

Market Conduct and Consumer Capability

Market confidence is crucial to effective intermediation and the efficient functioning of the financial markets. In today's dynamic environment, given the important link between market confidence and financial stability, considerable effort has been undertaken by the Bank to put in place the appropriate framework and measures that allow the financial services sector to evolve, while at the same time ensuring the safety and soundness of the financial system as well as efficient market and fair practices.

Consumer financial requirements and expectations are changing rapidly in the face of increasing personal wealth, growing sophistication and the demand for differentiated product offerings and value-added services. These trends have not only become important in reinforcing a more competitive environment in the financial services industry but have also spurred significant structural changes in the financial sector with greater diversity of players, more innovative and complex products and services as well as more efficient delivery channels. While these changes have generally been positive and often leading to more varied product offerings, lower costs and better quality to consumers, they also present new challenges to consumers as their financial knowledge may not have kept pace with the dynamic developments in the financial sector. An important aspect of the Bank's regulatory strategy and approach therefore, has been to ensure that the continued growth of the financial sector is underpinned by fair market practices and conduct. Equally important is the need to enhance consumer capability to ensure that consumers are better equipped with information and knowledge necessary to make financial decisions that improve their economic well-being. The establishment of the Consumer and Market Conduct Department marks another milestone in the Bank's ongoing commitment towards according greater focus on elevating consumers' financial literacy levels, promoting sound and fair market practices, as well as putting in place the necessary infrastructure for consumer protection and redress. The mission is therefore to promote greater consumer activism aimed at engendering greater competition and better performance in the financial sector, by:

- formulating and implementing consumer-related market conduct requirements;
- conducting surveillance and initiating remedial or enforcement actions for any breach of market conduct requirements; and
- promoting financial capability of consumers.

Promoting Fair and Equitable Market Practices

Financial service providers and their intermediaries are expected to implement fair consumer practices with policies and systems that focus on the customers' information and other requirements in order to foster continued public confidence in the financial system. In addition to promoting sound business practices, the Bank will also continue to direct efforts towards enhancing market conduct surveillance and take enforcement actions against financial service providers that adopt unfair practices. At the same time, efforts are also focused on promoting self-regulation in the industry through enhancing the roles and effectiveness of the industry associations and their enforcement of the respective codes of good business practice.

Consumers also need to be empowered to take responsibility for their own well-being and thus be given the relevant information on which to base their financial decisions. In this regard, requirements are in place for the banking sector to disclose and make available information on fees and charges imposed on products and services offered to individuals and small and medium

enterprises (SMEs) at all their branches and websites. For the insurance sector, apart from improving transparency in product features and sales practices, disclosure is required for commissions, fees and charges for insurance products with savings and investment features that are sold through banking institutions. In addition, greater disclosure requirements have been introduced for the family takaful business. Except for medical and health takaful products, the allocation of investment profit, surplus or fees to the takaful operators must be disclosed in the proposal form, certificate documents and brochures. Going forward, product disclosure and transparency will be enhanced to ensure that consumers have access to information that accurately represents the features, risks and returns associated with the financial products and services. As part of these efforts, the Bank has reviewed the broad guiding principles on the imposition of fees and charges for conventional and Islamic banking products and services for individuals and SMEs. While committed to a framework of greater market orientation in determining product pricing, fees and rates, the Bank will continue to ensure that cost and cost savings are allocated fairly and equitably between the financial service providers and consumers.

A sound financial system hinges on, amongst others, the resilience of the players and market confidence. In their dealings with consumers, financial service providers are therefore expected to act with due care and diligence as well as seek the pertinent information from customers and assess their financial needs before concluding a contract or giving advice and handling the private information with due care. Life insurers have an obligation to provide more extensive sales illustrations in marketing life policies, while life agents must observe proper advice practices in the sale of life products. In addition, the Bank has tightened regulations on claims settlement practices and strengthened controls over bonus reductions by life insurers. The Code of Good Practice for Life Insurance Business has also been revised to maintain a high standard of professionalism in the design and sale of insurance products, including the requirement for 'truth in selling' with proper disclosure. In line with these developments, the Guidelines on Family Takaful Products were issued to establish the minimum requirements for the introduction of any new family takaful products, including marketing information to prospective participants of family takaful schemes.

It is also important for loss adjusters, insurance brokers, takaful brokers, financial advisers and money brokers to have adequate knowledge and high level of professionalism in their dealings with customers. As they represent an important interface between consumers and financial service providers, their good market conduct is equally essential to promote confidence in the financial system. To raise the benchmark on the quality of financial advice, financial advisers are also being promoted as a new distribution channel for life products and other products such as savings for children's education, retirement planning and investments for the future.

Enhancing Financial Capability of Consumers

In a competitive environment where market discipline and consumer activism drive financial performance, consumers need to be increasingly financially savvy. The presence of more confident and financially astute consumers will promote greater competition and thus market efficiency and innovation. This can however, only be achieved when consumers have access to information on the financial products and services that are being offered and are equipped with sufficient knowledge to understand the risks and obligations involved in order to make informed decisions. Measures have been undertaken by the Bank to promote consumer awareness and knowledge on financial products and services of conventional banks, Islamic banks, insurance companies and takaful operators, as well as electronic payments channels and instruments. The Bank together with the financial industry have implemented the Consumer Education Programme (CEP) as part

of the efforts to increase consumer awareness. A total of 23 articles have been published in the BankingInfo website and 24 articles in the InsuranceInfo website. These articles are also published as information booklets in English, Bahasa Melayu, Mandarin and Tamil. To date, the BankingInfo and InsuranceInfo websites have received significant response. The BankingInfo website has also been enhanced to include comparative information on financial products to facilitate and reduce the cost of information search by consumers.

To enhance the outreach of the CEP, various target groups including school children, housewives, young adults and retirees have been identified and information on a broad range of subjects such as household finance management, savings, use of credit, e-payments, general banking and insurance have been provided. Working collaboratively with the Ministry of Education, more than 7,000 schools nationwide have been adopted by banking institutions to impart to students, the importance of savings and smart money management. In order to achieve the common goal of enhancing financial capability of consumers, the strategic alliances with the Financial Mediation Bureau (FMB), Credit Counselling and Debt Management Agency (CCDMA), Malaysia Deposit Insurance Corporation and the Securities Commission have been strengthened with the establishment of the Financial Education Working Committee. The Committee, chaired by the Bank, aims to foster greater coordination and collaboration amongst its members in enhancing consumer awareness and financial capability.

Strengthening the Enabling Infrastructure

A good dispute resolution process that is simple and easily accessible is an essential element to ensure the fair treatment of consumers. In this regard, conventional and Islamic banks, insurance companies and takaful operators have established their own respective Complaint Units. Going forward, a dedicated Complaint Unit will also be extended to payment systems operators. Intervention is on ensuring that these Complaint Units deal with complaints and claims effectively and fairly through an equitable process, rather than on issues relating to commercial decisions such as pricing of loans and contractual arrangements. The Bank also would not intervene in the cases heard in court or that are pending legal action given that only a court of law can resolve those disputes and award damages that are legally binding on both parties. To ensure that consumers have recourse to an independent, fair and impartial dispute resolution mechanism, the FMB is an alternative redress avenue for consumers of financial service providers under the Bank's purview.

As part of the Bank's efforts to improve access by the public to information relating to our operations and policies, the Laman Informasi Nasihat dan Khidmat (Bank Negara Malaysia LINK) was established, as a one-stop reference for members of the public and the SMEs in matters relating to financial products and services. Since its inception in February 2005, the response to the Bank Negara Malaysia LINK has been overwhelming with more than 40,000 visitors comprising individuals and SMEs that sought information on various issues pertaining to banking, loan related matters, insurance, foreign exchange administration and credit reports. In relation to this, a Contact Centre will be established in May 2007 as an integrated customer information service at the Bank that aims to improve response to queries by increasing access channels for the public to refer financial related matters.

With the robust growth in private consumption, growing consumer affluence and increased access to the financial sector, enhanced capacity to manage finances and debts prudently become essential to preserve the resilience of the household sector. In this regard, the Bank has established the CCDMA in April 2006 to provide an avenue for consumers to obtain advice on matters relating

to debt management. Consumers who are unable to meet their financial obligations arising from unexpected developments or overstretched finances, can seek the advice of CCDMA. The agency also counsels consumers on financial and money management as well as assists, free of charge, in rescheduling or restructuring their housing loans, hire purchase, credit card and personal loans through out-of-court procedures, based on repayment plans and terms that have been agreed upon by both creditors and debtors. In October 2006, CCDMA established regional offices at the Bank's branches in Penang, Johor Bahru, Kuala Terengganu, Kuching and Kota Kinabalu. To date, over the span of less than a year, more than 15,000 customers have sought the services of CCDMA and more than 2,000 customers have received assistance under the Debt Management Programme.

In a move to combat fraud in the financial sector, initiatives have been taken to strengthen collaboration with the industry and law enforcement agencies. The Bank, the financial sector and representatives from the Royal Malaysia Police have established a Joint Steering Committee and a Joint Working Committee to share information and knowledge among the members to identify and mitigate fraud risks in the insurance and takaful sectors. During the year, several training programmes and workshops were held in major cities in Malaysia to facilitate sharing of information on, and increase understanding of, fraud risks among the industry participants. For the banking sector, the Bank works closely with the industry associations with the aim to alert the banking institutions on the trends and new *modus operandi* on frauds and preventive measures that should be taken to minimise the occurrence of frauds. The Bank will also continue to ensure that the financial sector implements appropriate systems and controls in managing fraud risks, and collaborates with law enforcement agencies to combat financial fraud.

Moving Forward

In an environment of rapid transformation of the financial sector, a more principle-based market conduct regime will be adopted. Such a regime however, requires certain preconditions to be in place to provide the supporting infrastructure and incentives that will align market practices with sound principles. Greater emphasis will therefore be accorded towards enhancing governance, integrity and transparency as the foundation for industry players to maintain public confidence and trust. Similar focus will be given to further strengthen the financial capacity of consumers as well as improving the effectiveness of redress mechanisms. This is based on the premise that a progressive financial sector is one where prudential safety and soundness, competition and consumer protection co-exist to effectively serve the interests of the various stakeholders in the financial markets.

The aim is to achieve an appropriate balance between providing an adequate level of protection for consumers while promoting increased competition and innovation in the financial system. The overriding objective is to facilitate a market place where consumers are in a position to choose from a wide range of products and services on the basis of being empowered with pertinent information and knowledge. Fostering a dynamic and progressive financial sector is a shared responsibility of the regulator, the industry, consumers and other stakeholders. In this context, consumers are expected to assume a greater responsibility in managing their finances by understanding their rights and obligations as well as in exercising due care and skill in their selection of products and services. Complementing this, financial service providers are expected to operate in a fair, equitable and transparent manner in providing their financial services to customers.