

Status of Financial Inclusion in Malaysia

ISI-WSC 2019 – STS422

Innovative Approaches in Measuring Financial Inclusion

19 August 2019

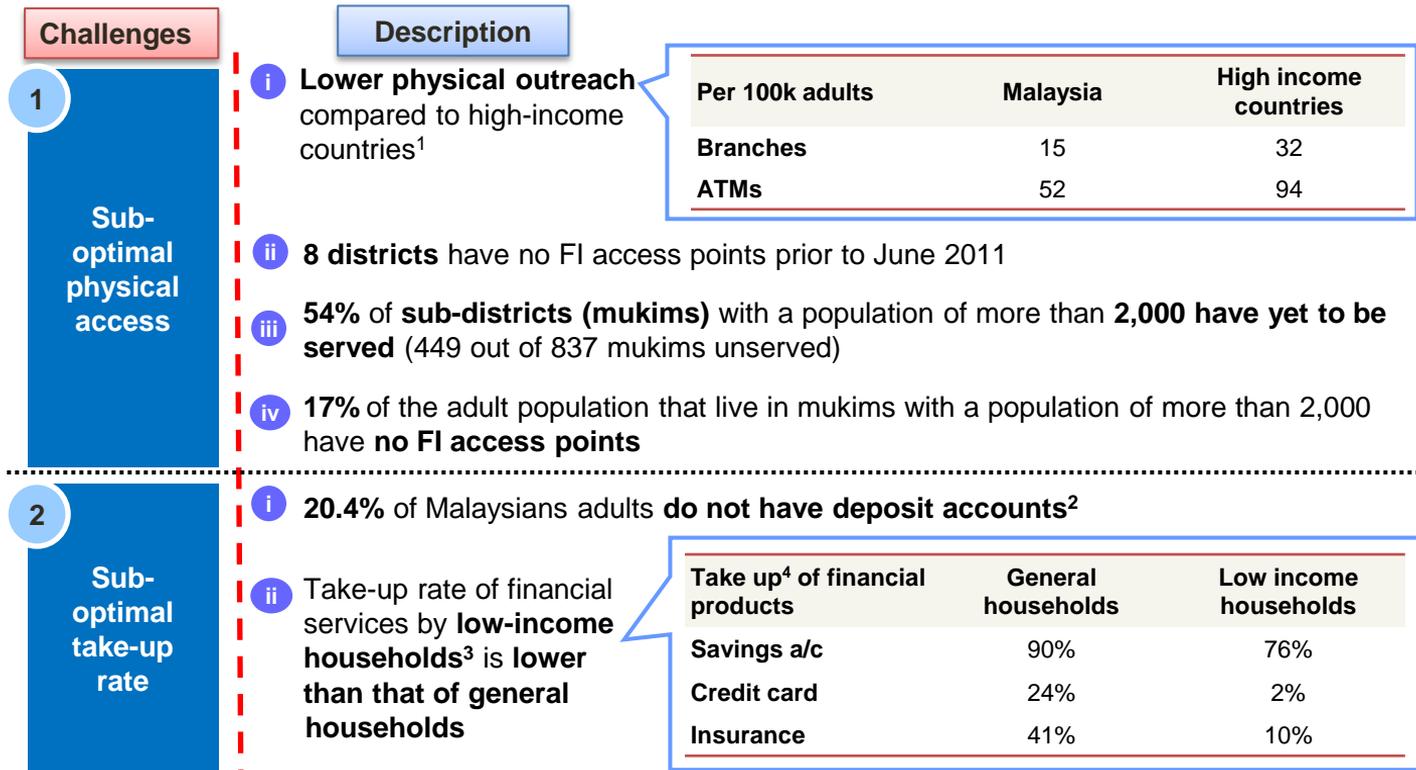
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In 2010, the level of financial inclusion in Malaysia was assessed & there were some pockets of exclusion



Sources:

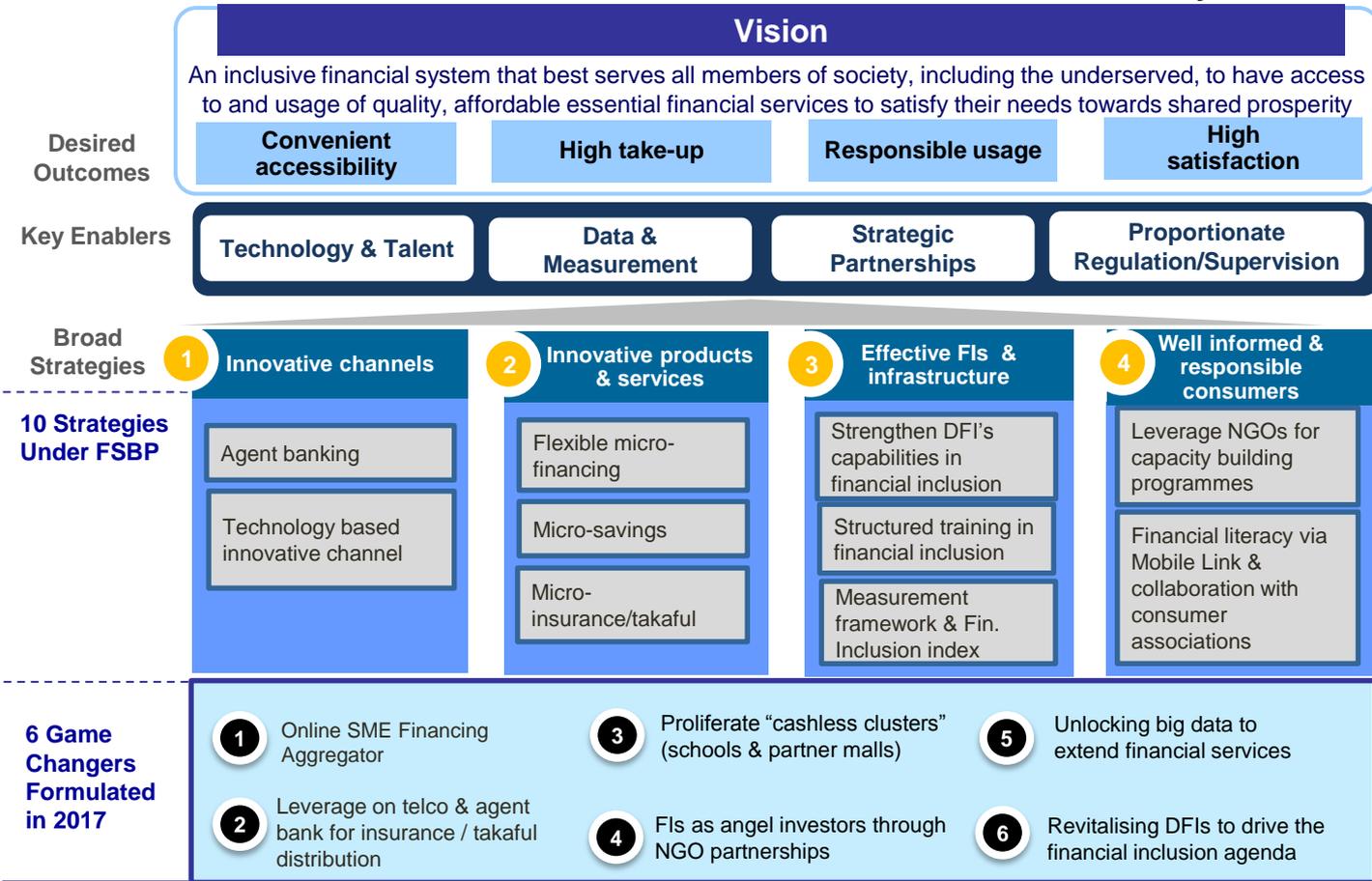
¹ Financial Access Report 2010, CGAP & FICPS

² IC Matching Project, BNM, 2010

³ Individuals with monthly incomes of below RM1,000

⁴ Financial Literacy Survey, White Hat Sdn Bhd.

The Financial Inclusion Framework was developed under the Financial Sector Blueprint 2011–2020: Revisited in 2017 to enhance the level of Financial Inclusion in Malaysia



Supply and Demand Side Indicators on Financial Inclusion

Supply-side	Demand-side
<p>For MFIs, commercial & Islamic banks, and financial cooperatives:</p> <ul style="list-style-type: none">• Agent banks• Self service terminals (ATMs)/CDMs/CRMs• Branches• Deposit accounts• Loan accounts• Insurance• No of depositors• Number of depositors• Number of borrowers• Number of life insurance policyholders• Mobile account/e-wallet, money agent outlets, mobile money transactions	<p>Percentage (%) of adults with:</p> <ul style="list-style-type: none">• Account at a financial institution (all adults, women, adults poorest 40%, richest 60%, young, elder, rural & urban areas).• Mobile account/e-wallet• Debit and credit card• ATM as the main mode of withdrawal• Use of an account to receive wages, government transfers, to pay utility bills• Use of debit card to make payments• Sent / receive domestic remittances• Saving and borrowing behaviours• Satisfaction level of using financial products & services

Malaysia is among earliest in the world to measure the unique number of account holders via the 'Identity Card Matching Project'

Previous supply side data calculation:

$$\frac{\text{number of deposit accounts}}{\text{Total population}} = \gg 100\%$$

Bank 1

Bank 2

Mr. X has 1 account in 2 banks



Ms. Z has 2 accounts in Bank 1, 1 account in Bank 2



- Previous count: **5 accounts** for 2 individuals (>100%)
- Results in **overestimation** of deposit holders in Malaysia

ID matching project (2011 onwards):

$$\frac{\text{number of deposit account holders}}{\text{Total population}} = 95\%$$

Bank 1

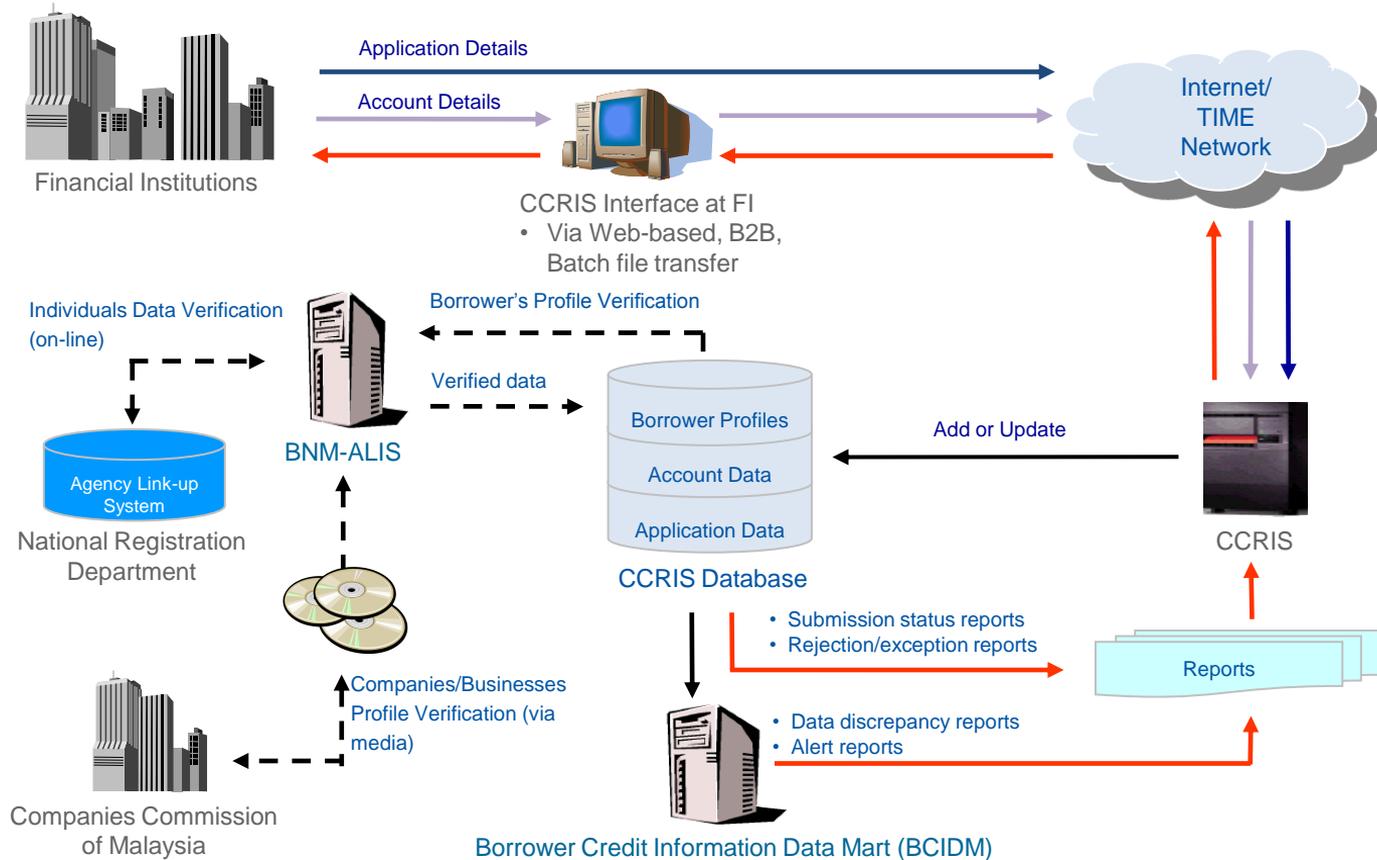
Bank 2



repetition of same ID in central database is removed: only 1 unique ID left

- Current count: **2 accounts** for 2 individuals
- ID matching project removes duplication or 'double counting' of account holders

Overview of CCRIS...a real-time online credit information



Developed GIS PORTAL to map physical financial access points



- Data management & analytics:
 - Receive data on access points from financial institutions via e-survey
 - Consolidate and verify data accuracy
 - Submit data to MRSA quarterly
 - Extract data from GIS for analysis and reporting



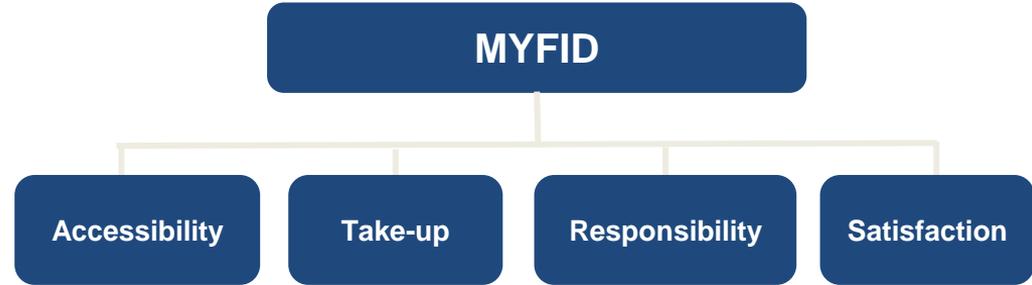
- Development and maintenance of GIS application :
 - Extract and update dataset of financial access points submitted by BNM
 - Generate geo-spatial data layering for BNM's detailed assessment
 - Ensure the effectiveness of the application system through regular maintenance and monitoring



Financial Inclusion Demand Side

The importance of Financial Inclusion Demand Side:

- There is the impact of financial inclusion, and financial development **more generally, on long-term economic growth and poverty reduction, and thus on the macroeconomic environment.** For example, an appropriate access to financial instruments may allow the poor or the disadvantaged to invest in physical assets and education, which may help reducing income inequality and contributing to economic growth.
- An increased financial inclusion significantly may change the behaviour of organisations and consumers, in turn influencing the efficacy of monetary policy, **policy areas** that sit **at the very core of central banking**



The main MYFIDs overall index are made up of 4 sub-KPIs, illustrated as the image above.

1. Convenient accessibility
2. Take-up rate
3. Responsible usage
4. Satisfaction level



RESEARCH BACKGROUND & DESIGN

- ★ Assess the **performance of Malaysian's** financial capability and inclusion level
- ★ Continue to identify **potential needs and gaps** with the intention to highlight the vulnerabilities in particular segment of population, to help improve and focus policies and intervention where they are most needed

Overview of Research Design

Methodology



Quantitative interviews: 60 Minutes Structured Questionnaire

Interview Method :

FACE TO FACE door to door – CAPI (Computer Aided Personal interview)

Coverage

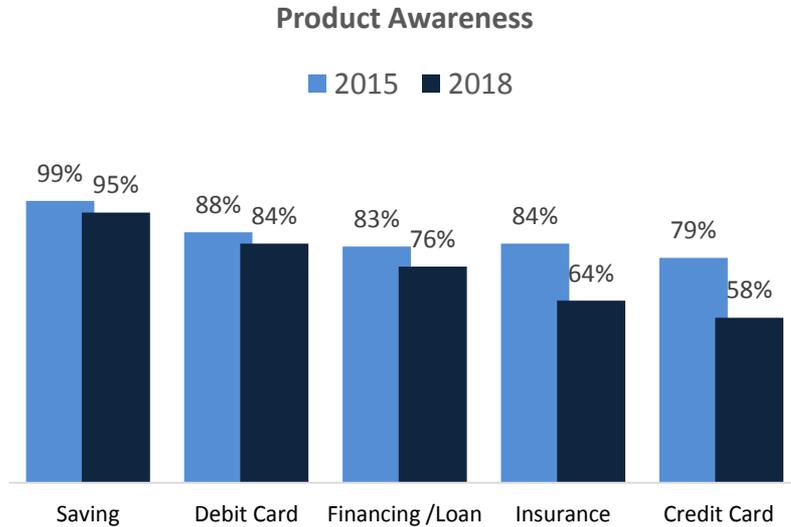


Nationwide with both Urban and Rural Coverage

Sample Segment	Criteria	Sample Size Achieved	Approach
Main Sample: General Population	Malaysians aged 16 to 60 years old, all genders, all ethnicities, all income level	3042 completed interviews	FACE TO FACE door to door – CAPI (Computer Aided Personal interview) 20% Intercept only in urban areas where it is a gated communities and high end condominium.
Booster: Low Income Segment	Malaysian aged 16 to 60 years old with household income below RM3,000. All gender and ethnicities	500 completed interviews	
Booster: General Population, Youth and Teachers	Malaysians aged 16 to 60 years old, all genders, all ethnicities, all income level	1500 completed interviews	Online Survey (shorter questionnaires)

AWARENESS ON FINANCIAL PRODUCT/SERVICES

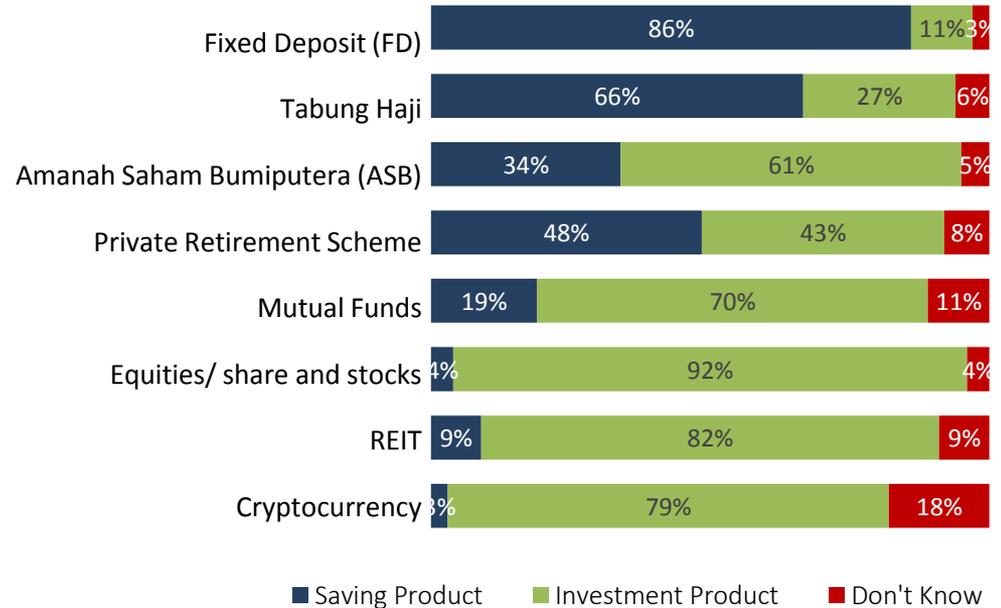
Despite high awareness on the products/services available in the market, some are still not able to know whether certain products are for saving or investment.



Q25a. Please tell me whether you have heard of the following financial products?

Base N.3394, all respondents

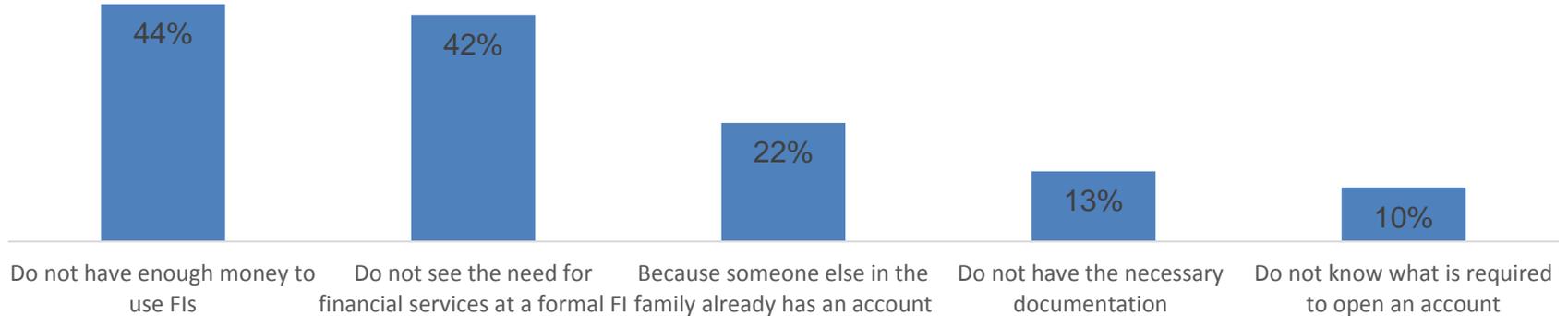
Classification of FI products/services based on perception



Q25e. For each type of the products that you are aware of, I would like to know how you see each of the products whether it is a savings product or an investment product.

BARRIERS TO PARTICIPATION IN FINANCIAL INSTITUTIONS

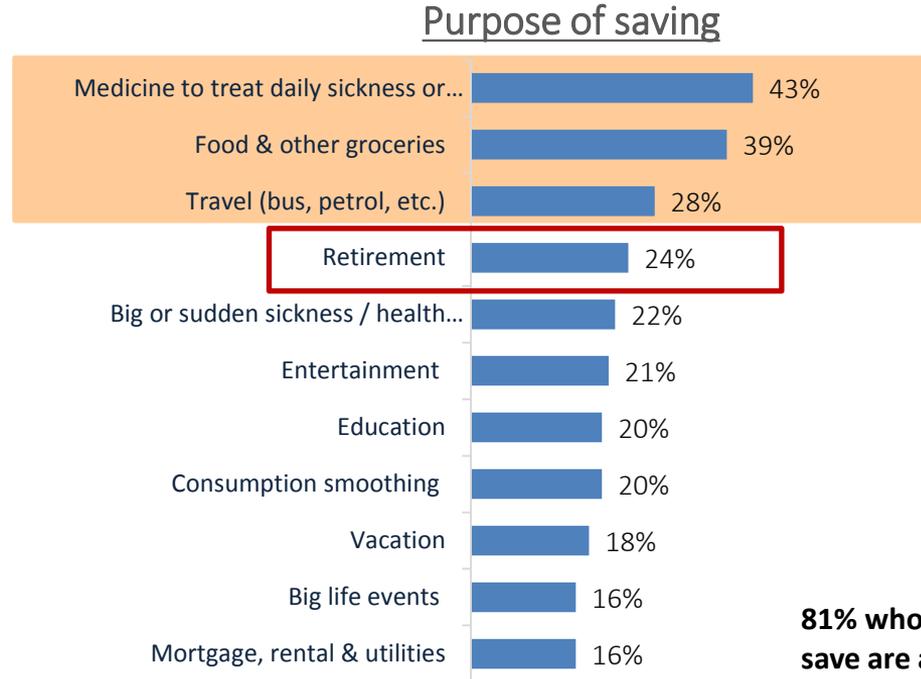
44% cited “Insufficient funds” as the main reason among those who do not use any banking products and services



SAVING BEHAVIOUR



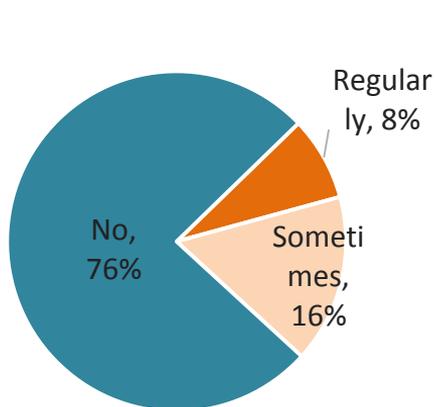
The purpose of savings is mainly for the purpose of meeting day-to-day commitments – for sickness/health needs & groceries, food.



81% who claimed to not have enough to save are among the younger age group

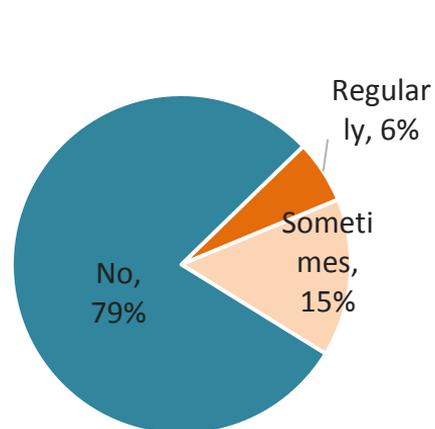
BORROWING BEHAVIOUR

Only about 20% of the Malaysian claimed to borrow money and mainly those residing in the Urban areas and Central region



24%
Use Credit / Borrow money as a result of short of money

Do you and your household ever use **credit or borrow money to buy food or pay for other necessary items** because you have run short of money?

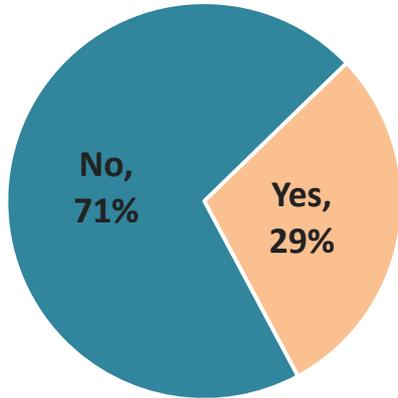


21%
Borrow money to pay off debt

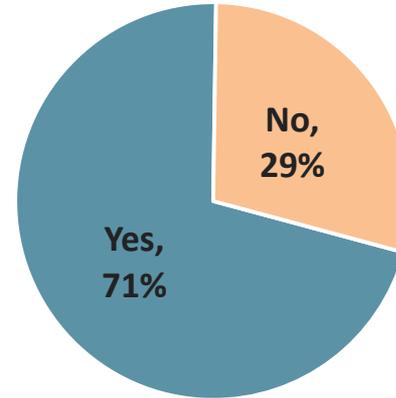
Do you and your household ever have to **borrow money to pay off debts you owe?**

FINANCIAL RESILIENCE

With the current income earned, most of the Malaysians have been able to sustain their living expense. In order to make ends meet in situation where money is short, majority have cited that they would draw money out of savings(56%) or cut back on spending (52%).



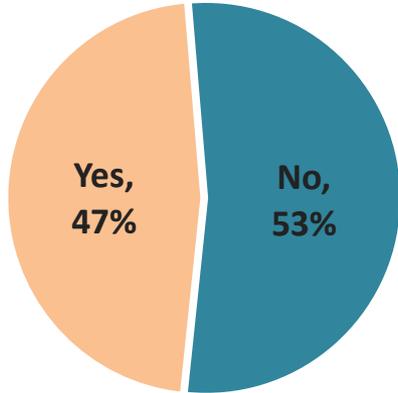
Sometimes people find that their **income does not quite cover their living costs**. In the last 12 months, has this happened to you, personally?



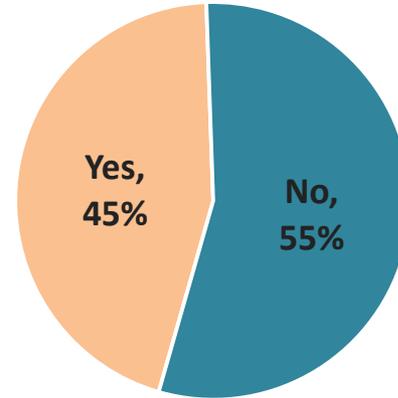
In the last 12 months, have you always **had enough money for your basic needs**?

FINANCIAL RESILIENCE / BORROWING BEHAVIOUR

Half of Malaysians have no confidence that they are able to cover expense without borrowing money should they meet a major unexpected expense of at least a month salary.



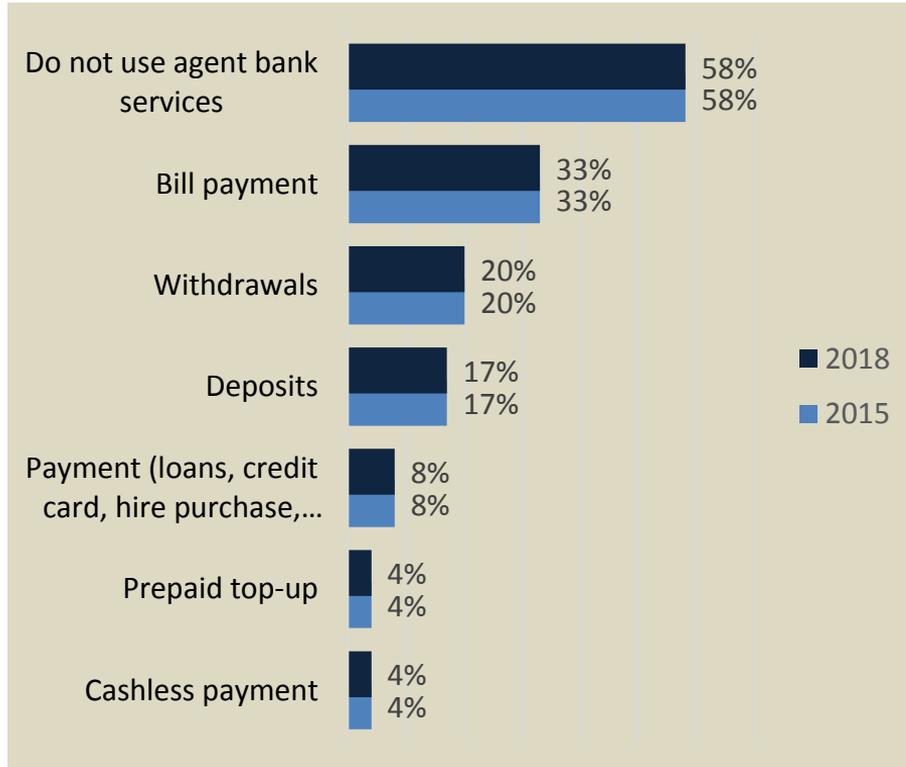
If tomorrow you had to **meet a major unexpected expense of at least a month salary/income**, could you cover it in full and without borrowing money that you would have to repay?



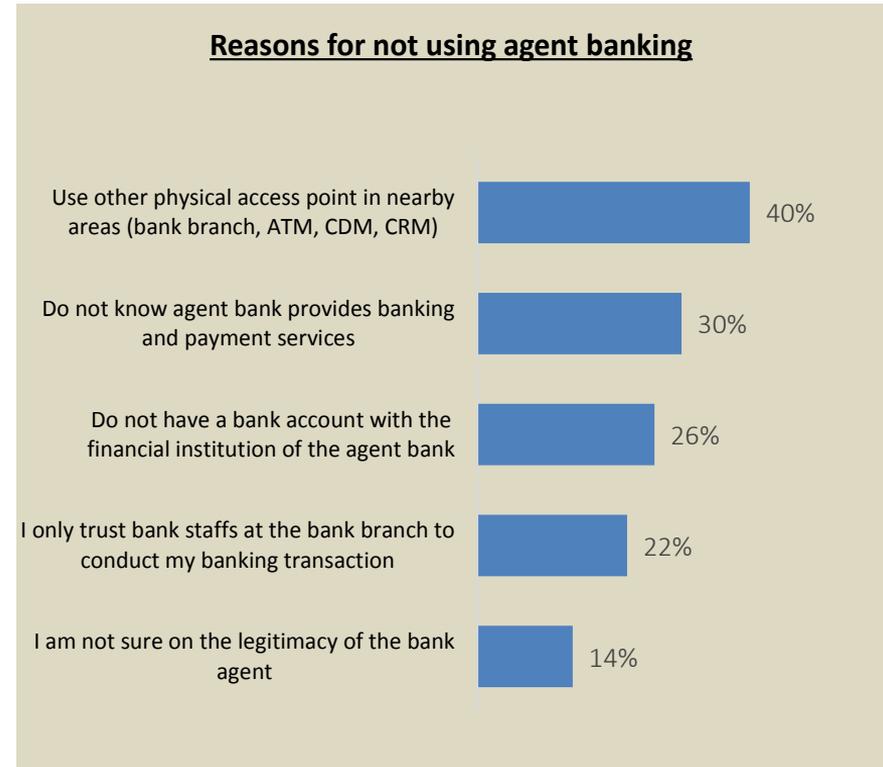
Have you done anything to make sure you could **cover such an unexpected expense in full without borrowing money** that you would have to repay?

AGENT BANKING

Among those who are aware of agent banking, 33% pay their bills through agent banking. The rest who do not use the agent banking usually use other physical access points



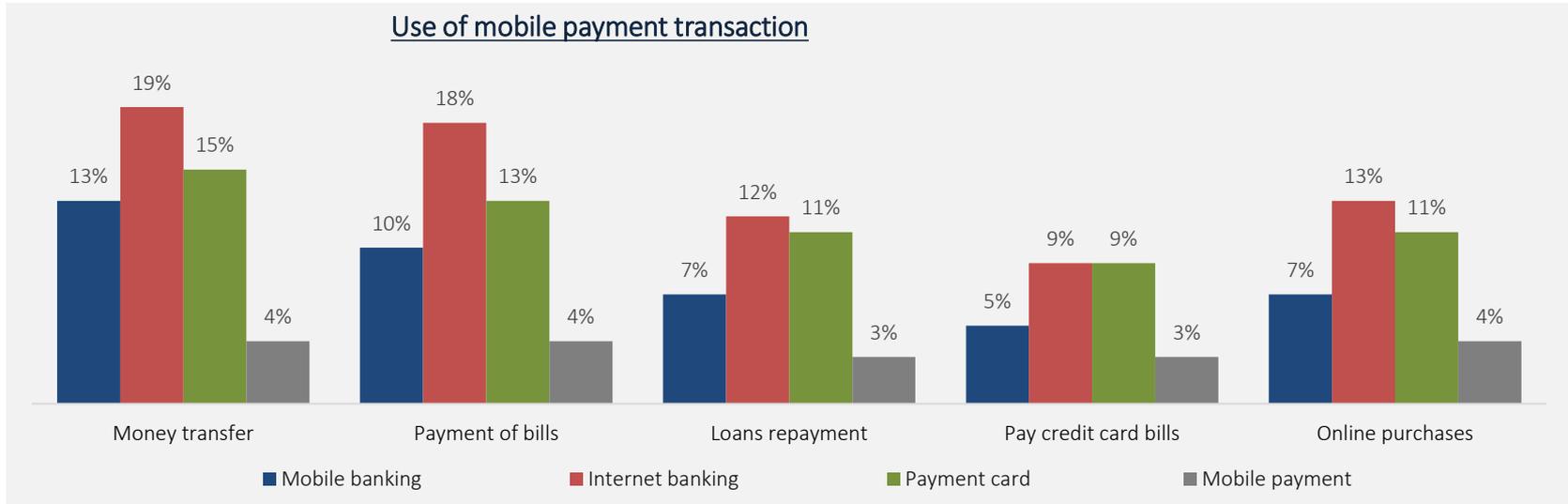
Base N.1714, those who are aware of Agent Banking Services



Base N.973, those who DO NOT use agent banking

INTERNET and MOBILE BANKING

The mobile usage in carrying out payment or any financial related transaction is more prominent among the working young adult. Also, this approach of payment/ transaction is more favorable among the male.



	Mobile banking	Internet banking	Payment card	Mobile payment
I am not aware of such payment service , therefore not using it	33%	24%	20%	46%
I am aware but not using this service	39%	40%	38%	34%

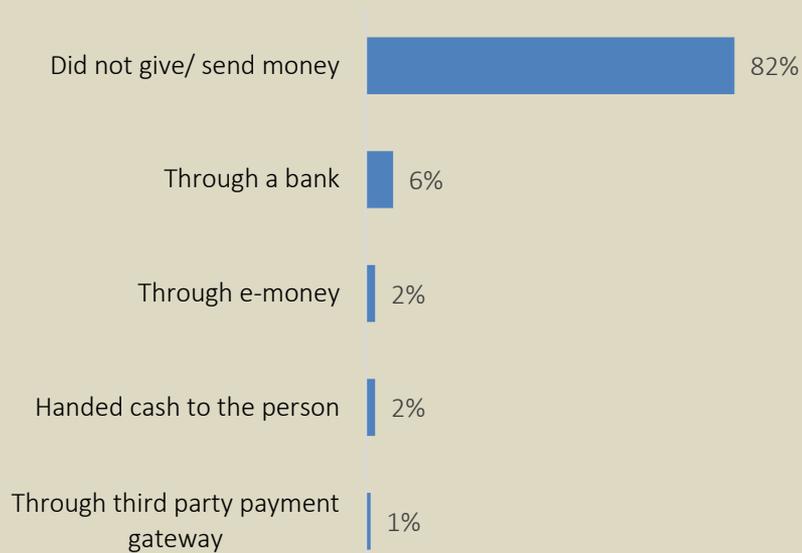
Base N.3394, all respondents

Q57a. What kind of payment do you make using the following payment services?

REMITTANCE

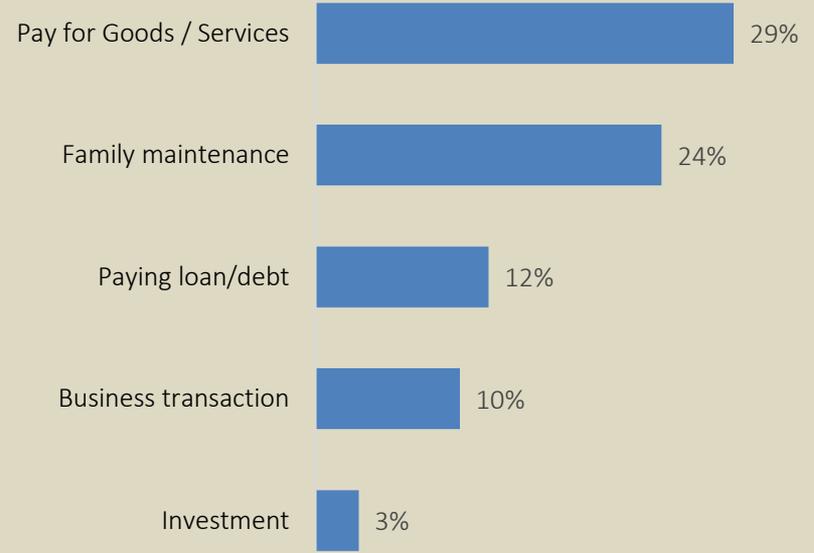
Among those who use the remittance service, mostly do it for online shopping

Ways of sending/remitting money to a friend/relatives



Base N.3394, all respondents

Purpose of sending money abroad

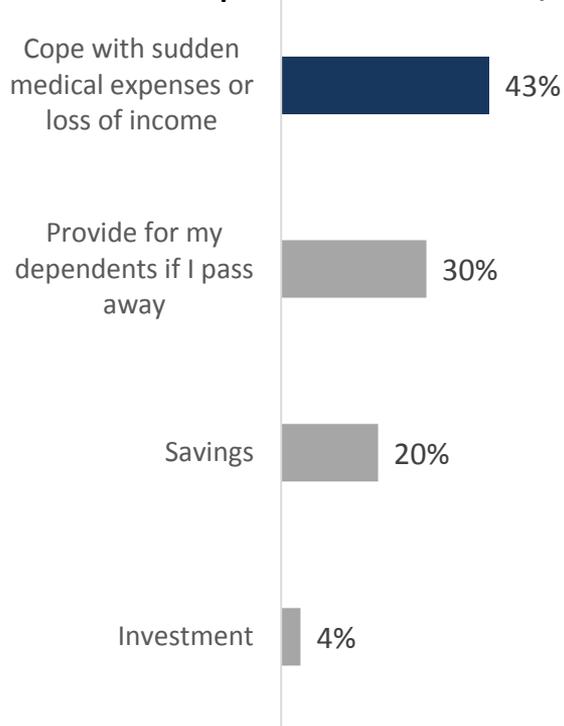


Base N.265, those who have used the remittance services in

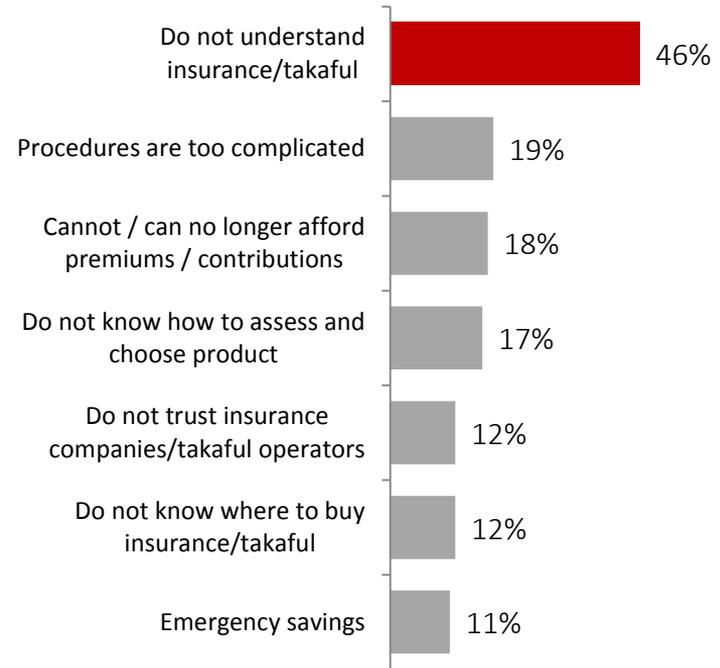
INSURANCE – MOTIVATIONS & BARRIERS

**Coping with sudden medical expense / loss of income is the main motivation to taking up insurance/takaful products.
Low product understanding & the concept of insurance is the main barrier for most Malaysians to owning insurance /takaful products.**

Motivations to purchase Life Insurance / Family Takaful



Reasons never bought Life Insurance/Family Takaful



Q58. Please tell me what is/are the motivation(s) to purchase life insurance / family takaful?
Base N.912 (weighted), those who have Insurance product (ALL INSURANCE)

Q62a. Please tell me what are the reasons why you have never bought life insurance / family takaful?
Base N.2200, those who have never bought insurance (ANY INSURANCE)

The Psyche of Malaysian Adults...

1

Savings Behaviour:

- Malaysians save up to 10% of their Salary and for more short-term purpose rather than long term medicine / sickness & food/groceries).
- The frequency of top up of savings is up to once a month (55%) . And 58% will take out as frequently as once a month.
- Savings is also meant as “emergency cash” for the month should they fall short of money for the month (or cut on spending).

2

Borrowing Behaviour (Short –term needs):

- There is higher preference for using Debit Card (78%) than Credit Card (27%).
- Incidence of P12M “borrow money” is low. 83% of Malaysians claim to have not borrow money or taken any loan in P12M from any source for fear of debt and concern over not being able to pay back loan.
- Nonetheless, for those that do take up loan/borrow money it is mainly for household expenses mainly food/groceries.

3

Financial Resilience and Sustainability:

- 24% Malaysians feels that they are only able to sustain their living expense for at least 3 months or more
- 10% More than 6 months
- It is even less for those who claim to have difficulty in raising RM1,000 of immediate emergency funds.
- Malaysians are able to sustain current cost of living with what they currently earn – spending within means.
- However, they will have difficult in managing financial shocks – not able to cope with unexpected events without having to borrow.

Insights on the state of Malaysian Consumer in 2018



69% of Malaysian **pay their bills on time** and 67% the consumers will **settle their credit card debt in full monthly**



73% of the Malaysians make an effort to make sure that they have **sufficient savings to cover emergencies or unexpected major expenses.**



67% of Malaysians **have financial goals and strive to achieve them** and 72% of the Malaysian **keep a close watch of their financial affair.**



52%(76%) of the Malaysians claimed that they would **have issue sourcing emergency cash of RM1,000.**



10% (6%) of the Malaysian Consumers is able to survive for more than 6 months after losing their main source of income and **24%(18%) up to 3 months**

Highlights from the Financial Capability and Inclusion Survey 2018

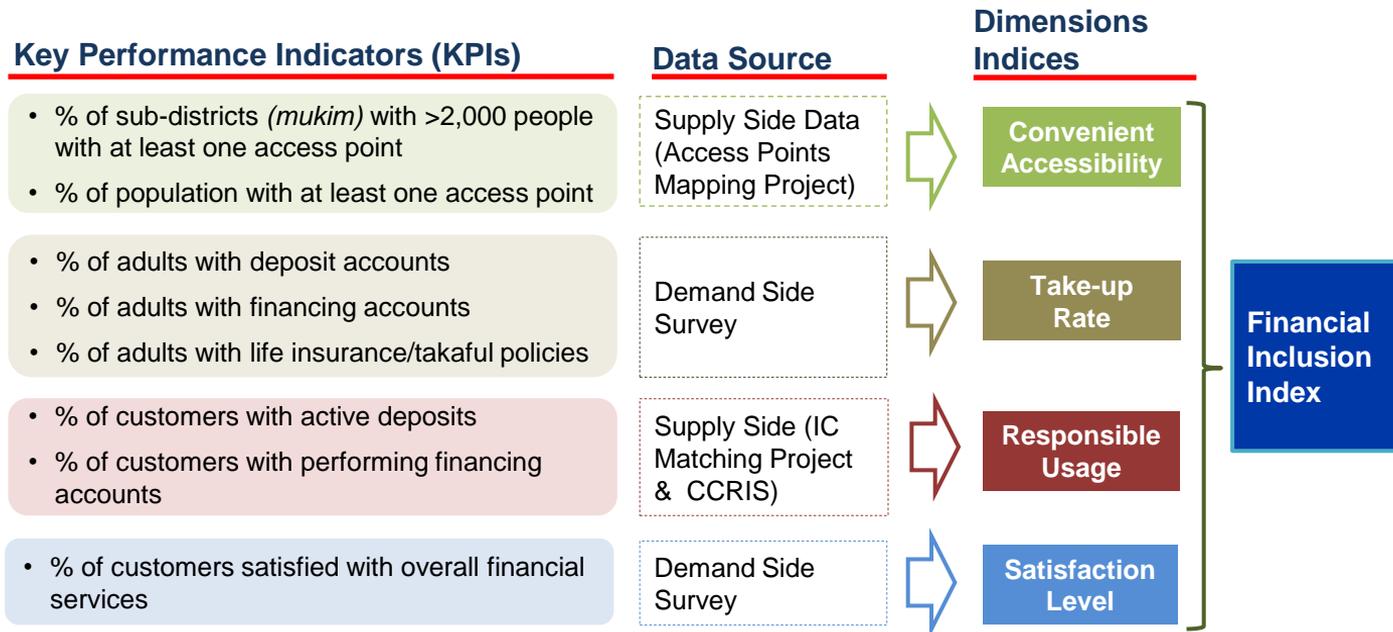
Who are the unbanked (8%) adult population?



Key Findings - Comparing Low Income Segment vs General Population

Indicators (% of respondents)	Low income segment		General population	
	2015	2018	2015	2018
Deposit accounts ownership	85%	90%	91%	92%
Financing accounts ownership	8%	12%	25%	39%
Life insurance / takaful ownership	4%	2%	16%	17%
Mobile banking usage	23%	35%	30%	44%
Internet banking usage	17%	33%	34%	50%
Difficulty in sourcing emergency cash of RM1,000	93%	70%	76%	52%
Able to sustain for at least 3 months if lose income	12%	14%	18%	24%

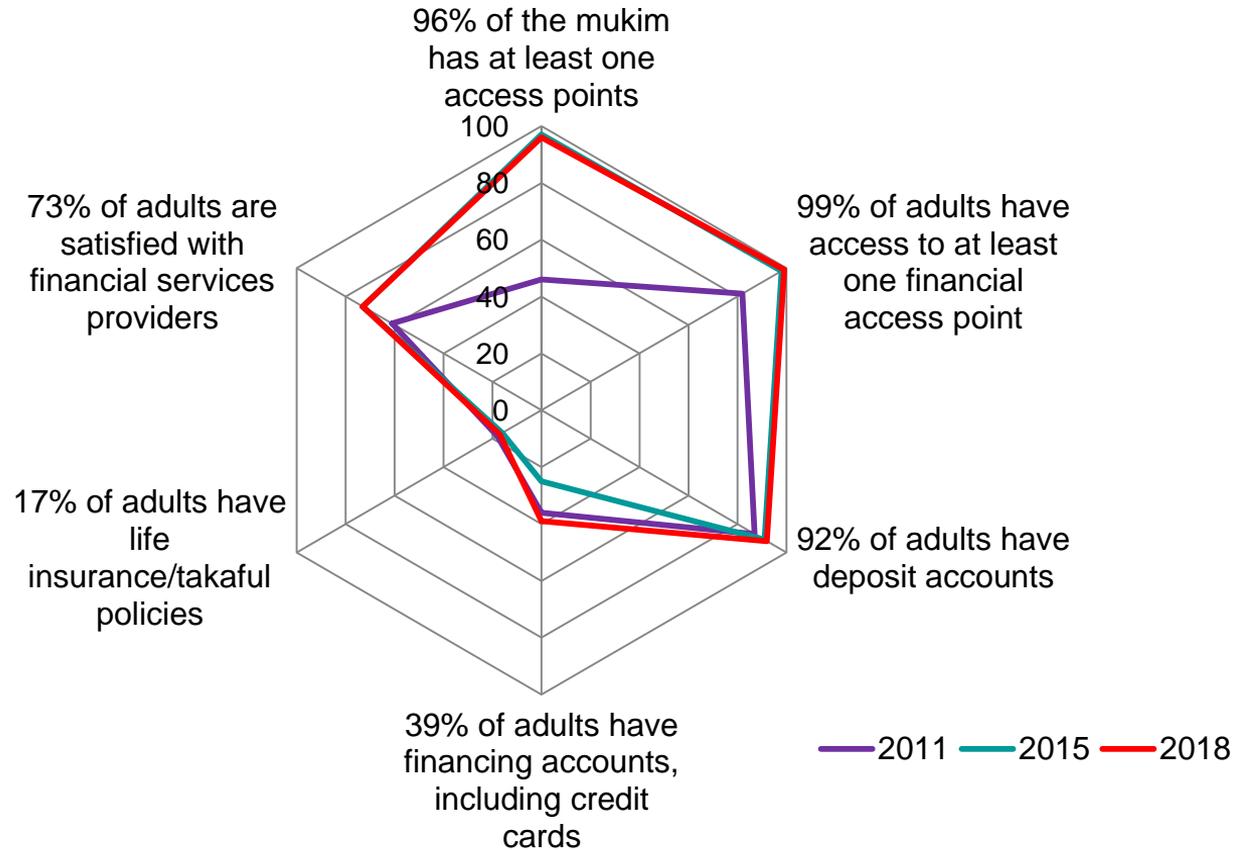
A Financial Inclusion Index has been developed to track the overall progress of financial inclusion in Malaysia



Key Salient Features

- 1 **Leverage** on AFI Core Set of Financial Inclusion Indicators formulated by the AFI Financial Inclusion Data Working Group (FIDWG)
- 2 **Customised** the AFI Core Set to reflect KPIs of **Malaysia Financial Inclusion Framework** by defining 4 dimensions of financial inclusion

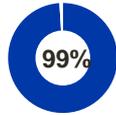
Improvement in access to and satisfaction of financial services but moderate take-up of financial products



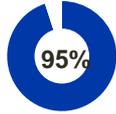
Financial inclusion in Malaysia continues to improve

Driven by increased accessibility to financial access points, higher and more responsible usage of financial products and higher levels of satisfaction

2018 Financial Inclusion Indicators



Population with convenient access to formal banking services (2011: 82%)



Customers with an account with financial institutions (2011: 87%)



Satisfaction with overall financial services* (2011: 61%)



Customers with financing accounts (2011: 37%)



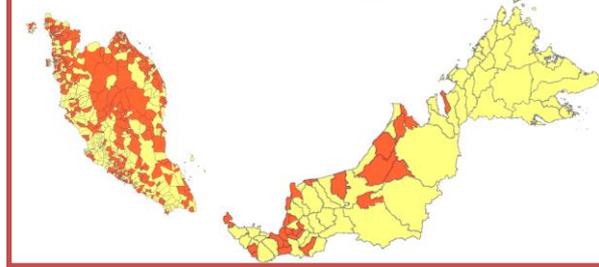
Life insurance/ takaful penetration (2011: 30%)

High accessibility due largely to establishment of agent banks

1

46% mukims served (end-2011)

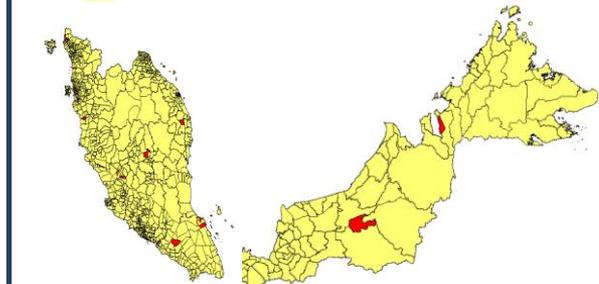
Served sub-districts (Yellow) Unserved sub-districts (Red)



2

96% mukims served (end-Dec 2018)

Served sub-districts (Yellow) Unserved sub-districts (Red)



* Based on demand-side survey conducted in 2015