

Jessica Chew Cheng Lian: Financial inclusion strategies in ASEAN economies

Speech by Ms Jessica Chew Cheng Lian, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the ASEAN Financial Inclusion Forum, Kuala Lumpur, 25 April 2017.

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It is a great honour for Bank Negara Malaysia to host the first ASEAN Financial Inclusion Forum. We warmly welcome you to Kuala Lumpur. Let me also especially thank the distinguished speakers from Indonesia, Philippines, Singapore and Thailand; and experts from AFI, UNCDF and the World Bank for graciously taking the time to share your invaluable experience in pursuing financial inclusion strategies with participants of this Forum.

ASEAN today is one of the fastest-growing and most dynamic regions in the world. We are home to 630 million people and a burgeoning middle class, with individual economies that are diverse in terms of demography, income level, resource endowment, financial sector development; and economic size, structure and systems. A vibrant SME sector contributes 50 to 80 percent of ASEAN's workforce and accounts for 96 percent of enterprises in the region, linked by more extensive cross-border production networks and the intensification of intra-regional trade and investment activities.

Growth for the region is still expected to outperform average global growth in 2017 and 2018, and this is expected to be sustained going forward. ASEAN's growth story has been supported by greater traction in recent years in regional financial integration which will expand sources of financing and investments for economic activities, deepen the region's financial markets, and enhance the competitiveness of ASEAN businesses through efficiency gains (for example through lower costs of payments and settlements).

Growth and development across the region however does not guarantee equal opportunities for all to lift their social and economic circumstances. Nor can it therefore be assumed that income and wealth divides will narrow. History bears this out, as despite advances in financial globalisation over several decades, income inequality has actually worsened in many parts of the world – including both developing and developed countries.

For ASEAN, a key priority has therefore been to ensure that greater economic and financial integration progresses in lockstep with greater financial inclusion. For many policymakers in this room, the challenges are pressing with 265 million or 44% of adults in ASEAN who are still unbanked. This represents nearly half of the adult population in the region who do not have access to safe and reliable basic banking services, with broader implications for health, economic and social outcomes.

ASEAN Finance Ministers and Central Bank Governors (AFMGM) have unanimously agreed that financial inclusion should be a policy priority for ASEAN. The Working Committee on Financial Inclusion, or WC-FINC established in April 2016 to carry this mandate forward, has in turn, laid out clear goals to support and accelerate regional initiatives to elevate the level of financial inclusion in ASEAN.

WC-FINC aims to reduce the average financial exclusion level in ASEAN to 30% by 2025, and increase the level of infrastructure readiness in ASEAN to 85% (currently at 70%), based on agreed measures of financial inclusion outcomes and preconditions. Particular emphasis is given to capacity building and peer learning. An especially interesting part of this journey has been ASEAN's incredible diversity which provides a rich and broad canvass for drawing lessons from every country on specific challenges faced and measures pursued to increase financial inclusion. For some of us, the geographic barriers to financial inclusion are the most urgent, for

others, cost or knowledge and trust are more significant barriers. In different ways, we all have something to learn from each other's experience on strategies that worked or did not work so well.

This is why we are here today. This Forum on financial inclusion was organised in response to technical assistance requests and learning needs of ASEAN countries based on a survey conducted by WC-FINC last year. There was particular interest in Malaysia's experience and so we volunteered to host this first Forum, but clearly, we are also eager to learn from others.

The Forum focuses on 5 key areas which represent core pillars of a holistic financial inclusion system. The first is the development of a national financial inclusion strategy and monitoring mechanism which are crucial to ensure that strategies are well targeted, coordinated and executed. The second is strengthening of institutions that support the implementation of financial inclusion strategies such as development financial institutions and credit guarantee corporations. Third is the importance of having a national focus on SME financing and development as a key enabler for inclusive growth. The fourth area focuses on the role of digital financial services, including fintech and big data, in elevating financial inclusion. And lastly, the Forum will turn to the importance of financial education and consumer protection in increasing the responsible take up of financial services and building trust.

Beyond these practical areas, there is also much to be gained from engaging in more strategic discussions on how financial integration itself can impact the inclusion agenda. More specifically, if we can better understand where potential risks of exclusion may arise from the process of integration, then we will have a better chance of mitigating such risks – including through measures that may be taken as part of the integration process, rather than a consequence of it. Equally, if we can identify opportunities for improving financial inclusion through the process of integration, then we can do more to ensure that financial integration actually creates these opportunities.

We can think about these issues in several ways.

- ♦ Could increased cross-border access further entrench the segmentation of markets given stronger incentives for financial institutions to focus on strategies that only target an expanded market of more sophisticated, higher income customers?
- ♦ Or: With expanded markets and choice available for high net worth customers, will it make it harder for domestic financial institutions to continue supporting inclusion outcomes that are partly cross-subsidised by high net worth business today? Correspondingly, to what extent will this impact the cost of financial services for the poor, potentially making them even more unaffordable than before?
- ♦ Or: Are there opportunities to bring new technologies and emerging practice into domestic markets and simultaneously create an environment for them to take root and spawn original domestic applications that will create additional multiplier effects?
- ♦ Or: How might easier cross-border access encourage new business partnerships that would enable financial institutions to penetrate untapped customer segments more efficiently and reduce associated information asymmetries?

Answers to such questions can be important in how we think about and approach financial integration. Ultimately, behaviour matters, and therefore needs to be explicitly addressed in financial integration strategies. Unless we also turn our attention to the behavioural responses of financial actors in a more financially integrated region, we may find that our best efforts to strengthen the pillars for greater financial inclusion ultimately does not deliver as expected. Financial inclusion and financial integration strategies therefore need to come together through deliberate approaches that are mutually reinforcing.

Our international partners, namely AFI, World Bank and UNCDF who are present today have

given their unwavering support to the various financial inclusion initiatives outlined in WC-FINC's Strategic Action Plan, and they have affirmed their commitment to provide technical assistance to help ASEAN achieve its financial inclusion targets. I encourage you to use this time to explore new development opportunities, strengthen existing collaborations to take the financial inclusion agenda forward, and perhaps think anew. We also look to your constructive feedback to this Forum which will be important for considering future engagements of a similar nature.

With that, I wish you all engaging and productive discussions over the next 4 days. Mostly, I hope that the insights gained will inspire concrete plans for action in our respective countries, and contribute towards generating a clearer vision for raising financial inclusion to a new level across ASEAN.