Zeti Akhtar Aziz: Financial inclusion in Malaysia

Welcoming remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Financial Inclusion Advisers Programme, Kuala Lumpur, 18 January 2010.

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Introduction

It is my pleasure to welcome you to the Financial Inclusion Advisers (FIA) Programme. While the global financial landscape is experiencing fundamental changes and as the discussions for financial reforms are being deliberated, of equal importance is the due attention to the financial inclusion agenda. This is vital to achieve balanced sustainable economic growth and broad based job creation.

Bank Negara Malaysia is most honoured to host and to jointly organise this Financial Inclusion Advisers Programme with the Japan International Cooperation Agency (JICA). This programme aims to provide practitioners from the financial services industry with a platform to share experiences in the development of successful business models for financial inclusion. It is also an opportunity for regulators to share knowledge and the experience on how to improve the enabling environment for financial inclusion including the institutional arrangements and ensuring its soundness and stability, thereby ensuring its sustainability.

Challenges in achieving financial inclusion

The global financial crisis and the consequent global economic slowdown in 2009 had implications on the financial inclusion agenda. Disruptions in the functioning of financial markets has brought the focus of attention on financial stability issues. In addition, the collapse in demand following the financial crisis in the major economies resulted in a contraction in world trade. The synchronized recession which ensued has made it even more urgent not only to ensure that our financial systems are resilient and able to absorb external shocks but that sufficient attention and resources are also available for achieving the financial inclusion agenda.

We are now entering a period of improved international economic and financial conditions. However, even in times of economic stability, financial inclusion is a demanding endeavour. Firstly, the outreach needs to be comprehensive to include the low income and underserved segments, given that that they are generally geographically dispersed and have low levels of financial literacy. Secondly, micro finance institutions need to generate sufficient sustainable returns to cover the high costs involved in providing such services and the lack of potential for economies of scale so as to remain viable. Thirdly, such financial institutions also face the challenges of obtaining sustainable and competitive funding.

Recognising the challenges in addressing these issues to achieve financial inclusion, this programme, which started more than two years ago, is an outcome of a proposal I made at the Langkawi Commonwealth Partnership for Technology Management (CPTM) Heads of Government meeting in 2007, which discussed the subject of poverty eradication through human capital development. The purpose of the Financial Inclusion Advisers programme was to provide practitioners and regulators in the area of financial inclusion with practical ideas via the sharing of knowledge and experiences on developing institutional structures, creating an enabling environment and enhancing financial literacy. The ideas and experiences shared could then be contextualised to the prevailing local conditions to enhance financial inclusion. This proposal was welcomed by the members and resulted in the first Financial Inclusion Advisers programme conducted in Lusaka, Zambia in April 2009. The success of this inaugural programme hosted led us to this second programme hosted here in Malaysia with the support of JICA. JICA has long been involved in capacity building in the African continent, and we look forward to collaborating in the future in this area of building more inclusive financial systems.

The Malaysian experience on the financial inclusion agenda

In Malaysia, the commitment to the financial inclusion agenda is reflected in the new Central Bank of Malaysia Act 2009 which incorporates financial inclusion as an objective of the Central Bank. With the enactment of the Act in November of 2009, the Central Bank has imbedded in the legislation the financial inclusion agenda to ensure that future generation of central bankers will continue to direct efforts to building an inclusive financial system. Additionally, the Central Bank in the process of formulating a new blue print for the financial sector for the next decade. This blueprint would also ensure the development of a more inclusive financial system.

The results of the financial inclusion measures thus far have shown positive results. In 2009, the penetration of deposit accounts and loan accounts in Malaysia are 3,300 deposit accounts per 1,000 adults and 1,100 loan accounts per 1,000 adults respectively, which is amongst the highest in the world. This high level of financial inclusion is the result of conscious policies to build a progressive and inclusive financial system. The strategies implemented have generated six characteristics of the financial system.

First, a business environment that allows a diverse range of financial service providers to thrive and compete. This environment has led to the creation of commercial financial institutions with differentiated strategies based on their strengths and the delivery of a broader range of products and services that meet the diverse needs of consumers and businesses. The financial system also includes foreign financial institutions through a series of sequenced liberalisation measures as well as development financial institutions, cooperatives and Government agencies that complement the domestic commercial banking institutions. This approach leverages on the innovation and the implementation capabilities of the private sector and the diversity and dynamism of competitive markets. At the same time, it has allowed the Government to have a complementary role in serving the segments that are under served by the private sector.

Second, basic banking products and services that are made available at reasonable costs. In February 2005, Bank Negara Malaysia issued a guideline that required all banks to provide such basic banking services. This guideline provided the definition of the features of basic savings and basic current accounts that had to be made available by the commercial banking institutions. This was aimed at ensuring that all segments of society had access to basic deposit and transaction services at a reasonable cost. Further, a framework for microfinance was also formulated to enable the provision of micro financing by financial institutions to micro enterprises. Micro financing rates are not capped to allow for it to be commensurate with the higher administrative costs involved in providing such services to micro borrowers. This is to allow financial institutions to remain viable and to remain sustainable.

Third, a diverse set of delivery channels have been introduced to ensure widespread access to financial services. The Central Bank€™s branching policy has encouraged financial institutions to establish an extensive branch network across the country to ensure widespread physical access to financial services. In 2008, there were 9 bank branches per 1,000 square kilometres and 24 ATMs per 1,000 square kilometres in Malaysia. In comparison, the global median is 7 bank branches per 1,000 square kilometres and 15 ATMs per 1,000 square kilometres respectively. Financial institutions are also encouraged to apply technology to further enhance the delivery of financial services. The increased usage of internet and mobile banking has also accelerated the migration to electronic payments and has widened the access of financial services in the more remote areas.

Fourth, is the enhanced financial literacy and consumer protection. With greater financial literacy and awareness, consumers will be protected from being exploited by predatory lending and investment scams, and will be able to make better informed financial decisions. To protect the rights of consumers, a Consumer Protection Framework has been developed to enhance the disclosure standards of financial products and services, the various dispute resolution mechanisms and to institute fair practice amongst the financial service providers. The Central Bank has also established a one-stop service centre for the public, providing advisory services on financial matters. Finally, a Credit Counselling and Debt Management Agency has been established to provide counselling related to credit and debt management for individuals as well as to inculcate responsible money management habits.

Fifth, the supporting financial infrastructure to facilitate the operations of financial institutions is an important feature of the financial system. A hurdle to access to financing is the lack of credit history. In this regard, credit bureaus have been established to enhance access to financing by encouraging borrowers to build such credit records. In Malaysia, the Central Credit Reference Information System or CCRIS, has provided credit information via an on-line system since 2001. More recently in July 2008, the SME Credit Bureau commenced operations to assist SMEs to build track records thereby providing a balanced profile of the credit standing of SMEs thus, enhancing access to financing on more favourable terms.

Sixth, sufficient well trained finance professionals is vital to the performance of the financial sector. Financial services is an industry that is dynamic and complex, with rapid product innovation. To excel and produce results in a more challenging environment, practitioners of financial services need to be highly qualified and equipped with technical finance calibre and knowledge. Recognising the importance of human capital development in the industry, the Central Bank has established several centres of excellence for learning for the overall financial services sector, including covering the areas of corporate governance, leadership development and Islamic finance.

Conclusion

Let me conclude my remarks. This Financial Inclusion Advisers programme is an example of the smart partnership advocated by the CPTM movement. I would like to take this opportunity to thank CPTM and JICA as well as the participating resource institutions – Bank Rakyat Indonesia, National Bank for Agriculture and Rural Development (NABARD) of India, Amanah Ikhtiar Malaysia (AIM), SIRIM Berhad, Agro Bank and the Non-Aligned Movement – Centre for South-South Technical Cooperation (NAM-CSSTC) for contributing to this event. I also wish to welcome the members of the microfinance community from Kenya, Malawi, Tanzania, Uganda and Zambia to this programme.

On that note, I wish you a very successful learning experience and a pleasant stay in Malaysia. Thank you.