Muhammad bin Ibrahim: Sustainable financial inclusion

Closing remarks by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Alliance for Financial Inclusion (AFI) Data Workshop, Lanai Kijang, Kuala Lumpur, 22 June 2010.

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Introduction

Thank you for giving me this opportunity to deliver the closing remarks for the AFI-BNM Financial Inclusion Data Workshop. Bank Negara Malaysia is honored to co-host this event with the Alliance for Financial Inclusion.

The pursuit of sustainable financial inclusion has become a matter of priority as well as urgency in many countries, and is relevant to both the developed and developing economies.

The need for financial inclusion, especially for the developing countries, is undeniable. Beyond the potential of being able to uplift the millions of financially underserved poor from the unending cycle of poverty, an inclusive financial system contributes towards greater social, economic, and political stability, a vital ingredient for growth. At the same time, we must also be wary of the increase in situations where access to finance leads to over-indebtedness. Over-indebtedness can be the cause of much emotional hardship and stress, and might result in social exclusion. Hence, financial inclusion must take into account sustainability, and in this respect a balanced approach is important. It is this trade off that pose challenge to regulators or oversight authorities.

Malaysian experience on the financial inclusion agenda

Allow me to reflect on the Malaysian experience for financial inclusion. In Malaysia, financial inclusion is a national agenda. It is key in formulating socio-economic programs including the Government Transformation Plan, the New Economic Model and the 10th Malaysia Plan. This commitment towards financial inclusion is reflected in the Central Bank Act 2009, where financial inclusion is legislated as an objective of Bank Negara Malaysia.

The efforts to develop a more inclusive financial system have been fruitful. More than 80% of the Malaysian population currently has some form of savings account. Compared to the global median of 8.4 bank branches per 100,000 individuals, Malaysia has 15.5 branches per 100,000 individuals (31 March 2010) with the number of ATM cards in circulation increasing from 19.8 million (Dec 2006) to 28 million (April 2010), with an average annual growth rate of 11% in the last four years. Another important indicator is the total microfinance loans outstanding, which has increased from USD 45 million (RM 151 million) as at end-2000 to USD 757 million (RM 2.5 billion) as at end-March 2010, a compounded annual growth rate of 35.5%. While such positive trends are encouraging, we are also mindful of the associated risks, such as non-performing loans, over-indebtedness and consumption of financial products and services that are not suitable for the user. In this regard, efforts towards financial inclusion are always conducted within the framework of sound banking practices, risk management and adequate consumer protection.

Importance of financial inclusion data in the growth and development of an inclusive economic system

Policy formulation for financial inclusion is complex for a number of reasons. First, it requires the active involvement of many different stakeholders, in particular Government agencies and very often a variety of NGOs, as well as financial institutions with specialized skills and knowledge. Second, the state of economic and social development of a society is an important determinant on the level and quality of financial inclusion. Third, what constitutes acceptable level of inclusion, in terms of access to finance, protection of personal rights and liberties, or assurance of retirement and healthcare benefits varies from one jurisdiction to another.

For the reasons that I mentioned, there is no uniform global benchmark that can be used as a successful model for financial inclusion programs. Success stories and experiences are dispersed and often go unrecorded and to further the cause we need to reveals this situation. The financial inclusion agenda requires a systematic and internationally-recognized set of financial inclusion indicators that is meaningful and capable of assisting us in formulating developmental policies. Furthermore, enormous efficiency gains from the availability of such indicators can both reduce the cost of research and implementation as well as increase the effectiveness of the delivery and execution of the policies.

Lessons learned in using financial inclusion data in the Malaysian context

Let me to briefly share some of the lessons we have learnt in terms of using data to improve the policy formulation process, and develop a more efficient and inclusive financial sector. Perhaps the most interesting example is the development of quality credit data which has enabled financial institutions to make informed and responsible lending decisions in a timely manner and to be able to mitigate serious problems such as fraud. These data have also assisted Bank Negara Malaysia in performing its macro- and micro-surveillance duties and in its policy-making role. The data in this case came from the development of a comprehensive credit registry system. The availability of such data also allows individuals with good payment track records to make a more credible case for access to credit, and helps overcome the limitation of inadequate collateral.

Another example is the collaborative project with the Department of Statistics Malaysia to conduct the Baseline Census of Establishments and Enterprises in 2005. The data gathered from this initiative enabled the policy-makers to have a much more detailed profile of the SME and micro-enterprise segments of the economy. The insights gained led to a new understanding of the SME business landscape, and the launch of a national strategy for SME development. Specific strategies could be developed, and the availability of data helped in having more constructive dialogue between different stakeholders.

We also note that relatively new policy areas for financial inclusion require better data that enable validation of policy stance, or in some cases change in policy direction. Inadequate or inconclusive data in areas such as measuring financial literacy, consumer awareness and financial education means that it is difficult to assess the cost and benefit of the proposed policy framework and its impact on financial inclusion.

Conclusion

Allow me to now conclude my remarks. The successful implementation of policy work in the area of financial inclusion requires the availability of quality data. The fact that this area still remains relatively unexplored, compared to the availability of data for corporate business, financial markets and other more sophisticated aspects of finance, clearly suggests that much work remains to be done. The magnitude and scope of the topic also requires a diverse group of policymakers to collaborate on a long-term basis. The establishment of a working group to improve the quality of financial inclusion data is therefore most timely, and will benefit policymakers in making better and more informed policies, as well as tracking the outcome of policy initiatives. In addition, it may also serve to increase the visibility new issues areas which are currently not being given sufficient priority by policymakers.

I would also like to encourage the working group to consider, in the longer term, the development of some form of a composite financial inclusion index. The composite index will benefit everyone by providing a broad measure of trends, facilitate comparisons between distinct segments and create a benchmark for policy work in financial inclusion. It can eventually help to popularize the notion of financial inclusivity, and in that way help garner more global support for financial inclusion initiatives the world over.

Finally, on behalf of Bank Negara Malaysia, I would like to thank the participants who have come here from many countries and institutions to contribute their ideas and knowledge to this workshop. I also would like to thank the Alliance for Financial Inclusion for their leadership and support in managing this initiative. I trust that the working group will be able to contribute towards the global agenda for a more inclusive financial system, and look forward to the fruits of your work in the months ahead.