

### **Financial Products Transparency and Disclosure**

The financial environment is marked by a more competitive financial services sector, increasing access to financial services, broader range of financial products and services, and more complex financial transactions. The proliferation of financial products and services ranging from basic banking services and risk protection products to more sophisticated and complex financial products, including for retirement and asset accumulation, has necessitated enhancements to market conduct practices, including on financial products transparency and disclosure to foster continued public confidence in the financial system.

#### **Mitigating risk to consumers while promoting competition**

As consumers grow more affluent and seek financial products and services to enhance and protect their financial well-being, it is important for consumers to have better access to pertinent information to facilitate more informed decision making consistent with consumers' needs, risk tolerance and financial circumstances. With limited financial skills and lack of access to relevant information to fully appreciate the complexities of some financial products, it is difficult for consumers to grasp the true costs and potential risks that are associated with these products. This would increase the risk of consumers selecting unsuitable products which are inconsistent with their needs and risk appetite. Furthermore, aggressive sales practices by intermediaries and staff of financial service providers may also lead to unsuitable purchase of such products which later results in disputes, and eventually undermine the integrity of financial service providers. Apart from providing relevant information to consumers to facilitate decision making, it is the responsibility of financial service providers to conduct customer suitability assessments to ensure that financial products sold are appropriate to the requirements of customers.

Adequate and effective product disclosure and transparency would therefore, facilitate consumers to be more active in safeguarding their own interests while exerting market discipline on the financial service providers. Over the medium-term, continuous activism by consumers will drive the market towards greater efficiency and innovation that satisfies consumer demands leading to healthy competition, thus pushing the financial service providers to offer better and cost-effective products and services to consumers. It is envisaged that the availability of more varied products offered at competitive prices will enable a wider segment of the population to participate, thus contributing towards greater financial inclusion to benefit the economy as a whole.

#### **Enhanced disclosure standards**

Recognising the importance of adequate and effective disclosure to consumers in particular, and financial service providers generally, the Bank has recently issued the Guidelines on Product Transparency and Disclosure (Guidelines). These Guidelines serve to raise the disclosure standards for retail financial products and aim to support informed decision making by consumers through meaningful and timely disclosures.

It is recognised that transparency and disclosure as a consumer protection tool will only serve its purpose if consumers are able to understand the information provided to assess product suitability and conduct comparative shopping. It is therefore, important that for information to be meaningful, there has to be a right balance between providing adequate and relevant information to consumers with ensuring the information provided is clear and easy to understand. Given that excessive information could be counter-productive, confusing to the consumer and may inhibit sound decision making, the disclosure must therefore, be focused on key and relevant information central to factors which will facilitate the consumer's decision making. Apart from the types of information to be disclosed, the manner of presentation of such information also has a role in facilitating consumer understanding. A well-designed presentation, which anticipates the

consumer's thought process, will enable the consumer to navigate through the information and understand the significance of the information when utilising it in decision making.

Based on these considerations, the Guidelines provide both general and product-specific disclosure principles to be observed by financial service providers. To ensure disclosures are meaningful and facilitate decision making, the Guidelines require financial service providers to disclose important and relevant information, including key terms and conditions in a timely, clear and concise manner. Apart from these general disclosure principles, the Guidelines also specify product-specific disclosure requirements ranging from banking and Islamic banking products, insurance and takaful products, to payment instruments as well as remittance services.

In recognising that meaningful information disclosure also include the timely manner such information is disclosed, the Guidelines specify the relevant information to be disclosed at each of the three stages of entering into a financial contract, namely, the pre-contractual stage, at the point of entering into a contract stage and during the term of the contract stage. The staging of information disclosure ensures that manageable portions of information are given to avoid overloading the customers. Another key requirement of the Guidelines is the provision of a product disclosure sheet to prospective customers by financial service providers. To facilitate comparative shopping, the format and the type of information to be disclosed in the template for product disclosure has been standardised across the industry. Amongst the information to be disclosed in the product disclosure sheet are key features of the product, key terms and conditions, fees and charges, significant risks associated with the product and important notices or warning statements on the financial product.

The Guidelines also emphasise the use of plain and intelligible language in the contracts, agreements and policy documents so that information can be communicated in an easy and comprehensible manner for customers to better understand their contractual rights and responsibilities. For the more complex financial products and services, financial service providers must ensure that products are adequately explained in a manner which promotes product understanding by using appropriate examples, if necessary.

### **Customers seeking legal recourse**

The expectations of consumers are also changing rapidly in tandem with the increased awareness levels, growing wealth and greater affluence. As a result, consumers are now demanding better product choices, greater transparency and disclosure, and more consumer-centric practices from financial service providers. With greater awareness of rights and responsibilities, consumers are increasingly more confident in asserting their rights to resolve disputes through the legal process as evidenced by the recent court case relating to the customer's liability limit for an unauthorised credit card transaction. This signals the need for financial service providers to appropriately identify, assess and mitigate risks associated with the way the financial products are designed and marketed to customers. It would include ensuring greater disclosure of products and services to avoid being exposed to reputational and legal risks.

### **Expectations on financial service providers**

The increasing sense of empowerment amongst consumers have increased the expectations on financial service providers to embed good business conduct practices, including the disclosure standards into their business culture, supported by board and senior management oversight. Business models of financial service providers need to be underpinned by robust treat-customers-fairly framework and proactive response to the changing customer needs. Products must be designed with due regard to the needs and interests of the target market and reasonable care must be exercised over the distribution of the products and services, to mitigate the risk of misselling and reputational risk. Financial service providers should only introduce products to the market after the

appropriate systems, monitoring and controls to support the product are in place, including proper training of the marketing staff.

The recent court judgements on the *Al-Bai Bithaman Ajil* cases also amplify the importance of proper legal documentation of the Islamic financial transactions to ensure the requirements of the underlying Shariah concepts applicable in the contracts are transparent to customers. Additionally, financial service providers must put in place proper internal controls to ensure strict adherence to the processes required under Shariah to mitigate the risks of being challenged in the court of law.

The responsibilities placed on financial service providers to achieve the expected disclosure standards will be rigorously enforced by the Bank through supervisory oversight. Financial service providers that fail to meet the disclosure standards will be subject to appropriate supervisory action by the Bank which include being subject to more rigorous requirements before offering new products to consumers and even product recall.

### **Conclusion**

Effective transparency and disclosure standards that inspire good market conduct practices and consumer confidence is essential in promoting a resilient, efficient and sustainable financial services sector. Equally important is the need to raise the level of financial capability of Malaysian consumers to be empowered to take greater responsibility in personal financial management, which would establish a strong foundation for the effective exercise of consumer preferences and activism.