

Opening Remarks by Assistant Governor Ms. Jessica Chew
AFI Working Group Launch
Consumer Empowerment and Market Conduct
7 April 2011, Lanai Kijang, Kuala Lumpur

It is my great pleasure to be here this morning for the launch of the AFI Working Group on Consumer Empowerment and Market Conduct. The focus of this working group very much resonates with Bank Negara Malaysia's own philosophy and approach to the protection of financial consumers and the promotion of financial inclusion. We believe you need both – that is empowerment of consumers through education and effective avenues for redress, and the effective regulation and enforcement of market conduct to build and maintain consumer confidence in the financial system. In the more recent period, and most notably since the recent global financial crisis, this view is now shared more widely, and financial education and market conduct have now assumed more significant roles in complementing prudential regulation and supervision.

In many countries around the world, innovations in products, services and technology have significantly expanded the reach of financial services, including to new economic activities and previously excluded segments such as small businesses and communities in the lower income groups. These innovations have also supported improved efficiencies in the cost and delivery of financial services to the public. I am sure we would all agree that these are characteristics of a progressive and more inclusive financial system. At the same time, however, we are reminded by recent events of how badly things can go wrong when innovation disregards legitimate consumer needs and expectations for fair and responsible treatment. This is harmful not just to the affected consumers, but to the broader economy and financial system, with long-lasting consequences. We are hopefully wiser now and more alert to the risks from a consumer

perspective that can arise with financial innovation, and the importance of developing more robust solutions to manage these risks effectively.

The solutions that we are looking for will lie both in empowering consumers to make more informed financial decisions, and in strengthening the market conduct practices of financial institutions through effective regulation and enforcement. I couldn't agree more with observations made over the last two days at the Conference that one without the other is wholly inadequate. Given that recent public sentiment has become perhaps more suspicious of innovation and financial service providers in general, it is also important for us as regulators to be clear ourselves, and to communicate clearly, that the goal of empowerment and a strengthened market conduct framework is not to stifle innovation, but to preserve its benefits of greater access and choice for consumers, while safeguarding their interests and the stability to the financial system. Of course, in this process, I expect we will see more restraint exercised by financial institutions in offering complex financial products to consumers, but I believe this restraint will be more consistent with and responsive to the real needs of individuals and businesses.

The launch of this working group is therefore most timely with global attention turning to developments in these areas. The need for stronger international cooperation on consumer protection has already been acknowledged by the G20 leaders who called on the Financial Stability Board to examine options to advance consumer protection through informed choice that includes disclosure, transparency and education; as well as protection from fraud and abuse. This development reflects the increasingly global dimension of financial services, in which weak consumer protection can have repercussions that extend beyond national borders. With countries at differing stages in the implementation of market conduct and consumer education frameworks, there is enormous potential to learn from each other and thereby build capacity

more quickly and evenly to implement better frameworks in very country. This group can contribute to, and complete this effort by addressing elements of the frameworks that will also support financial inclusion objectives.

I was reflecting just yesterday on how views on financial education have evolved in the recent period. There was a time when a primary motivation for financial education in many countries was to overcome consumer anxiety about new financial products and to encourage consumers to take full advantage of these innovations in order to increase their economic opportunity and prospects. More recently, and in particular post the events of the global financial crisis, one observes a shift in which the emphasis of financial education has turned more towards securing the protection of consumers from predatory and abusive practices. From a financial inclusion perspective which this group provides, one appreciates much more the importance of preserving both perspectives in financial education programs –that is equipping communities to protect themselves, but also to be able to benefit from financial services as a means of improving their economic well-being.

Change is also occurring in the area of market conduct. While globally, substantial progress has been made in promoting greater consistency and uniformity in the development and implementation of prudential standards, similar progress has not been observed, at least not to the same degree, in the area of market conduct. Of late, this too is changing with international standard setting bodies such as the International Association of Insurance Supervisors turning their attention to the strengthening of global standards on market conduct. In the banking sector, a number to countries have rolled out initiatives since the financial crisis to promote better disclosures, strengthen the protection afforded to consumers, and establish responsible lending practices among banks. This working group can play an important role in catalyzing this change.

In summary, we see significant opportunities for this group to promote consumer empowerment and market conduct in at least four important ways.

- Firstly, in raising the visibility of the roles of empowerment and market conduct in serving both financial stability and financial inclusion objectives;
- Secondly, in supporting the efforts of national authorities and policymakers to develop and implement appropriate frameworks for their countries;
- Thirdly, in promoting continuous dialogue and information exchange on experiences, developments and practices in these areas; and
- Fourthly, in contributing to the development and implementation of more consistent global standards on market conduct and consumer protection, with a particular focus on how such standards should be adapted to support financial inclusion.

Bank Negara Malaysia certainly welcomes this initiative and we look forward to the opportunity to engage in broader dialogue at the international level on how developments in national and regional economies as well as globally, are shaping consumer empowerment and market conduct in building stronger, safer and more inclusive financial systems.

Conclusion

On behalf of Bank Negara Malaysia, let me record our pleasure and honour to be able to host this inaugural meeting of the AFI Working Group on Consumer Empowerment and Market Conduct. We very much appreciate the opportunity to be a part of this important initiative, and we value the close collaboration that has been built with the AFI as well as the network established with policymakers in this room. I do hope that you have enjoyed your time in Malaysia, and I wish you a productive meeting ahead. Thank you.