

Market Conduct and Enhancing Financial Capability

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Market Conduct and Enhancing Financial Capability

The increasing diversity and complexity of the financial system has resulted in a more pronounced focus on fair market conduct and financial capability as important elements in ensuring a sound framework for financial stability. In this regard, Bank Negara Malaysia's objectives are twofold: (i) fostering sound practices and codes of conduct that will ensure fair treatment of consumers; and (ii) increasing financial literacy levels of Malaysian consumers.

In 2007, the following key trends and developments in the current operating environment that may affect Malaysian consumers were identified:

- the emergence of innovative and complex financial products including structured investment products and investment-linked products, which offer potential for higher returns but with greater investment risks, have gained greater popularity among consumers. Consumers need to fully understand the terms and conditions, the actual costs and the investment risks associated with these products before investing in such products. In this context, effective internal controls to mitigate mis-selling practices and a greater focus by financial institutions on customer suitability assessments to ensure that financial products sold are appropriate to the needs of customers have now become more important. Improved disclosure and product transparency would not only bring benefits to consumers but help to mitigate risks to consumers;
- the demographic trend towards an ageing population and increased longevity, has increased the need for consumers to take greater individual responsibility for financial planning, including retirement planning. This has increased the importance of financial capability to empower consumers to make sound financial decisions;
- the greater ease with which consumers can access credit in general and obtain credit cards has increased the potential risk of over-indebtedness in the household sector. Financial incentives for consumers to obtain credit, such as interest free periods and balance transfers on credit cards as well as introductory or teaser rates for mortgages can have a similar effect. Greater financial literacy

can equip households to better manage their financial exposures, while ensuring that consumer credit remains within prudential limits; and

- as part of strategies to improve efficiency and productivity levels, financial service providers are gradually expanding their outsourcing arrangements to include marketing and debt collection activities. Under such arrangements, there is a need to preserve the fair treatment of consumers through ethical practices by both financial institutions and their outsourcing partners.

Against this backdrop, the Bank intensified efforts to promote fair and equitable market practices, raise the level of financial capability with an increased focus on target groups and further enhance the efficacy of consumers' access to redress avenues.

PROMOTING FAIR AND EQUITABLE MARKET PRACTICES

Measures undertaken by the Bank in 2007 were primarily directed towards further enhancing product transparency and disclosure and promoting high standards of professionalism among financial service providers, namely financial institutions and designated payment instrument issuers, in their dealings with consumers.

During the year, the Bank developed a more consistent and comprehensive disclosure framework for retail financial products. The framework is aimed at facilitating consumers' understanding of important product features, thus enabling consumers to make meaningful comparisons prior to making financial decisions. The disclosure framework will build on existing requirements for banking institutions to disclose fees and charges imposed on banking products and services, as well as minimum standards on product disclosure and transparency currently applicable to the insurance sector. The new framework outlines general and product-specific disclosure principles that should be observed by financial service providers and specifies different disclosure requirements at different stages of entering into a financial contract (namely prior to, at the point of entering into, and during the term

of, the contract) to enable consumers to make informed decisions when purchasing financial products. In developing the disclosure framework, the Bank has strived to balance between the needs of ensuring an appropriate level of transparency and disclosure to support informed decisions by consumers, and avoiding excessive regulatory costs on financial service providers.

The Bank has developed a more consistent and comprehensive disclosure framework for retail financial products.

In addition to enhancing disclosures on fees and charges, the Bank remained vigilant in ensuring that fees and charges imposed by financial institutions on products and services offered to retail customers are reasonable, having regard to the actual costs incurred by financial institutions in providing products and services to consumers. Given the more competitive environment, capital investments made by financial institutions have increased substantially to support product innovations and enhancements, and to improve services to consumers. These investments have led to a significantly broader range of products made available to consumers, and increased convenience and speed in the delivery of financial services. While corresponding adjustments to fee structures on financial products may be commercially justified, the Bank expects such adjustments to be commensurate with the product quality or service, and cost of providing the product or service. The cost considerations by financial institutions should also be offset by the cost savings that are reaped from more efficient and automated processes.

Given the proliferation of diverse financial products and services that are also now increasingly more customised, the determination of fees and charges is primarily a matter to be decided by financial institutions. The Bank, however, has issued guiding principles on the imposition of fees and charges which financial institutions are required to observe to ensure the fair treatment of consumers. In enforcing these principles, several banking institutions were required during the year to review or cease the imposition of certain fees and charges on products

and services offered to retail customers which did not reasonably reflect the costs incurred by the financial institutions in providing such products or services. Over time, the Bank expects that with increased transparency and financial capability, the exercise of consumer preferences will further reinforce greater discipline on the financial institutions in this area.

Consistent with the efforts to promote broader participation in financial services by consumers, the Bank intensified efforts to increase public awareness of savings and current accounts being offered under the Basic Banking Services (BBS) Framework. First introduced to individuals in 2005, these "no-frills" deposit products are aimed at meeting the general banking needs of retail customers and are offered at minimum cost. Apart from the on-going outreach programmes to increase public awareness of the BBS, posters explaining the features of BBS in four languages have been printed and distributed nationwide in 2007 for display in the premises of banking institutions throughout the country. During the year, the BBS framework was also extended to small and medium enterprises (SMEs). As at end 2007, about 3.6 million consumers had basic savings accounts, accounting for 13.7% of total savings accounts maintained in banking institutions.

The use of credit cards as a payment instrument has continued to be increasingly popular among the public with the number of credit cards in circulation rising by 12.1% to 9.9 million credit cards in 2007. Despite the increase, most credit cardholders have been able to manage their payment commitments. In 2007, the number of credit card-related bankruptcies remained low, accounting for only 0.07% or 1,873 cases out of the 2.7 million principal cardholders. Nevertheless, there is a need to ensure that consumers fully understand the responsibilities of card ownership, particularly with the intense competition and the adoption of aggressive marketing practices by certain credit card issuers to pressure consumers to sign-up for multiple cards. As at end 2007, nearly 2,500 individuals with credit card-related debts sought assistance under the Credit Counselling and Debt Management Agency's (CCDMA) debt management programme. As aggressive marketing practices can undermine efforts to promote responsible and prudent management of household debts, the Bank has issued minimum

requirements for the sale, marketing and promotion of credit cards aimed at curbing such marketing practices by credit card issuers. The Bank also introduced guidelines requiring card issuers to adopt a tiered pricing structure for credit cards that incentivises prudent credit card usage by consumers. Under this structure, cardholders would be tiered according to their repayment behaviour, with those demonstrating disciplined use enjoying reduced charges which are capped at 15% per annum, compared with the ceiling rate of 18% per annum applicable to other cardholders. The new structure will come into full effect on 1 July 2008.

The Bank has issued minimum requirements for the sale, marketing and promotion of credit cards.

To prevent unethical practices by financial service providers and their agents in the area of debt collection, the Bank has also issued guidelines on fair debt collection practices. While the Bank recognises that effective recovery of debts by financial service providers is an important element of good credit risk management, the recovery should be conducted in a manner that is fair to borrowers, including the protection of the borrowers' privacy during the recovery process.

ENHANCING FINANCIAL CAPABILITY OF CONSUMERS

Bank Negara Malaysia's financial capability initiatives in 2007 continued to be directed towards empowering consumers to take greater responsibility for their own personal financial management. In particular, the Bank continued to expand its outreach programmes by providing information to the public on the increasing array of financial products and services available to them, and educating consumers on their rights and responsibilities. In an effort to reach a wider demographic, the Bank's outreach efforts during the year were also specifically focused on target groups such as women, school children, college and university students, rural communities and retirees.

bankinginfo* and *insuranceinfo

bankinginfo and *insuranceinfo* remained the main focus of the Bank's consumer education initiatives.

During the year, the *bankinginfo* and *insuranceinfo* websites were enhanced to incorporate tools such as financial calculators that allow visitors to compute household budgets, motor insurance premiums and hire purchase instalments. Financial planning guides and new comparative information on common financial products were also added to make it easier for consumers to evaluate their financial requirements and compare available solutions offered by different financial institutions. There are currently eight comparative tables on banking products in the *bankinginfo* website which provide key information on common products presented in a consistent manner for purposes of comparison, including financing and deposit rates as well as fees and charges. Three new information booklets for financial consumers were also published, bringing the total number of booklets published under *bankinginfo* and *insuranceinfo* to 24 each. More than 360,000 of these booklets were distributed to Malaysian consumers in 2007.

Outreach Activities

The Bank's outreach activities expanded in breadth in terms of people and segments reached, as well as depth in terms of financial knowledge disseminated. This was achieved by adopting a more targeted and collaborative approach which enabled the Bank to focus its resources where the biggest impact and multiplier effect could be gained. In this regard, the Bank participated in a total of 70 outreach activities during the year, including financial exhibitions as well as seminars and briefings organised for consumers. At these events, the Bank focused on issues relating to personal and household budgeting, basic banking services, the rights and responsibilities of consumers, financial scams and redress avenues.

The School Adoption Programme entered its 10th year in 2007. The programme is a collaborative effort between the Bank, the Ministry of Education and financial institutions aimed at eliminating financial illiteracy amongst school children by raising awareness on the importance of financial management. Since its introduction, more than 7,000 schools nationwide have been adopted by financial institutions, with Student Financial Clubs (SFCs) formed as part of the co-curricular activities in more than 2,000 schools. The SFCs serve as an effective focal point for financial institutions' outreach activities at schools by leveraging on the clubs' activities to

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increase the interest of students in financial matters.

To increase awareness of the student pocket money book, *Buku Wang Saku*, and encourage its wider use among school children as part of efforts to inculcate good financial habits at an early age, the Bank, in collaboration with the Ministry of Education organised the *National Buku Wang Saku* competition in July 2007. The event drew interest from 3,200 students. More than 738,000 copies of *Buku Wang Saku* were distributed to school children all over the country in 2007. To date, 5.9 million copies of *Buku Wang Saku* have been made available to students under the School Adoption Programme.

The establishment of the Financial Education Working Committee (FEWC) in February 2007 marked an important milestone in the Bank's collaboration with other quasi-governmental agencies such as the Credit Counselling and Debt Management Agency (CCDMA), Financial Mediation Bureau (FMB) and the Malaysia Deposit Insurance Corporation. The FEWC will serve as a platform to coordinate financial education initiatives and facilitate the more efficient allocation of resources between the agencies in achieving mutual goals.

5,000 individuals with total debts of RM478 million received assistance under CCDMA's debt management programme.

The CCDMA, which was established by the Bank in 2006, opened three new branches in Malacca, Ipoh and Kuantan during the year, in addition to the existing regional offices located at the five Bank Negara Malaysia branches, thereby expanding its services to a wider segment of the Malaysian population. As at end-2007, nearly 50,000 customers had sought the services of CCDMA. Of these, more than 5,000 individuals with total debts of RM478 million received assistance under its debt management programme, with a low termination rate of 8.6%. In line with its mandate, the agency also continued to contribute towards improving financial education in Malaysia as a pre-emptive measure to promote prudent financial management. During the year, a module on

personal financial management to be taught at public universities was developed by the agency with the aim of preparing graduates to face the challenges of managing their finances wisely at the start of their careers.

STRENGTHENING AVENUES FOR CONSUMER REDRESS

In Malaysia, dedicated complaints units of financial institutions, BNMLINK (Bank Negara Malaysia Laman Informasi Nasihat dan Khidmat) and the FMB have served as the primary avenues for redress to resolve consumer disputes.

Complaints received against banking institutions during the year were mainly on customer service standards and credit card related matters including unauthorised transactions and billing issues. In the insurance sector, complaints were mostly related to delays in processing insurance claims and the conduct of agents. All complaints received by the Bank and FMB were promptly investigated with the financial institutions concerned according to the Bank's and FMB's respective client charters. Investigations into complaints on unauthorised credit card transactions which were mainly due to card theft and negligence of cardholders, did not reveal any concerns over inadequacies in the control functions of credit card issuers. Several financial institutions also took steps to introduce Consumer Advocates within their organisations to provide an additional redress avenue for consumers dissatisfied with the resolution of their complaints by the institution's complaint units.

In July 2007, the Bank launched BNMTLELINK to complement existing channels for the general public to obtain information on financial services and seek assistance to resolve related issues that they faced. Modelled after BNMLINK which provides assistance to walk-in visitors on their complaints and queries, response to the new channel which handles written and telephone enquiries and complaints has been encouraging, with a total of 25,012 queries received in the first five months of its operations. Most queries related to requests from the public for credit reports generated from the Central Credit Reference Information System (CCRIS) which is maintained by the Bank, and enquiries regarding such information.

MARKET CONDUCT SUPERVISION AND ENFORCEMENT

Principles of fair market conduct and the role of financial institutions in supporting national financial capability initiatives were reinforced through the Bank's market conduct supervision and enforcement activities. The Bank supervises the practices of financial service providers by reviewing product-related information (including fees and charges), conducting on-site reviews, telephone interviews, media surveillance as well as industry and consumer surveys. These activities enable the Bank to identify and respond in a timely manner to emerging market practices that undermine public confidence in the market for retail financial services.

In an effort to improve the service standard levels of the financial services industry, the Bank's market conduct supervisory activities in 2007 focused on assessing the practices of financial service providers, in relation to public access to financial services and information, and assistance to consumers. The relevant financial institutions have taken corrective actions to address the market conduct deficiencies identified by the Bank, which had resulted in improvements in the industry's overall observance of fair market conduct practices.

The Bank also reviews advertisements and special promotions by financial institutions published in major newspapers, websites and brochures to ensure fair and transparent terms and conditions. As a result of these reviews, 11 incidents of advertisements and promotions which failed to adequately disclose information on fees and charges as well as essential product features were modified or withdrawn by the financial institutions concerned at the Bank's direction.

REGULATION OF INSURANCE AND TAKAFUL INTERMEDIARIES

With nearly two-thirds of insurance and takaful business distributed through intermediaries, including agents, the regulation of insurance and takaful intermediaries remained an important part of efforts by the Bank to promote sound market conduct practices in the insurance and takaful sectors. As at end-2007, a total of 82 insurance and takaful intermediaries were regulated by Bank Negara Malaysia.

Table 5.1
Insurance and Takaful Intermediaries as at end 2007

Licensees	Number of licensees
Insurance Act 1996	
Insurance brokers	34
Adjusters	37
Financial advisers	7
Takaful Act 1984	
Takaful brokers	30 ¹
Takaful adjusters	36 ²

Reference

¹ Twenty six of these takaful brokers are also insurance brokers licensed under the Insurance Act 1996.

² These takaful adjusters are also adjusters licensed under the Insurance Act 1996.

During the year, initiatives to promote high standards of market conduct and professionalism among insurance and takaful intermediaries were mainly led by the industry associations with the support of the Bank. To instil greater market discipline and improve customer service standards in the general insurance industry, the Malaysian Insurance and Takaful Brokers Association, the General Insurance Association of Malaysia and the Malaysian Takaful Association have jointly developed the Best Practices Framework for brokers, insurers and takaful operators. The framework which came into effect in July 2007, is an industry effort aimed at further improving the general insurance premiums settlement practices by facilitating the reconciliation of accounts as well as payments of premiums and commissions between brokers and insurers or takaful operators. It also provides for the more effective enforcement of premium warranty conditions for certain non-motor classes of insurance and takaful, thereby reducing risks borne by insurers and takaful operators for policies on which premiums have not been received.

The proposed adoption of the Inter-Takaful Operators Agreement (ITA) by the takaful operators will further enhance the level of professionalism in the takaful industry. The ITA governs the conduct of takaful practitioners and intermediaries and provides for the establishment of a centralised mechanism for the registration of takaful intermediaries, enforcement mechanisms and a disciplinary framework to ensure compliance by its members. The implementation of the ITA will promote orderly conduct and ensure more consistent market practices among takaful operators while promoting a level playing field between insurance and takaful players in the industry.

Greater convergence and efficiency in the regulatory framework for insurance intermediaries was also achieved with the signing of a Memorandum of Understanding (MoU) between Bank Negara Malaysia (which regulates financial advisers) and the Securities Commission (which regulates financial planners) in August 2007. In addition to providing for the mutual recognition between both licensing regimes through the harmonisation of licensing requirements, the MoU also introduces green-lane processes for financial advisers and financial planners licensed under the respective regimes to apply for licences under the other regime. The streamlined processes will enable such intermediaries to provide a more complete suite of financial solutions to meet consumer needs while minimising the regulatory burden of complying with both regulatory regimes.

MOVING FORWARD

The thrust of policy initiatives in 2008 will focus on strengthening the legislative framework to support a comprehensive and effective regulatory and supervisory market conduct regime. Relevant pieces of legislation would be amended to empower the Bank to prescribe and enforce standards of fair and equitable market practices in the banking and insurance industry.

The Bank also envisions a greater role for market discipline and self-regulation in ensuring sound market conduct practices in the industry in the near future. In this regard, the Bank will be working with the industry to consider possible options to achieve a workable self-regulatory regime. The Bank recognises that financial capability of consumers is a key cornerstone of such a regime, and that current investments and efforts undertaken by the Bank in this area are important to support the transition towards a self-regulation framework. The pace at which the industry transitions toward such a framework will

also depend largely on the existence of a well functioning and effective infrastructure for enforcement by the industry. This requires financial institutions, individually and collectively, to take a longer-term view of sustainable performance by building confidence in, and a strong reputation for, the industry, as opposed to focusing only on shorter-term gains (e.g. through excessive and unjustified fees and charges or mis-selling to meet annual revenue targets).

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A more efficient regulatory framework for intermediaries will also be considered to balance the cost of regulation with the risks that they pose to financial stability. This will be accompanied by continued efforts to strengthen the consumer protection framework with the introduction of an Ombudsman law that will provide consumers with an enhanced alternative avenue for redress in their dealings with financial service providers. In addition, the Bank will continue to address principles of fair market practices in all major aspects of financial dealings, including ensuring the protection of personal financial information, maintaining appropriate standards of disclosures, and ensuring that consumers receive the support and information needed, through financial education and proper advice, to enable them to make informed decisions. The Bank expects to intensify its market conduct surveillance activities in the coming year to ensure that these outcomes are achieved.