

## **Abu Hassan Alshari Yahaya: SMEs and financial inclusion**

Speech by Mr Abu Hassan Alshari Yahaya, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Credit Guarantee Corporation Malaysia Berhad (CGC) SME Awards 2018, Kuala Lumpur, 27 June 2018.

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It is my pleasure to address you this evening at the SME Awards hosted by Credit Guarantee Corporation Malaysia Berhad (CGC). I would like to commend CGC for the continuous effort in championing the SME cause, and in recognising the banking and financial industry players that have made meaningful contribution in supporting the SMEs.

As mentioned by Dato' Agil, 'Digital Disruption' has become the new normal not only for the banking and financial industry, but also for other sectors and industries. We have seen the fortunes of traditional businesses changing overnight with technological disruption. In fact, the financial industry may at times need to play catch up to ensure products and services are relevant in a new digital economy. We believe CGC will continue in its efforts to be agile and dynamic in embracing the higher expectations of meeting the financing needs of SMEs moving into the future.

### **SMEs and Financial Inclusion**

In broad terms, financial inclusion means access to affordable financial products and services that meet the needs of individuals and businesses and that are delivered in a responsible and sustainable manner. At Bank Negara Malaysia, we recognise the impact of financial inclusion on the broader economic performance of our country. Financial inclusion facilitates productive financing and investments which generates income for the underserved, improves equality and contributes to sustainable growth. Having an inclusive financial system is also important to ensure economic and social progress on the development agenda is achieved. Therefore, CGC's goal of ensuring access to financial services for SMEs via a fair and transparent marketplace for financial products and services, including extending credit that provides a pathway towards balanced economic growth and prosperity for all Malaysians should be lauded.

Based on the Economic Census 2016: Profile of Small and Medium Enterprises by the Department of Statistics, Malaysia (DOSM), SMEs in Malaysia constituted 98.5% of the total business establishments. Majority of the businesses were in services sector, mainly in wholesale & retail trade, followed by manufacturing, construction, agriculture and mining & quarrying.

Financial institutions are the major source of financing for SMEs. As at end-2017, growth in financing to SMEs continues to be sustained above 5%, outstripping financing growth to households and large corporates. The approval rate for financing applications by SMEs of 75%, has also been consistently higher than that for all customers. The share of SME financing over total business financing has steadily trended upwards to more than 50% from 38% in 2010. This reflects an increased focus on SMEs as a strategic growth driver for financial institutions.

According to the latest bi-annual survey by SME Corporation Malaysia (SME Corp), 97% of SMEs which applied for financing from FIs affirmed that they were able to obtain financing. Of this, 27% were first time borrowers and 23% were without collateral and credit guarantee.

Nevertheless, our work is far from done. There are pockets of SMEs, particularly the start-ups and those operating in new and high risk segments that continue to face challenges in obtaining financing. When businesses have insufficient access to financial products and services, they may be deprived of a chance to pursue new business opportunities, and as a nation, we are deprived of the benefits of their potential contributions to the economy.

Over the past 45 years, CGC has played a crucial role in bridging the gap between financial institutions and underserved SMEs via its innovative products and services. I commend CGC's efforts for its latest venture in developing a dedicated online referral platform that connects the banks and the SMEs, known as imSME. The imSME has the potential to transform the SME Financing Landscape in the country, by matching SMEs' financing needs with suitable products, thus reducing search costs and improving financing prospects for SMEs.

The implementation of imSME exemplifies the importance of technology in increasing SMEs' financing access. SMEs are now able to submit financing applications 24 hours a day, without the need to visit individual financial institutions to search for suitable product offerings. The Platform also facilitates the partnership between key collaborators to deliver end-to-end solution for SMEs that face higher hurdles to obtain financing. With the Financial Advisory Team in imSME, unmatched or unsuccessful applicants will be further motivated to enhance their capacity and capability with relevant trainings aimed at improving their chances to secure financings or loans in the future.

The imSME complements existing initiatives in the SME financing ecosystem, such as BNM's Fund for SMEs, alternative financing channels such as equity crowdfunding and P2P lending, and the Small Debt Resolution Scheme.

### **BNM's Role to Encourage Financial Inclusion & SME Financing**

SMEs is a pertinent component of Malaysia's economy. To reap their full potential, SMEs must be continuously nurtured, guided and developed to become more competitive. The financial services industry needs to play its role in continuously innovating, adapting to the digital disruption and be the frontier in driving the national SME agenda, by ensuring adequate access to financing.

Technology has the potential to transform financial services. Most notably it

- ♦ dramatically reduces the costs of providing access to financial services, particularly in remote locations and to small borrowers;
- ♦ transforms credit decision-making ability by enabling lenders to tap into alternative data sources. This has made it possible for people without collateral or credit histories to borrow; and
- ♦ simplifies finance and enabling providers to significantly improve the quality of customer interactions.

There is a need to advance new ways to deliver financial services to the underserved, beyond the provision of access points. In particular, the potential to effectively integrate the delivery of financial services with the day-to-day activities of underserved segments remains largely untapped. More effective utilisation of technology to improve customer engagements can also increase confidence in the use of financial services.

To this end, Bank Negara Malaysia will continue providing an enabling regulatory environment and active facilitation to increase the impact of technology on financial inclusion. This is being driven through several strategic initiatives by the Bank, including the regulatory sandbox, adoption of digital identities for SMEs and piloting the use of psychometric tools for SME credit evaluations.

### **Role of the Financial Industry to drive efforts in SME Financing and Financial Inclusion**

It has become increasingly important for the financial industry to come forward and address related perceptions on SME financing matters. The industry should actively address issues affecting access to financing by SMEs, by advocating the players to adopt best practices in

financing activities and lead initiatives to reform inefficient practices. Key strategic recommendations should be made to the Government and regulators to enhance the SME financing ecosystem, particularly in supporting new growth areas and increase contributions by financial institutions to SME sector. In this regard, the financing ecosystem needs to be complemented with comprehensive SME development strategies and initiatives to strengthen SMEs' capacities and capabilities. This includes efforts towards training and retraining of workers, adoption of technologies in business and operating process, as well as in governance, finance and accounting practices.

The financial industry should also address any negative perceptions by having an effective communication strategy and ensuring swift response time to SME customers, as these are vital in maintaining the integrity and public image of financial institutions. Moving forward, it is imperative and almost inevitable for financial industry to undertake measures to advance financial literacy and capabilities of SME customers.

The commitment to better serve the SME segment would reinforce the critical role of the financial industry in supporting the Government's development agenda in a well-functioning financial system.

CGC has demonstrated that efforts to assist underserved SMEs can be achieved in a financially sustainable manner through its suite of innovative financial products and services. Financial institutions should also explore strategic partnerships with adjacent industries such as telcos and fintechs to reduce market gaps and reliance on Government subsidies for the SMEs. Importantly, the financing ecosystem needs to be complemented with a comprehensive SME development ecosystem to nurture and elevate our SMEs towards greater size and competition.

I hope today's recognition and appreciation of FIs and CGC customers would spur both parties to become more innovative, resilient and progressive. My heartfelt congratulations to all the winners and may you continue to inspire and set benchmarks on SME financing landscape.