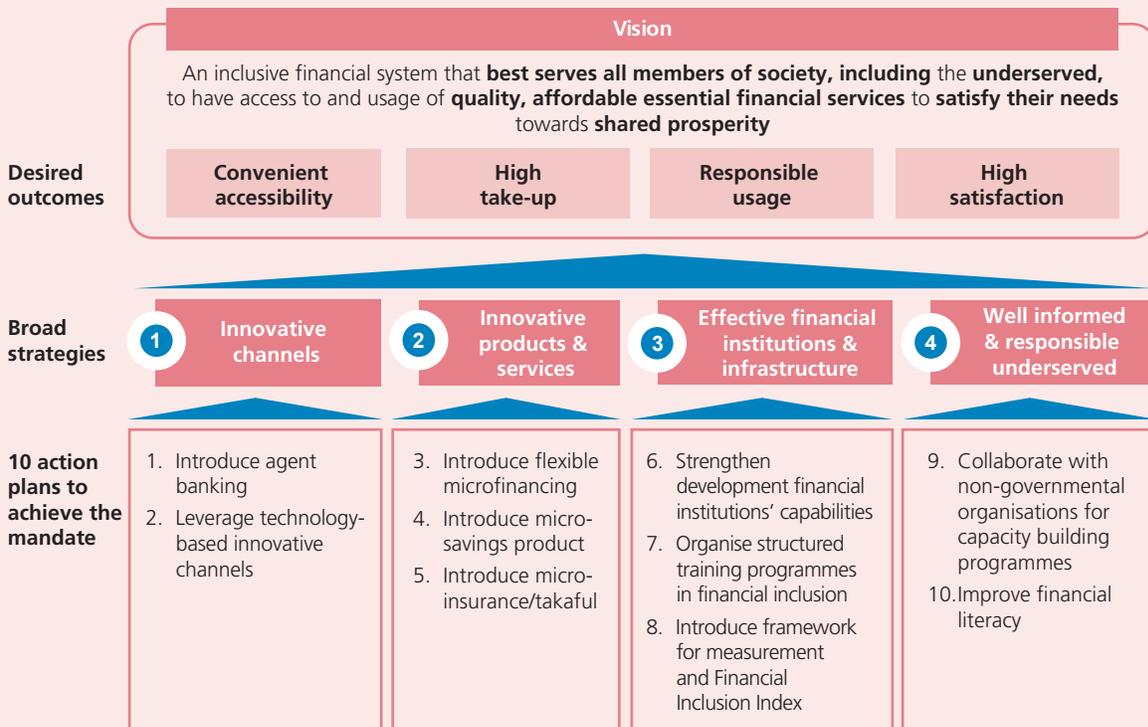


## Unlocking Shared Benefits for All through Inclusive Finance

Promoting inclusive finance, where all segments of society have access to suitable and affordable formal financial services, is a key focus and specific mandate of the Bank in contributing towards equitable and sustainable growth. Essential financial services provide opportunities for Malaysians, including the lower income segments of society, to safely save and invest, borrow for productive activities and buffer themselves against unforeseen shocks. In advancing the financial inclusion mandate, the Bank in 2011 introduced the Financial Inclusion Framework, a comprehensive plan outlining the strategies for an inclusive financial system over the coming decade. Subsequently, the Financial Inclusion Index was developed to track the progress and impact of the Bank's financial inclusion policies. This article reports on the progress of financial inclusion in Malaysia since 2011 when the first Financial Inclusion Demand-Side Survey was conducted.

Diagram 1

### Financial Inclusion Framework



Source: Bank Negara Malaysia

### Significant Achievements in Financial Inclusion

The Financial Inclusion Index score for the general population in Malaysia improved significantly to 0.90 in 2015 from 0.77 in 2011 (where 1.00 reflects full inclusion). These improvements were largely driven by increased accessibility to financial access points across the country, more responsible usage of products and higher levels of satisfaction among financial consumers. Meanwhile, gaps continue to be observed in the utilisation of financial products and services, particularly among low-income households.

#### (i) Convenient Accessibility

Convenient accessibility, which measures the availability of financial access points at the district (*daerah*) and sub-district (*mukim*) levels, recorded a marked improvement. All 144 districts and 97% (2011: 46%) of the 886 sub-districts with a population of at least 2,000 now have access to essential

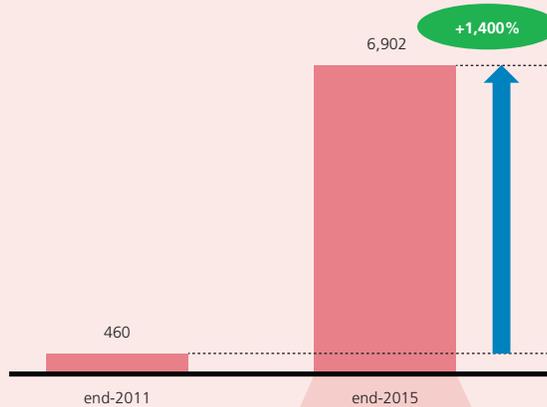
## Agent Banking as Catalyst for Financial Inclusion

Agent banking enables consumers to obtain banking services by licensed financial institutions through third-party agents such as retail outlets and post offices. First introduced in 2012, the agent banking regulatory framework was further enhanced in April 2015 to allow agents to facilitate the opening of saving accounts<sup>1</sup> on behalf of financial institutions via online real-time systems and biometric identity verification.

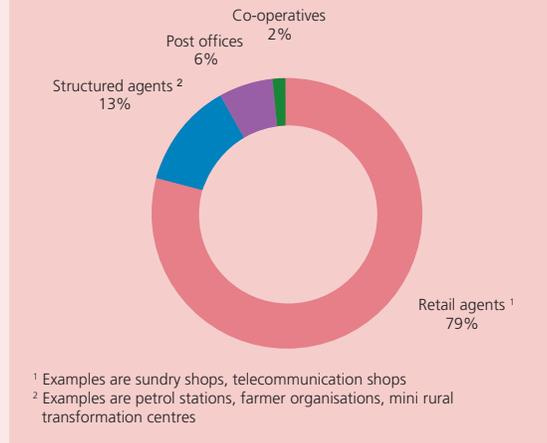
As at end-2015, 6,902 agent banks have been established nationwide, with over 13,600 new accounts opened and 63 million transactions amounting to RM5.7 billion facilitated by agent banks. Most of these transactions involved bill payments (59.2%; RM3.4 billion) and cash deposits (28.1%; RM1.6 billion).

**Chart 1**

### Number of Agent Banks Had Increased



### Mainly Supported by Retail Agents



Source: Bank Negara Malaysia

<sup>1</sup> In addition to allowable services under the Guidelines on Agent Banking (2012) namely accepting deposits, facilitating withdrawals, fund transfers, bill payments and financing repayments.

financial services. This expansion in the number of access points nationwide provides 99% (2011: 82%) of Malaysians with convenient access to safe, reliable and affordable financial services.

This achievement was in large part due to the establishment of agent banks, which had an important impact in increasing access to financial services particularly in the rural areas. Following the operation of agent banks, the volume of financial transactions conducted through agent banks has increased from three million transactions as at end-2012 to 63 million as at end-2015 (amounting to RM5.7 billion in value).

Another important development that has intensified since 2011 has been the expansion of Internet banking and mobile banking. As at end-2015, the number of Internet banking subscribers increased to 19.8 million (2011: 11.9 million) representing 63.7% of the total population, while the number of mobile banking subscribers increased to 7.3 million (2011: 1.6 million) representing 23.5% of the total population. These digital channels have had an important impact in increasing access to banking services, with greater convenience and flexibility for consumers to keep track of their personal finances.

### Financial Inclusion Index

The Financial Inclusion Index measures the level of financial inclusion in Malaysia and the effectiveness in achieving the four desired outcomes of financial inclusion: (i) convenient accessibility; (ii) high take-up; (iii) responsible usage; and (iv) high satisfaction.

The Financial Inclusion Index is constructed from both supply-side data from financial institutions and demand-side data collected through the Financial Inclusion Demand-Side Survey, conducted periodically by the Bank.

### Financial Access Points in Malaysia

Access points per 10,000 adults:

- 4.5 branches and agent banks
- 5.1 Automated Teller Machines (ATMs)
- 2.3 Cash Deposit Machines (CDMs)

Diagram 2

### Targeted Microfinancing Solutions

Microfinancing Initiatives	Purpose
<b>Initiatives by the Financial Institutions:</b>	
 <b>Pembiayaan Mikro Scheme</b>	Increase access to financing for micro enterprises
 <b>Flexible Microfinancing Framework</b>	Assist micro enterprises that have irregular or seasonal income streams
<b>Complemented by schemes offered by the Microfinance Institutions:</b>	
 <b>Amanah Ikhtiar Malaysia (AIM) <sup>1</sup></b>	Provide microfinancing primarily to women for income-generating activities
 <b>Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) <sup>2</sup></b>	Provide financing facilities for entrepreneurs to kick-start and further expand their businesses

<sup>1</sup> AIM was established in 1987 with the objective of assisting the hard-core poor to rise out of the poverty trap. This is done through the provision of microfinancing through more than 130 branches nationwide.

<sup>2</sup> TEKUN Nasional was established in 1998 and since then, there was a rebranding exercise in 2008. It has played a role that is beyond just being a financial provider but also provides entrepreneurship development and support services. TEKUN has more than 190 branches to-date.

Source: Bank Negara Malaysia, Amanah Ikhtiar Malaysia & Tabung Ekonomi Kumpulan Usaha Niaga

**(ii) Take-up of Financial Products and Services**

The take-up rate, which represents the population's usage of specific financial products namely deposit accounts, financing accounts and insurance policies, recorded a slight decline. While the percentage of adults with deposit accounts remained high at 91%, the percentage of adults with financing accounts (including credit cards) declined from 36% to 25%. This was due in part to heightened focus on better debt management and affordability of debt servicing following the introduction of measures such as the credit card services tax, the Credit Card Guidelines and the Guidelines on Responsible Financing. The percentage of adults surveyed who indicated that they purchased a life insurance or takaful policy moderated from 18% to 16%. These findings show that while financial inclusion has increased significantly since 2011, certain gaps remain, particularly among the low-income segment, where affordability remains a challenge.

**Diagram 3****Pembiayaan Mikro Scheme**

Source: Bank Negara Malaysia

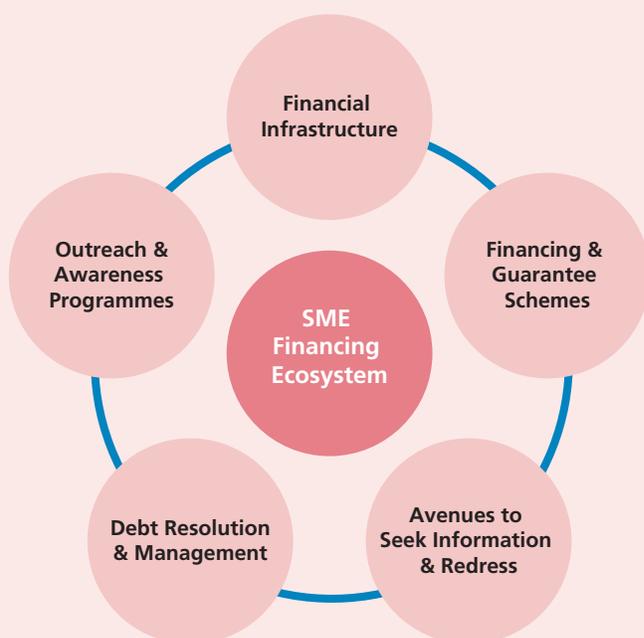
In recognition of these gaps and opportunities, the Bank has undertaken various initiatives to encourage the development of products and services that are targeted towards this segment. This has included encouraging financial institutions to offer microsavings products with low committed periodical savings to encourage and facilitate regular savings among the low-income population; offering affordable microinsurance/microtakaful products by insurance companies and takaful operators to provide financial protection against unexpected adverse events; and supporting the provision of tailored microfinancing solutions for micro, small and medium enterprises (SMEs).

The provision of financial services is also supported by a comprehensive financing ecosystem comprising: (i) an enabling financial infrastructure; (ii) financing and guarantee schemes; (iii) avenues to seek

information and redress; (iv) debt resolution and management arrangements; and (v) outreach and awareness programmes. These arrangements have been important to promote confidence and reduce anxiety in using financial services, in addition to supporting individuals and businesses to understand how the financial system can help them manage risks and improve their financial well-being.

**Diagram 4**

### SME Financing Ecosystem



#### SME Financing in Malaysia

- SME financing approval rate exceeding 80%.
- 96% or RM274.5 billion were from financial institutions.
- Grew by 14% over the last three years.
- Share of financing to small-sized companies (41%), micro enterprises (31%) and medium-sized SMEs (28%).
- 44% of approvals were given to new customers\*.

Source: Bank Negara Malaysia and \*SME Corporation Malaysia Survey Third Quarter 2015

Development financial institutions (DFIs) also have an important role in contributing to a higher utilisation of financial services given the specific socio-economic objectives that they serve. This includes supporting the development of SMEs, the agricultural sector and co-operatives through the provision of inclusive financial services. The Bank provides oversight over six DFIs that are prescribed under the Development Financial Institutions Act 2002 with the aim of promoting their ability to perform their roles effectively and sustainably.

#### **(iii) Responsible Usage**

Responsible usage, which measures whether financial products are utilised appropriately, remained high. The percentage of banking customers with active deposit accounts, an indication that they are saving regularly, has increased to 92% from 87% in 2011 while the percentage of banking customers with performing financing accounts increased to 98% from 97% over the same period.

Financial education initiatives have had a key role in encouraging responsible usage by helping consumers make better financial decisions, thus promoting a positive experience from their participation in the financial system. The Bank continues to collaborate with the public and private sectors to organise and implement these financial capability programmes, while agencies such as the Financial Mediation Bureau, the Credit Counselling and Debt Management Agency and the Small Debt Resolution Scheme serve to ensure that financial consumers are able to get the help that they need to effectively manage their financial affairs.

Diagram 5

Financial Inclusion Initiatives

Dimensions	Initiatives (2011-2015)	Moving Forward												
<p><b>1 Convenient Accessibility</b></p> <p>2011  46%                      2015  97%</p> <p>2011  82%                      2015  99%</p> <p>sub-districts (<i>mukim</i>) with at least 2,000 population with at least one access point</p> <p>population living in sub-districts (<i>mukim</i>) with at least one access point</p>	<p> Agent Banking</p> <p> Mobile &amp; Internet Banking</p> <p> Branching policy</p>	<ul style="list-style-type: none"> <li>• Increase the number of access points in the underserved areas</li> <li>• Promote the opening of accounts via agent banking</li> </ul>												
<p><b>2 Take-up Rate</b> % of adult population with financial products</p> <table border="1"> <tr> <td></td> <td><b>deposit accounts</b></td> <td><b>financing accounts</b></td> <td><b>life insurance/takaful policies</b></td> </tr> <tr> <td>2011</td> <td>92%</td> <td>36%</td> <td>18%</td> </tr> <tr> <td>2015</td> <td>91%</td> <td>25%</td> <td>16%</td> </tr> </table>		<b>deposit accounts</b>	<b>financing accounts</b>	<b>life insurance/takaful policies</b>	2011	92%	36%	18%	2015	91%	25%	16%	<p><b>Financial Products</b></p> <p> Basic savings</p> <p> Microfinancing</p> <p>CGC's direct financing scheme</p> <p><b>Enabling Infrastructure</b></p> <p> CREDIT BUREAU MALAYSIA</p> <p> CGC</p> <p> CCRIS</p> <p>Proportionate regulation (DFIA)</p>	<ul style="list-style-type: none"> <li>• Microsavings &amp; microinsurance/microtakaful for low income households</li> <li>• Savings product for youth</li> <li>• Accelerate migration to e-payment</li> <li>• Financing products for youth, women &amp; persons with disabilities</li> <li>• ASEAN SME &amp; Financial Inclusion Working Groups</li> <li>• Government-to-person payment (G2P)</li> <li>• Financing Guidebook for SMEs</li> <li>• Enhance regulatory framework on microfinance</li> </ul>
	<b>deposit accounts</b>	<b>financing accounts</b>	<b>life insurance/takaful policies</b>											
2011	92%	36%	18%											
2015	91%	25%	16%											
<p><b>3 Responsible Usage</b></p> <p>2011  87%                      2015  92%</p> <p>Customers with active deposit accounts</p> <p>2011  97%                      2015  98%</p> <p>Customers with performing financing accounts</p>	<p><b>Regulations</b></p> <p> Responsible Financing Guidelines</p> <p> Credit Card Guidelines</p> <p><b>Financial Advisory, Education and Redress</b></p> <p> LINK</p> <p> AKPK POWER!</p> <p><b>SME Promotion</b></p> <p> Small Debt Resolution Scheme</p> <p> FMB</p>	<ul style="list-style-type: none"> <li>• Train-the-Trainers Programme on SME Financing</li> <li>• Financial literacy program for 1AZAM<sup>1</sup> participants and targeted segments (low income households, persons with disabilities, school children)</li> <li>• Enhance restructuring &amp; rescheduling mechanism for SME financing</li> </ul> <p><sup>1</sup> 1AZAM (Akhiru Zaman Miskin) – Government's poverty eradication programme</p>												
<p><b>4 Satisfaction Level</b></p> <p>2011  61%  Customers who are satisfied with overall financial services</p> <p>2015  73% </p>	<p><b>Consumer and Market Conduct</b></p> <ul style="list-style-type: none"> <li>• Guidelines on Product Transparency and Disclosure</li> <li>• Guidelines on the Imposition of Fees and Charges on Financial Products and Services</li> <li>• ABM-PARTNER on client charter and standard documentations</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance advisory service by the DFIs</li> <li>• Digitalisation of delivery of products and services</li> </ul>												

Source: Bank Negara Malaysia

(iv) Satisfaction Level

The index revealed a significant improvement in the level of satisfaction with financial services in Malaysia. The percentage of customers of financial institutions who are satisfied with overall financial services increased to 73% (2011: 61%), with higher satisfaction levels observed across

all segments of the population, including low-income households who also recorded an increase in satisfaction to 67% (2011: 60%). This in part reflects improvements in the conduct and services of financial institutions arising from various initiatives to promote a positive experience for all financial customers. Of note were substantially strengthened standards issued by the Bank to regulate product transparency and disclosures, and the imposition of fees and charges by banks. Also notable have been key private sector initiatives such as the PARTNER programme by the banking industry which simplifies documentation and improves the turnaround time for processing SME financing and housing loans. A similar initiative to introduce plain language in insurance contracts has also been pursued by the insurance industry.

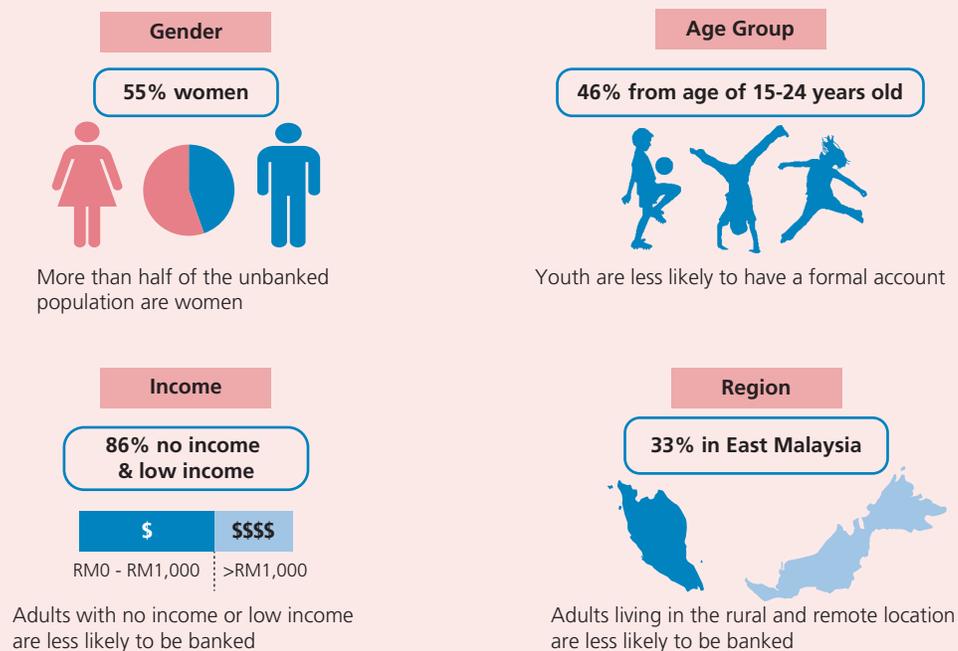
### Elevating the Level of Financial Inclusion

The Bank remains committed to expand the level of financial inclusion. This will be supported by a sustained focus on encouraging the development of innovative delivery systems, products that are responsive to the needs of the underserved, and effective education, support and protection for financial consumers. With this focus, the Bank expects that the remaining 8% that constitutes the unbanked population in Malaysia will be further reduced to 5% by 2020.

Diagram 6

### Who Are the 8% Unbanked Adult Population?

Gaps in financial inclusion across demographics, with women, youth and low income at the greatest disadvantage



Source: Bank Negara Malaysia