

2015

MARKET CONDUCT AND CONSUMER EMPOWERMENT

- 97 Managing Risks to Financial Consumers
- 100 Strengthening Redress Mechanisms for Consumers
- 100 Well-Informed and Responsible Financial Consumers

MARKET CONDUCT AND CONSUMER EMPOWERMENT

The Bank continued to focus on promoting fair, responsible and professional business conduct by financial service providers (FSPs) in 2015. Against a backdrop of more moderate growth, continued volatility in the financial markets and elevated household borrowings, the Bank intensified efforts aimed at helping consumers make informed financial decisions. Regulatory and supervisory measures were introduced to ensure FSPs adequately assess the suitability of financial products for consumers, and improve the quality and clarity of information provided to consumers. In addition to pursuing enforcement actions against FSPs where warranted, a number of market conduct standards were strengthened to incorporate requirements that will improve fair outcomes for consumers. Regulations were also introduced to pave the way for a financial ombudsman scheme (FOS) to be established and fully operational by the second quarter of 2016. The financial education agenda continued to make progress as a key strategy to empower consumers and promote their financial well-being. This included the progressive rollout of financial education as part of the formal curriculum in schools, and the development of new targeted financial capability programmes and financial management tools.

MANAGING RISKS TO FINANCIAL CONSUMERS

Key risks to financial consumers in 2015 mainly arose from competitive pressures and heightened volatility in investment performance which continued to weigh on profit margins of FSPs and influence the behaviours of FSPs. Accordingly, the

Bank focused on aggressive sales practices, the promotion of more complex financial products to consumers for whom such products may be unsuitable, and consumers' understanding of financial products. The Bank assesses that risks to consumers remain heightened in the near term as operating conditions continue to be challenging for FSPs. A stronger focus among FSPs on strengthening business practices that promote the interests of consumers will therefore continue to play a key role in mitigating these risks.

Investment accounts

The exercise to migrate customers' Islamic deposit accounts held with Islamic banks into Islamic deposits or investment accounts as required under the Islamic Financial Services Act 2013 (IFSA) was completed in June 2015. Existing customers of Islamic banks were given the option to either maintain their funds in IFSA-compliant deposit accounts, or to participate in new investment accounts with the potential for generating higher returns but which are not principal-guaranteed. These banks were required to clearly explain to customers the different risk and return characteristics of Islamic deposits and investment accounts, and obtain the express consent of account holders to migrate funds from deposit accounts into investment accounts. Islamic banks that offer investment accounts must additionally comply with requirements on disclosures and suitability assessments.

In preparation for the launch of the Investment Account Platform (the platform) in February 2016, the Bank worked closely with the industry to develop practical solutions for conducting non face-to-face suitability assessments in respect of investment ventures offered via the platform

Investment accounts may be in the form of either a restricted investment account or an unrestricted investment account. A restricted investment account provides for the account holder to specify investment mandates that must be complied with by the Islamic banks, such as the purpose of the investment, the underlying assets that the funds can invest in and the period of investment. An unrestricted investment account, on the other hand, provides the Islamic banks the flexibility to make investment decisions on behalf of the account holder without restrictions or conditions. The inherent complexities and risks associated with investment accounts vary according to the underlying investment assets.

(further details on the platform are provided in the chapter 'Development of the Financial Sector'). Islamic banks were also required to ensure that pertinent information on the investment accounts including related risk disclosures are carried prominently on the platform to facilitate informed decisions by prospective investors.

Bonus revisions for participating policy owners

Participating life insurance policies provide policy owners with the opportunity to participate in the profits of the insurance fund by way of bonus distributions determined by the insurer. Such policies account for 40% of all life insurance premiums currently in force. During the year, the Bank reviewed insurers' practices in the determination of discretionary bonus distributions. This has been an area of focus as weaker investment performance of certain participating funds might give rise to bonus adjustments. The Bank found considerable scope for improving the consistency of practices that would promote more objective and equitable benefit payouts across groups of policy owners. To this end, the Bank issued new standards on the management of participating life business in July 2015. The standards set out requirements on fair treatment of policy owners that must be observed by insurers to ensure that profits of the insurance fund are distributed fairly among groups of policy owners.

The new standards on the management of participating life business will promote more objective and equitable benefit payouts across groups of policy owners for participating life business

The Bank expects that any bonus revision must appropriately reflect the performance of the fund, communication to policy owners regarding bonuses when the policies were sold and equitable treatment of policy owners. The standards also seek to gradually unwind legacy practices, mainly affecting policies issued before 2005, to limit

the future scope of cross-subsidisation between groups of policies. Cross-subsidisation is unfair to different groups of policy owners who are deprived of a fair share of the current profits. The Bank will continue to scrutinise the practices of insurers in determining bonus revisions, particularly in the current volatile financial market environment, to ensure compliance with the standards issued by the Bank.

Standardised contract terms and conditions, and use of plain language

The banking and insurance industry continued to promote the use of standardised descriptions of contractual terms and plain language in financial contracts. Since 2013, banks have adopted standardised descriptions of key terms and conditions developed by the Association of Banks in Malaysia (ABM) for housing loans and home financing agreements involving a principal sum of RM500,000 and below. In 2015, over two-thirds of the housing loans and home financing contracts issued by banks adopted the standardised descriptions. The Association of Islamic Banking Institutions Malaysia (AIBIM) has embarked on a similar initiative for Islamic home financing agreements, which is expected to be implemented in 2016.

In the insurance and takaful industry, plain language insurance and takaful contracts have been implemented for houseowner and householder insurance policies and personal accident policies offered by general insurers and takaful operators, covering close to one-fifth of the personal line insurance policies issued to individuals in 2015. The descriptions for the 40 critical illnesses (CI) under CI policies have also been further simplified by the insurance and takaful industry associations and will be adopted for all new and existing CI products beginning 1 April 2016. This will be followed by private car, motorcycle, and hospital and surgical insurance, which account for two-thirds of the personal line insurance policies, by the end of 2016.

Combating financial fraud

Measures taken by FSPs to enhance their operational risk management, information technology (IT) systems and monitoring capabilities have strengthened the management of fraud risks, particularly those involving electronic channels and digital platforms. The measures

are complemented with collaboration and coordinated enforcement actions between the Bank and relevant law enforcement agencies. This includes the dissemination of information on mule account holders to facilitate FSPs' customer due diligence process. In addition, the Bank has also given greater emphasis on joint enforcement initiatives with relevant enforcement agencies, aimed at conducting more impactful financial investigations. In 2015, the proportion of transactions with financial losses from online banking fraud reported by FSPs remained low, below 0.001% of the total online banking transactions despite higher reported fraud attempts. Continued vigilance by FSPs in implementing precautionary measures remains important in maintaining public confidence in the security of online financial transactions. FSPs have also intensified communications on safety tips and transaction notifications to customers to validate the authenticity of online transactions. As a result of these developments, total losses sustained by financial consumers during the year declined slightly from RM7.9 million in 2014 to RM7.5 million.

The Bank continued to leverage on social media and its outreach activities to increase public awareness of financial scams and how they operate. This included warning consumers on the risks of dealing with unauthorised entities. The Bank maintains and regularly updates a Financial Consumer Alert List (available on the Bank's website) which the public can refer to in order to identify entities that are not authorised to conduct any financial activities regulated by the Bank. 246 entities are currently listed on the Financial Consumer Alert List which attracted more than 44,000 views in 2015 and has become a useful source of reference for consumers to avoid becoming victims of fraudulent activities.

Supervisory and enforcement actions

The focus of the Bank's market conduct supervisory activities is driven by an assessment of developments and conditions that increase risks to financial consumers. During the year, the Bank conducted thematic reviews on: (i) the implementation of responsible lending practices by FSPs with a focus on lending to middle income

Table 4.1

Supervisory and Enforcement Actions Taken in 2015

Areas of Concern	Supervisory and Enforcement Actions
Lapses in safeguarding confidentiality of customer information	<ul style="list-style-type: none"> Two FSPs were issued a warning letter and a private reprimand respectively for lapses in their internal controls, and poor handling of customer documents and information leading to breach of customer confidentiality.
Mis-selling of life insurance and family takaful products	<ul style="list-style-type: none"> One FSP was required to provide compensation to 6,792 policy owners for mis-selling an insurance product as a savings product and promising high returns with a limited payment period. The affected policy owners were given the option to cancel the policies and obtain a full refund of premiums with interest or to convert the existing policies to fully paid-up protection plans. The costs of compensation to the affected policy owners were borne by the FSP's shareholders' fund. One FSP was required to fully refund contributions amounting to RM742,450 to 131 affected takaful participants for the mis-selling of takaful products.
Imposition of excessive fees on customers	<ul style="list-style-type: none"> Six FSPs were required to withdraw fees that were deemed to be excessive. 162 applications received from FSPs to impose or increase fees were rejected. 27 applications to increase fees were subsequently approved after FSPs revised the fees downwards.
Unfair terms and conditions, and misleading or non-disclosure of key information in advertisements and marketing materials	<ul style="list-style-type: none"> 14 FSPs were required to modify and improve the level of disclosures in related marketing materials to clearly disclose the respective product's risks and pertinent information. Four FSPs were required to improve the level of disclosures in communications to consumers for re-pricing of medical and health insurance products. Two FSPs were required to revise terms in contracts that were deemed to be unfair or were detrimental to customers' interests.
Failure to offer basic banking services options to customers	<ul style="list-style-type: none"> 20 FSPs were reprimanded for failing to ensure that basic banking services are offered as an option to customers who would be better served by basic deposit accounts.

Source: Bank Negara Malaysia

earners; (ii) the effectiveness of FSPs' controls in safeguarding customer information; and (iii) motor insurance claims settlement practices. As a result of the reviews, supervisory and enforcement actions were pursued against 38 FSPs for failures to comply with business conduct requirements prescribed by the Bank. A summary of the key supervisory and enforcement actions taken by the Bank in 2015 is provided in Table 4.1.

Supervisory and enforcement actions were pursued against 38 FSPs for failures to comply with business conduct requirements

The thematic review of the motor claims management practices of FSPs was an important exercise to identify key areas for action to improve the timeliness of claims settlements and reduce the incidence of disputes over settlement amounts. Common weaknesses that were identified by the Bank related to the design of performance measurements for claims staff which did not incentivise a high standard of professional conduct, and the quality of information supporting claims decisions which allowed claims to be artificially inflated. FSPs were required to rectify these issues. In parallel, solutions at the industry level are also being pursued to streamline the claims process, and raise professional and service standards more broadly across key actors in the claims process, including loss adjusters, tow truck operators and repair workshops.

STRENGTHENING REDRESS MECHANISMS FOR CONSUMERS

The Financial Services (Financial Ombudsman Scheme) Regulations 2015 and Islamic Financial Services (Financial Ombudsman Scheme) Regulations 2015 (the Regulations) were brought into force on 14 September 2015. This paves the way for the establishment of an FOS as envisaged under the Financial Sector Blueprint to enhance financial dispute resolution arrangements in Malaysia.

The proposed FOS framework, covering its scope, membership, funding, governance and

resolution processes, was first published for public consultation on 29 August 2014 and provided the key elements of the Regulations. The Bank received 55 responses that affirmed broad support for the proposed framework. Acting on specific comments and suggestions received, the Bank made several improvements to the framework prior to its finalisation. These included providing for the periodic review of the monetary award limit, imposing a clear duty on the directors of the FOS to act in the best interest of the FOS, affirming a two-stage dispute resolution process comprising mediation and adjudication to provide ample opportunity for disputing parties to reach an amicable agreement, and adopting a fee structure that incentivises FSPs to improve their handling of complaints.

Preparations to transform the existing Financial Mediation Bureau (FMB), which will be approved as the FOS, are well into the advanced stages. The FOS is expected to commence its operations in the second quarter of 2016.

The establishment of the FOS will further strengthen redress mechanisms for consumers

Apart from the FMB and dedicated complaints units within FSPs, BNMLINK and BNMTELELINK continued to provide an alternative avenue for consumers to seek redress or resolve their disputes with FSPs. Over the 10 years of operations, BNMLINK and BNMTELELINK have handled an increasing number of queries and complaints, reaching 480,000 in 2015. The Bank received fewer complaints against FSPs in 2015, mainly owing to the more proactive management of complaints by FSPs and a sustained focus by the Bank on promoting fair treatment of financial consumers and responsible business conduct among FSPs.

WELL-INFORMED AND RESPONSIBLE FINANCIAL CONSUMERS

The Bank's ongoing collaboration with the Ministry of Education (MOE) to promote financial capability as an essential life skill from an early age has made encouraging progress. Work to integrate financial

- My Ringgit - A tool to learn about the Malaysian banknotes, including security features and quality standards.
 - My Tabung - A tool for consumers to better monitor and manage their income and expenses.
 - My BNM - A tool for consumers to read the latest financial news and announcements, including fraud alerts issued by the Bank.
 - BNM MyLINK - A tool for consumers to make enquiries, obtain advice and lodge their complaints against FSPs.
- Further information on these applications can be found on the Bank’s website, www.bnm.gov.my.

education into the school curriculum continued to gain traction with the goal to complete the process for all primary and secondary school levels by 2021. During the year, the Bank supported the MOE in developing education materials, including financial education modules and guides for teachers to be able to deliver financial education effectively. An assessment on the effectiveness of the curricula implemented for the first batch of Primary Four and Primary Five students is also being conducted in collaboration with the MOE. Insights will be used to further improve and refine future implementation efforts.

An overview of key financial education initiatives in 2015, including those undertaken by the Credit Counselling and Debt Management Agency (Agensi Kaunseling Dan Pengurusan Kredit, AKPK), is provided in Table 4.2. The Bank also continued to leverage on technological advancements in the design and delivery of financial information

and advice. Four consumer-centric mobile applications, namely, My Ringgit, My Tabung, My BNM and BNM MyLINK, were introduced to elevate consumer awareness and skills in money management matters. An initiative to develop a financial education portal (the portal) also commenced during the year. The first phase of the portal which will provide consumers access to information on personal financial management based on life stages, is expected to be completed by end-2016. To support the needs of persons with disabilities, the Bank collaborated with Kementerian Pembangunan Wanita, Keluarga dan Masyarakat to introduce a device known as Ringgit Cash Test Card, a credit card-sized plastic card with gauges designed to assist the visually impaired in identifying banknotes and coins.

To guide the Bank’s priorities and ensure that financial education initiatives are delivering the intended outcomes, the Bank launched a

Table 4.2

Key Financial Education Initiatives in 2015

Strategy	Initiatives
Financial education in schools	<ul style="list-style-type: none"> • Incorporated financial education elements in Primary Six Mathematics, Bahasa Melayu, English and Moral Education curricula and textbooks. • Equipped 5,000 trainee teachers with the knowledge and skills to deliver financial education.
Adult financial education	<ul style="list-style-type: none"> • Reached over 373,000 adults through AKPK’s financial education programmes targeted at various consumer segments, including: <ul style="list-style-type: none"> – personal financial management programmes for college students, retirees and the public at large; – financial guidance provided to Amanah Ikhtiar Malaysia (AIM) borrowers; – “Jelajah Bijak Wang” road shows in six major locations organised in collaboration with the Ministry of Finance on good money management; and – an online financial literacy game, ‘Cent-sible Choice’, launched in collaboration with Visa, to educate young Malaysians on financial management responsibilities. • Continuously promoted the POWER! (Pengurusan Wang Ringgit Anda) Online Learning Programme, which saw 1,359 individuals completing the programme. • Trained 48 Royal Malaysian Police’s counsellors and trainers who will then deliver financial education modules to the members of the police force and their family members.

Source: Bank Negara Malaysia and Agensi Kaunseling Dan Pengurusan Kredit

nationwide Financial Capability and Inclusion Demand Side (FCI) Survey in January 2015 to measure and track the financial literacy and capability levels of Malaysian consumers. A Financial Literacy and Capability Index for Malaysia (MYFLIC) was constructed based on data obtained and analysed through the survey (Diagram 4.1).

The Bank continued to leverage on technological advancements in the design and delivery of financial information and advice

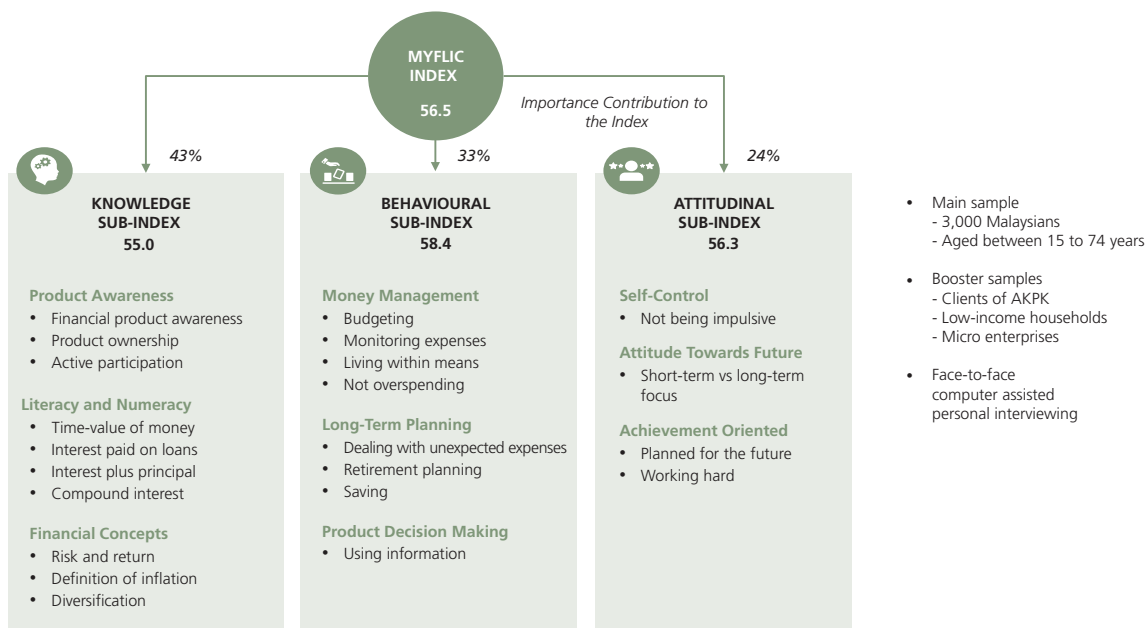
Key observations from the FCI Survey 2015 are summarised in Table 4.3. The study revealed that while the financial infrastructure to promote access to financial products and services is well developed in Malaysia, consumers still lack the ability to make good financial decisions. Respondents in the lower income groups do not have sufficient means to effectively participate in the financial system, with their financial resources mainly being utilised for essential needs. Financial education strategies therefore,

also need to address ways in which individuals can responsibly enhance their income, including through agencies such as Amanah Ikhtiar Malaysia, which provide support for vulnerable segments of the population. Groups that are more likely to be financially excluded such as the younger population, the urban poor, low income groups and retirees also exhibit lower levels of financial literacy and would particularly benefit from targeted interventions in financial education. These observations will be used by the Bank to develop and implement more effective financial education interventions with the aim of improving the MYFLIC index over time.

The financial capability level of Malaysian consumers was measured through a nationwide Financial Capability and Inclusion Demand Side Survey to implement more effective financial education interventions

Diagram 4.1

Malaysia Financial Literacy and Capability (MYFLIC) Index 2015



Source: Bank Negara Malaysia

The Bank continued to contribute to and learn from the international exchange of experiences in the area of financial education. Over the years, the Bank's participation in relevant forums has helped to sharpen domestic priorities, strengthen partnerships and broaden perspectives in the implementation of financial education initiatives. As part of this continuing engagement, the Bank co-hosted the Organisation for Economic Co-operation and Development/International Network on Financial Education (OECD/INFE) global

symposium in September 2015. The symposium, which drew more than 230 policymakers and financial educators to Malaysia, provided rich ground to discuss developments in financial education and consumer protection strategies and policies to advance financial literacy initiatives for different target consumer groups. As a member of the INFE in the OECD, the Bank also actively participates in research and data collection efforts, which have enabled the Bank to develop more evidence-based financial education policies and interventions.

Table 4.3

FCI Survey 2015: Key Observations on the Levels of Financial Literacy and Capability in Malaysia

Knowledge (55.0)

- There is a general awareness of financial products and services, and understanding of basic financial concepts such as risk and return as well as inflation.
- Most consumers lack understanding of the concept and importance of diversification. Consumers also struggle with numeracy, computation of time value of money, interest plus principal and compound interest.
- AKPK's clients and micro entrepreneurs show greater understanding of common financial products, numeracy and financial concepts.

Behavioural (58.4)

- Consumers generally claim to be cautious in spending and able to repay debts. Only 19% of respondents find their debts to be burdensome.
- A significant majority of consumers are ill-prepared to meet unexpected expenses, with 76% of respondents admitting that they would have difficulty raising RM1,000 to meet emergency needs.
- Most consumers indicated that they will face financial pressure in the event of a loss of income, with only 6% of respondents expressing confidence that they will be able to meet financial obligations for at least six months after income loss.
- Only 40% of respondents are financially ready for retirement, while 92% have concerns about their financial health at an advanced age.

Attitudinal (56.3)

- Consumers display short-sighted tendencies and are inclined to focus on instant gratification at the expense of their future.
- AKPK's clients exhibit lower self-control over managing their own finances and generally take a short-term view when making financial choices.

Source: Bank Negara Malaysia

