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Hosted by the Indonesia Deposit Insurance Corporation

Speech By

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**“PUBLIC AWARENESS AND DEPOSITOR CONFIDENCE
AS A PILLAR FOR FINANCIAL STABILITY”**

I. Introduction

Good afternoon Ladies and Gentlemen. It is always nice to be in beautiful Bali. I want to commend our host, Indonesia Deposit Insurance Corporation, especially Mr. Rudjito and Mr. Firdaus Djaelani for coming up with a program that addresses issues that are of great significance to deposit insurers.

Ladies and Gentlemen,

Financial and banking stability is one topic that has received increased attention from regulators and market players. Just a few months ago, the run on Northern Rock alerted us to the fact that, despite better resilience, banks will continue to experience panic withdrawals from time to time. And in the US, Bear Stearns is the latest victim of financial panic. The Northern Rock crisis reminded us that public confidence is a key component to financial stability. It also reminded us of the importance of establishing effective deposit insurance systems and implementing credible public awareness programmes in enhancing public confidence as a pillar of financial stability.

2. Public Awareness - The link with financial stability

Experience tells us that confidence in the banking system can be easily shaken. Banks may be well capitalised under our regulatory rules, but they have one great weakness which is their structural mismatch between assets and liabilities. This mismatch is not apparent to depositors. So long as the public perceives that the bank is strong and able to repay their deposits on demand, depositors will have no incentive to withdraw deposits. In other words, they need to know that a dollar in their bank is as available as a dollar in their pocket. Therefore, banking is about depositor confidence. And maintaining depositor confidence at all times is essential to the smooth functioning of the payment and settlement system and the stability of the financial system.

Ladies and Gentlemen,

Past and recent experiences have shown us that public awareness programmes by deposit insurers contribute to financial stability. First, through consumer education, deposit insurers promote better understanding of deposit and other banking products. Such information helps and empowers consumers to make informed choices and enables them to place their funds with confidence. It also educates consumers on the means to access information as well as enhances their ability and capacity to compare information. Second, through a good crisis communications strategy, a deposit insurance system can allay fears during a bank failure or a wave of failures.

Financially educated consumers contribute to a stronger financial system in several ways:

- They make better informed financial decisions and reduce the incidences of market volatility;
- They ensure better financial product pricing hence enhancing market competition;
- They are less susceptible to unsubstantiated rumours, which, otherwise, may turn quickly into a self-validating panic;

- They impose additional discipline on the banking system by scrutinising the conduct and practices of banking institutions; and
- They push policy makers to implement better consumer protection laws and policies.

3. MDIC's Mandate

One key element of MDIC's mandate is to promote and contribute to the stability of the financial system. As such, MDIC has an obligation to provide information to the public so that they can make informed decisions on how to protect their savings. This is especially important for the less sophisticated depositors as the loss of deposits through placements in uninsured deposit products may subject them to considerable financial loss and hardship.

4. Our communications goals

We have developed three communications goals to meet our mandate.

- As MDIC is a relatively new organisation, our first goal was to create general public awareness that the government has established a deposit insurance system to protect depositors of selected banking institutions, namely commercial and Islamic banks are our member institutions.
- The second was to build depth of understanding about the specific features of our deposit insurance system. Public confidence in the banking system can be substantially increased if the public know that their deposits are safe and guaranteed by the government. Experience has also shown that such assurance removes the incentive for the public to withdraw deposits when there is a bank failure or when rumours of a bank failure surface! In such a situation, prior knowledge of deposit insurance gives certainty and comfort to depositors that their bank deposits are protected. And if they need assurance, they would know who to call! It is also important that depositors understand the key

features, benefits and limitations of our deposit insurance system as it dispels unrealistic expectations.

- The third communications goal is to create, build and maintain respect and trust in MDIC amongst the Malaysian public. We believe that depositor confidence is very closely tied to the reputation of the deposit insurer. If it is perceived as not credible or unable to meet deposit insurance claims or does not have a sterling reputation, the deposit insurer may not be able to contribute to financial stability. In short, if depositors do not trust us, we cannot deliver on our mandate!

5. Our approach

In formulating our approach, our guiding principle was to develop an effective communications plan to meet our goals, consistent with our vision to be an effective deposit insurer. We undertook a SWOT analysis of the environment and from there, we developed the key elements for our comprehensive integrated plan. These include:

- The infrastructure and supporting collaterals for communicating to depositors. These included a call centre, toll free lines, website, training manuals and deposit insurance information;
- The communications programmes which comprise public awareness, brand building and a crisis communications component;
- Identification of the various target groups and the selection of communication channels for each group based on their demographic details and other characteristics, such as preferred media channels, reading habits and level of education;
- The communication targets and measurement tools for evaluating performance against targets;
- The strategy, implementation time frame, funding as well as the communications policies to support the targets; and
- A multi-year implementation timeframe.

5.1 It is necessary to take into consideration the stage of development of the deposit insurance system. In MDIC's case, we were established in late August 2005 with 8 employees. Within a few days, the deposit insurance system began operations on 1 September 2005. Given that the blanket guarantee was removed on 1 September 2005 with the introduction of the deposit insurance system, we had to prepare our communications campaign in July 2005. We also incorporated a three-phase strategy into our communications efforts to accommodate the different timeframes for the various components of the comprehensive plan.

5.2 Phase 1 (2005 -2006)

In Phase 1, which started before the first year of operations, we focussed on building the communications infrastructure to lay the groundwork for the launch of the 2007-2011 Integrated Communications Plan in 2007 (the Plan). Our first initiatives included establishing the call centre, reserving specialised toll lines, training call centre operators, setting up the website (with private access for member institutions, public and board members), developing Frequently Asked Questions and other communications collaterals. We also developed the Phase 2 elements of the Plan. Twelve months into our establishment, we conducted extensive consumer research through surveys and focus groups to understand depositor habits, their preference for medium of communications and knowledge level of deposit insurance. This knowledge provided the basis for setting calendar year targets and the selection of the communication tools.

During this period, we focussed on meeting our initial communications goal which was to build public awareness of the most crucial elements of deposit insurance. These included requiring member banks to display the MDIC membership decal and our deposit insurance information brochures. We conducted several "Train the trainer" sessions for our member banks so that they could answer deposit queries accurately at branch level. By 2006, we had trained more than 1,000 front line bank officials throughout Malaysia. We also had regular "Meet the press" sessions to brief journalists about deposit insurance. The press write-ups

helped tremendously to build up initial buzz of public awareness of deposit insurance. Throughout this period, our public awareness programmes were generally broad with no major emphasis on specific target audience.

5.3 Phase 2 (2007 – 2008)

Phase 2 began in 2007 with the launch of the Plan in January. The Plan outlines the thrusts, strategies and implementation schedule for our communication and public awareness activities. Our view is that a comprehensive plan would ensure that the whole programme is cost effective and implemented in a timely, coordinated and efficient manner. The Plan contains the various programmes and activities that have been identified to reach out to various target audiences. These programmes include a broad range of dissemination channels, such as print and broadcast advertising, training for member banks, media relations, briefings and road shows, publications and an information video.

In accordance with the Plan, we launched our advertising campaigns for TV and print media during this Phase. At the end of 2007, we conducted a nationwide consumer survey to gauge the effectiveness of our advertising campaigns. I shall be covering this matter in more detail later on.

I should point out that funding was an important issue. Our Board of Directors understood that the goals and specific targets of the Plan required substantial resources. They specifically noted that it was a multi-year plan and understood that in approving the Plan, it was a commitment to spend large expenditures over that time period. Currently, our communications expenditure is about RM6 million or 20 percent of our 2007 operating budget.

5.4 Phase 3 and looking forward

We are currently developing the crisis communications component of the Plan with the objective of coming out with a crisis communications manual to handle

all critical aspects of communicating with our various stakeholders in the unlikely event of a crisis, such as a bank failure.

The likely scenarios together with the appropriate communications response to our stakeholders will be identified. Given that speed is of the essence, the public statements will be prepared ahead, ready for use with minimum modification and within the shortest time possible. These will include press statements, Questions and Answers for call operators, and website information. The manual will also identify the mechanism and process for coordinating with other safety net players and member institutions.

Looking forward, we plan to develop financial education programmes for schools and colleges. This is an important component of the Plan. We are currently developing a financial education programme. The ground work is already underway.

5.5 Our strategy – some key elements

The Plan contains several key strategies. One important strategy is to forge strong strategic partnerships among main stakeholders. These include Bank Negara Malaysia (BNM), which is the Central Bank of Malaysia, member banks and related financial agencies, such as the Financial Mediation Bureau, the Financial Planning Association of Malaysia (FPAM), the Institute of Banks in Malaysia and the Credit Counselling and Debt Management Agency. We joined forces in raising financial literacy on banking matters, including the benefits provided by a sound deposit insurance system. This approach helps to frame deposit insurance as a relevant element in depositors' personal financial decisions. Joining forces also maximise resources, improves cost efficiency and widens public reach. More importantly, we have a stake in each other's success.

Our close partnership with BNM further underscores the essence of the Strategic Alliance Agreement between MDIC and BNM, which aims to help to coordinate

our respective functions and activities. This agreement includes the areas of public awareness and consumer education and the timely exchange of relevant information on member institutions. As part of this effort, especially in the area of public awareness, MDIC is an active member of the Financial Education Working Committee. This Committee is chaired by BNM and aims to foster greater coordination and collaboration in strengthening consumer awareness and financial literacy.

As an example of this close partnership, MDIC participated in financial education road shows, briefings and exhibitions last year in many cities and towns across Malaysia. Through these activities, we were able to raise awareness on deposit insurance among the general public. About 50 briefings and information road shows were carried out of which more than 20 training sessions were conducted for representatives of member banks. We also participated in many exhibitions across the country to provide information to the public.

5.6 Partnership with member banks

We also worked closely with our member banks. Upon our request, each member institution has appointed a liaison officer who is responsible to act as a single point of contact for all deposit insurance matters, including promotion of MDIC's briefings held nationwide and dissemination of our information to bank branches. To ensure accurate and timely information is conveyed, we developed Regulations to require member banks to provide clear representations about their membership in the deposit insurance system, the type of deposit insurance information to be provided and to disclose whether a deposit product is insured or not.¹

¹ See contents of Draft Regulations on the Provision of Information on Deposit Insurance under MDIC website.

5.7 Partnership with media

As an extension of our Communications Policy, we maintained close and on-going contact with the media, a vital partner with wide reach. The main objective for this engagement is to create understanding and acceptance of the deposit insurance system.

To raise awareness and build MDIC as a reputable name, we held regular media briefings or training sessions to equip the media with knowledge about deposit insurance. We also keep them updated on MDIC's corporate developments, the latest developments in deposit insurance, including the issuance of consultation papers and regulations, and our activities through press conferences, exclusive interviews and press releases. We also encouraged press inquiries as a way to further clarify and deepen understanding. Our communications material to the media are written in a clear and engaging manner to meet the needs of the press. We also ensured that reference materials for the press are updated on our website for easy access.

Besides appropriate coverage in good times, the media is a vital partner in the unlikely event of a bank failure. Proper understanding of how the deposit insurance system works would ensure that the press deliver responsible and accurate coverage to depositors to minimise unnecessary panic or misinformation.

5.8 Annual assessment

An important element of our strategy is the annual assessment against the Plan. We conducted a nationwide consumer survey to gauge the effectiveness of our 2007 advertising campaign. The results were then used to enhance the effectiveness, relevance and reach of our communications initiatives going forward. The survey was conducted by a credible independent research body in the last quarter of 2007. It involved quantitative research, which included face to face interviews with 1,000 respondents.

The results of our first year advertising effort, however, came in below expectation. Against our 2006 target, awareness on deposit insurance only rose by 2 percentage points to 15 per cent in 2007, well below the interim target of 30 percent. However, the understanding of deposit insurance among those who were aware reported a significant increase. The results clearly indicated that educating depositors on deposit insurance is not an easy task. Experience has shown that one cannot hope to make major headway in one year. It requires long-term effort and substantial funding to reach the desired results.

The survey also highlighted that knowledge of financial products differ significantly across depositor groups, cultures and demographics. For example, depositors from the affluent group (household with income exceeding RM3,000 per month) and the younger generation (age ranging between 25-39) have the highest levels of awareness and understanding compared with depositors with household income of less than RM3,000 per month. For the professionals, managers and executives who had tertiary education or professional qualification, the level of awareness recorded a comparatively high increase as compared to the previous year's results.

These findings are now being used to develop our 2008 advertising campaign. During Phase 1 of our campaign, we treated the public as a homogenous population in both our content and channel strategies. With feedback from the 2007 consumer survey, we are now able to develop specific and targeted approaches for Phase 2 of our advertising initiatives. We also supplement this with focus group discussions to determine audience comprehension and acceptance of our proposed print and broadcast advertising materials. With this approach, MDIC will tailor different communications approaches, channels and key messages to reach different target audiences, such as the affluent, the educated and other groups with different characteristics.

We shall continue to follow an approach of delivering the yearly initiatives under the Plan, undertaking research and refining our Plan annually. We expect that the form of our campaigns will change yearly, as it should.

6. Measurement against IADI Guidance

The IADI Guidance on Public Awareness of Deposit Insurance Systems is an excellent practical and comprehensive guide in developing effective public awareness programmes, especially for newly-established deposit insurers. The proposed core principles and effective practices are currently being reviewed by IADI's Executive Council. Given their applicability, we benchmarked ourselves against these proposed core principles and effective practices. And we will be fully compliant when we implement our crisis communications plan.

7. Conclusion

Educating the public is an ongoing process. And efforts in this area will remain a key initiative for MDIC. We understand that raising public awareness on any issue is a very challenging, expensive and daunting task. To many depositors, the role of a deposit insurance system appears obscure and, in normal times, may be perceived to be somewhat disconnected from the financial markets and reality. As we have seen in many countries, lack of understanding and depositor confidence has led to blanket guarantees being introduced or the government bailing out all depositors. Public awareness and understanding of deposit insurance is aimed at minimising this type of risk.

The cost of conducting public awareness can form a significant part of a deposit insurer's operating budget. But we believe that it is even more costly not communicating with depositors. The recent episode in the UK might result in taxpayers paying millions of pounds after all is said and done.

Thank you for your attention.

Malaysia Deposit Insurance Corporation

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