Zeti Akhtar Aziz: Policy and regulation of financial inclusion

Welcoming remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the UNAG Asia Regional Forum on Policy and Regulation of Financial Inclusion, Kuala Lumpur, 6 May 2009.

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Introduction

It is my pleasure to welcome you to the United Nations Advisers Group Asia Regional Forum on Policy and Regulation of Financial Inclusion. This conference takes place at a time when the world is confronted with addressing many issues that have emerged from the current global financial and economic crisis. Whilst significant attention and efforts are being channelled to resolving the financial crisis and creating an enabling environment for the resumption of growth and job creation, we must not lose sight of the financial inclusion agenda. Financial inclusion is vital for creating balanced sustainable economic growth. It provides the opportunity for all members of society to benefit from economic progress. It allows for a shared prosperity, an aspiration that is encapsulated in the United Nations Millennium Development Goals.

The Central Bank of Malaysia is most honoured to be given the opportunity to host this forum which is being held in Asia for the first time. We are most honoured to have Governor Nout Wellink, President, of the Central Bank of Netherlands. We are also pleased to have present Mr. Jacques Toureille, UNAG Advisor, who will be delivering the keynote address by Her Royal Highness Princess Maxima on her behalf.

This forum brings together some of the best minds from different parts of the world with diverse experiences in the field of financial inclusion. I am certain that this forum will enhance our understanding of the vital issues confronting the financial inclusion agenda, and will contribute towards the formulation of new ideas in addressing the important issue of regulation and policy that will ensure the sustainability of an inclusive financial system.

The financial crisis and its implications on the poor

The year 2009 will likely to be a difficult year for most countries. As we enter the third year of this financial crisis, there is already a synchronised recession in the advanced economies. For most of the emerging economies however, the full effects of the crisis on their domestic economies will be felt this year. It is important to note that the financial systems in most emerging economies continue to remain sound and more importantly continue to function, providing credit and supporting the economy. The collapse of external demand has however, adversely affected the more open emerging economies. The issue of equal concern however, is the more disproportionate impact these developments will have on the poorer economies. Similarly, the disproportionate effect these developments are having on the poorer segments within a particular economy.

This crisis thus brings to the forefront a number of issues concerning financial inclusion. Firstly, while the crisis demands action with great urgency, the policy response to restore the functioning of the financial system and to get growth in the economy again, there also needs to be a continued commitment to the financial inclusion objective. This becomes all the more vital given the more adverse implications of the crisis on the poor segments in the economy.

Secondly, while the policies and regulation of financial inclusion are essential to ensure the soundness and sustainability of an inclusive financial system, of equal importance are the policies, instruments and framework to deal with distress in an inclusive financial system. This is to ensure that the strategies for resolution will provide a total solution that addresses the entire spectrum of the financial system, from that which is large and highly connected with systemic implications to that which is small and highly vulnerable. This includes measures relating to relief and support and the mechanisms for resolution to ensure the sustainability of an inclusive financial system even during unstable financial and economic conditions.

In recognising the importance of financial inclusion, the United Nations established the United Nations Advisory Group on Financial Inclusion in 2006. The group advises the United Nations and member states on issues relating to the advancement of the financial inclusion agenda on a global scale. Since its establishment, many successes have been achieved. These include increasing the public awareness on the importance of financial inclusion, assisting governments in the design of regulatory systems that facilitate the creation of financial services for the poor, encouraging the of use of holistic measures to gauge the progress of financial inclusion, collecting and disseminating best practices, collaborating with the private sector to leverage on the talent and technology to further advance financial inclusion and to promote research that will galvanise new initiatives.

In Malaysia, financial inclusion is a high priority in our national agenda. Since the establishment of the Central Bank, there has been a conscious policy to have an extensive commercial banking branch network across the country, to ensure the outreach, in particular, to cover the non-urban areas. Malaysia now has 10.2 branches for every 100,000 individuals as opposed to the global median of 8.4 branches for every 100,000 individuals. In Malaysia, more than 80% of the population also have some form of savings account. This has also contributed to the financialisation of savings in the country. Deposits as a percentage of gross domestic product is 180%. This means that savings is mobilised including from small savers into the formal financial system. This allows the savings to be channelled to productive economic activity.

To further drive the provision of basic financial services to the underserved, the National Savings Bank in Malaysia has been mandated to enhance the outreach of deposit services and micro-financing. Their efforts, together with those of commercial banking institutions and government mandated micro-financing agencies, have resulted in a significant expansion of micro-financing. Micro-financing has increased from RM151 million in 2000 to RM1.7 billion in 2008, representing an annual average growth rate of 35%.

Early this year, Bank Negara Malaysia celebrated its 50th anniversary. The Bank has taken the opportunity to review our existing legislation; the Central Bank Act to take into account the dramatically changed domestic and international economic and financial environment. The work on this proposed new legislation has spanned two years. In articulating with greater clarity the mandate of the Bank, the objective of financial inclusion, not explicitly mentioned in our existing Act, but undertaken in practice is now explicitly articulated in the proposed Act. This is to ensure that going forward, the future generation of central bankers at Bank Negara Malaysia will continue with the unwavering commitment to the building of an inclusive financial system.

Conclusion

Let me conclude my remarks. In this current environment of great uncertainty, financial intermediation has a vital role in supporting an economic recovery. As regulators, the focus is placed on ensuring the soundness and stability of the financial system, and thereby provides the platform on which the role of the banking sector in the economy can be enhanced. It is the continued functioning of the financial system that will be a vital element in the economic growth and development process.

For emerging market economies in particular, the efforts have to be extended beyond this to building the financial infrastructure, raising the level of financial literacy and providing the enabling environment for a more inclusive financial system.

This forum will provide us an opportunity to deliberate on the many issues that are before us, particularly in the context of the unstable times and the manner in which we can strengthen our capacity to enhance the financial inclusion agenda. On that note, I wish you a very productive and successful meeting. Thank you.