

Muhammad bin Ibrahim: Raising awareness of financial knowledge in Malaysia

Welcoming remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at Karnival Kewangan 2017, Kuala Lumpur, 13 January 2017.

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It is my honour to be here this morning for the Opening Ceremony of the inaugural Finance Carnival. The carnival is an initiative formed through the collaboration of various ministries, agencies and financial institutions. It aspires to raise the level of public awareness in three important areas: financial services; knowledge of financial management; and consumer protection.

I would like to extend my appreciation to Yang Berhormat Datuk Johari bin Abdul Ghani, Second Finance Minister, who has graciously agreed to join us today in officiating the Carnival.

Finance has the power to transform lives

The pursuit of financial knowledge is a key economic imperative. It also has the ability to transform lives. In today's world, the ability and knowledge to save, invest and borrow are essential life skills, be it for individuals or businesses. For businesses, including small enterprises, financial knowledge is particularly important in generating income and to secure financing.

Various efforts have been undertaken to improve financial inclusion in Malaysia. The results so far are promising. Currently, the majority of Malaysians (over 90 percent) have access to formal financial services. 92% of adults have a savings account, while 98% of users have performing financing accounts. Based on a survey that was conducted, consumer satisfaction towards financial services increased significantly from 61% in 2011 to 73% in 2015. We will continue to invest efforts towards improving the performances in this area.

With loans amounting to RM1.5 trillion as at end-November 2016, the banking industry is the main source of funds to households and businesses, including small and medium enterprises (SMEs). Recognising the pivotal role of the banking sector in our economy, Bank Negara Malaysia will continue to develop the financial sector in a progressive and inclusive manner to ensure that all segments of society can benefit from this financing ecosystem.

Financial knowledge among businesses and individuals must be continuously improved

While results are promising, our efforts in achieving financial inclusion need to be further intensified. There remain gaps in access to financing for certain segments of society, which require collective efforts from all. The Bank is receptive towards these needs and remain committed to assist the public at all times.

Among the issues raised by businesses are the difficulties in obtaining funding to start a business, particularly for SMEs and new companies. The factors cited for this include the absence of collateral, or insufficient track record, especially for businesses involved in new growth areas.

On the consumer end, examples of the common issues faced include –

- ♦ Misrepresentation or mis-selling of financial products, including incidences of product pushing;
- ♦ Disputes on interest rates, loan balances or settlement of insurance claims due to the lack of transparency and understanding in relation to the terms and conditions, or contract 'fine

print';

- ♦ The lack of capacity and poor discipline in financial management, resulting in high household indebtedness.

The measures taken to overcome financial difficulties

Beyond the banking industry, the Bank and other agencies such as the Securities Commission, the Malaysia Co-operative Societies Commission, Amanah Ikhtiar Malaysia and TEKUN will also continue to focus on enhancing the role of non-bank financing in addressing these issues. This includes the utilisation of factoring, leasing and market-based financing such as crowd-funding and peer to peer lending as a means of alternative financing for small businesses that do not have adequate financial records.

From the aspect of consumer protection, the Bank continues to devote efforts towards strengthening trustworthy and user-friendly redress mechanisms through the Financial Ombudsman Scheme, in addition to strengthening policies on market conduct of financial institutions to ensure fair dealings to consumers.

The Bank will also continue to accelerate initiatives on financial literacy to ensure that the financial advisory services provided by financial institutions, Laman Informasi Nasihat dan Khidmat (LINK) and the Credit Counselling and Debt Management Agency (AKPK) will continue to enhance the overall skills and knowledge in finance. Various initiatives are also being undertaken at the school and university level, as well as targeted and high-impact financial education programmes catered towards teenagers and adults by AKPK.

Key imperatives for businesses and consumers

Nevertheless, the goal of attaining financial literacy cannot be achieved solely by the efforts of authorities alone. Consumers, too have an equally important role in shaping the quality and delivery of financial services. Indeed, it is the actions and behaviour of consumers that will be powerful determinants of how financing can be fully utilised. In this regard, I would like to suggest some key imperatives for both businesses and financial consumers.

Business owners should ensure that documents and business records are accurate and complete to facilitate the ease of credit assessment. Business competency in important areas such as marketing, finance and inventory management, and e-commerce should also be continuously strengthened. This will reinforce the assessment by banks and other investors on the long-term growth prospects and competitiveness of the particular business, thus facilitating the provision of finance. It is important to emphasise that the banking industry is in the business of lending. Thus, banks will only generate profits if they continue to provide credit. This is a point worth reflecting upon, to avoid misperceptions that banks are intrinsically refusing to lend. If businesses have potential, there should not be any issues in obtaining financing. If any of these issues persist, businesses should seek advice from LINK at Bank Negara Malaysia.

Consumer interest groups and business associations also need to be proactive in updating and disseminating information on the availability of financing options such as guarantees, special schemes, and other forms of alternative financing. There are many micro enterprises that still rely on personal loans to finance business operations due to the lack of information and awareness on the existence of such financing options in the market. As a result, these enterprises are required to pay high interest rates to settle personal debts taken, while more cost-effective financing facilities remain underutilised.

Business associations should strengthen their role by deepening understanding on the underlying causes before raising issues on access to funding. More often than not, the issues raised by business associations are channeled in the form of general complaints that have yet to be studied thoroughly or specifically. This compounds the difficulty of resolving the issues given

the lack of supporting details. In addition, business associations can act as an important point of reference in advising members on matters concerning efficiency and competitiveness, the use of technology and the adoption of electronic payments to achieve greater security and cost efficiencies.

For consumers, priority should be placed on taking charge of their financial futures and ensuring that the financing options available are utilised responsibly. This can be achieved by conducting due diligence and research on the features of a potential financial product, which will lead to better understanding to facilitate informed decision-making.

The inability of consumers to meet scheduled loan repayments can result in the bank taking actions to cancel or terminate the loan. Therefore, if consumers are faced with financial difficulties, please consult your financial institution immediately in order for alternative repayment arrangements to be discussed. Early identification can avoid the instigation of legal action. The Bank has established various channels and mechanisms to assist the public for this purpose. The public is advised to engage both LINK and AKPK for advice on this matter.

Given the rising potential of technology in various aspects of our lives, consumers should leverage on this opportunity to simplify your daily banking activities. This includes strengthening awareness and closing information gaps on the dos and don'ts concerning the use of technology. With this in mind, the banking industry and other government agencies have held several roadshows to educate and assist the public and the business community. Do take the opportunity to attend such events.

Current issues regarding the ringgit exchange rate

I would like to take this opportunity today to address current issues regarding the ringgit exchange rate that has garnered considerable attention from fellow Malaysians. In 2016, the ringgit depreciated by 4.3% against the US dollar. In that year, the ringgit reached the lowest level of RM4.486 to the US dollar. The ringgit depreciation sparked some concern among Malaysians, to the point that it was seen as a reflection of a weakening Malaysian economy. I would therefore like to clarify that under a flexible exchange rate regime, movements in the ringgit exchange rate reflects both external and domestic factors, including the strength of the domestic economy and the flow of foreign capital in the financial market. Our economy remains resilient with a respectable growth performance within the range of 4 – 5%, relative to the performance of regional and emerging market countries.

The ringgit depreciation is not a unique and isolated event. It is a global phenomenon. The strong appreciation of the US dollar has led to similar depreciation pressures in all global and regional currencies. This is due to several factors including the uncertainties surrounding monetary policy in the US as well as global economic and political developments. These global developments have affected sentiments in global financial markets that led to capital outflows from emerging markets. The currencies of many countries have underperformed and the ringgit was also not spared. The ringgit was affected given the structure of our economy and financial market that is one of the most open among emerging market countries. Our market was exposed to global financial market uncertainties that led to the reversal of portfolio investments. There were also other specific factors that affected the ringgit.

First, some investors had taken advantage amid the market turmoil and uncertainty to gain profit through speculative activities in the offshore ringgit non-deliverable forward (NDF) market. This was proven when legal action was taken on a few foreign banks that were severely fined for being involved in manipulative price fixing.

Second, the pressure on the ringgit intensified when there were demand and supply imbalances in the domestic foreign exchange market. Our country has been a net exporter and the current account position in the balance of payments has always been in a surplus since more than a

decade ago. However, when the imbalances formed as a result of foreign exchange export proceeds not being converted into ringgit, conditions deteriorated and thus reduced the demand for the ringgit. Imbalances also occurred due to other specific factors. For example, in 2015, capital outflows due to the spending of Malaysians abroad amounted to RM41 billion, while outflows from foreign worker remittances amounted to RM34 billion. Hence, when the demand for the currency falls, the currency will consequently depreciate.

To address these challenges, Bank Negara Malaysia and the Financial Markets Committee (FMC) had taken intervention measures to mitigate speculative activities in the offshore market and rebalance the demand and supply in the domestic foreign exchange market. In addition, measures to liberalise the domestic foreign exchange market will be intensified to spur market development and strengthen the ringgit's resilience and stability.

As a result of these proactive steps, several positive developments can be observed. The disruptive influence of speculative activities on the ringgit in the offshore market has subsided. In addition, imbalances in the domestic foreign exchange market have improved while ringgit volatility has also reduced.

Given the openness of our market, we will always be exposed to uncertainties in global economic developments and geopolitical tensions. Therefore, we need to take prudent steps in facing these global challenges. Bank Negara Malaysia and the FMC will continue monitoring the activities in the financial market and, if deemed necessary, will introduce appropriate measures to strengthen the policies that are already in place.

There are also views among observers and analysts that suggest a certain ringgit level as the equilibrium value. They seem to suggest this value as the target level for us to achieve in order to ensure an economy that is in balance. This is not accurate and unproductive.

In my view, it is clear that the current ringgit level does not reflect the fundamentals of our economy. Nevertheless, we should not be too focused on an equilibrium value of the ringgit because this will always change in a global economic environment that is challenging, uncertain and dynamic. I believe that the measures introduced on 2 December 2016 will bring the ringgit value closer to its underlying economic fundamentals.

It is important in the current economic environment for us to collectively put in effort, knowledge and expertise and continue to drive the development of the national economy. The strength of an economy relies heavily on the level of productivity of the rakyat. I believe that we can enhance our levels of productivity by maximizing knowledge, especially in the subject of finance.

Over these three days, a total of 100 booths will be featured during this carnival, each offering a variety of finance-related activities and opportunities. This includes facilities to open a bank account, assistance in loan applications, CCRIS checks, debt management advice (by AKPK and the Small Debt Resolution Scheme), platforms that allow consumers to seek redress solutions, opportunities for innovative SMEs to submit business proposals as well as group lecture sessions.

On behalf of the Bank and other related stakeholders, I sincerely hope that you may fully utilise the wealth of opportunities available in this Finance Carnival by visiting the exhibition booths and participating in dedicated activities designed for fellow visitors. Our aspiration is for this event to be a powerful enabler to increase knowledge and awareness on the importance of financial management, which, if done wisely, possesses the distinct potential of uplifting lives.

Finally, allow me to take this opportunity to express my gratitude and appreciation to the committee, the ministry of finance, relevant government agencies and financial institutions, whose efforts have all contributed towards realising the success of this Carnival.