

Ahmed Naseer: Financial inclusion within the Maldives

Keynote speech by Mr Ahmed Naseer, Governor of the Maldives Monetary Authority, at the 35th Asian Bankers Association General Meeting and Conference, hosted by the Bank of Maldives, Malé, 16 November 2018.

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Asian Bankers Association Chairman, **Mr. Daniel Wu;**

Managing Director and CEO of the Bank of Maldives **Mr. Andrew Healy;**

Distinguished experts and participants;

Assalaamu Alaikum, and a very good morning to you all.

It gives me great pleasure to have this opportunity to speak at the 35th Asian Bankers Association General Meeting and Conference. I am very pleased to be here today, in this unique gathering, bringing together industry players and financial experts from every corner of the Asia region. In fact, the theme of this conference speaks to the heart of the imminent challenges that central banks are facing today: How will the digital revolution transform the economic and financial landscape? How can we gain the potential socio-economic benefits of the financial technology or fintech, while mitigating possible risks?

Ladies and gentlemen,

While innovations in the financial sector are not new phenomena, the speed and broad consequences of these innovations have drawn our attention in recent times. The rapid improvements in computer technology such as quantum computing, innovations in cryptography, big data, artificial intelligence and the increased use of mobile phones have taken the traditional banking industry to a whole new level. It has enabled financial institutions to be in the financial lives of their customers at any time, any place, using any device or channel. In a nutshell, financial services are at our finger tips. In a few years from now, it is possible that the millennials and future generations will not see the need to step inside a bank during their lifetime.

Fintech has not only reshaped customer experience. It has paved the way for achieving financial inclusion, especially for a geographically dispersed country like the Maldives, to break geographical barriers and reach underserved populations within the islands. With the nation-wide telecommunication coverage and high mobile penetration in the country, these innovative payment solutions have the potential to reduce cash usage and achieve financial inclusion in the country.

At the end of last year, we reached an important milestone in advancing financial inclusion within the Maldives. Both telecommunications service providers now deliver easy and secure access to mobile payment services across the country. As a result, we have seen a significant increase in the volume and value of transactions being processed through mobile wallets. This mainly stemmed from the increased extent of the e-money distribution network and the availability of online cash-in facilities in the country.

However, the journey remains long and challenging. If we look at the current statistics, around 33% of the Maldivian adult population still do not hold a bank account. Even though the level of penetration in the formal banking sector is relatively high in the country, providing easier access to finance and acquiring payment services in most of the islands remain as main challenges in the country. Looking at payment methods, cheques are still the dominant mode of making inter-bank transactions although the volume of transactions carried out through RTGS and ACH have increased over the past two years. Among electronic payments, card payment is the most

common payment method in the greater Male' area and the usage of mobile payment is still not very common across the country.

For example, if we look at how pension and social benefits payments are made, these payments are deposited to a bank account wherein around 96% of the beneficiaries hold bank accounts at one particular bank. And this bank makes regular trips to islands to facilitate account holders to withdraw cash. This is mainly because of the gaps in the financial infrastructure and inefficiencies in the banking system. Some of them include;

- ♦ Unavailability of a common platform to connect banks and mobile service providers
- ♦ Lack of an efficient payment system infrastructure
- ♦ Lack of a comprehensive legal framework to support the payment infrastructure
- ♦ The low level of automation in the banking sector; For instance, there is no proper IT setup in some of the banks and a lot of payments are still processed manually

Ladies and gentlemen,

In spite of these hurdles, we do have a very ambitious plan to upgrade and modernize the national payment system in our country. Promoting financial inclusion has, and will always be, a key priority of the MMA in its function of fostering the development of the financial sector. Therefore, one of the foremost priorities in the MMA's strategic plan for 2018–2022 is to develop a safe and robust payment infrastructure. Because we understand that if we were to embrace the promise of fintech and foster the benefits of these innovations, we need to invest in the supporting infrastructure. Well! That is just one key component. We also need to strengthen institutional capacity by investing in human resources as it is a key ingredient in catalyzing benefits from the much needed local fintech solutions for a country like the Maldives

Since the financial landscape of the Maldives is unique and differs from the mainstream financial markets in many ways, we need to be more creative in adopting and embracing these technologies. It should be tailored towards local needs. We need to bring together local flavors when creating a more enabling environment for innovations. Therefore, it is essential to put in extra effort to build relevant expertise and necessary skills. This is because such investments will serve as the bedrock to provide a level playing field in terms of providing access to finance and succeeding in our journey to close the financial inclusion gap in the nation.

If we look at it in a global context, many countries are also struggling to keep up with the ever-evolving financial system and to adopt fintech solutions through the formal financial channel. One area that I want to shed light is the risks and threats to financial integrity. There are rising concerns regarding customer as well as investor protection, and even the adequacy of the financial safety net. Well! We can always amend or supplement the existing regulatory framework to address many fintech driven risks. But how far can we go? Some of the unprecedented issues arising from new financial products and activities may not even lie in the current regulatory perimeter. Therefore, in order to adopt these new technologies such as cryptocurrencies and blockchain in the formal banking system, we require a major overhaul in the regulatory framework to contain risks and to maintain trust and confidence in the system.

Distinguished guests,

Certainly, fintech has opened up new paths to help bridge existing gaps, and to shine a guiding light towards a more financially inclusive future. However, every journey comes with its own set of risks and uncertainties. Treacherous terrains may lie ahead, and as such, we must remind ourselves of the mistakes we have made in the past, which resulted in events such as the Asian financial crisis, the dot-com bubble and the most recent global financial crisis. In fact, much of the on-going narrative about the emergence of cryptocurrencies and blockchain alludes to a growing lack of trust and confidence in the existing financial system. In light of these, I would like

to stress on the importance of maintaining financial integrity and fostering a culture of trust and confidence in the system. The financial sector, as a whole, requires of itself to be more vigilant to the potential risks arising from new technologies and innovations.

Let me conclude by offering my humble gratitude to the Bank of Maldives for hosting this excellent conference and inviting me for the conference. I would also like to take this opportunity to welcome the Asian Bankers Association and to thank them for choosing the Maldives to host the general meeting and conference. I'm sure that we are in for a highly informative day, full of fruitful discussions and presentations. I wish the best to all the speakers! Welcome and thank you once again.