

2014

MARKET CONDUCT AND CONSUMER EMPOWERMENT

- 103 Managing Risks to Financial Consumers
- 106 *Box Article: Effectiveness of the Product Disclosure Sheet in Influencing Sound Financial Decisions*
- 111 Strengthening Redress Mechanisms for Consumers
- 112 Well-Informed and Responsible Financial Consumers



## MARKET CONDUCT AND CONSUMER EMPOWERMENT

Under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA), one of the regulatory objectives of the Bank is to foster fair, responsible and professional business conduct of financial service providers (FSPs), and to protect the rights of financial consumers. In 2014, the Bank continued to focus a substantial part of its work on monitoring compliance with responsible financing practices and supporting targeted education programmes for financial consumers given the growth in household debt. The Bank also continued to improve the disclosure and advisory regime to provide an appropriate counterbalance to increasingly competitive conditions and an unrelenting pace of financial innovation. Progress among FSPs in managing conduct risks remains uneven, and overall, the quality of oversight over conduct risks needs to be further strengthened to ensure that business practices are aligned with the fair treatment of consumers. A number of initiatives were taken to strengthen the focus of FSPs on the fair treatment of financial consumers, covering specific business areas as well as broader arrangements for the protection of consumers. An important development in this respect was the strengthening of existing redress mechanisms as envisioned under the FSA and the Financial Sector Blueprint 2011-2020 which involved transforming the current dispute resolution mechanism into a full-fledged financial ombudsman scheme. Effective from 2 January 2015, consumers will also benefit from greater transparency in the pricing of new floating-rate loans and financing facilities extended to individuals with the introduction of the Base Rate (BR). Further details on the BR are provided in the box article on 'The New Reference Rate Framework' in the Bank's Annual Report 2014.

### MANAGING RISKS TO FINANCIAL CONSUMERS

#### Responsible financing practices

The low interest rate environment in recent years has allowed consumers to borrow inexpensively. While advantageous

to consumers, it has increased the risk of households accumulating more debt than they can afford. Ensuring that any decision by a consumer to borrow, and by an FSP to lend, is made after evaluating the ability of the consumer to service the debt over the entire financing period represents an important safeguard against this risk. While access to credit should remain unimpeded for those with the capability to take on more debt, excessive borrowings that are used for consumption rather than income generation can expose borrowers to risks of substantial financial hardship, particularly where the borrower is already tied up with a large amount of debt, when financing cost increases. Following measures introduced in 2012 and 2013 to reinforce responsible lending practices, the Bank continued in 2014 to monitor the effectiveness of the measures in containing the excessive accumulation of household debt.

During the year, a second thematic review on financing practices of FSPs was conducted by the Bank to assess the extent to which responsible lending principles have been entrenched in industry practices. The latest review revealed that FSPs have made further progress in strengthening credit underwriting practices by implementing more robust affordability assessments. Debt service ratios (DSRs) are playing an increasingly prominent role in the lending decisions of FSPs. In response to interventions by the Bank, improvements continued to be observed in FSPs' income verification practices and in the assumptions used by FSPs to determine a borrower's other scheduled debt repayment obligations. FSPs were also observed to adopt more prudent DSR thresholds commensurate with the income levels of borrowers. Notably, arising from the intervention by the Bank, a positive outcome was the proportion of loans and financing offered to lower income consumers with a DSR of not more than 60% has improved from 85.9% of the new loans approved in July 2013 to 91.8% in December 2014. A number of FSPs have established minimum thresholds on net disposable income

as an additional credit factor to ensure that borrowers have adequate earnings buffers for essential living expenses and contingencies. Collectively, these developments are having a positive effect in building stronger financial buffers for borrowers to protect themselves against unexpected adverse events, rising living costs and potential increases in interest rates.

---

### FSPs have made further progress in strengthening credit underwriting practices by implementing more robust affordability assessments

---

The thematic review was also extended to cover a building society and a large deposit taking cooperative that were required in July 2013 to observe responsible financing principles consistent with that applied to banks. Improvements were noted in the parameters used by these lenders for computing the DSR to ensure that all debt obligations of a borrower are properly captured. In addition, more prudent DSR thresholds have been introduced for borrowers that are more likely to be vulnerable to income or expenditure shocks.

As an outcome of the review, several FSPs and lenders were directed by the Bank to further refine their credit underwriting practices. The refinements included ensuring that differences in the cost of living across different localities are adequately reflected in FSPs' affordability assessments. For loans extending into retirement, a number of FSPs were reminded to adequately consider whether a potential borrower is able to service the loan once he retires while at the same time maintaining a reasonable standard of living. Several FSPs were also directed to strengthen their governance arrangements over the credit underwriting process to ensure that deviations from internal policies are capped and properly justified and authorised.

Improvements in lending practices following the implementation of the Bank's responsible financing measures in the past two years have contributed towards a more moderate expansion of household debt, with a growth of 9.9% in 2014 from 11.5% registered in 2013. Of significance, personal financing – which had increased sharply among lower income consumers – grew at a substantially

slower rate of 4.6% in 2014, compared to 22.9% in 2011 prior to the measures introduced in 2012 and 2013. Although leverage levels remain high at the lower income borrower segments, the levels have started to stabilise since 2013 and would improve over time as income level rises. Household indebtedness is discussed further in the chapter 'Risk Developments and Assessment of Financial Stability in 2014'.

### Product disclosures and proper advice

Making informed decisions when shopping for financial products, especially when products are complex or long term in nature, continues to be a challenge for many consumers. Consumers who are not fully informed of – or who do not understand – key product features are more likely to purchase products that do not meet their needs or expectations. The challenge of making the right choices is further compounded by the wide array of innovative products offered by FSPs. Products are also increasingly being distributed through new technological platforms. As these can be confusing to many consumers, it is important to ensure that consumers are provided with adequate information to understand and compare the choices available, and then to decide on the financial service or product that best meets consumers' financial needs and expectations.

To this end, a significant part of the Bank's supervisory activities is devoted to the ongoing review of sales illustrations and promotional materials distributed by FSPs. Misleading deposit product advertisements were found to be more prevalent during the year as competition for deposits intensified. Many of such advertisements tend to place significant emphasis on the highest possible rate of return for deposits, while doing little to draw the attention of consumers to the accompanying terms and conditions that determine the effective rate of return being offered. As a result, seven FSPs were directed by the Bank to modify or withdraw 10 misleading advertisements.

In view of the wide variations that can exist in the features (including benefits and risks) of similar products offered within an insurance/takaful market segment, product reviews during the year focused on life insurance, family takaful and medical and health products. In two thirds of new products reviewed by the Bank, the relevant sales and promotional materials were found to fall short of the Bank's requirements, particularly in terms of the clarity and completeness of information presented. These include FSPs selectively emphasising or downplaying

product features, failing to highlight exclusions and risks, and using language which is difficult for consumers to understand. In respect of products sold over the telephone, the Bank also found instances when key information was not given to customers. The FSPs concerned were directed to take immediate corrective measures, including retraining sales staff and withdrawing all misleading material used in sales presentations. In cases of products already sold on the basis of misleading information, FSPs were required to conduct follow-up calls and provide an opportunity for consumers to reconsider their purchasing decisions without incurring any penalties or additional costs.

In the area of Islamic finance, the segregation of investment accounts from Islamic deposits further increased demands for proper disclosures to draw the attention of savers to the different risk and return profiles between deposits and investment accounts. To ensure that consumers are aware of the benefits, costs and risks involved, the Investment Account Framework issued by the Bank in March stipulates specific disclosure and suitability requirements that must be complied with in relation to these products. This includes requiring such investment accounts to have clear warnings that neither the principal nor profits of such products are guaranteed. Further details on investment accounts are provided in the box article 'Investment Accounts under IFSA' in the chapter 'Development of the Financial Sector'.

During the year, the Bank commissioned a study to assess the effectiveness of its product disclosure requirements. The findings of the study revealed scope for improvement in current industry transparency and disclosure practices in a number of areas, consistent with the Bank's observations from its supervisory activities and engagements with stakeholders. Key findings from this study are discussed in the box article 'Effectiveness of the Product Disclosure Sheet in Influencing Sound Financial Decisions'.

The Bank also partnered with the Consultative Group to Address the Poor (a global partnership that seeks to advance financial inclusion) and ideas42 (a research institute focused on advancing behavioural science), to conduct a study on the behaviour of Malaysian consumers purchasing insurance. Using mystery shopping methods, the study examined the actual experiences of customers as they interact with life insurance and family takaful agents and intermediaries. The study showed less than half of the 100 agents and intermediaries

encountered by consumers had adequately highlighted and explained the key features of the product being sold. In addition, only 58% made enquiries about the financial condition of consumers as input to product recommendations. Customer fact find forms intended to obtain customer information for suitability assessments were found to be rarely completed. Without such information, agents and intermediaries are unlikely to be able to analyse the needs of consumers, and in turn provide the right product advice. The study also affirmed the importance of providing consumers with concise and standardised key information to allow them to adequately assess a financial service or product. The findings of the study were used to prioritise the Bank's supervisory activities with a greater focus placed on reviewing the adequacy of FSPs' practices in monitoring the conduct of their intermediaries, and the design of incentive systems in encouraging better advice to consumers.

#### **Prohibited business conduct**

In November, a guidance document on Prohibited Business Conduct was issued in collaboration with the Malaysia Competition Commission to help FSPs understand and comply with the prohibited business conduct specifications set out in Schedule 7 of the FSA and IFSA. The document elaborates the factors that would be taken into consideration in determining whether an FSP has carried itself out in a manner prohibited under the law, and provides non-exhaustive guidance on the status of a range of practices observed in the industry. Particular focus is given to illustrating practices that are likely to be misleading or deceiving to consumers, practices that amount to an FSP exerting undue pressure in the marketing of financial products or in collecting payments, and practices by FSPs that have the effect of fixing the features of financial products to the detriment of consumers. While FSPs are expected to consider the guidance provided in the document in assessing the fairness of their business practices, the document is not intended to serve as a definitive response to all types of conduct. The regulatory response to a specific conduct by an FSP will consider the unique circumstances and any additional relevant facts surrounding a particular case.

#### **Pre-contractual disclosures applicable to insurance/takaful contracts**

Enhancements made to the pre-contractual disclosure obligations of consumers and the implementation of proportionate remedies available to insurers and

## Effectiveness of the Product Disclosure Sheet in Influencing Sound Financial Decisions

The product disclosure regime is an important component of financial consumer protection framework in Malaysia. This article evaluates the effectiveness of the current product disclosure regime and highlights possible improvements that the Bank will consider when reviewing the disclosure requirements.

In 2010, the Bank issued Guidelines on Product Transparency and Disclosure to improve information disclosures on products and services offered by financial service providers (FSPs). The Guidelines require FSPs to provide consumers with a Product Disclosure Sheet containing essential information about a product, presented in a consistent form, for each product that they offer. The aim of the Product Disclosure Sheet is to help consumers make informed decisions when purchasing a financial product based on a clear understanding of the main features and risks of the product. It is also intended to enable consumers to compare products and services offered by different FSPs when shopping for a financial product or service.

The Bank undertook a study in 2014 to assess whether product disclosure practices are meeting these objectives. With a focus on the Product Disclosure Sheet, the study examines if disclosure practices are aligned with how consumers make financial decisions by answering two main questions: (i) "Are consumers receiving information that is useful in their decision-making?" and (ii) "In what ways can the quality (coverage, access and presentation) of information be improved to help consumers make better decisions?" Over 400 consumers in the Klang Valley were interviewed as part of the study, with their views sought on the use and quality of the Product Disclosure Sheet.

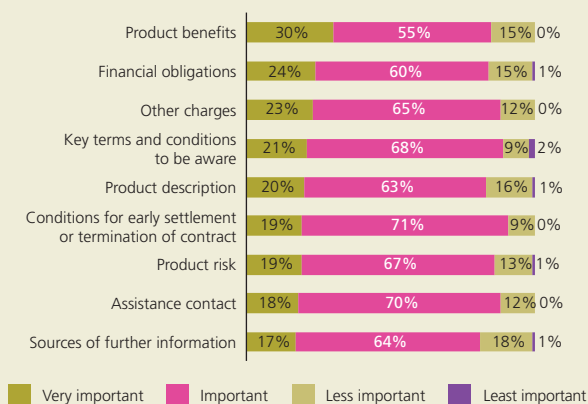
### Awareness and Utilisation of the Product Disclosure Sheet

The study revealed a low level of awareness among consumers on the existence and purpose of Product Disclosure Sheets. While FSPs are required to present to consumers a Product Disclosure Sheet before purchasing products, only half of the respondents recalled seeing the Product Disclosure Sheet. In many cases, the Product Disclosure Sheet was presented to consumers only after a decision had already been made to purchase a product. Consumers are therefore not readily aware of the opportunity to use information contained in the Product Disclosure Sheet to compare financial products and services.

Among consumers who were aware of the Product Disclosure Sheet, a significant percentage (88%) made use of the document to look for information on financial products. These consumers found the content of the Product Disclosure Sheet to be relevant, with all categories of information currently captured in the Product Disclosure Sheet considered to be important information for decision-making (Chart 1).

Chart 1

### Importance of Information Covered in the Product Disclosure Sheet for Consumers' Decision-making



Source: Bank Negara Malaysia

When tested against questions commonly asked by consumers, the Product Disclosure Sheet for various financial products answered most of the questions, with only a few exceptions (Table 1).

**Table 1**

**Common Consumer Questions Not Answered by Current Product Disclosure Sheets Provided by FSPs**

Type of financial product	Specific information not included in Product Disclosure Sheets tested
Mortgage	<ul style="list-style-type: none"> <li>• Amount of applicable legal fees and stamp duty charges</li> <li>• Months of default in payments that would lead to property foreclosure</li> </ul>
Structured Investments	<ul style="list-style-type: none"> <li>• Amount of transfer fees</li> <li>• Keeping track of value of the investments</li> </ul>
Investment-linked Insurance/ Takaful	<ul style="list-style-type: none"> <li>• Possibility of reinstating lapsed policy due to failure to pay premiums/contributions</li> <li>• Deduction from premiums/contributions received upon policy cancellation</li> <li>• Limitations/conditions for withdrawal of investments</li> <li>• Time taken to make and receive claims</li> </ul>

Source: Bank Negara Malaysia

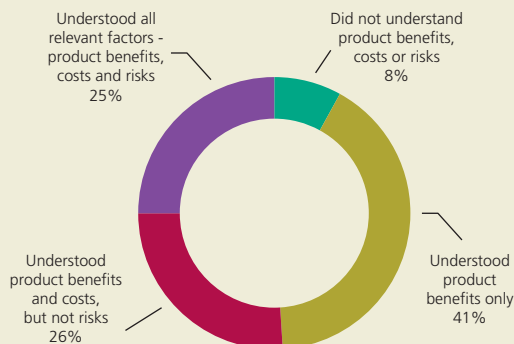
Financially literate consumers are also more likely to find information in the Product Disclosure Sheet relevant to their decision-making, suggesting the continued importance of financial education in helping all consumers make better financial decisions. Financial representatives have a significant role to play when explaining the content of the Product Disclosure Sheet to consumers and should pay particular attention to consumers with lower levels of financial literacy.

**Factors that Influence Decisions by Consumers**

Findings and observations from the survey provide useful insights into consumer behavior. A large proportion of consumers revealed that they make commitments to purchase financial products without fully understanding their characteristics. Returns (or benefits) are the most dominant factor in purchasing decisions, with 92% of consumers surveyed declaring that they understood the benefits of a product. In contrast, only 25% understood the costs and risks associated with a product (Chart 2). In addition, 36% of consumers surveyed do not actively consider affordability in their purchasing decisions. The study suggests a number of reasons for these observations, including the general tendency for individuals to actively seek out positive information while dismissing negative information, assumptions held about how a product works based on a general awareness of similar products, and trust placed in financial advisers, friends or family who recommended the product.

**Chart 2**

**Factors Understood by Consumers Before Making Financial Decisions**



Source: Bank Negara Malaysia

More effective use of the Product Disclosure Sheet can serve to address consumer biases given its emphasis on presenting information on benefits, risks and costs that is objective and balanced. Enhancements to the Product Disclosure Sheet will be made by the Bank to draw attention to affordability as an important factor in purchasing decisions. The study found that consumers who are conversant in English and Malay (the languages in which the Product Disclosure Sheet is currently required to be provided) were more likely to consider risk in their decision-making, likely attributed to these consumers having a better comprehension of disclosure information presented in the Product Disclosure Sheet.

The Internet could also be further leveraged to improve consumer understanding of product features. The study found that close to half of consumers surveyed identified the Internet as a key source of information on financial products. These were also the same consumers who had a better understanding of more factors, including costs and risks, when deciding to purchase a financial product.

### **Format and Language of the Product Disclosure Sheet**

One in five consumers surveyed indicated that the Product Disclosure Sheet format could be made more user friendly by reducing its length (currently ranging between 4-8 pages), adding visual aids and simplifying the narrative in the document. Stronger (as opposed to neutral) language is favoured to convey the purpose of the Product Disclosure Sheet and important information.

Although disclosure requirements call for the use of plain language in communicating information on financial products, 40% of consumers surveyed still found the language used in the Product Disclosure Sheet produced by FSPs difficult to understand. Among the main reasons cited by respondents include the use of technical or legal jargon, the lack of explanations on product specific terminology (e.g. lock-in period, observation date, total permanent disability) and the use of complicated sentences. Consumers were also sometimes overwhelmed by the amount of information in the Product Disclosure Sheet, with key product information often buried in lengthy narratives. Many respondents agreed that the use of larger text and more concise language as well as the use of 'signposts' (e.g. through symbols, diagrams, and prominent titles and sub-headings) would enhance the readability of the Product Disclosure Sheet and help consumers navigate and locate key information in the Product Disclosure Sheet.

### **Conclusion**

Insights drawn from this study will serve as input to the Bank's planned review of the mandatory disclosure regime. The findings of the study suggest that the Product Disclosure Sheet is an important document in helping consumers make informed financial decisions. There is good alignment between the information that consumers find relevant in deciding whether to purchase a financial product, and the information provided in the Product Disclosure Sheet. Efforts to increase awareness among consumers of the existence and purpose of the Product Disclosure Sheet will encourage wider use of the Product Disclosure Sheet in making financial decisions. The Product Disclosure Sheet should also be made more widely available through multiple channels such as at the branches and websites of FSPs. The Bank intends to work with the industry to implement improvements to make the Product Disclosure Sheet and financial agreements<sup>1</sup> more reader friendly, clear and engaging. This will include providing specific guidance to FSPs on more effective styles of presenting information based on consumer feedback from the study. Even with these efforts, there will continue to be consumers who do not seek out important information that they need to know about a financial product. Many consumers may also still not understand or be able to meaningfully compare the products offered to them. In order to bridge the gap, the Bank will work with key stakeholders including financial representatives to undertake targeted financial education strategies to elevate public awareness on the importance of reading and understanding the Product Disclosure Sheet and financial agreements. Efforts will also be pursued to ensure that the Product Disclosure Sheet will be prominently featured and explained during the product sales and distribution process. Additionally, strong enforcement actions will continue to be taken by the Bank against FSPs that fail to comply with transparency and disclosure requirements under standards issued by the Bank.

<sup>1</sup> The study also revealed that almost half of the respondents read no more than half of financial agreements.

takaful operators for misrepresentation represent a significant step in strengthening the rights of insurance policyholders and takaful participants. The obligations and proportionate remedies which are provided under the FSA and IFSA came into force on 1 January 2015. They require an insurer or takaful operator to request that a prospective customer answer specific questions at the pre-contractual stage to support the insurer's/takaful operator's underwriting decision. If it fails to do so, the insurer or takaful operator cannot subsequently dismiss a claim on grounds of non-disclosure by the customer. The provisions also set out various remedies that insurers and takaful operators may rely on depending on the type of misrepresentation made by consumers during the pre-contractual stage. In particular, the laws provide that where a misrepresentation by a consumer is innocent or careless, a proportionate remedy such as a change in terms of the contract or a reduction in the claim amount can be applied. In such cases, the insurer or takaful operator shall not dismiss a claim unless it can show, based on its underwriting considerations, that it would not have accepted the contract if accurate information had been disclosed by the customer at the pre-contractual stage. The provisions replace the existing general requirement for consumers to disclose all information that is material to the decision of the insurer/takaful operator on whether to accept the risk and the rates and terms to be applied. This has been criticised for placing an unreasonable expectation on policyholders to have sufficient knowledge of matters likely to be material to an underwriting decision, and leaving too much discretion for insurers and takaful operators to reject legitimate claims on tenuous grounds of misrepresentation by policyholders.

---

Enhancements to pre-contractual disclosure obligations and the implementation of proportionate remedies for misrepresentation represent a significant step in strengthening the rights of insurance policyholders and takaful participants

---

#### **Business conduct standards for payment cards**

To ensure that consumers are adequately protected when making card transactions, existing business conduct standards for credit cards were

further enhanced and extended to charge cards and debit cards. The enhancements made reflect the sustained efforts of the Bank and industry to ensure adequate security features of the payment card infrastructure and fair business practices by card issuers with the growing use of payment cards in a wide range of transactions. The enhanced business conduct standards require card issuers to provide timely and relevant information at all contractual stages to better enable cardholders to make informed choices. The standards further prohibit card issuers from imposing excessive charges and late payment penalties, and extend the unauthorised transaction liability limit currently enjoyed by credit card holders to debit card and charge card holders.

In a move to further strengthen public confidence in payment cards and other electronic banking channels, FSPs were also required to take additional measures to provide safety tips and alerts to customers to keep account information safe, while reminding customers to regularly monitor account balances and statements to detect irregularities such as unauthorised transactions. While FSPs are required to institute robust preventive and detective fraud control mechanisms, customers are expected to be personally responsible to undertake appropriate safety measures when using electronic banking services or payment cards. Accordingly, the circumstances in which a customer or FSP should be held liable for a loss arising from an unauthorised transaction have been further clarified to better reflect the balance of responsibilities that lies with both FSPs and customers in securing safe payment card transactions.

#### **Revisions to bonus and dividend payments under participating life policies**

Greater financial market volatility and the extended period of low interest rates have posed ongoing challenges to life insurers in managing their investment portfolios. For holders of participating life policies, volatile investment returns can affect the non-guaranteed policy benefits received on their policies. Weak discipline in managing non-guaranteed policy benefits has led to instances where insurers have had to resort to deep bonus and dividend cuts with insufficient warnings to policyholders, resulting in an inequitable allocation of benefits across different groups of policyholders of a participating fund. To ensure that discretionary bonus or dividend adjustments are more equitable and transparent to policyholders, insurers were directed to strengthen

internal governance and oversight arrangements over any proposals to adjust bonuses or dividends. This included clarifying internal policies which must define clear triggers for a review of bonus or dividend payments, and set out rules that are consistently applied for any upward and downward adjustments. Insurers were also required to perform annual sensitivity and stress tests to assess potential events that may lead to future adjustments. In preparation for a bonus adjustment, an insurer must assess the impact of the adjustment on different stakeholders, develop action plans to manage any risks identified and ensure that policyholders are properly informed. Strengthened industry practices in these areas are intended to encourage greater discipline and transparency in bonus and dividend adjustments, consistent with expectations of and disclosures made to policyholders. Further requirements in relation to the management of participating insurance business, including the management of policyholders' expectations are discussed in the chapter 'Regulatory and Supervisory Framework'.

---

### Insurers were directed to strengthen industry practices to encourage greater discipline and transparency in bonus and dividend adjustments for participating life policies

---

#### **Repricing of medical and health insurance**

Medical inflation, caused by among others, increases in the costs of medical consultations, procedures, medications and other medical related products, as well as the increased utilisation of medical services, have resulted in rising claims paid in the medical and health insurance and takaful (MHI) segments in recent years. Since 2013, 12 insurers and takaful operators have repriced 29 MHI products in efforts to ensure the long-term commercial viability of these portfolios. While the repricing of an MHI product is one of the ways in which an insurer or takaful operator ensures that premiums are sufficient to cover claims costs, repricing might lead to protection gaps for policyholders and certificate owners who may no longer be able to afford cover. Similar to observations made in the context of managing discretionary payments under participating life insurance policies, a lack of underwriting discipline

combined with poorly designed policies has also contributed towards sharp increases in premiums that have exposed existing policyholders to the risk of not being able to continue to maintain their policies. While broader efforts in collaboration with relevant government agencies including the Ministry of Health are required to deliver more permanent solutions to rising medical costs, the Bank intensified its review of FSPs' compliance with the requirements set out in the Guidelines on Medical and Health Insurance Business. This is to ensure that the repricing practices are conducted in a manner that is fair to individual policyholders, consistent with the portfolio experience and adequately takes into account policyholders' reasonable expectations of continuing cover. FSPs were directed to strengthen internal processes for the periodic review of premium rates to avoid sharp one-off premium rate adjustments, improve communications with policyholders on the reasons for any rate adjustments, and ensure that policyholders are provided with credible options to maintain their cover. FSPs were also encouraged to establish dedicated avenues for affected policyholders to seek further information and advice.

#### **Motor insurance claims settlement practices**

While the implementation of the New Motor Cover Framework has contributed towards improvements in the motor claims settlement process, delays and disputes involving motor repairs and claims continue to be the most common complaint received by the Bank in the general insurance and takaful sector. The Bank continues to actively engage insurers, takaful operators, adjusters and repairers on proposals to raise professional standards and address the leakages that have contributed towards elevated claims in the motor sector. A thematic review of motor claims management practices which was initiated during the year provided useful insights to these engagements with the industry. The Bank expects to complete the review within the first half of 2015 as a basis for considering further improvements to the existing guidelines on claims settlement practices.

#### **Fees and charges**

An area being monitored closely by the Bank is the fees and charges imposed by FSPs on individual consumers and small businesses. While market forces can generally be depended on to ensure that fees and charges are competitive, the Bank intervenes in cases where the fees and

charges were not in line with the Bank's guiding principles on fair and reasonable charges. In 2014, enforcement actions were taken against four FSPs, requiring them to refund fees and charges amounting to more than RM238,000 that were found to be in breach of these principles.

Fewer applications were received by the Bank during the year from FSPs to introduce new fees or charges on financial products and services offered to individuals and SMEs, or to increase such fees and charges. The number of applications submitted to the Bank to make such changes declined by 33% in 2014, compared to 2013. Of the 134 applications received for new and upward revisions of fees, 21% were rejected or required to be adjusted downward as compared to 22% during the previous year.

## **STRENGTHENING REDRESS MECHANISMS FOR CONSUMERS**

The Financial Sector Blueprint 2011-2020 calls for the establishment of a financial ombudsman scheme (FOS) to promote the effective and fair handling of disputes faced by consumers against FSPs. In giving effect to this recommendation, the Bank published a concept paper in August which sets out its proposals to transform the existing Financial Mediation Bureau (the Bureau), which currently operates as a voluntary arrangement, into a formalised FOS with expanded powers legislated under the FSA and IFSA. As part of the transformation, the Bank proposes to strengthen the governance and operational arrangements of the Bureau in line with international best practices and based on the fundamental principles of independence, fairness and impartiality, accessibility, accountability, transparency and effectiveness.

The strengthened dispute resolution framework provides for a two-stage dispute resolution process (comprising mediation and adjudication) that allows ample opportunity for disputing parties to review the relevant facts, issues and disagreements in an attempt to reach an amicable agreement. The basis for decisions by the FOS must be clearly explained and are final. While a decision cannot be appealed, a party to a dispute may apply to have a case internally reviewed by the FOS for the purpose of gleaning lessons for dealing with similar cases in the future. As is the case with the Bureau's current arrangements, the FOS' decision shall be binding on the FSP if accepted by the

complainant. However, the complainant may reject the FOS' decision and institute legal proceedings if he is dissatisfied with the outcome of the dispute.

The FOS will have an enlarged membership, with insurance and takaful brokers, and financial advisers joining banks, insurers, takaful operators, development financial institutions and designated payment instrument issuers which are current members of the Bureau. The range of disputes covered under the FOS, both in terms of the monetary value and type of dispute, as well as awards that can be made will also be wider than that provided for under the current arrangement. The FOS will also adopt a more equitable fee structure for member FSPs to better reflect the utilisation of the FOS services. The proposed fee structure will further provide incentives for FSPs to resolve complaints effectively and expediently through their own dedicated complaints functions.

The FOS will be overseen by a board of directors acting in the best interest of the FOS, and independently of any particular group or body which individual directors might belong to. To ensure that the FOS serves its intended objectives, periodic independent reviews will be conducted to assess the efficiency and effectiveness of the FOS' operations.

Following broad support for the proposals published by the Bank, plans are well advanced to complete the transformation of the Bureau by June 2015 in order to enable the FOS to commence operations in the second half of 2015.

---

**Plans are well advanced to complete the transformation of the Financial Mediation Bureau into an approved financial ombudsman scheme which will commence operations in the second half of 2015**

---

In addition to the FOS, the Bank through BNMLINK and BNMTELELINK provides assistance to financial consumers to resolve issues with FSPs. A total of 7,381 complaints against FSPs were lodged with LINK in 2014, a 9.7% reduction from the 8,171 complaints lodged in 2013. Engagements with consumers suggest that the

reduction in the number of complaints received by the Bank largely reflects continuous improvements in the complaint handling practices of FSPs. This was further validated by a consumer satisfaction survey conducted by the Malaysian Productivity Corporation with customers from nine major banks. The survey revealed that only 7% of the respondents who have previously lodged a complaint claimed that their complaints were handled poorly.

## WELL-INFORMED AND RESPONSIBLE FINANCIAL CONSUMERS

The growing complexity of financial products and services can overwhelm consumers who are ill-equipped to make informed financial decisions due to their lack of knowledge and skills on financial matters. Such consumers are not able to reap the benefits from participating fully in the financial system to plan for and secure their financial well-being. The challenge to make informed financial decisions is further compounded by the increasing average life expectancy and rising cost of living, as well as changing social norms (including increasing peer pressure to spend beyond one's means). This underscores the importance and urgency of accelerating financial capability initiatives through education.

Financial education initiatives in Malaysia are geared towards promoting financial literacy as an essential life skill. Financial education programmes are accordingly designed and delivered to equip Malaysians of all ages with knowledge on financial management relevant to their stage in life. Particular focus is directed at inculcating good financial management skills among young Malaysians that they will carry through the rest of their lives.

---

Financial education programmes are designed and delivered to equip Malaysians of all ages with knowledge on financial management relevant to their stage in life

---

School children are exposed to the basics of managing money and finances from an early age. The Bank collaborates with the Ministry of Education

(MOE) to implement a strategy for financial education in schools centred on three pillars:

- Integrating important aspects of financial education in key subjects in the school curriculum;
- Strengthening the knowledge and skills of teachers and lecturers to effectively deliver financial education to students of all ages; and
- Securing the buy-in of headmasters and other school administrators to act as key partners who can help ensure the success of financial education initiatives in schools.

Encouraging progress was achieved during the year. The newly developed Primary Five curriculum includes elements of financial education, and teachers' guides were developed for Primary Five and Primary Six. A financial education module was also developed and various training programmes are being rolled out for teachers. The integration of financial education in schools is on track following the progressive roll out of financial education elements for Primary Four students in 2014, while similar initiatives for the secondary school will commence in 2017. Financial education is expected to be extended to all primary and secondary school students by 2021.

The content of and approach to delivering financial capability programmes among adults is tailored to the life stage of an individual. This strategy recognises the fact that just as the lifestyle and behaviour of an individual evolves over time, the financial decisions that he has to make will also differ across different stages in life. These stages include entering the workforce, getting married, raising a family and retiring from work. This approach is premised on the belief that sustained behavioural change will be achieved when the relevant financial skills and knowledge is delivered at the time when an individual is motivated to educate himself given his personal circumstances at that particular point in time.

The financial education agenda was further advanced in 2014 with the launch of POWER! (Pengurusan Wang Ringgit Anda) programme targeted at adults already in the workforce. The programme, which is a result of the collaboration between the Bank and the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit, AKPK), builds on the first series of the POWER! Programme, which primarily targets university students and

young adults. It emphasises prudent management of household finances and covers debt management, building wealth and preparing for unexpected events.

Various other outreach programmes were also conducted for Malaysian adults during the year. Table 4.1 summarises the key financial education initiatives in 2014.

To assess the effectiveness of financial education programmes and their impact on financial literacy, the Bank embarked on a study to measure and track the level of financial literacy and capability of Malaysians. The study, which adopts international best practices for measuring financial literacy, is also intended to identify specific areas of consumer vulnerabilities and enable the Bank to

**Table 4.1**

**Key Financial Education Initiatives in 2014**

Strategy	Initiatives
Promote financial capability from an early age	<ul style="list-style-type: none"> <li>• Integrating financial education into the curriculum for national schools and vocational colleges:               <ul style="list-style-type: none"> <li>- Incorporated financial education elements in Primary Five Mathematics, Bahasa Malaysia, English and Moral Education curricula and textbooks.</li> <li>- Developed teachers' guides for Primary Five and Primary Six of the same subjects.</li> <li>- Piloted a 40-hour Personal Financial Management module at 15 vocational colleges that will be rolled out to semester five students at 57 other vocational colleges in 2015.</li> </ul> </li> <li>• Equipping teachers and lecturers with the knowledge and skills to teach financial education:               <ul style="list-style-type: none"> <li>- Taught personal financial management skills to more than 5,000 trainee teachers.</li> <li>- Developed a 20-hour financial education module to prepare a group of main trainers beginning 2015 who will then train other teachers.</li> <li>- Trained over 1,000 Primary Five Mathematics teachers who will then train other teachers to integrate financial education in Primary Five Mathematics.</li> <li>- Trained 57 lecturers from vocational colleges to teach financial education.</li> </ul> </li> <li>• Ensuring the readiness and securing commitment of headmasters and school administrators to implement financial education in schools:               <ul style="list-style-type: none"> <li>- Briefed more than 500 headmasters on the financial education elements being integrated into the school curriculum and the importance of building financial capability at an early age.</li> <li>- Equipped 21 trainers from the MOE's leadership and education management training institute with knowledge on personal financial management to support training on personal financial management for headmasters.</li> </ul> </li> </ul>
Targeted financial capability programmes for adults based on significant events at life stages	<ul style="list-style-type: none"> <li>• 220,000 adults attended AKPK's financial education programmes targeted at various consumer segments:               <ul style="list-style-type: none"> <li>- Continued to roll out the POWER! programme, attended by over 29,900 young adults aged 18 to 30 years old.</li> <li>- Briefed over 1,000 youth on personal financial management under the Government's <i>Memperkasa Informasi Generasi Muda</i> Programme.</li> <li>- Provided personal financial management training to more than 3,300 students through modules offered by 10 institutions of higher education.</li> <li>- Organised Personal Financial Management briefings and pocket talks at various government offices and other public locations throughout the country, attended by nearly 172,000 individuals.</li> <li>- Organised talks on financial scams and consumer responsibility at various government offices and other public locations throughout the country, attended by over 10,500 individuals.</li> <li>- Organised financial education talks through the Government's 1Malaysia Civil Service Retirement Support programme, attended by 3,200 retirees.</li> </ul> </li> </ul>
Delivery of timely and useful financial education information	<ul style="list-style-type: none"> <li>• Disseminated financial education information and alerts through weekly newspaper columns, television and radio programmes, and online platforms in different languages.</li> <li>• Continued to promote the POWER! Online Learning Programme, which saw 818 individuals completing the programme.</li> <li>• Brought MobileLINK to 93 rural sub-districts throughout the country to disseminate information on financial management and provide financial advisory services to over 12,000 Malaysians.</li> <li>• Distributed more than 1 million copies of <i>Buku Wang Saku</i> to students.</li> <li>• Further promoting <i>Duitsaku.com</i>, which recorded more than 1 million hits.</li> </ul>

target policy and financial education interventions more precisely to these areas. The study is expected to be completed in the first half of 2015.

In addition to educating consumers on personal financial management, the Bank, through its various outreach programmes in 2014, also continued to focus on educating the public on financial scams through intensive print and social media campaigns. The outreach programmes provide information on how financial scams work and how to avoid becoming victims of scams. The Bank also worked closely with consumer groups, government agencies and other community leaders to further extend the reach of its public awareness initiatives. An important channel for warning consumers of potential scams has been the Financial Consumer Alert List maintained by the Bank on its official website. 66 entities were added to the list in 2014 to warn the public of entities which are not authorised to accept deposits or conduct any regulated financial activities. The Financial Consumer Alert List received over 146,000 page views in 2014.

The year also saw the Bank in collaboration with the Royal Malaysia Police (RMP) and the Malaysian Communications and Multimedia Commission taking aggressive measures to combat phone scams. These include blocking the phone numbers used by scammers and prosecuting mule account holders (individuals who allow their bank accounts to be used by scammers to hold or transfer money which is acquired illegally) under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and the Penal Code for facilitating laundering of proceeds of illegal activities. More than 100 investigations have been carried out by the RMP in recent years, of which over 40 cases were successfully prosecuted (Source: RMP). In addition, effective December 2014, the Bank has initiated the sharing of information of individuals reported to be involved in scam activities with banking institutions to facilitate customer due diligence and risk profiling. The Bank also intensified its public communications to advise members of the public to exercise caution when receiving any suspicious phone calls purportedly from an enforcement agency.