Measuring Financial Inclusion in Malaysia

Objectives:

• Strategies to further financial inclusion and measurement framework for Malaysia
• Measurement tools and indicators
• Development of the financial inclusion index
• Where we are now?

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Bank Negara Malaysia
Malaysia – general information

- **Geographic coordinates:**
  - 2 30 N, 112 30 E

- **Area:**
  - Total: 329,758 km²

- **Population (2015 est.):**
  - 31.3 million
  - 20.5 million adults

- **Demography:**
  - 51% male
  - 49% female

- **Median age:**
  - Median age: total: 27.4 years
  - Male: 27.2 years
  - Female: 27.6 years

- **Urbanisation**
  - Urban population: 72% of total population (2010)

- **Life expectancy at birth**
  - Total population: 74.9 years
  - Male: 72.5 years; Female: 77.4 years

- **Literacy (2000)**
  - Total population: 88%
  - Male: 92%; Female: 85%
Strategies to enhance financial inclusion in Malaysia
- Financial Inclusion Framework for 2011-2020

Vision

An inclusive financial system that best serves all members of society, including the underserved, to have access to and usage of quality, affordable essential financial services to satisfy their needs towards shared prosperity

Desired outcomes

- Convenient accessibility
- High take-up
- Responsible usage
- High satisfaction

Broad strategies

1. Innovative channels
2. Innovative products & services
3. Effective financial institutions & infrastructure
4. Well informed & responsible underserved

10 action plans to achieve the mandate

1. Introduce agent banking
2. Leverage technology-based innovative channels
3. Introduce flexible microfinancing
4. Introduce micro-savings product
5. Introduce micro-insurance/takaful
6. Strengthen development financial institutions’ capabilities
7. Organise structured training programmes in financial inclusion
8. Develop a framework for measurement and Financial Inclusion Index
9. Collaborate with non-governmental organisations for capacity building programmes
10. Improve financial literacy

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### Measurement Tools – Data sources for financial inclusion indicators

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenient Accessibility</td>
<td>Access Points - GIS Mapping Project</td>
</tr>
<tr>
<td>Take-Up Rate</td>
<td>Financial Inclusion Demand Side Survey s - 2011 &amp; 2015</td>
</tr>
<tr>
<td>Responsible Usage</td>
<td>Financial Inclusion Supply Side Surveys - ID Matching Project &amp; CCRIS Database</td>
</tr>
<tr>
<td>Satisfaction Level</td>
<td>Financial Inclusion Demand Side Survey s - 2011 &amp; 2015</td>
</tr>
</tbody>
</table>
Development of a Financial Inclusion Index to track the overall progress of financial inclusion in Malaysia
- An Index incorporates key indicators into a single, comprehensive number

**Key Salient Features**

1. Leverage on AFI Core Set of Financial Inclusion Indicators formulated by the AFI Financial Inclusion Data Working Group (FIDWG)

2. Customised the AFI Core Set to reflect KPIs of Malaysia Financial Inclusion Framework by defining 4 dimensions of financial inclusion:
   - Convenient Accessibility
   - Take-up Rate
   - Responsible Usage
   - Satisfaction Level

**Dimensions & Indicators**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Key Performance Indicators</th>
<th>Target (%) Set in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenient Accessibility</td>
<td>• % of sub-district with at least 2000 population with at least 1 access point</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>• % of population living in sub-district with at least one access point</td>
<td>95</td>
</tr>
<tr>
<td>Take-Up Rate</td>
<td>• % of adult population with deposit accounts</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>• % of adult population with financing accounts</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>• % of adult population with life insurance/takaful policies</td>
<td>40</td>
</tr>
<tr>
<td>Responsible Usage</td>
<td>• % of customers with active deposits</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>• % of customers with performing financing accounts</td>
<td>97</td>
</tr>
<tr>
<td>Satisfaction Level</td>
<td>• % of customers who are satisfied - Overall financial services</td>
<td>80</td>
</tr>
</tbody>
</table>
Global Supply and Demand Side Indicators on Financial Inclusion that could be consider for Index

<table>
<thead>
<tr>
<th>Supply-side</th>
<th>Demand-side</th>
</tr>
</thead>
<tbody>
<tr>
<td>For MFIs, commercial banks, credit unions and financial cooperatives:</td>
<td>Percentage (%) of adults with:</td>
</tr>
<tr>
<td>• Automated teller machines (ATMs)</td>
<td>• Account at a financial institution (all adults, women, adults poorest 40%,</td>
</tr>
<tr>
<td>• Number of borrowers</td>
<td>richest 60%, young, elder, rural &amp; urban areas).</td>
</tr>
<tr>
<td>• Branches</td>
<td>• Mobile account</td>
</tr>
<tr>
<td>• Deposit account</td>
<td>• Debit and credit card</td>
</tr>
<tr>
<td>• Loan account</td>
<td>• ATM as the main mode of withdrawal</td>
</tr>
<tr>
<td>• Mobile mobile account, money agent outlets, balance value (% of GDP),</td>
<td>• Use of an account to receive wages, government transfers, to pay utility</td>
</tr>
<tr>
<td>mobile money transactions</td>
<td>bills</td>
</tr>
<tr>
<td>• Outstanding deposits and loans (% of GDP)</td>
<td>• Use of debit card to make payments</td>
</tr>
<tr>
<td></td>
<td>• Sent / receive domestic remittances</td>
</tr>
<tr>
<td></td>
<td>• Saved and borrowed</td>
</tr>
</tbody>
</table>

Source: Global Findex database, World Bank, and Financial Access Survey, IMF.
### Financial Inclusion Index – General Population - 2015

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Indicators</th>
<th>Data (%) 2011</th>
<th>Data (%) 2015</th>
<th>Target (%)</th>
<th>Index of Each Indicator</th>
<th>Weight</th>
<th>Index of Each Dimension</th>
<th>Equal Weighted Dimension</th>
<th>Equally Distributed FII</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Convenient Accessibility</strong></td>
<td>• % of mukim with at least 2000 population with at least 1 access point</td>
<td>46</td>
<td>96</td>
<td>90</td>
<td>1.07</td>
<td>0.5</td>
<td><strong>1.05</strong></td>
<td>0.25</td>
<td>0.90 (0.896)</td>
</tr>
<tr>
<td></td>
<td>• % of population living in mukim with at least one access point</td>
<td>82</td>
<td>98</td>
<td>95</td>
<td>1.03</td>
<td>0.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Take-Up Rate</strong></td>
<td>• % of adult population with deposit accounts</td>
<td>92</td>
<td>91</td>
<td>95</td>
<td><strong>0.96</strong></td>
<td>0.5</td>
<td><strong>0.61</strong></td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• % of adult population with financing accounts</td>
<td>36</td>
<td>25</td>
<td>50</td>
<td><strong>0.50</strong></td>
<td>0.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• % of adult population with life insurance/takaful policies</td>
<td>18</td>
<td>16</td>
<td>40</td>
<td><strong>0.40</strong></td>
<td>0.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Responsible Usage</strong></td>
<td>• % of customers with active deposits</td>
<td>87</td>
<td>92</td>
<td>90</td>
<td>1.02</td>
<td>0.5</td>
<td><strong>1.01</strong></td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• % of customers with performing financing accounts</td>
<td>97</td>
<td>98</td>
<td>97</td>
<td>1.01</td>
<td>0.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Satisfaction Level</strong></td>
<td>• % of customers who are satisfied</td>
<td>61</td>
<td>73</td>
<td>80</td>
<td><strong>0.91</strong></td>
<td>1.0</td>
<td><strong>0.91</strong></td>
<td>0.25</td>
<td></td>
</tr>
</tbody>
</table>

Index ranges from 0 – 1, with 1 being perfect financial inclusion.
Improvement in accessibility and satisfaction of financial services but moderate take-up of financial products

- 98% of adults have access to at least one financial access point
- 91% of adults have deposit accounts
- 25% of adults have financing accounts, including credit cards
- 16% of adults have life insurance/takaful policies
- 77% of adults are satisfied with savings products & services
- 75% of adults are satisfied with financing products & services
- 73% of adults are satisfied with financial services providers
- 69% of adults are satisfied with insurance products & services
- 63% of adults are satisfied with transaction & payment services
- 73% of adults are satisfied with financial services providers
- 75% of adults are satisfied with financing products & services
- 16% of adults have life insurance/takaful policies
- 77% of adults are satisfied with savings products & services
- 73% of adults are satisfied with financial services providers
- 69% of adults are satisfied with insurance products & services
- 63% of adults are satisfied with transaction & payment services
- 2011 vs. 2015
Where we are now?

1. **Convenient Accessibility**
   - 2011: 46% sub-districts with at least one access point
   - 2015: 97% sub-districts with at least one access point
   - 2011: 82% population living in sub-districts with at least one access point
   - 2015: 99% population living in sub-districts with at least one access point

2. **Take-up Rate (% of adult population with financial products)**
   - 2011:
     - deposit accounts: 92%
     - financing accounts: 36%
     - life insurance/takaful policies: 18%
   - 2015:
     - deposit accounts: 91%
     - financing accounts: 25%
     - life insurance/takaful policies: 16%

3. **Responsible Usage**
   - 2011:
     - Customers with active deposit accounts: 87%
     - Customers with performing financing accounts: 92%
   - 2015:
     - Customers with active deposit accounts: 97%
     - Customers with performing financing accounts: 98%

4. **Satisfaction Level**
   - 2011: 61% Customers who are satisfied with overall financial services
   - 2015: 73% Customers who are satisfied with overall financial services

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**Strategies & Initiatives (2011-2015)**

- **Agent Banking**
- **Mobile & internet banking**
- **Branching policy**

**Financial Products**
- **Basic savings**
- **Microfinancing**
- **CGC’s direct financing scheme**

**Enabling Infrastructure**
- **CCRIS**
- **Proportionate regulation (DFIA)**

**Regulations**
- **Financial Advisory, Education and Redress**
  - Responsible Financing Guidelines
  - Credit Card Guidelines

**Consumer and Market Conduct**
- Guidelines on Transparency & disclosure
- Guidelines on Fees and charges
- ABM-Partners on Client charter and standard documentations
Who Are the 8% Unbanked Adult Population?

*Gaps in financial inclusion across demographics, with women, youth and low income at the greatest disadvantage*

**Gender**

- 55% women
- More than half of the unbanked population are women

**Age Group**

- 46% from age of 15-24 years old
- Youth are less likely to have a formal account

**Income**

- 86% no income & low income
- Adults with no income or low income are less likely to be banked

**Region**

- 33% in East Malaysia
- Adults living in the rural and remote location are less likely to be banked
BNM used GIS to map the distribution network of all access points, as a result areas that are yet to be served are identified.

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks / DFIs</td>
<td>3263</td>
</tr>
<tr>
<td>Pos agent</td>
<td></td>
</tr>
<tr>
<td>• RHB</td>
<td>448</td>
</tr>
<tr>
<td>• MBB</td>
<td>312</td>
</tr>
<tr>
<td>Agrobank agent</td>
<td>342</td>
</tr>
<tr>
<td>Bank Rakyat agent</td>
<td>250</td>
</tr>
<tr>
<td>BSN Agent</td>
<td>158</td>
</tr>
<tr>
<td></td>
<td>7010</td>
</tr>
</tbody>
</table>

As at end-2016: Total served sub-districts (mukim) – 97.4% with 23 sub-districts still remain unserved.
Achievement thus far...

Improved financial inclusion index

2011: 0.77 → 2015: 0.9

Additional financial indicators to be monitor moving forward...

<table>
<thead>
<tr>
<th>SME FINANCING INDICATORS</th>
<th>2011</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Higher share of SME financing to business financing</td>
<td>39%</td>
<td>47%</td>
<td>Above 40%</td>
</tr>
<tr>
<td>2. Maintain high approval rate</td>
<td>80%</td>
<td>81%</td>
<td>Maintain above 80%</td>
</tr>
<tr>
<td>3. Improve impaired financing ratio</td>
<td>5.8%</td>
<td>3.2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

GENDER DATABASE

1. Account ownership and active account user at the formal financial institutions
2. Women business owners
Thank you for listening

Q & A

Contact:

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References: