



# 2.3

## financial inclusion

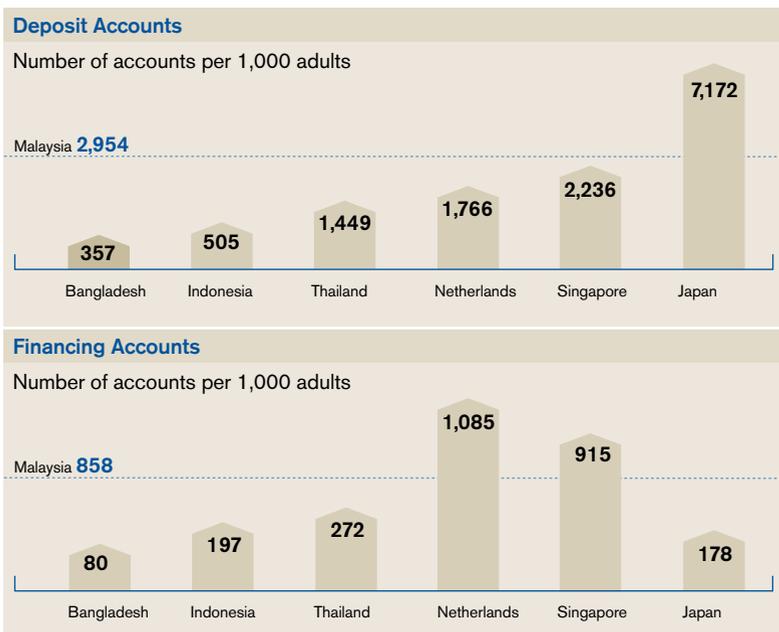
for greater shared prosperity

Pursuing the financial inclusion agenda, where all members of society have the opportunity to participate in the formal financial system, will continue to be a key component of Malaysia's inclusive growth strategy. Financial inclusion will enable all citizens, including the low-income and rural residents, to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thereby enabling them to benefit from economic progress. This will in turn contribute to balanced and sustainable economic growth and development.



Many initiatives implemented over this recent decade have significantly improved financial inclusion in Malaysia. These include the introduction of new financial products and services that meet the diverse requirements of all segments. This has been reinforced with the development of a consumer education and protection framework, as well as the strengthening of the enabling financial infrastructure. In addition, the role and capacity of development financial institutions (DFIs) have also been enhanced. As a result of these initiatives, the take-up of deposits has increased from 1,975 deposit accounts per 1,000 adults in 2000 to 2,954 deposit accounts per 1,000 adults in 2010. Meanwhile, the take-up of financing has increased from 310 financing accounts per 1,000 adults in 2000 to 858 financing accounts per 1,000 adults in 2010. These achievements have elevated Malaysia's position in various global financial inclusion rankings. This includes Malaysia's number one ranking since 2007 for "Getting Credit" in the "Ease of Doing Business" index by the World Bank and number eight out of 142 countries in 2011 for "Ease of Access to Loans" by the World Economic Forum.

### Cross country comparison of selected financial inclusion indicators



Source: Consultative Group to Assist the Poor (CGAP) and Bank Negara Malaysia

Moving forward, in an increasingly market-driven and more competitive economy, greater efforts are required to achieve the vision of 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 greater shared prosperity. The successful achievement of the financial inclusion agenda will be characterised by the following outcomes:

- Increased convenient access to financial services, including in rural areas;
- More effective usage of financial services by all citizens, including the underserved, through an expanded range of products and services that meets their needs; and
- Enhanced quality of financial services that satisfies the financial needs of all citizens, including the underserved.

Greater efforts are required to achieve the vision of 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 greater shared prosperity

### Recommendation 2.3.1

Adopt innovative channels to enhance the outreach of quality and affordable financial services in a more cost-efficient manner.

This includes:

- i. Supporting the development of agent banking by developing a comprehensive agent banking framework to enable outreach of financial services at lower costs. Agent banking is the use of non-bank retail outlets (for example, post offices, petrol stations and other retail chains) by financial institutions to deliver financial services. By leveraging on technology, agent banking also contributes to the electronic payments agenda by facilitating an increase in the number of debit cards, point-of-sale terminals and mobile banking services.
- ii. Accelerating the roll-out of innovative delivery channels, including mobile banking, by leveraging on technological advancements and strengthening collaboration

amongst relevant stakeholders, including telecommunication companies. This will provide users with the convenience to perform financial transactions at all times without the need to visit a physical access point.

## A comprehensive agent banking framework will be developed to enable outreach of financial services at lower costs

### Recommendation 2.3.2

Expand the range of products and services that will meet the distinct financial needs of all citizens, including the underserved.

This includes:

- i. Encouraging flexible micro financing products that enable prompt drawdown of financing in times of need and prepayment of financing during good times, to meet the needs of micro enterprises which have irregular or seasonal income streams.
- ii. Enhancing provision of long-term contractual micro-savings products with low committed periodical savings and favourable returns to enable low-income households to inculcate the savings habit and fulfill long term goals such as starting a business, home ownership, education and to have a secure retirement.

- iii. Facilitating the insurance and takaful industry to develop microinsurance and microtakaful products, which provide the underserved with adequate financial protection against unexpected adverse events in a cost-effective, accessible and easy-to-understand manner through a facilitative regulatory environment, strengthened delivery capacity, increased market awareness and enhanced consumer literacy.

### Recommendation 2.3.3

Strengthen the institutional arrangements to provide financial services to all citizens, including the underserved and build capacity of practitioners in an effective and sustainable manner. This includes:

- i. Strengthening the financial inclusion role of specialised DFIs which mobilise savings of small Malaysian savers and enhance micro financing to micro enterprises. This is achieved by having appropriate key performance indicators for financial inclusion, adequate representation on the board with expertise in financial inclusion, as well as improved potential for innovative product development.
- ii. Encouraging financial training providers to offer structured and cost-effective financial inclusion training for professionals from financial institutions, cooperatives, microfinance institutions and

non-governmental organisations (NGOs) in Malaysia, which can be extended to the region to draw on the sharing of experience from different jurisdictions.

- iii. Enhancing the monitoring framework for the outcomes of financial inclusion initiatives, which are to achieve convenient outreach, high take-up, responsible usage and high consumer satisfaction, and a financial inclusion index to facilitate the tracking of the overall financial inclusion progress in Malaysia.

#### Recommendation 2.3.4

Enhance the knowledge and capacity of the underserved to utilise financial services responsibly. This includes:

- i. Improving the provision of advisory services to increase the income generating capability of micro enterprises through greater participation of NGOs that have the capability to provide effective handholding and have strong relationships with the micro enterprise communities, to build skills and confidence of micro entrepreneurs.
- ii. Enhancing the role and outreach of Mobile LINK (coach and mobile counter services) and the collaboration with consumer associations.

The implementation of all the initiatives will be conducted in phases over the immediate and medium term. In the first phase, efforts will be focused on adopting innovative channels to expand outreach of existing financial services to the underserved. In the second phase, the range and features of financial products and services will be further expanded to meet the diverse and distinct needs of the underserved. Finally, the capacity of financial service providers and the underserved are enhanced to intermediate funds more effectively.

