

AKPK – Advancing Prudent Financial Behaviour

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Introduction

Agensi Kaunseling dan Pengurusan Kredit (AKPK) is an agency established by the Bank in 2006 to provide advisory services and assistance to individual borrowers in managing their finances. It contributes to a sound and robust financial system by creating a financially savvy society through the provision of three core services namely: (i) one-to-one financial counselling and advice on money management skills; (ii) a personalised debt management programme; and (iii) financial education. More than three million individuals have benefitted from the programmes and initiatives conducted by AKPK since its inception.

This article discusses the progress made by AKPK in carrying out its mandate to promote prudent financial behaviour, describes the profile of indebted borrowers and sets out AKPK's priorities moving forward.

Towards Financial Prudence

Financial counselling and advice

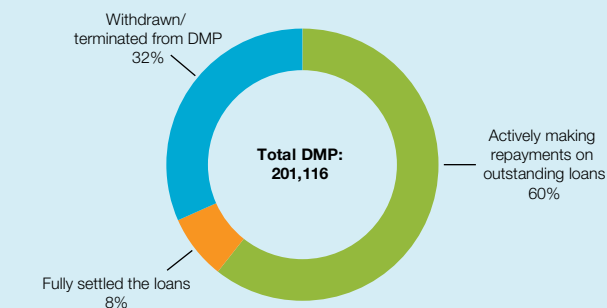
Since its inception, AKPK has provided financial counselling and advice to 683,169 individuals. This reflects AKPK's goal to equip individuals with the essential ability to manage money wisely, so that they spend within their means and achieve financial goals. AKPK provides free, one-to-one financial counselling and practical advice on money management to help individuals control their spending and debt. This is provided through its 11 branches, and 18 counselling offices nationwide via the branch network of commercial and Islamic banks. In addition, AKPK leverages on its strategic partners, including Government agencies and non-government organisations, in offering counselling at the work place.

Debt Management Programme

Out of the total number of individuals who had sought financial counselling and advice from AKPK, 29% of them were enrolled into the Debt Management Programme (DMP), a personalised programme to provide eligible borrowers with solutions for their financial situation. These individuals represent a total debt value of RM21.7 billion. To date, 15,439 borrowers representing 8% of DMP participants have fully settled their debts and graduated from the programme. About 60% of DMP participants remain active in servicing their debt while the remaining 32% had either withdrawn from the DMP or had their participation terminated (Chart 1). Common reasons for withdrawal or termination include improved financial circumstances that enable borrowers to fully settle or manage the debt on their own, the death of a participant, or the inability to make debt repayments on a consistent basis.

Proactive interventions by AKPK play an important role in supporting DMP participants in meeting and sustaining their repayment obligations. These include issuing early payment reminders, offering a 'Second Chance' programme to prospective defaulters and active monitoring of payments from all new DMP participants during the first three months after being enrolled into DMP under the 'Early Care' initiative to shape good repayment habits. These interventions have contributed towards reducing the numbers of borrowers that are terminated from DMP, from 35% in 2016 to 25% in 2017. In addition, the annual debt collected by AKPK under the DMP have increased significantly to RM877 million in 2017 (2007: RM21.7 million). Of the amount collected thus far, over 80% was paid promptly by borrowers.

Chart 1: Status of DMP Participants as at end-2017

Majority of DMP participants are actively making repayments

Source: Agensi Kaunseling dan Pengurusan Kredit

The DMP has also had an important impact in reducing bankruptcies. It is estimated that about 20% of the borrowers who had enrolled into DMP were at the early stage of bankruptcy proceedings or foreclosure of their properties. Once borrowers are enrolled into the DMP, participating financial institutions (PFIs) will provide moratorium on the bankruptcy or foreclosure proceedings to enable all parties to agree on repayment plans. This also helps to reduce the number of bankruptcy cases that need to be handled by the court.

The PFIs have also benefitted from the DMP. The PFIs are able to recover the defaulted loans from the borrowers without resorting to court processes which are time consuming and costly. Since the inception of AKPK, the PFIs have recovered about RM4.5 billion of defaulted loans that would otherwise need to be written off. The PFIs also benefitted from the savings of fees payable to debt collection agencies, generally between 15% to 25% of the amount recovered, compared to a nominal fee of 3% paid to AKPK.

All of the above can be attributed to three key roles of AKPK in administering the DMP: (i) building support and agreement among PFIs on debt restructuring terms that can be reasonably met by distressed borrowers; (ii) counselling on financial management and lifestyle changes which are critical to help borrowers regain control of their debt; and (iii) active monitoring and follow up on borrowers that are more likely to fall behind on payments. To further assist DMP participants who have fully settled their debts, AKPK is in the process of rolling out a post-programme initiative to provide continuous guidance and support to these customers. It aims to systematically track behavioural changes and ensure that positive financial behaviour is sustained.

Financial literacy—a more inclusive financial education and outreach

AKPK's financial education modules are designed to address the different needs and circumstances that arise at different life stages - from young adults in tertiary education; entering the workforce and starting a family; to senior citizens in their retirement. Financial education programmes also aim to address the specific challenges that are faced by more vulnerable groups in the bottom 40% (B40) and middle 40% (M40) income groups. Key topics covered include the importance of saving and how to save, setting financial goals, selecting financial products that match needs and goals, budgeting, basic borrowing and debt management.

Financial education publications by AKPK are available in four main languages and are continuously updated to incorporate new financial management tools and behavioural observations. AKPK's financial education initiatives have also been advanced further at the university level where a Personal Financial Management course was introduced as an elective or an extra-curriculum programme to teach young adults good personal financial management before they enter the workforce. A total of 34 higher learning institutions have infused AKPK's Personal Financial Management module in their respective curriculum (Diagram 1).

Diagram 1

AKPK's Financial Education Modules and Publications

2015

Financial education modules for four key life stages

- To empower consumers with knowledge, skills and tools to build, manage, and protect their personal wealth
- Designed based on specific life events (i.e. tertiary education, entering workforce, starting and raising a family, and retirement) to ensure an impactful financial education that reaches its targeted consumers

2012

Self-Help Guide on Debt Relief Plan

- Aimed at guiding and empowering consumers who wish to manage their debts on their own

2011

POWER! Managing Your Debts Effectively

- Targeted primarily at young individuals and new borrowers, aims to empower individuals to manage their finances effectively
- Provides practical financial knowledge, skills and tools to help in making sound and responsible borrowing decisions

2008

Money \$ense

- A tool to promote financial literacy across various target groups
- Developed based on real-life experiences of customers who have sought AKPK's credit counselling and enrolled into AKPK's DMP
- Further developed into a Personal Financial Management module and taught to trainees of Program Latihan Khidmat Negara until 2014

Old Master Q Money Management Comic

- To convey financial education in a simple, fun and easy to understand manner

Source: Agensi Kaunseling dan Pengurusan Kredit

Ensuring that all Malaysians have access to its services has always been one of AKPK's priorities. Acknowledging that its financial education initiatives need to be responsive to individuals from all walks of life, and provide flexibility for individuals to receive information at times and in ways that they prefer, AKPK introduced an online microsite platform (ask.akpk.org.my). The online learning portal is filled with financial education advice and tips, budget planning tools and financial calculators to help consumers manage their finances. AKPK has also sought new ways to reach out to financial consumers through digital platforms such as Facebook, Instagram and YouTube, which have attracted more than 10 million viewers.

Indebtedness— who and why?

Poor financial planning consistently ranks as the top reason why DMP participants default on their debt (Diagram 2). Without proper financial planning, individuals are at risk of spending beyond their means and supporting such spending through the build-up of substantial debt (Case 1).

Case 1

Mazyun and Mazlan, a young married couple, worked as an interior designer and bank executive respectively. Despite just starting out in their careers in urban Kuala Lumpur, and with little savings set aside, they racked up a substantial amount of housing, personal and credit card debt to finance a lavish lifestyle. Over just four years, they had accumulated a total debt of RM1.2 million on a combined salary of RM20,000 per month.

The unexpected termination of Mazlan's employment contract plunged the couple into serious financial hardship, with Mazyun unable to sustain repayments on the couple's multiple loans on a single income source.

More than 73% of DMP participants are from the lower monthly income bracket of below RM4,000. Many of these DMP participants become indebted due to insufficient savings which leave them unable to cope with large unforeseen expenditures, such as medical emergencies. Matters are compounded when they are forced to rely on more expensive forms of debt such as credit cards and personal financing, to deal with financial challenges. Consequently, they are more likely to fall into greater debt (Case 2).

Case 2

Azmi works as a factory supervisor with a monthly income of RM3,000. He is married with three school going children. He was servicing his loans as scheduled, and spent what was left of his savings on local holidays with his family.

His financial difficulties started when his wife fell ill. With no savings or insurance to fall back on, he took up personal loans and used credit cards to pay for his wife's medical treatment. Struggling to meet his debt repayments and family expenses, he eventually defaulted on his debt obligations. His children withdrew from school when Azmi could not afford to pay for their school books.

In general, individuals who have a tendency to spend beyond their means are likely to accumulate higher debts, which if not managed appropriately would lead to financial distress. In this instance, AKPK provides counselling services to highly indebted individuals, particularly on the need to make lifestyle changes. The majority of DMP participants who successfully completed the programme have been observed to change their behaviour. This includes getting into the habit of saving, developing household budgets and spending modestly.

Case 3

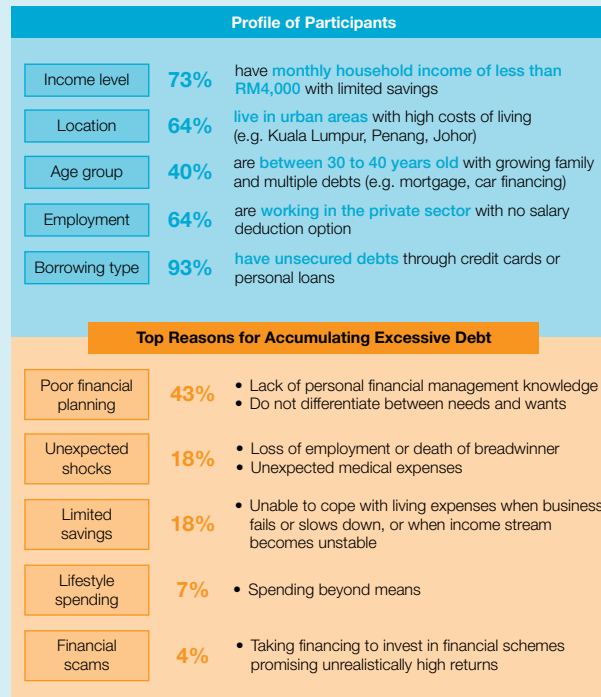
Ali works as a Finance Manager with an insurance company. He has two children with a net household monthly income of approximately RM5,500. He lived a lavish lifestyle with no financial planning for his future. His total credit card debts and personal financing debt amounted to RM100,600 with monthly repayments totalling RM4,125. He could not pay his debts solely based on his monthly salary.

Ali enrolled into the DMP in 2009. Throughout the programme, Ali adjusted his household expenditure by cutting down on expensive food and clothings. The change in lifestyle enabled Ali to pay off his debts. He was also able to set aside some money for his family's medical insurance and children's education. Ali successfully completed DMP in June 2012, one year ahead of the DMP schedule.

Greater access to financial services and a highly competitive market can further add to challenges faced by individuals. In particular, behaviours of financial institutions that actively promote financial products that may not be suitable for certain consumers, have made it even more important for individuals to have the knowledge to make sound financial decisions. This has also become more important to guard against a proliferation of investment scams.

AKPK's strategies and approaches aim to deliver interventions that focus on individuals who are likely to be more vulnerable to financial hardship. To this end, AKPK has increased its presence in major cities. In 2017, 32% of the total financial education programmes were conducted in Kuala Lumpur and Putrajaya, and 84% of financial education and counselling activities have specifically targeted individuals who are starting and raising families.

Diagram 2

Profile of AKPK's DMP Participants

Source: Agensi Kaunseling dan Pengurusan Kredit

Priorities Going Forward**National strategy on financial literacy**

A national strategy on financial literacy is being formulated by the Financial Education Network (FE Network)¹ to elevate financial literacy among Malaysians. As an FE Network member, AKPK will coordinate with its partners within the network to align and increase the reach and impact of financial education programmes targeted at young and working adults. New approaches for measuring the effectiveness of these programmes will also be pursued.

Holistic approach to financial rehabilitation – going beyond bank credit

Since 2014, AKPK's services have been expanded to include individuals with borrowings not only from financial institutions regulated by the Bank but also several large non-bank financial institutions such as Malaysia Building Society Berhad, credit cooperatives and Perbadanan Tabung Pendidikan Tinggi Nasional. This has enabled AKPK to provide more comprehensive solutions to borrowers, and enlarge the number of individuals who can access its services. Moving forward, efforts are underway to extend coverage of the DMP to include customers of other non-bank credit institutions. This is also in line with the recent appointment of AKPK by the Government as a nominee for the Voluntary Arrangement scheme (a pre-bankruptcy rescue mechanism) under the Insolvency Act 1967 [Bankruptcy (Amendment) Act 2017]. As the appointed nominee, AKPK would manage a process to provide financial consumers with the opportunity to restructure and/or reschedule their debt before they are declared bankrupt.

¹ FE Network members comprise of the Bank, Securities Commission Malaysia, Ministry of Education, Ministry of Higher Education, Employees Provident Fund, Perbadanan Insurans Deposit Malaysia, AKPK and Permodalan Nasional Berhad. The FE Network serves as an inter-agency platform to increase the impact of financial education initiatives and identify new opportunities for improving financial literacy among the Malaysian public through greater alignment, closer collaboration and a strong focus on impact assessments.

Conclusion

As individuals gain greater access to financing, it becomes increasingly important that they practice prudent and responsible financial behaviour. AKPK plays an important role in this mission, not just to assist borrowers in trouble but to advocate greater financial literacy among all Malaysians. AKPK is committed to building on its deep knowledge of financial consumer attitudes and behaviour, and its strategic position as a trusted adviser within the financial ecosystem, to help more individuals make effective use of financial services to improve their welfare while contributing to broader financial stability.