National financial inclusion strategies and measurement framework¹

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Central Bank of Malaysia

¹ This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.
National Financial Inclusion Strategies and Measurement Framework

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Development Finance and Enterprise Department
Bank Negara Malaysia
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3. Bridging the Last Mile
   - Leveraging on Innovation and Technology for Financial Inclusion
Malaysia – General information

- Geographic coordinates:
  - 2 30 N, 112 30 E
- Area:
  - Total: 329,758 km²
- Population (2016 est.):
  - 31.7 million
  - 20.5 million adults
  - Annual growth rate of 1.5%
- Demography:
  - 51% male
  - 49% female
- Life expectancy at birth
  - Total population: 74.9 years
  - Male: 72.5 yrs; Female: 77.4 yrs
  - Median age: total: 28 years
- Dependency ratio: 44%
- Households: 7.6 million

- Labour force participation:
  - Total population: 67.7%
  - Unemployment rate: 3.4%
- Urbanisation (2015)
  - Urban population: 74.7% of total population
- Literacy (2015)
  - Total population: 94.6%
  - Male: 96%; Female: 93%
- Financial literacy (2015)
  - Total population: 57%
  - Male: 57%; Female: 56%
Sustainable and progressive advancement of the financial inclusion agenda
One of the primary functions of the **Central Bank Act 2009** is to promote a sound, progressive and inclusive financial system.

**CBA 1958**
Mandates broadly defined

**Principal objects**

- Issue currency and maintain reserves, safeguarding the value of currency
- Promote monetary stability and a sound financial structure
- Promote reliability, efficiency and the smooth operability of national payment and settlement systems, and ensure that systems policies are directed towards Malaysia’s advantage
- Act as a banker and financial adviser to the Government
- Influence the credit situation to Malaysia’s advantage

**CBA 2009**
Strategically focused

**Principal objects**

- Promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy

**Primary functions**

- Formulate and conduct monetary policy
- Promote an exchange-rate regime consistent with fundamentals
- Regulate and supervise financial institutions
- **Promote a sound, progressive and inclusive financial system**
- Provide oversight of the money- and foreign-exchange market
- Hold and manage Malaysia’s foreign reserves
- Issue currency
- Exercise oversight of payment systems
The Financial Inclusion Framework was developed under the Financial Sector Blueprint (2011–2020) to enhance financial inclusion in Malaysia.

**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 for the underserved**

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

**Broad strategies**

1. Innovative channels
   - 1. Introduce agent banking
   - 2. Leverage on technology-based innovative channels

2. Innovative products & services
   - 3. Introduce flexible microfinancing
   - 4. Introduce micro-saving products
   - 5. Introduce micro-insurance/takaful

3. Effective FIs & infrastructure
   - 6. Strengthen DFIs’ capabilities
   - 7. Organise structured training programmes on financial inclusion
   - 8. Introduce framework for measurement & Financial Inclusion Index

4. Well informed & responsible underserved
   - 9. Leverage on NGOs for capacity building programmes
   - 10. Improve financial literacy via mobileLINK & strategic partnerships

**10 financial inclusion strategies under the Financial Sector Blueprint**

**Continuous monitoring & evaluation framework**
Innovative Channel:
Agent banking provides basic financial services to the rural areas

Transaction mode
- Online real time
- Within the premises of the agent bank

Services offered
- Deposits
- Cash withdrawals
- Fund transfers
- Bill payments & prepaid top-up
- Loan/financing repayments
- Opening of savings accounts (since 2015)

Prohibited services
- Issuance of ATM/debit cards
- Money services business activities
- Loan/financing appraisal

Achievements (as at end -2016)
- 5 FIs involved
- 7,984 bank agents nationwide
- 100.3 million transactions totaling RM8.5 billion

Served areas & population
- 100% of districts by mid-2011
- 97% of mukims/DUNS with a population of at least 2,000 (end 2011: 46%)
- 99% of population (2011: 82%)
The implementation of agent banking has vastly expanded the outreach of financial services to the underserved in Malaysia.

Previously

1. 46% mukims served (end-2011)
   - Served sub-districts
   - Unserved sub-districts

2. 17 cash in & cash out access points per 100K adults
   - Financial access point by type (end-2011)

   - Branches: 3,143
   - Agent banks: 460

   - 3,603 cash in & cash out access points nationwide

After the introduction of the agent banking regulatory framework in year 2012

97% mukims served (end-2016)
   - Served sub-districts
   - Unserved sub-districts

47 cash in & cash out access points per 100K adults
   - Financial access point by type (end-2016)

   - Branches: 3,264
   - Agent banks: 7,984

   - 11,248 cash in & cash out access points nationwide
SMEs – A critical component of growth in the Malaysian economy, representing 98.5% of total establishments

### SME Definition (effective 1 Jan 2014)

**a) Annual sales turnover; OR**

<table>
<thead>
<tr>
<th>Size</th>
<th>Manufacturing</th>
<th>Services &amp; other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt; RM300,000</td>
<td>&lt; RM300,000</td>
</tr>
<tr>
<td>Small</td>
<td>RM300,000 – &lt;RM15 mil</td>
<td>RM300,000 – &lt;RM3 mil</td>
</tr>
<tr>
<td>Medium</td>
<td>RM15 mil – RM50 mil</td>
<td>RM3 mil – RM20 mil</td>
</tr>
</tbody>
</table>

**b) No of employees:**

<table>
<thead>
<tr>
<th>Size</th>
<th>Manufacturing</th>
<th>Services &amp; other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt; 5</td>
<td>&lt; 5</td>
</tr>
<tr>
<td>Small</td>
<td>5 – &lt; 75</td>
<td>5 – &lt; 30</td>
</tr>
<tr>
<td>Medium</td>
<td>75 – 200</td>
<td>30 – 75</td>
</tr>
</tbody>
</table>

98.5% (653,158) business establishments in the country are SMEs

SMEs cut across all sectors of the economy

Source: SME Masterplan 2012-2020, SME Corp Malaysia and SME Census 2011, DOSM
The SME Financing Ecosystem provide a comprehensive building block to enhance access to financing

- Microfinance and Agent Banking Frameworks
- Credit Guarantee Corporation / Credit Bureau Malaysia
- Central Credit Reference Information System (CCRIS)
- Development Financial Institutions (DFIs)

- Karnival Kewangan
- Train-the-Trainers
- Nationwide SME events
- Media promotions
- Distribution of materials through local authorities

- Small Debt Resolution Scheme
- Credit Counselling & Debt Management (AKPK)

- Fintech Enabler Group; Regulatory Sandbox
- Investment Account Platform
- ABM-PARTNER – Financing Application Facilitation
- Guidelines on Recognised Markets for ECF and P2P

- BNMLINK, BNMTELELINK, MOBILELINK
- ABMConnect Helpdesk
- Financial Inclusion Microsite
- Bankinginfo web portal
- Complaint & Advisory at Fis
- Office of the Financial Ombudsman
Skim *Pembiayaan Mikro* – a comprehensive, sustainable microfinance institutional framework introduced in 2006

**Definition**
- Financing up to RM50,000 (~USD11k) to micro enterprises for business purposes

**Key Benefits**
- No collateral
- Minimum documentation
- Simple procedure
- Fast approval
- Fast disbursement
- Widely accessible

**Accessibility of Micro Financing**
- Offered by 10 financial institutions with more than 2,100 access points

Source: Bank Negara Malaysia
Measurement Framework & Financial Inclusion Index
There are various types of data and indicators, each fill an important gap in the measurement landscape.

**AFI’s Data Dimensions**

- **Usage**: It refers to the ability to use the services and products offered by formal financial institutions.
- **Quality**: It refers to the depth or extent of financial services and product use.
- **Access**: It refers to the relevance of the financial services or products to the lifestyle needs of the consumer, demonstrated in attitudes and opinions towards those products that are currently available to them.
### Core Set of Financial Inclusion Indicators

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Indicator</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access</td>
<td>Number of access points per 10,000 adults at a national level segmented by type and administrative unit.</td>
<td>Regulated access points where cash-in and cash-out transactions can be performed.</td>
</tr>
<tr>
<td></td>
<td>% of administrative units with at least one access point.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% of total adults population living in administrative units with at least one access point.</td>
<td></td>
</tr>
<tr>
<td>Usage</td>
<td>% of adults with at least one type of regulated deposit account</td>
<td>Number of regulated deposit accounts per 10,000 adults</td>
</tr>
<tr>
<td></td>
<td>% of adults with at least one type of regulated credit account</td>
<td>Number of regulated credit accounts per 10,000 adults</td>
</tr>
</tbody>
</table>
Global Supply and Demand Side Indicators on Financial Inclusion that could be considered 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%, richest 60%, young, elder, rural &amp; urban areas).</td>
</tr>
<tr>
<td>• Number of borrowers</td>
<td>• Mobile account</td>
</tr>
<tr>
<td>• Branches</td>
<td>• Debit and credit card</td>
</tr>
<tr>
<td>• Deposit account</td>
<td>• ATM as the main mode of withdrawal</td>
</tr>
<tr>
<td>• Loan account</td>
<td>• Use of an account to receive wages, government transfers, to pay utility bills</td>
</tr>
<tr>
<td>• Mobile mobile account, money agent outlets, balance value (% of GDP), mobile money transactions</td>
<td>• Use of debit card to make payments</td>
</tr>
<tr>
<td>• Outstanding deposits and loans (% of GDP)</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.
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>
A Financial Inclusion Index has been developed to track the overall progress of financial inclusion in Malaysia.

Key Performance Indicators (KPIs)

- % of sub-districts (mukim) with >2,000 people with at least one access point
- % of population with at least one access point
- % of adults with deposit accounts
- % of adults with financing accounts
- % of adults with life insurance/takaful policies
- % of customers with active deposits
- % of customers with performing financing accounts
- % of customers satisfied with overall financial services

Data Source

- Supply Side Data (Access Points Mapping Project)
- Demand Side Survey
- Supply Side (IC Matching Project & CCRIS)
- Demand Side Survey

Dimensions Indices

- Convenient Accessibility
- Take-up Rate
- Responsible Usage
- Satisfaction Level

Financial Inclusion Index
Malaysia recorded high financial inclusion index, 0.90 in 2015 from 0.77 in 2011 (1.00 reflects full inclusion)

<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>Convenient Accessibility</td>
<td>% of mukim with at least 2000 population with at least 1 access point</td>
<td>46</td>
<td>97</td>
<td>90</td>
<td>1.08</td>
<td>0.5</td>
<td>1.06</td>
<td>0.25</td>
<td>0.90 (0.899)</td>
</tr>
<tr>
<td></td>
<td>% of population living in mukim with at least one access point</td>
<td>82</td>
<td>99</td>
<td>95</td>
<td>1.04</td>
<td>0.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take-Up Rate</td>
<td>% of adult population with deposit accounts</td>
<td>92</td>
<td>91</td>
<td>95</td>
<td>0.96</td>
<td>0.5</td>
<td>0.61</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>0.50</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>0.40</td>
<td>0.25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible Usage</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>1.02</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>Satisfaction Level</td>
<td>% of customers who are satisfied</td>
<td>61</td>
<td>73</td>
<td>80</td>
<td>0.91</td>
<td>1</td>
<td>0.91</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overall financial services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Index ranges from 0 – 1, with 1 being perfect financial inclusion

0  0.25  0.5  0.75  1
Low  Moderate  Above Average  High

FII 2011: 0.77
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.
- 73% of adults are satisfied with financial services providers.
- 75% of adults are satisfied with financing products & services.
- 77% of adults are satisfied with savings products & services.
- 69% of adults are satisfied with transaction & payment services.
- 63% of adults are satisfied with insurance products & services.

2011 vs 2015
Who Are the 8% Unbanked Adult Population?

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

<table>
<thead>
<tr>
<th>Gender</th>
<th>Age Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>55% women</td>
<td>46% from age of 15-24 years old</td>
</tr>
</tbody>
</table>

More than half of the unbanked population are women

<table>
<thead>
<tr>
<th>Income</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>86% no income &amp; low income</td>
<td>33% in East Malaysia</td>
</tr>
</tbody>
</table>

Adults with no income or low income are less likely to be banked

Youth are less likely to have a formal account

Adults living in the rural and remote location are less likely to be banked
Additional financial indicators to be monitor moving forward…

### SME FINANCING INDICATORS

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

### SEX DISAGGREGATED DATA

<table>
<thead>
<tr>
<th></th>
<th>Indicators</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Women account ownership and active account user at the formal financial institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Women business owners</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Bridging the Last Mile
– Leveraging on Innovation and Technology for Financial Inclusion
Six game changers were identified to further facilitate progressive and sustainable financial inclusion. Sustained focus will be given on establishing more strategic partnerships and empowering consumers.

Financial Inclusion Strategic Plan (Revisited) 2017 - 2020

1. Unlocking big data to extend financial services
2. Proliferate “cashless clusters”
3. Leverage on telco & agent bank, particularly for micro-insurance distribution
4. SME Financing Aggregator
   - Online SME Financing Application Platform
   - Financial Accelerator Lab
5. FIs as angel investors through NGO partnerships
6. Revitalising DFIs to drive the financial inclusion agenda
For more information, please refer to Financial Inclusion microsite, within Bank Negara Malaysia’s website (www.bnm.gov.my)