

Encik Abdul Rasheed Ghaffour: Revolutionising Microfinance

Welcoming remarks by Mr Encik Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Global Symposium on Microfinance, Kuala Lumpur, 22 May 2017.

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In biology, the transformation of a species is said to happen in rapid bursts. Imagine an ecosystem of marine life along a shoreline. For millions of years, it can remain relatively unchanged. But an extraordinary event – such as a sudden move in sea levels – can alter everything quickly. Within decades, fishes, mollusks and plants alike can dramatically change in size and shape. Ultimately, those that adapt emerge as the stronger species in the ecosystem.

We are gathered here today in the very different context of microfinance. Nonetheless, parallels can be drawn with the theme of this event, "Revolutionising Microfinance". Think of the incredible pace of technological change in recent years. In 2016 alone, machine prevailed over man in the world's hardest board game. Reusable rockets became a reality. Twitter helped a nation elect their president. For microfinance, that rapid burst of change is already upon us.

It is therefore a great honour for Bank Negara Malaysia to partner with the World Bank in hosting this Global Symposium on Microfinance. We are privileged to have so many learned speakers here with us to share their invaluable insights.

Led by innovation across the globe from Bangladesh to Brazil, microfinance has allowed previously excluded segments of society to grow incomes, build assets and ultimately improve their standards of living. With poverty eradication taking centre stage in the global public policy agenda, such in the United Nation's Millennium Development Goals, these developments are welcome.

Here in Malaysia, microfinance has been an important part of the development agenda. In 2006, the Bank introduced a comprehensive microfinance institutional framework to promote the development of a sustainable microfinance industry. This facilitated greater access to financing by micro-entrepreneurs with no collateral, supported by simple application procedures, minimal documentation and quick turnaround times. The microfinance landscape in Malaysia has evolved from being Government-driven into one with vibrant private sector participation. At the turn of the century, total financing outstanding of the sector stood at USD35 million (RM151 million). Since then, it has multiplied by more than 30 times to USD1.2 billion (RM5.2 billion) in 2016, collectively benefitting more than a million micro enterprises.

Despite significant strides taken since the 1970s to develop more inclusive financial systems, including in the countries represented here today, our work in microfinance is far from complete. The full potential of microfinance is not realised until we observe direct linkages to welfare improvements in the micro segment and ultimately, sustainable growth. At the same time, microfinance is also evolving in an era of unprecedented technological change. Adaptability is key for microfinance to thrive and further propel itself forward. The focus of this Symposium – on insights, inclusion and innovation – underpins this adaptability.

Insights – identifying with microentrepreneurs

As effective policymakers and practitioners, we need to have deep *insights* of our clients on-the-ground: the microentrepreneurs. This obligation begins with the awareness that the needs, tradeoffs and circumstances of microentrepreneurs are unique. They face very different financial constraints and in turn, very different choice sets. Hence, effective microfinance design that appeals to microentrepreneurs' needs will not only require a rooted understanding of whether they have been good paymasters, who their other financiers are and how they conduct business;

but also their specific background, problems and values.

As we speak, predictive credit analytics are being developed using alternative data, such as psychometric assessments and other non-financial information. This may be particularly useful in the microsegment, where traditional data on creditworthiness are usually scarce. These insights can also be leveraged to design products that are tailored towards the distinct needs of microentrepreneurs.

Improving user experience and confidence is equally important. Application procedures, user interfaces and operational processes should be simple and seamless. Most importantly, they should be appropriate to the circumstances of microborrowers for whom a loan may well be the first experience with a formal financial institution. How they perceive this experience can have longer term effects on the level of trust they place in financial institutions, and reinforce behaviours that will either encourage them to use financial services, or further distance them from the formal financial system.

Inclusion – expanding the reach of microfinance

One of the key challenges for microfinance has been providing access to financial services where it is unavailable, but needed the most. Expanding the reach of financial services, and finding new ways to do so cost efficiently, lie at the very heart of efforts to increase **inclusion**. The right channels can also create emotional connections, not just geographical ones. Making it easier for borrowers to connect with financial institutions in ways that they feel comfortable with, can build affinities with financial institutions which in turn, encourages participation and timely repayments.

Mobile banking is an excellent example. The portability, affordability and ubiquity of mobile gadgets effectively put a bank in everyone's pockets today. The numbers are telling. Half the global population use mobile internet. We spend 4 hours on the phone and use 12 apps in a single day. The tremendous success of mobile banking in Africa has been hailed as a transformative platform for greater financial inclusion. If providers leverage digital platforms well, finance can literally be at the fingertips of the unbanked.

Leveraging on digital platforms can also create a virtuous cycle. Over time, such platform providers will accumulate a wealth of data on customer preferences and behaviour. This can in turn drive drive analysis for new product offerings in the future.

This is of course, highly contextual and an effective delivery strategy will likely differ across countries, communities and cultures.

Innovation – serving real needs while managing associated risks

Whether we like it or not, the world of finance is rapidly moving into uncharted waters. There are tremendous opportunities in **innovations** that can be tapped to develop and expand microfinance, but also real risks to be appreciated. This includes risks associated with the disintermediation of finance, a borderless society and cyber threats to name a few. It is important that we understand and manage these risks as we steer microfinance forward, to ensure we are doing so boldly but not blindly.

There will be many lessons we can learn from those who are here at this Symposium. These are individuals with rich experience in the microfinance industry, whose successes *and* failures in developing unique product offerings and new business models will be equally instructive.

The global financial crisis may be a decade past, but one of its key lessons remain true – finance and its innovation must exist to serve real needs. The costs of financial failures are disproportionately higher for the poor and for this reason, there should be a higher burden to

ensure that experiments in microfinance are careful and purposeful. Over the next few days, we will be exploring these themes in greater depth.

As we look forward to these discussions, it is worth recalling why we are here. The words of Mr. Kofi Annan, the former UN Secretary General, come to mind. He said this:

“Where once the poor were commonly seen as passive victims, microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty, today it is also understood as an untapped opportunity to create markets, bring people in from the margins and give them the tools with which to help themselves.”

I believe we will continue to see massive changes in rapid bursts. In the process, the goal should be to help as many people as we can emerge stronger and more productive members of the human ecosystem.