FOR CONSUMERS

The availability of an effective dispute resolution mechanism is essential in promoting the fair treatment of financial consumers and instilling public confidence in the financial sector. This is provided through the Ombudsman for Financial Services and BNMLINK, which serve as alternative avenues to the court for financial consumers to seek redress or resolve their disputes with FSPs.

Ombudsman for Financial Services

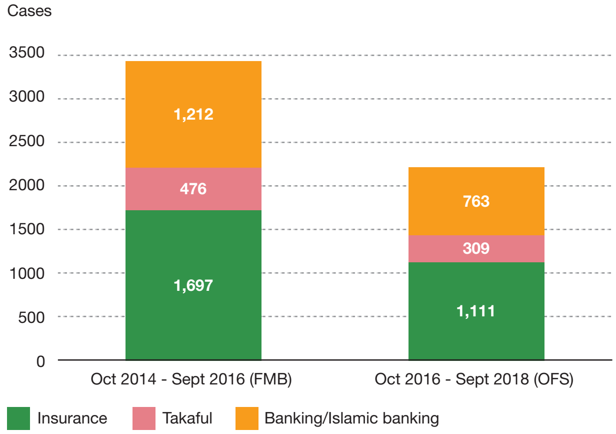
The Ombudsman for Financial Services (OFS) commenced operations on 1 October 2016, taking over the functions of the Financial Mediation Bureau (FMB).The Bank provides supervisory oversight over the OFS. During the first two years of its operations, the OFS received 2,183 cases, with insurance and takaful disputes accounting for almost two-thirds of the disputes received (Chart 4.1). Fewer cases were received for all sectors compared to the period prior to the implementation of the financial ombudsman scheme, reflecting more proactive complaints management by FSPs following the imposition of case fees on FSPs beginning from 1 October 2017 for cases referred to the OFS. The migration from the signature-based verification to the personal identification number (PIN) verification for payment cards effective 1 July 2017 also contributed to the decline in cases of unauthorised transactions arising from lost and stolen credit and debit cards.

The OFS resolved/closed 2,404[3] cases in its first two years of operations of the financial ombudsman scheme. Two-third of these cases were resolved at an early stage (typically within six months) through mutual agreement reached between the disputing parties during case management. This

[3] Including cases transferred from the predecessor scheme.

Chart 4.1: Banking and Insurance Sector: Breakdown of Cases Received

Insurance and takaful cases account for almost two-thirds of the disputes received

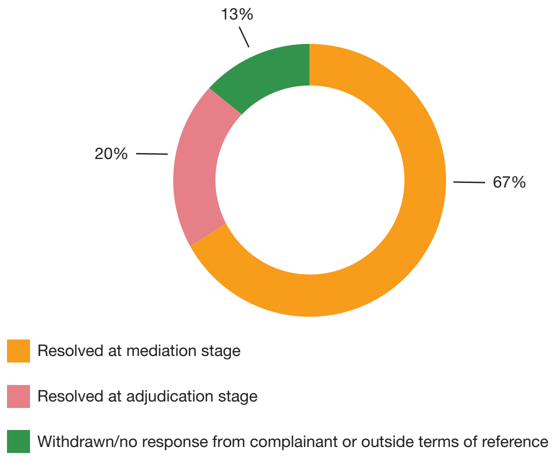


Source: OFS Statistical Reports

represented a significant improvement over 42% of early resolutions achieved under the predecessor scheme (Chart 4.2 and Chart 4.3) and can be attributed to improvements made to the dispute resolution arrangements, including more proactive case management and earlier opportunities for the disputing parties to review relevant facts of the case. A majority of the disputes reflected a generally low level of understanding among complainants of the terms and conditions under the financial contracts. For cases that proceeded to adjudication, the OFS upheld the FSPs' decision in 84.3% of the cases. The OFS' decision is binding on the FSP if accepted

Chart 4.2: Cases Resolved/Closed

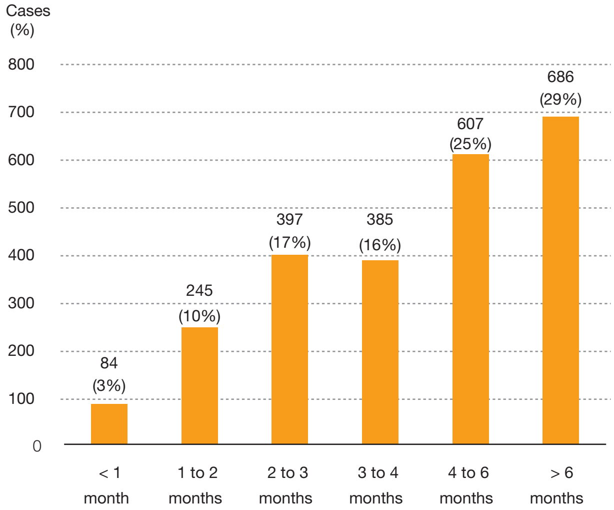
Most cases resolved at mediation stage



Source: OFS Statistical Reports

Chart 4.3: Turnaround Time for Resolving Disputes

Most cases were resolved within six months*



* With the remaining 29% of the cases took longer to resolve mainly due to delays in the submission of complete documentation

Source: OFS Statistical Reports

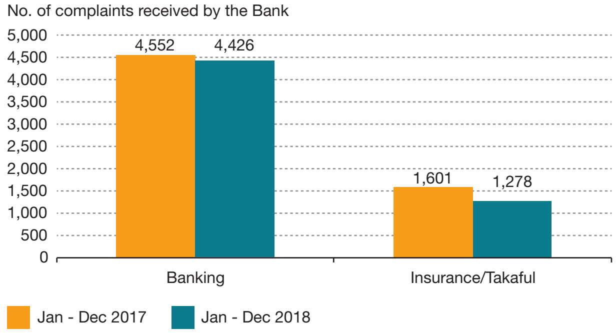
by the complainant. The complainant, on the other hand, can pursue further actions through the courts if he/she is dissatisfied with the OFS' decision. Historically, less than 0.2% of cases decided in favour of FSPs have proceeded further to the courts.

Complaint Management and Advisory Services by BNMLINK

Apart from the OFS, BNMLINK continued to provide an alternative avenue for financial consumers to seek redress or resolve disputes with FSPs. In 2018, BNMLINK and OFS handled 88% and 12% out of 6,465 cases of second level complaints,[4]

Chart 4.4: Complaints Received by the Bank in Terms of Type of FSPs

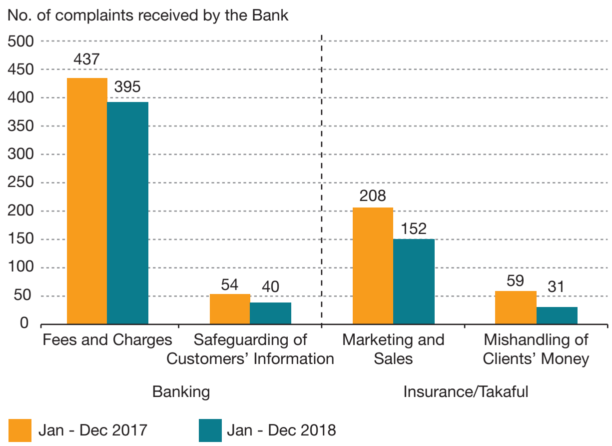
Reduction of complaints cases received by BNMLINK



Source: Bank Negara Malaysia

Chart 4.5: Complaints Received by the Bank in Terms of Key Issues

Reduction of complaint cases by key issues



Source: Bank Negara Malaysia

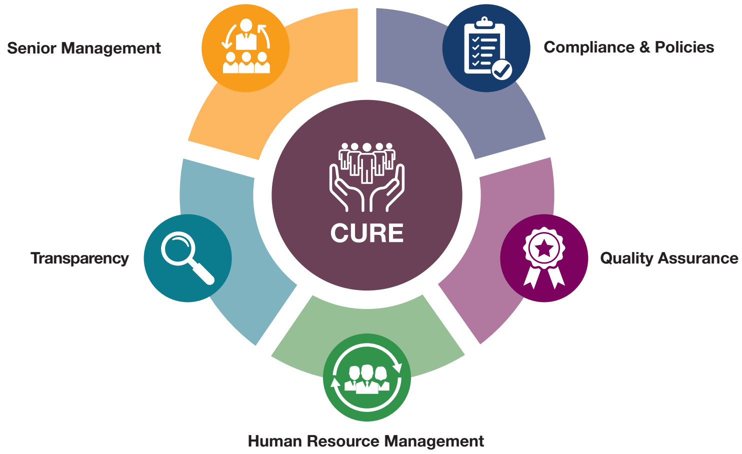
Consumer Complaints Redress (CURE) Profiling

The Consumer Complaints Redress (CURE) Profiling framework is surveillance and profiling tool used by the Bank to promote fair and effective management of complaints by FSPs. FSPs are assessed against five key components of fair treatment in complaints management based on regulatory requirements as well as industry and international best practices (Diagram 4.2). As CURE profiling is conducted biennially, assessments also cover an FSP's performance against specific action plans and Key Performance Indicators (KPIs) identified in the previous assessment. The outcomes of CURE 2018 showed that improvements in FSPs' complaints management is strongly and positively driven by the 'tone from the top' that emphasised a customer-centric culture that prioritises and rewards the fair treatment of financial consumers (Table 4.1).

[4] Second level complaints are complaints that fall within the jurisdiction of BNMLINK and OFS respectively, after consumers have complained to FSPs.

Diagram 4.2

The Five Components of CURE Profiling



Source: Bank Negara Malaysia

respectively. Similar to OFS, the number of complaints referred to BNMLINK declined for both the banking and insurance/takaful industry (Chart 4.4 and Chart 4.5) as FSPs were more effective in managing complaints with 98% of complaints received successfully resolved by FSPs. The Bank continued to provide constructive feedback to FSPs based on its monitoring of FSPs' complaints handling processes and outcomes using the Consumer Complaints Redress (CURE) Profiling framework.

Most FSPs within the banking industry continued to make progress in strengthening their oversight functions and operational management to ensure compliance with regulatory requirements and fair outcomes for financial consumers. Despite some improvements observed, the management of complaints by insurers and takaful operators, however, remained below the Bank's expectations. FSPs falling short of expectations have been required to observe industry good practices (Diagram 4.3) and reflect a stronger culture of professional conduct and empathy in addressing consumer issues and concerns.

Table 4.1

Summary Outcome of Selected FSPs in CURE Profiling* 2016 & 2018

CURE 2018 Outcomes		Banking Institutions		Insurers/Takaful Operators	
		2016	2018	2016	2018
Meet Expectation	The oversight function and operational management of the FSPs have been effective in meeting the Bank's prescribed standards in relation to fair treatment and outcomes in complaints management	8	11	0	3**
Below Expectation	FSPs require immediate improvement due to gaps in the oversight function and lapses in operational management including non-compliance with prescribed standards as set out in the Complaints Handling Policy Document issued by the Bank	4	2	6	5
Newly assessed FSPs in CURE 2018		1		2	
Improved FSPs from CURE 2016 to CURE 2018		3		2	

* FSPs were selected based on representation of more than 70% of total industry complaints
** Two FSPs improved from CURE 2016 to CURE 2018, while one FSP is newly assessed in 2018

Source: Bank Negara Malaysia

Diagram 4.3

Industry Good Practices Identified in CURE Profiling 2018

Enhanced Oversight Function	
Adequate accountability over complaints management	Positive 'tone from the top' on culture that focuses on delivering fair outcomes for consumers
	Good structure and effective role of complaint management
	Continuous oversight in ensuring adequate and effective complaint-related policies and procedures
Independent review on compliance	Periodic and independent review of related policies in ensuring relevance, compliance and comprehensiveness of internal policies and procedures as well as regulatory requirements
Strengthened Operational Management	
Independent quality assurance and controls	Quality assurance of complaints management including investigation process, correspondences and staff
	Root-cause analysis that is fed back to business units for improvements including investigation process, correspondences and staff
	Effective control and monitoring mechanism in ensuring timely reporting and fair resolutions
Effective measures to enhance capacity and capability of staff	Adequate and experienced complaints management staff that commensurate with FSPs' complaints profile and complexity
	Robust recruitment process and training for complaints managers and front-line staff
	Clear empowerment, authority and limits granted to complaints management staff to act in the interest of consumers

Source: Bank Negara Malaysia

WELL-INFORMED AND EMPOWERED FINANCIAL CONSUMERS

With greater financial innovation and the growing complexity of financial products and services, it has become more important to equip financial consumers with the knowledge to make informed financial decisions with confidence. The Bank continued to collaborate with various agencies to build financial capability, elevate the level of literacy and promote prudent financial management among Malaysians.

In 2018, the Bank continued to work closely with its partners[5] in the Financial Education Network (FEN) to expand the reach and coverage of financial education initiatives. The FEN co-ordinates the initiatives undertaken by all its members to ensure that resources are optimised to maximise the collective impact of financial education programmes in order to achieve the goals and objectives of the national strategy for financial education.

The Bank works closely with Financial Education Network (FEN) to expand the reach and coverage of financial education initiatives

The joint effort with the Ministry of Education (MOE) to nurture good financial values from young has seen the progressive integration of financial education into the school curriculum up to the Secondary Two level, remaining on-track to complete the integration for all primary and secondary levels by 2021. The MOE's commitment to ensure financial education is implemented effectively in schools has shown encouraging results with teachers demonstrating greater confidence

[5] FEN members comprise Bank Negara Malaysia, Securities Commission Malaysia (SC), Ministry of Education (MOE), Employees Provident Funds (EPF), Perbadanan Insurans Deposit Malaysia (PIDM), Agensi Kaunseling dan Pengurusan Kredit (AKPK) and Permodalan Nasional Berhad (PNB).

and knowledge on the subject. This has been supported by the inclusion of a financial literacy elective module for trainee teachers along with more tailored programmes that are being rolled out by the MOE for teachers in service.

Through the School Adoption Programme, FSPs continue to play an important role in reinforcing the key concepts of financial management taught in the school curriculum. A number of FSPs have launched successful financial literacy programmes in their adoptive schools, for example 'AEIOU Financial Comic Strip Challenge' by Alliance Bank Malaysia Berhad, '*Program Celik Wang*' by Agrobank, 'BSN Educate Programme' by Bank Simpanan Nasional, '*Cha-Ching*' and '*Duit Right*' by Prudential Assurance Malaysia Berhad, and 'My Finance Coach' by Allianz Malaysia Berhad. Over 26,000 students and young children who visited the Bank's Money Museum and Art Gallery (MAG) during the year were also exposed to a wide range of topics on money management through interactive games.

Aside from financial education in schools, the Bank uses various channels and platforms to promote financial awareness and education (Diagram 4.4). These initiatives reached more than 20 million individuals who learnt something about financial management and financial services through various programmes and outreach channels by the Bank.

Through Agensi Kaunseling dan Pengurusan Kredit (AKPK), a wholly-owned subsidiary of the Bank, a further 1,700 learning sessions on personal financial management reaching out to well over 1,650,000 people were conducted during the year. Encouragingly, government agencies and the private sector are taking on a more active role in supporting financial education programs for their employees. This has proven to be a particularly effective way of providing structured financial education on a sustained basis to more Malaysians.

The Bank together with the general insurance industry will publish a series of consumer guides on motor claims to educate financial consumers on steps that should be taken in the event of a road accident and how to make a motor claim. This is part of efforts to better protect accident victims against unscrupulous parties who would take advantage of their circumstances. Efforts were also intensified to educate the public on financial scams, specifically telephone scams, in collaboration with key agencies including The Royal Malaysian Police, Ministry of Communications and Multimedia and the Malaysian Communications and Multimedia Commission. These efforts continued to be accompanied by closer cooperation in surveillance and enforcement activities across agencies to identify and stop the perpetrators of such crimes (also see 'Strengthening and Safeguarding Financial System Integrity' in Chapter 3).

Diagram 4.4

Outreach to Malaysian Consumers: Key Statistics

Source: Bank Negara Malaysia

New Initiatives by AKPK in 2018

Programmes conducted by AKPK on personal finances are anchored upon four main life stages, namely at tertiary education level, entering the workforce, starting and raising a family, and retirement phase. Among the programmes developed by AKPK is the 'Social Enterprise Literacy for Youth' (SELFY) programme, a three-month project conducted with an objective to provide tertiary students with hands-on experience in social entrepreneurship through earning, managing, saving and eventually giving money for a social cause. About 300 students from nine higher learning institutions participated in SELFY during the year. Apart from being a practical learning platform for tertiary students to master financial management, SELFY has drawn several innovative ideas from participants on improving local social conditions sustainably. Another public programme - 'Be Your Own Boss', was introduced in 2018, focused on providing financial tips for workers to develop their own financial portfolio whilst being employed. 120 participants from various organisations and the public attended the one-day programme.

Assessments are conducted periodically to gauge the effectiveness of its financial education programmes. Past assessments have shown that practical financial knowledge and strategies, combined with sharing of real case studies are most useful in helping participants to better manage their finances. As part of efforts to further enhance the effectiveness of its financial education interventions, AKPK published the 'Financial Behaviour and State of Financial Well-being of Malaysian Working Adults' report in November 2018. The report provides key insights into the financial behaviour of Malaysian working adults, in terms of spending, saving and debt management. The report highlights the importance of financial education for working adults and serves to support evidence-based financial education programmes by AKPK and its collaborators moving forward to increase their impact.

In addition to financial education, AKPK also provides financial counselling and debt management services to financial consumers via its 11 branches and 15 counselling offices nationwide. As at end-2018, 854,246 individuals have been assisted by AKPK in managing their debts, of which 29% were enrolled into the Debt Management Programme (DMP). These individuals/borrowers have total debts of RM30.4 billion. 68% of individuals enrolled in the DMP have either fully settled their debts or are continuing to service their debts in accordance with the terms of the DMP. The remaining borrowers had either withdrawn from the DMP due to improved financial circumstances (3%) or had their participation terminated upon the individual's death or inability to repay the debt consistently (29%).

Financial Capability and Inclusion Demand Side Survey 2018

Market surveys and financial consumer feedback provide the Bank with timely and important data on emerging risks to financial consumers. They also enable the Bank to assess the effectiveness of its policies and interventions to address identified risks. During the year, the Bank conducted a nationwide Financial Capability and Inclusion Demand Side Survey (FCI 2018) to assess the financial capability and literacy level of Malaysians. The FCI 2018 is a follow-up assessment of the previous survey undertaken in 2015, to track progress in the level of awareness, knowledge, skill, behaviour and attitude of financial consumers in making sound financial decisions. Based on the data collected, a Malaysia Financial Literacy and Capability (MYFLIC) Index was constructed (Diagram 4.5). The MYFLIC Index for Malaysia in 2018 of 57.1 showed a slight improvement as compared to the index in 2015.

The level of knowledge, especially around basic financial literacy and numeracy, remains low among Malaysians. Almost 75% of Malaysians understand that inflation means that cost of living is rising, but only 38% can relate this to the impact on their purchasing power. In addition, less than half (43%) of respondents surveyed understand that money grows on a compounded basis over time, with one in five believing that money grows on a linear basis.[6] The lack of financial knowledge in turn has an important influence on the financial attitudes of Malaysians. Respondents that were less knowledgeable were more likely to demonstrate

[6] Linear basis growth refers to simple interest calculation where the yearly investment return is based on same percentage from the principal amount. While compound interest refers to return on investment calculation which is based on the interest percentage earned for the year plus reinvestment returns from prior investment period.

Diagram 4.5

Malaysia Financial Literacy and Capability (MYFLIC) Index 2018

MYFLIC INDEX
2018: 57.1
2015: 56.5

KNOWLEDGE SUB-INDEX
2018: 55.6
2015: 55.0

Product Awareness
- Financial product awareness
- Product ownership
- Active participation

Financial Literacy and Numeracy
- Time-value of money
- Interest paid on loans
- Interest plus principal
- Compound interest

Financial Concepts
- Risk and return
- Definition of inflation
- Diversification

BEHAVIOURAL SUB-INDEX
2018: 62.2
2015: 58.4

Money Management
- Budgeting
- Monitoring expenses
- Living within means
- Not overspending

Long-Term Planning
- Dealing with unexpected expenses
- Retirement planning
- Saving

Product Decision Making
- Using information

ATTITUDINAL SUB-INDEX
2018: 53.5
2015: 56.3

Self-Control
- Not being impulsive

Attitude Towards Future
- Short-term vs long-term focus

Achievement Oriented
- Plan for the future
- Working hard

Main sample
- *3,394 Malaysians*
- *Aged 15 years and above*
- *Face-to-face and door-to-door, Computer Aided Personal Interviewing*

attitudes that placed greater value on 'living for today' over medium and long-term financial planning. For instance, while 84% responded that they save money regularly, these savings are typically withdrawn by the end of the month. The absence of longer term goals leaves many ill-prepared to deal with both unexpected expenses (e.g. loss of income, onset of illness or accidents) and expected life events, including retirement. Indeed, 41% of respondents admitted that their current retirement savings is insufficient to cover their household expenses in full during their old age. Key observations from the FCI 2018 are summarised in Table 4.2.

The findings of the FCI 2018 will be used to inform priorities and targeted interventions under the National Strategy that is being finalised by the FEN, with the aim to elevate the financial literacy of Malaysians and to promote prudent financial behaviours and attitudes.

Table 4.2

Key observations on financial literacy and capability in Malaysia

Financial Knowledge	Most financial consumers lack understanding of financial concepts and how financial products work beyond today. However, two in three consumers do not recognise this and rated themselves as having good financial knowledge. Poor literacy and numeracy skills were particularly notable
	The use of financial services is predominantly concentrated on deposit products
	Financial consumers are enthusiastic about using mobile banking and internet banking, mainly for money transfers, bill payments and online shopping
Financial Behaviour	Most financial consumers claim to save for rainy days but do not consider investment as part of financial planning to meet expected future needs, such as financing their children's education
	A majority of financial consumers are not prepared to cope with unexpected expenses
	52% of respondents would face difficulty raising RM1,000 immediately in the event of an emergency (FCI 2015: 76%)
	24% of respondents would be able to sustain living expenses for at least three months or more after losing their income (FCI 2015: 18%), while only 10% of respondents would be able to do so for more than six months (FCI 2015: 6%)
	16% of respondents are very worried about not being able to cover their living expenses in old age, especially among those aged 50 and above (FCI 2015: 33%)
Financial Attitude	A majority of financial consumers display short-sighted tendencies and a 'living for today' attitude to financial management. For instance, 51% claimed that money is there to be spent and not set aside for meeting future needs or emergency expenses. In addition, about four in 10 financial consumers feel that they lack discipline when it comes to managing their finances
	Savings tend to be only for the short-term and meant to cover daily expenditures including health necessities, food and groceries

Source: Bank Negara Malaysia