



Bank of Morocco – CEMLA – IFC Satellite Seminar at the ISI World Statistics Congress on "*Financial Inclusion*"

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National financial inclusion strategies and measurement framework¹

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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

**IFC Satellite Seminar on Financial Inclusion
Marrakech, 14 July 2017**

This presentation is based on the article “Unlocking Shared Benefits for All through Inclusive Finance” (http://www.bnm.gov.my/files/publication/fsp/en/2015/cp02_002_box.pdf) issued in Financial Stability and Payment Systems Report 2015.

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 - 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 milion
- **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

CBA 2009

Strategically focused

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

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

Desired outcomes for the underserved

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

Convenient accessibility

High take-up

Responsible usage

High satisfaction

Broad strategies

1 Innovative channels

2 Innovative products & services

3 Effective FIs & infrastructure

4 Well informed & responsible underserved

10 financial inclusion strategies under the Financial Sector Blueprint

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

3. Introduce flexible microfinancing
4. Introduce micro-saving products
5. Introduce micro-insurance/takaful

6. Strengthen DFIs' capabilities
7. Organise structured training programmes on financial inclusion
8. Introduce framework for measurement & Financial Inclusion Index

9. Leverage on NGOs for capacity building programmes
10. Improve financial literacy via mobileLINK & strategic partnerships

Continuous monitoring & evaluation framework



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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%)



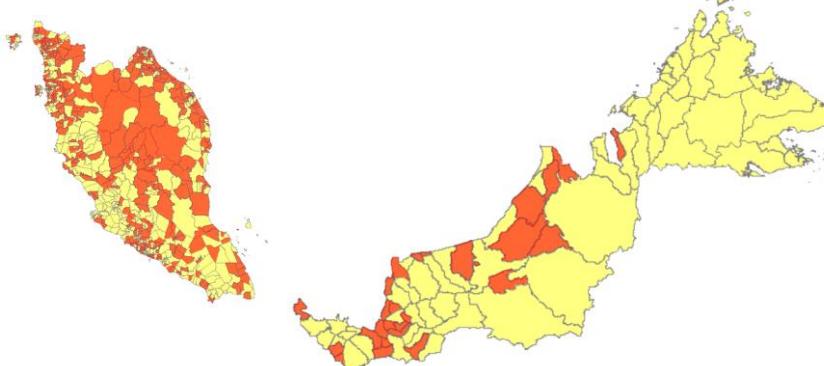
The implementation of agent banking has vastly expanded the outreach of financial services to the underserved in Malaysia

Previously

1

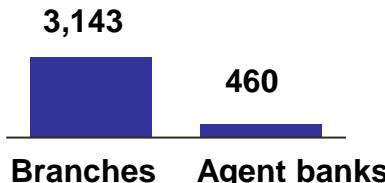
46% mukims served (end-2011)

Served sub-districts Unserved sub-districts



2

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

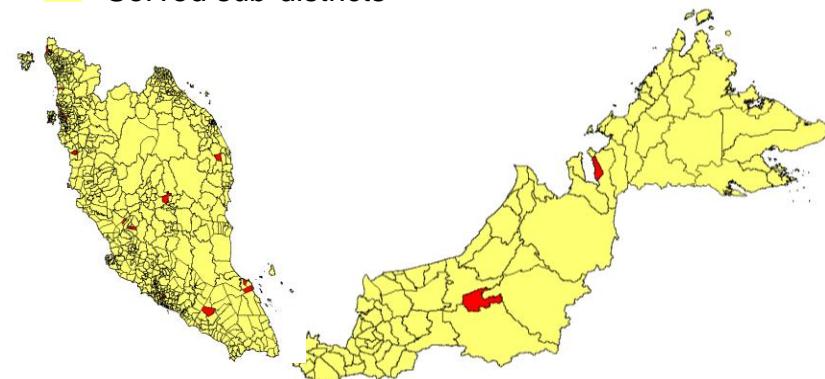


3,603 cash in & cash out access points nationwide

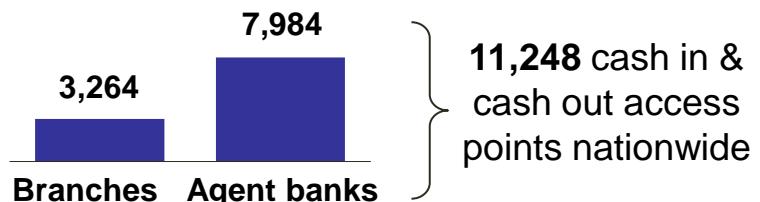
After the introduction of the agent banking regulatory framework in year 2012

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)



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

Size	Manufacturing	Services & other sectors
Micro	< RM300,000	< RM300,000
Small	RM300,000 – <RM15 mil	RM300,000 – <RM3 mil
Medium	RM15 mil – RM50 mil	RM3 mil – RM20 mil

b) No of employees:

Size	Manufacturing	Services & other sectors
Micro	< 5	< 5
Small	5 – < 75	5 – < 30
Medium	75 – 200	30 – 75

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



SMEs cut across **all sectors** of the economy

6%
Manufacturing

3%
Construction

90%
Services

1%
Agriculture

Source: SME Masterplan 2012-2020, SME Corp Malaysia and SME Census 2011, DOSM



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

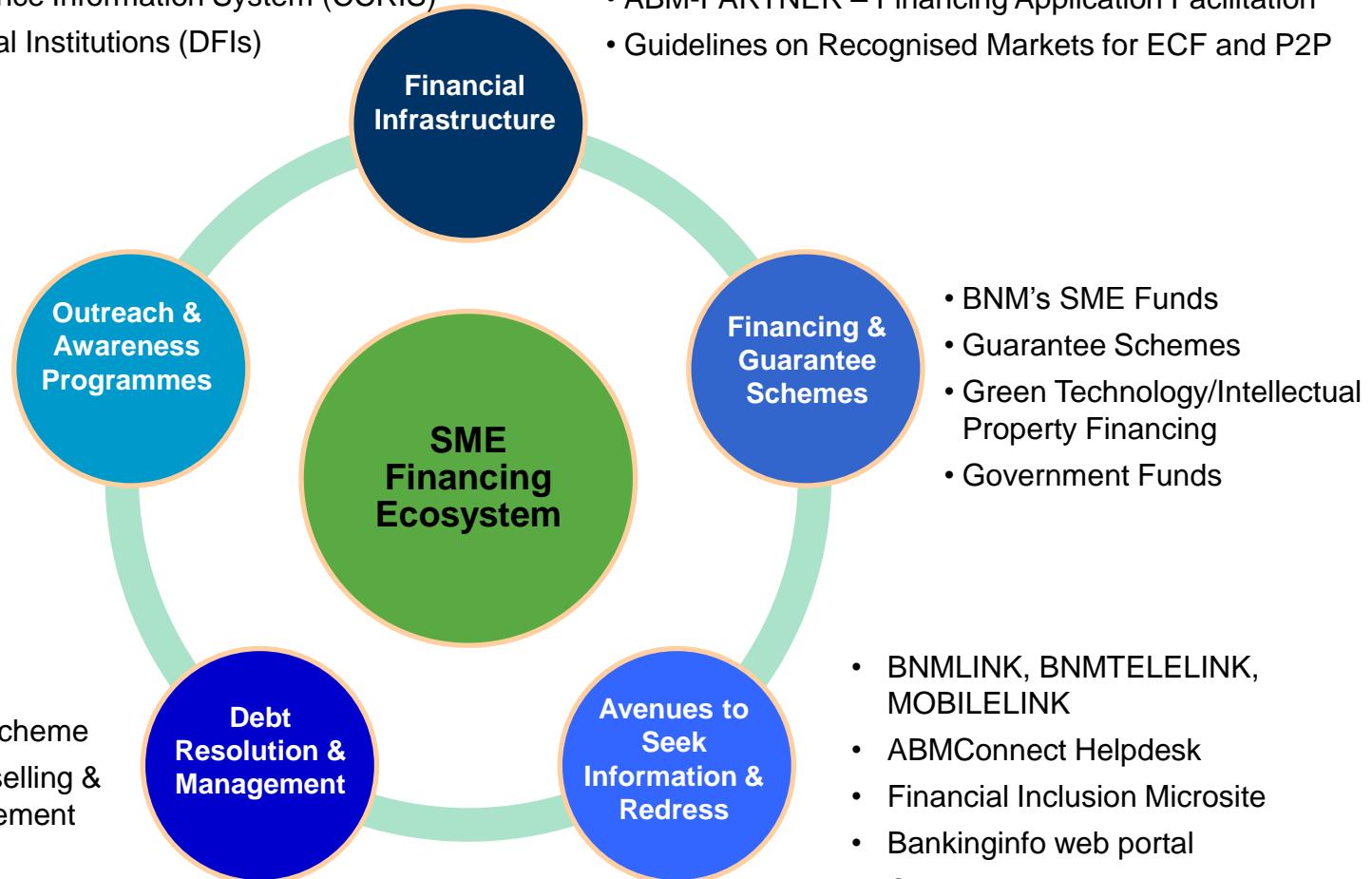
The SME Financing Ecosystem provide a comprehensive building block to enhance access to financing

- 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



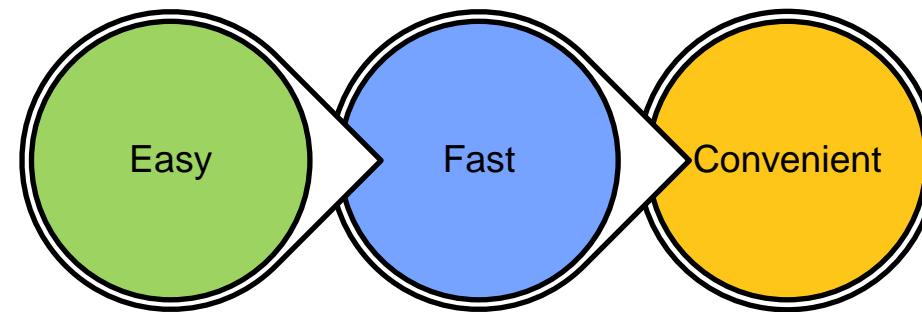


Skim Pembiayaan Mikro – a comprehensive, sustainable microfinance institutional framework introduced in 2006

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



Access:

It refers to the ability to use the services and products offered by formal financial institutions.

Usage:

It refers to the depth or extent of financial services and product use.

Quality:

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

Dimension	Indicator	Comments	
Access	Number of access points per 10,000 adults at a national level segmented by type and administrative unit.	Regulated access points where cash-in and cash-out transactions can be performed.	
	% of administrative units with at least one access point.		
	% of total adults population living in administrative units with at least one access point.		
Dimension	Indicator	Proxy	
Usage	% of adults with at least one type of regulated deposit account	Number of regulated deposit accounts per 10,000 adults	Adult is 15 and older, or an age defined by country.
	% of adults with at least one type of regulated credit account	Number of regulated credit accounts per 10,000 adults	

The 2013 AFI Global Policy Forum | Driving Policies for Optimal Impact



Global Supply and Demand Side Indicators on Financial Inclusion that could be consider for Index

Supply-side	Demand-side
<p>For MFIs, commercial banks, credit unions and financial cooperatives:</p> <ul style="list-style-type: none">• Automated teller machines (ATMs)• Number of borrowers• Branches• Deposit account• Loan account• Mobile mobile account, money agent outlets, balance value (% of GDP), mobile money transactions• Outstanding deposits and loans (% of GDP)	<p>Percentage (%) of adults with:</p> <ul style="list-style-type: none">• Account at a financial institution (all adults, women, adults poorest 40%, richest 60%, young, elder, rural & urban areas).• Mobile account• Debit and credit card• ATM as the main mode of withdrawal• Use of an account to receive wages, government transfers, to pay utility bills• Use of debit card to make payments• Sent / receive domestic remittances• Saved and borrowed

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

Dimension	Key Performance Indicators	Target (%) Set in 2012
Convenient Accessibility	• % of sub-district with at least 2000 population with at least 1 access point	90
	• % of population living in sub-district with at least one access point	95
Take-Up Rate	• % of adult population with deposit accounts	95
	• % of adult population with financing accounts	50
	• % of adult population with life insurance/takaful policies	40
Responsible Usage	• % of customers with active deposits	90
	• % of customers with performing financing accounts	97
Satisfaction Level	• % of customers who are satisfied – Overall financial services	80



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

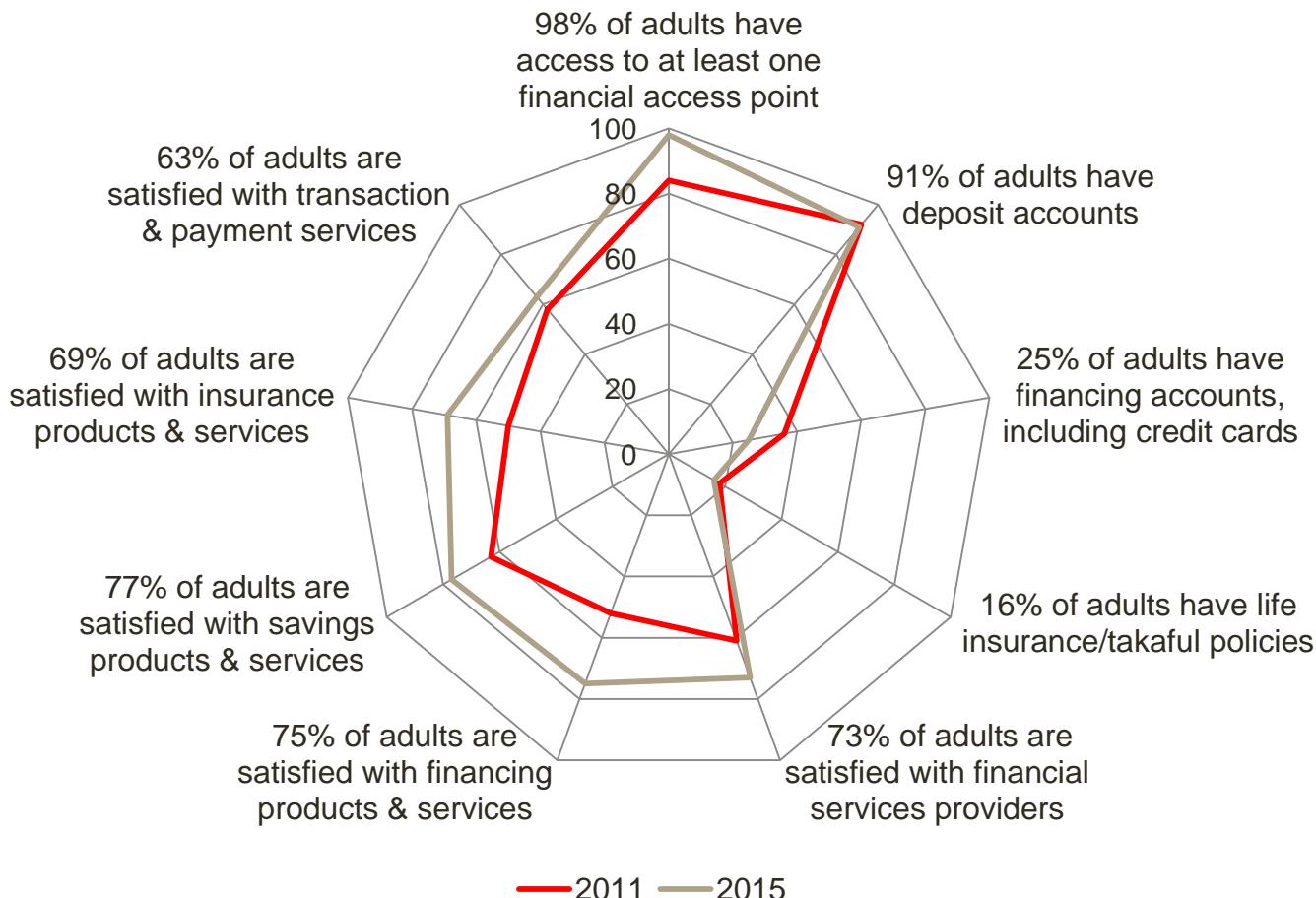
Financial
Inclusion
Index



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

Dimension	Indicators	Data (%) 2011	Data (%) 2015	Target (%)	Index of Each Indicator	Weight	Index of Each Dimension	Equal Weighted Dimension	Equally Distributed FII
Convenient Accessibility	• % of mukim with at least 2000 population with at least 1 access point	46	97	90	1.08	0.5	1.06	0.25	0.90 (0.899)
	• % of population living in mukim with at least one access point	82	99	95	1.04	0.5			
Take-Up Rate	• % of adult population with deposit accounts	92	91	95	0.96	0.5	0.61	0.25	FII 2011: 0.77
	• % of adult population with financing accounts	36	25	50	0.50	0.25			
	• % of adult population with life insurance/takaful policies	18	16	40	0.40	0.25			
Responsible Usage	• % of customers with active deposits	87	92	90	1.02	0.5	1.02	0.25	FII 2011: 0.77
	• % of customers with performing financing accounts	97	98	97	1.01	0.5			
Satisfaction Level	• % of customers who are satisfied – Overall financial services	61	73	80	0.91	1	0.91	0.25	FII 2011: 0.77
Index ranges from 0 – 1, with 1 being perfect financial inclusion							1.00	0 – 1.00	
									
Low		Moderate		Above Average		High			

Improvement in accessibility and satisfaction of financial services but moderate take-up of financial products

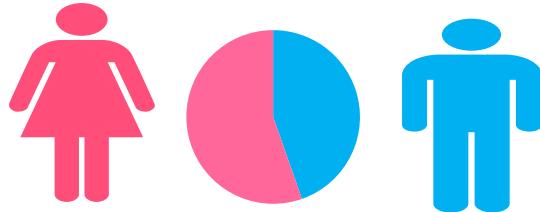


Who Are the 8% Unbanked Adult Population?

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



RM0 -RM1,000 >RM1,000

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

Region

33% in East Malaysia



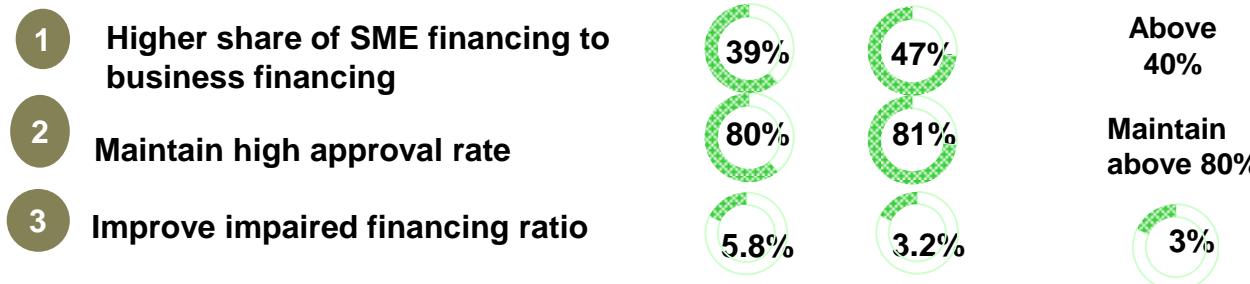
Adults living in the rural and remote location are less likely to be banked



Additional financial indicators to be monitor moving forward...

SME FINANCING INDICATORS

2011 2015 2020



SEX DISAGGREGATED DATA

2015 2020

- 1 Women account ownership and active account user at the formal financial institutions
- 2 Women business owners



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



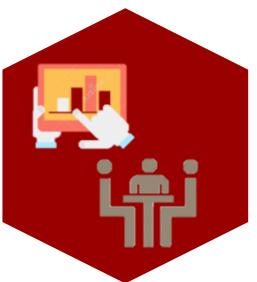
2

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

Thank you



For more information, please refer to Financial Inclusion microsite, within Bank Negara Malaysia's website (www.bnm.gov.my)

The screenshot shows the top navigation bar of the Bank Negara Malaysia website. The menu items include KEY ROLES, NEWS, RATES, LAW, CONSUMER, BANKNOTES, and a search icon. Below the menu, there are links for MONETARY STABILITY, FINANCIAL STABILITY, FINANCIAL MARKETS, FINANCIAL SECTOR DEVELOPMENT, and FINANCIAL INCLUSION. The FINANCIAL INCLUSION link is highlighted. On the right side of the page, there is a sidebar titled 'FINANCIAL INCLUSION' with links to 'Overview of Financial Inclusion in Malaysia', 'Financial Products and Services', 'Financing for Small and Medium Enterprises (SMEs)', 'Financial Capability and Empowerment', 'Downloads' (with links to 'Relevant Standards, Guidelines and Circulars for Financial Inclusion' and 'Financial Inclusion Data for Malaysia'), and 'Print' and 'Share' buttons.

FINANCIAL INCLUSION

Overview of Financial Inclusion in Malaysia

Financial inclusion, the provision of affordable financial services to all segments of society contributing to economic growth and development. The primary progressive and inclusive financial sector is articulated in the Central Bank of Malaysia Act 2009 further reinforced Bank Negara Malaysia's strategic focus on driving financial inclusion policies. In advancing the financial inclusion mandate, a holistic framework has been formulated within BNM's Financial Sector Blueprint (FSBP) 2011-2020 to improve the overall well-being of communities on the aspects of convenient accessibility, high take-up, responsible usage and high satisfaction of financial services.

Financial Inclusion Framework

