



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

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*This article outlines the financial inclusion initiatives undertaken thus far in Malaysia. The measurement framework allows the Bank Negara Malaysia to monitor the performance and evaluate policies, as well as identify areas for future improvement. Financial inclusion initiatives in Malaysia have resulted in significant achievements in bringing financial products and services to the public.*

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# Malaysia's Financial Inclusion Framework

Advancing an Inclusive Financial System in the Next Decade



*“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 shared prosperity.”*

## Vision on Financial Inclusion by Bank Negara Malaysia

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# Malaysia’s Financial Inclusion Framework

## Advancing an Inclusive Financial System in the Next Decade

In 2009, the Malaysian Government introduced the New Economic Model (NEM) which outlines the transformation of Malaysia into a high income economy, supported by sustainable growth.

Inclusiveness, alongside high income and sustainability, is one of the key desired outcomes of this vision. The participation of the bottom 40% of the households based on income stratification in the overall economic and financial sector growth is seen as key in achieving economic prosperity as well as maintaining social cohesion. Although absolute poverty has largely been eradicated in the 57 years since the Malaysian Independence in 1957, a

significant portion of Malaysian households continue to earn less than the desired annual income goal of RM48,000 (US\$15,000) by 2020.

Malaysia acknowledges that an inclusive financial system plays an important part in ensuring sustainable long-term economic growth. Evidence shows the strong positive correlation between the level of financial inclusion and the stage of development of an economy, whereby a higher degree of financial inclusion will contribute to overall economic development<sup>1</sup>. An inclusive financial system provides the lower segments of society with access to quality essential financial services and the means to accumulate wealth through building up savings. It also promotes broader access to financing for investment in economic activities, thus creating opportunities for the poor to improve their standard of living. Studies prove that financial inclusion framework, especially when designed appropriately, improves the welfare of the poor<sup>2</sup>.

### FAST FACTS

92%	Malaysian adults with at least a deposit account
99%	Malaysians with convenient access to formal banking services, through agent banks or FI branches

<sup>1</sup> Demirguc-Kunt, A., Beck, T. and Honohan, P. (2008), “Finance for All? Policies and Pitfalls in Expanding Access”, Washington, D.C.: The World Bank.

<sup>2</sup> Bauchet, M., Starita, T. and Yalouris, A. (2011) “Latest Findings from Randomized Evaluations of Microfinance”, CGAP Access to Finance Forum, No. 2. Dec 2011.

**Policy priorities in elevating financial inclusion**

Financial inclusion is legislated as one of the primary functions of the Bank under the Central Bank Act of Malaysia 2009. The financial inclusion agenda continues to be advanced with the introduction of a holistic Financial Inclusion Framework under the Financial Sector Blueprint.

The Bank's financial inclusion framework, as embedded in the Blueprint, entrenches the role of a central bank in enhancing financial inclusion, i.e. to create an enabling and holistic ecosystem which allows and incentivises delivery of innovative products and services to the target segment in a safe, effective and sustainable manner.

The Framework specifies the vision, desired outcome and high-impact strategies for financial inclusion in a clear and structured manner:

- ❖ Vision: 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 shared prosperity

affordable essential financial services to satisfy their needs towards shared prosperity.

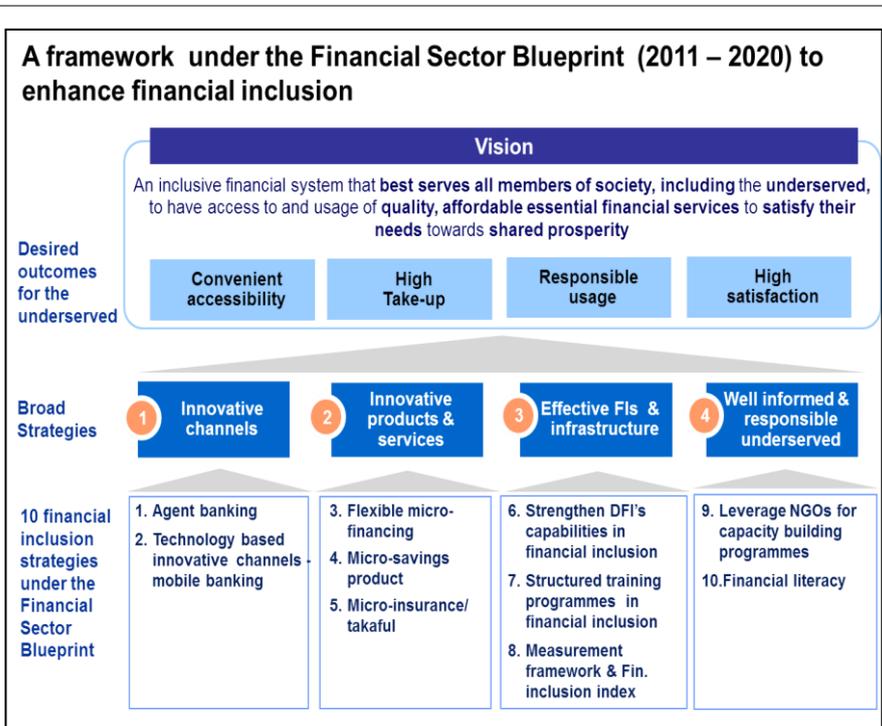
- ❖ Four (4) desired outcomes for the underserved: Convenient accessibility; high take-up; responsible usage and high satisfaction.
- ❖ Four (4) strategies to achieve the desired outcomes: Innovative channels; innovative products and services; effective financial institutions and infrastructure; as well as well informed & responsible underserved.

**Enhancing access through innovative channels**

A diverse set of delivery channels have been deployed to ensure widespread access to financial services. The branching policy has encouraged FIs to establish an extensive branch network across the Malaysia to ensure sufficient access to financial services. As at June 2015, there were 1.5 bank branches per 10,000 adults and 5.2 automated teller machines (ATMs) per 10,000 adults in Malaysia. Banks are also encouraged to establish mini branches and mobile units in rural districts.

In facilitating the expansion of financial access points, the Agent Banking Guidelines was introduced in 2012, superseding the Shared Banking Services circular issued in 2007 . BNM is encouraging the expansion of agent banking by enabling non-financial businesses such as sundry shops, post offices and petrol stations to provide basic financial services in a safe and cost-effective manner. This initiative has enabled all 144 districts in Malaysia and 96.4% of the 886 sub-districts with more than 2,000 populations to have access to essential financial services resulting in 99% of Malaysians today enjoying convenient access to safe, reliable and affordable financial services.

As at June 2015, there were more than 6,500 banking agents nationwide.



The Guidelines was further expanded in April 2015 to allow agents to open saving accounts for the underserved on behalf of financial institutions, via online and biometric verification.

FIs are also encouraged to leverage on innovative digital channels such as internet banking to increase access of banking services to more people while keeping costs low. BNM has issued several guidelines to facilitate the development of electronic banking and e-payment system. As at June 2015, there are 18.3 million internet banking subscribers representing 61.9% of the total population .

#### **Introducing innovative financial products and services**

In order to meet the diverse financial needs, particularly of the underserved community, BNM had facilitated the development of a broader range of micro financial products. This initiative includes the development of flexible micro financing that meets the needs of the micro enterprises that have irregular or seasonal income streams; long-term contractual micro-savings with low committed periodical savings and favourable terms to inculcate a healthy savings habit among the low-income segment; and microinsurance/ microtakaful to provide financial protection against unexpected adverse events. Currently, all three products are at the pilot stage to test the demand and acceptance by the targeted consumers.

#### **Developing human capital**

In developing quality human capital to support financial inclusion, BNM has partnered with the Irving Fisher Committee (IFC) on Central Bank Statistics, AFI and OECD to organise various capacity building programmes for policymakers globally on financial inclusion. Meanwhile, the Asian Banking School provides leadership and technical training to micro finance practitioners in the region.

#### **Enhancing the measurement of financial inclusion**

Recognising the importance of measurement in translating policies into real impact, BNM adopted the Sasana

Accord during the Alliance for Financial Inclusion (AFI) Global Policy Forum 2013 in Kuala Lumpur, by developing a set of key performance indicators and a financial inclusion index (FII) to track the progress and estimate the impact of policies to intensify the outreach of the financial sector. The FII tracks the aggregated progress of financial inclusion in the country by measuring holistically the four (4) desired outcomes, i.e. accessibility, take-up, usage and satisfaction. This has enabled BNM to prioritise areas of focus for its policy and development initiatives.

#### **Ensuring proportionate regulation**

Proportionate regulations advocate a risk-based approach to regulations that balance the objectives of financial inclusion, integrity and stability. In the context of financial inclusion, BNM aims to ensure that regulations such as those on anti-money laundering and prudential requirements serve to adequately protect the financial ecosystem without hindering the implementation of financially-inclusive policies. Thus, BNM fully supports the works of the Global Standards Proportionality Working Group (GSPWG) under AFI. BNM, in collaboration with AFI and the Toronto Centre, organised the Global Symposium "Towards Proportionality in Practice: Financial Inclusion and Implementation of Global Standards" in Kuala Lumpur in May 2015 culminating in the KL Outcome on Proportionality in Practice.

#### **Well informed and responsible underserved**

The Bank collaborates with the public and private sectors in advancing financial literacy, e.g. the Ministry of Education, the Credit Counselling and Debt Management Agency, and the financial industry. Financial capability programmes are aligned to consumers' different life stages and corresponding nature of financial decisions. The Bank also leverages on Non-Government Organisation's (NGO) financial literacy education programme (FLEP) to create awareness amongst potential micro enterprises on available microfinance facilities.

#### **Moving forward**

With the implementation of the Financial Sector Blueprint strategies thus far, the level of financial inclusion in Malaysia has been elevated. Moving forward, our priorities are to enhance greater access to digital financial services, as well as to enable the underserved to benefit from increased convenience, greater efficiency and lower cost. Another important priority would be financial education for the newly banked, to ensure that new entrants into the financial system behave responsibly and do not suffer the unintended consequences of being over-indebted.

# Bank Negara Malaysia

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