

## The Financial Capability and Inclusion Demand Side Survey 2021

The Financial Capability and Inclusion Demand Side (FCI) Survey is a triennial<sup>1</sup> cross-sectional survey commissioned by the Bank. It assesses the level of financial capability of Malaysians based on measures of financial knowledge, behaviour and attitude which are used to construct a composite Malaysia Financial Literacy and Capability (MYFLIC) Index. The most recent survey was conducted in 4Q 2021, capturing the effects of the COVID-19 pandemic which provide additional insights on the financial state of Malaysian households and factors influencing the levels of financial capability as the country begins to recover from the impact of the pandemic. Selected key insights are highlighted in Diagram 1.

Diagram 1: Snapshot of FCI Survey 2021



Compared to 2018, Malaysians are now more confident with their financial knowledge, due to heightened awareness on financial decisions and assistance during the pandemic



Despite the wider adoption of digital financial services and products, digital financial literacy remains low. More than a third of the respondents shared their bank account passwords or details with close friends



Financial challenges from the pandemic have had a positive influence on longer-term financial planning behaviour, with more Malaysians placing importance on retirement planning and personal financial risk management



Short-term financial resilience improved slightly, potentially due to financial assistance during the pandemic. 47% (2018: 52%) of respondents face difficulties raising RM1,000 during an emergency



Despite greater awareness of insurance/takaful observed during the pandemic, interest in learning remains low with 1 in 3 respondents indicating no interest in learning about the subject



Withdrawals from retirement savings during the pandemic have severely affected confidence in long-term resilience. 27% (2018: 16%) of respondents are extremely or very worried about the adequacy of their savings for old age

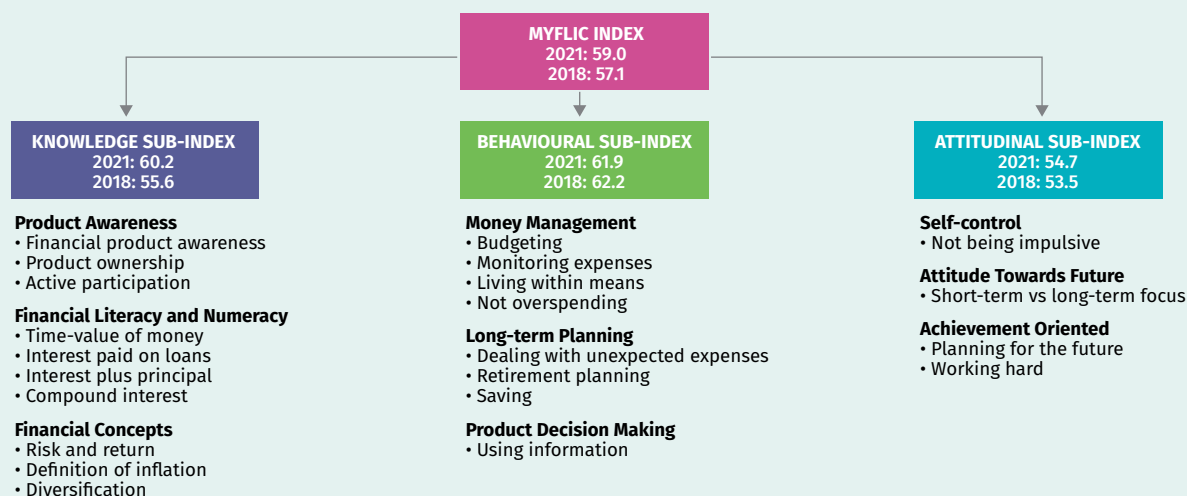
Source: Bank Negara Malaysia

Based on the 2021 survey, the MYFLIC index improved by 1.9 points to 59.0 (2018: 57.1), reflecting a significant increase in the financial knowledge score, and a better score on financial attitude (Diagram 2).

The increase in financial literacy and numeracy contributed most to the financial knowledge sub-index, particularly around the subject of interest and its effect on loan payments (2021: 72; 2018: 62). The implementation of various loan repayment assistance measures during the pandemic and related communications have been a key factor contributing to higher awareness and understanding of financial concepts. Malaysians also appear to have a higher understanding of financial concepts related to investments, namely around risks and returns (2021: 86; 2018: 77) and inflation (2021: 81; 2018: 75). However, this contrasts sharply with evidence of individuals actually applying these concepts effectively in practice. For instance, most (86%) respondents claim to understand that high returns would also mean high risks. However, more than half (53%) of respondents view an annual return of between 20% and 30% as low to medium returns associated with low to medium risks. In addition, only 43% can relate to the effect of inflation on their purchasing power.

<sup>1</sup> Previous versions were fielded in 2015 and 2018.

Diagram 2: Malaysia Financial Literacy and Capability (MYFLIC) Index 2021

**Note: Main sample**

- 3,007 responses collected based on the demographic structure of Malaysian population in 2010 census stratified in accordance with six criteria, namely geographical, urban/rural, ethnicities, age, gender and income level.
- Malaysians aged 15 years and above.
- Face-to-face and door-to-door, Computer Aided Personal Interviewing.

Source: Bank Negara Malaysia

The financial attitude sub-index scored marginally higher. This is consistent with the improvements in the level of financial knowledge, but also likely reflects greater uncertainty faced by Malaysians over their financial outlook due to the economic effects of the pandemic. In this respect, Malaysians are becoming more cautious, and are more inclined to save and set long-term financial goals to better prepare for future shocks. While this is a positive development, Malaysia's financial attitude score remains substantially below global averages.<sup>2</sup> In particular, majority of Malaysians do not plan for their future before spending the money they received.

Of note, financial behaviours (as represented by the behavioural sub-index) have deteriorated despite improvements in financial knowledge and attitude. This is unsurprising given the erosion of financial buffers during this period which has made managing day-to-day expenses and saving for the future more difficult. In addition, the substantial drawdown of retirement savings under special withdrawal schemes introduced by the Government to help households through the pandemic has also reduced the level of confidence in long-term retirement planning. Key observations from the three components of the MYFLIC Index are provided in Table 1.

Table 1: Key Observations on Financial Literacy and Capability Among Malaysians

<b>Financial Knowledge</b>	<b>Measures basic knowledge on financial concepts and ability to apply numerical skills in financial situations</b> <ul style="list-style-type: none"> <li>↑ 81% understood the concept of inflation (2018: 75%). However, only 43% could relate the impact of rising prices to their purchasing power (2018: 38%)</li> <li>↑ 72% understood that interest/profit needs to be paid on loans (2018: 62%)</li> <li>↑ 86% are aware that an investment with a high return is likely to carry high risk (2018: 77%)</li> </ul>
<b>Financial Behaviour</b>	<b>Measures the actions of consumers that shape financial situations and well-being</b> <ul style="list-style-type: none"> <li>↑ 47% claimed to have difficulty to raise RM1,000 in the event of emergency (2018: 52%)</li> <li>↓ 54% do not face challenges in monitoring their expenses (2018: 67%)</li> <li>↓ 69% are able to save for a rainy day (2018: 71%)</li> </ul>
<b>Financial Attitude</b>	<b>Measures the attitudes of consumers that influence financial decisions and actions</b> <ul style="list-style-type: none"> <li>↓ 64% display self-control and discipline in managing their finances (2018: 67%)</li> <li>↑ 51% focus on the future compared to "live for today" attitude (2018: 46%)</li> <li>↑ 43% disagreed that money is there to be spent (2018: 39%), suggesting that more Malaysians prefer to plan before spending</li> </ul>

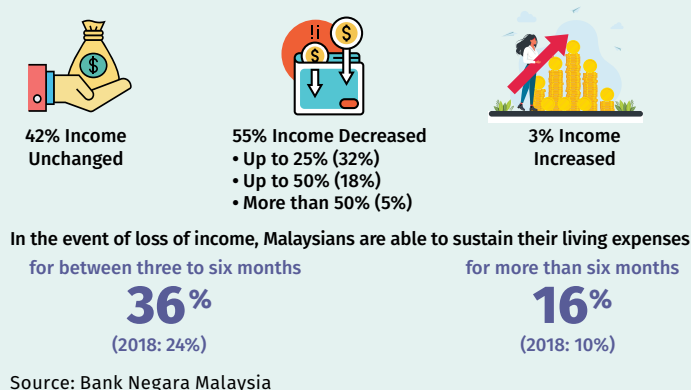
↑ Improvement ↓ Decline

Source: Bank Negara Malaysia

<sup>2</sup> Based on Organisation for Economic Co-operation and Development (OECD)/International Network for Financial Education (INFE)'s International Survey of Adult Financial Literacy (OECD/INFE Survey) 2020, financial attitude average score for OECD countries stood at 62, while overall average was 60.

About one in four respondents experienced large reductions (of above 25%) in income during the pandemic period. Notwithstanding this, more respondents claimed to be able to sustain living expenses for up to six months after losing their income. The higher short-term resilience could have been partly supported by the extensive financial assistance provided during the pandemic, such as loan repayment assistance, EPF special withdrawal schemes and cash transfers. However, this may be at the cost of long-term financial well-being, where significantly more Malaysians indicated that they are 'extremely/very worried' about being able to cover expenses in old age (2021: 27%; 2018: 16%).

**Diagram 3: Household Income Affected During the Pandemic**



## Personal financial risk management

53% of Malaysians claim that they are able to raise emergency funds for unexpected expenses, an improvement from 47% in 2018. The level of awareness on insurance and takaful also improved markedly to 77% (2018: 64%). Of note, many more Malaysians (2021: 12%; 2018: 3%) were aware of insurance/takaful products offered under Perlindungan Tenang.<sup>3</sup> The implementation of the Perlindungan Tenang Voucher initiative during the year contributed to higher awareness, as reflected by subscriptions for Perlindungan Tenang products which increased significantly to 1.6 million policies in 2021 (2020: 62,500 policies). The take up of life insurance/takaful protection correspondingly improved (2021: 23%; 2018: 17%), although it remains low with majority of respondents remaining uninsured against death, disability or sickness.<sup>4</sup> Affordability continues to be a key challenge for the lower income household segments who have little to spare after meeting essential expenses, even with the expansion of affordable product offerings under Perlindungan Tenang. More generally, insurance/takaful is not seen as an important tool to manage personal financial risks, with one in three Malaysians indicating that they have no interest to learn about insurance/takaful (Diagram 4). This points to the need for better information to be provided on insurance/takaful to improve knowledge and address misconceptions. Further efforts to address market gaps through products, underwriting and distribution models that target the needs of the unserved and underserved household segments will also be critical.

## High indebtedness among Malaysians

Respondents who claimed to have too much debt<sup>5</sup> (2021: 30%; 2018: 32%) were mainly salaried workers who felt more confident in their income stream, leading to a greater tendency to over-commit to debt. Among those who agreed that their debt levels were too high,<sup>6</sup> only 15% indicated that they would approach their banks for help, while 57% prefer seeking help from family members and 27% from close friends. About one in four from this group were not comfortable seeking help from anyone. This points to additional effort needed to de-stigmatise avenues for individuals to obtain debt management advice and assistance in order to encourage early interventions and avert more permanent financial consequences.

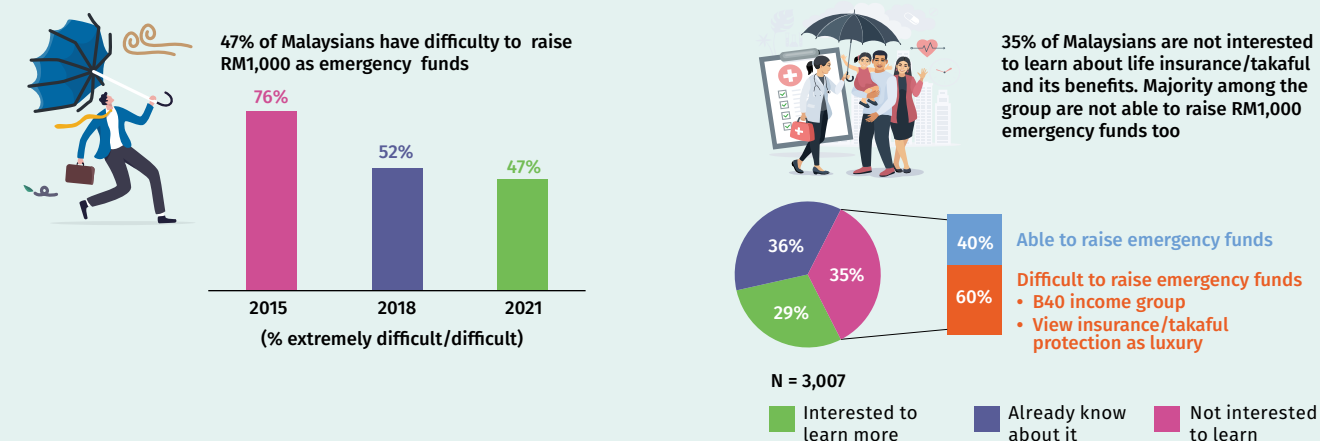
<sup>3</sup> Perlindungan Tenang is a national initiative to provide access to basic, simple and affordable insurance and takaful protection. The initiative aims to expand the availability and quality of insurance and takaful solutions to meet the needs of the unserved and underserved segments in promoting their financial and social resilience.

<sup>4</sup> We note that the Financial Sector Blueprint 2022-2026 indicated that 42% of adults own at least one life insurance policy or family takaful certificate. However, the level indicated by FCI Survey 2021 responses is lower, as some suggested that they may be unaware that they own insurance/takaful protection e.g. Mortgage Reducing Term Assurance/Takaful.

<sup>5</sup> Respondents who 'Somewhat Agree', 'Agree' and 'Fully Agree' with the statement 'I have too much debt'.

<sup>6</sup> Respondents who 'Agree' and 'Fully Agree' with the statement 'I have too much debt'.

Diagram 4: Dealing with Unexpected Expenses



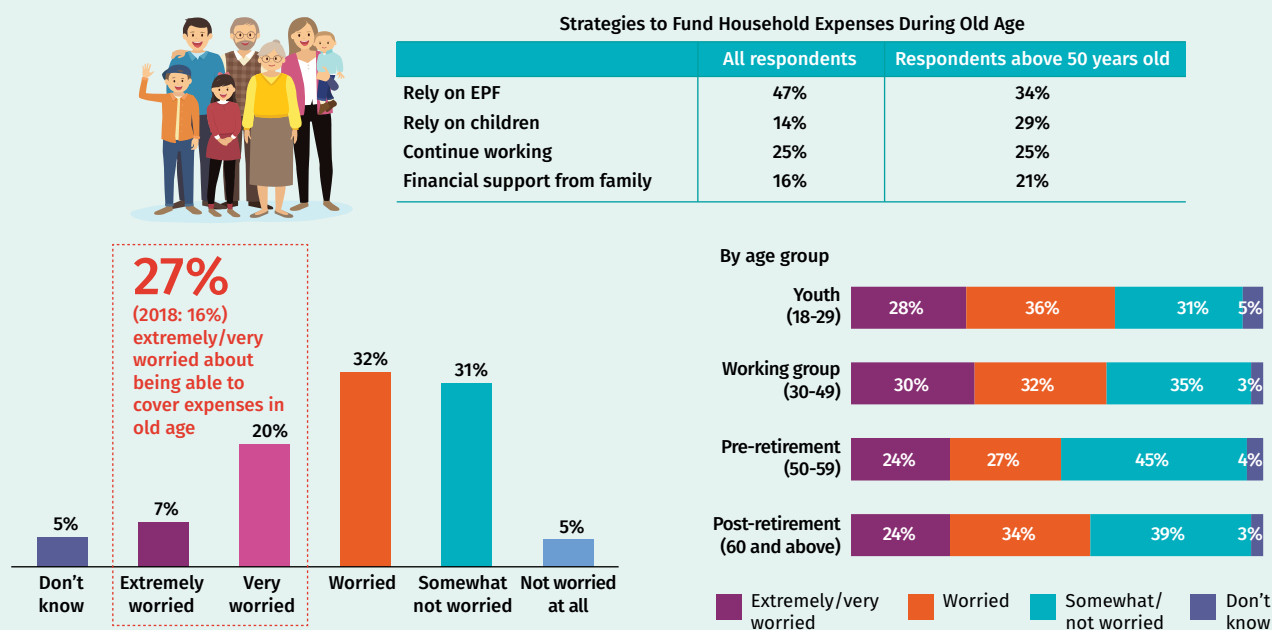
Source: Bank Negara Malaysia

## Retirement planning

Malaysians are becoming more worried about being able to cover expenses in old age, leading to positive behavioural improvements observed in the planning for old age (Diagram 5). 47% of respondents cited EPF savings as the source of funds to cover their expenses in old age, making it the most common strategy for retirement planning. However, among older respondents (above 50 years old), greater reliance is being placed on other sources of income (specifically their children and family members) during retirement. This will add to financial commitments of families with dependent parents and relatives going forward, with important implications on future household resilience if provisions are not factored into current financial planning.

Diagram 5: Dealing with Retirement

As Malaysians draw closer to retirement (above 50 years old), they start to consider other options to fund their expenses during old age as they feel that the EPF retirement savings are insufficient



Source: Bank Negara Malaysia

## Digital financial literacy

Malaysians are fast adopting digitalisation, mainly used for in-store purchases, money transfers and online purchases. Despite the wider adoption of digital financial products and services,<sup>7</sup> the survey found that the level of digital financial literacy is low and concerning (Diagram 6).<sup>8</sup> More than a third of respondents (37%) are willing to share their passwords and/or personal identification number of bank accounts with close friends, which expose users to the risk of online fraud, including being used as a 'mule account' to facilitate fraud. In addition, 62% of respondents do not pay attention to the security of bank websites visited to perform online banking transactions. This could mislead them into providing their banking credentials such as their Internet banking username or password and credit card information through a fake website that enables scammers to use the information to commit fraud. Along with other ongoing measures by banks to ensure the security of online banking transactions, intensifying education and awareness efforts to improve the level of digital financial literacy - particularly around measures that one should take to prevent online banking fraud - will be critical to maintain confidence in the use of digital financial services.

**Diagram 6: Knowledge Gaps on Digital Financial Literacy Among Malaysians**



37% of Malaysians share passwords and/or PIN of bank accounts with close friends



Only 38% pay attention to the security of a website before making online transactions  
- https sites, safety logo or certificates



Only 11% regularly change password for online shopping and personal finance

Source: Bank Negara Malaysia

## Conclusion

The significant income shocks and higher costs of living in the more recent period have brought financial matters into sharp focus among Malaysian households. This has led to improvements in financial knowledge and healthier financial attitudes. However, some households are presently challenged at the same time with financial realities (such as insufficient/volatile income and lower buffers) that may make it hard for them to change behaviours even if they have a desire to. The survey also points to potential effects from the support measures introduced during the pandemic and pre-existing conditions that if left unaddressed, could have longer term consequences for household resilience. Inadequate provisions for retirement and household attitudes towards debt management during stress could undermine future household resilience. The low level of digital financial literacy is a significant concern with the greater adoption of digital financial services. Individuals have a critical role in observing good cyber hygiene practices as a first line of defence against fraud and scams.

Findings from the FCI Survey 2021 provide valuable input to the implementation of the National Strategy for Financial Literacy 2019-2023.<sup>9</sup> Gains observed in financial knowledge and attitudes present an important opportunity for the Financial Education Network (FEN) to further intensify initiatives that can help individuals plan for and make lasting behavioural changes. To this end, the Bank as a FEN member, along with other members, partners and stakeholders, will continue to provide effective tools and resources to help Malaysians take charge of their personal finances, including free online resources that are available at <https://www.fenetwork.my/>.

<sup>7</sup> Based on usage for mobile banking, internet banking, payment card and mobile payment.

<sup>8</sup> Follow-up survey on Digital Financial Literacy conducted following FCI Survey 2021, with 1,000 sample collected nationwide.

<sup>9</sup> National Strategy for Financial Literacy 2019-2023 is a five-year plan developed by Financial Education Network to elevate the financial literacy and well-being of Malaysians.