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CENTRAL BANK OF MALAYSIA

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"Bank Negara Malaysia recognises the importance of financial inclusion in contributing to equitable and sustainable growth. This article serves to highlight Malaysia's journey in advancing financial inclusion, particularly the initiatives under the Financial Inclusion Framework, achievements thus far and future policy considerations."

Malaysia Experience in Financial Inclusion: Unlocking Shared Benefits for All through Inclusive Finance

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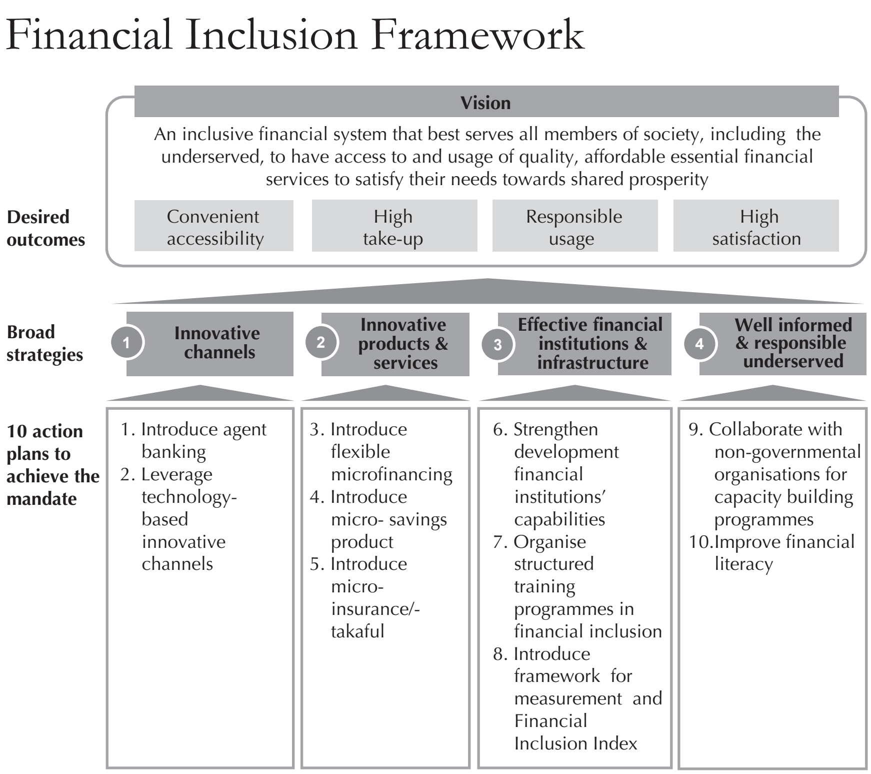
Promoting inclusive finance, where all segments of society have access to suitable and affordable formal financial services, is a key focus and specific mandate of the Bank in contributing towards equitable and sustainable growth. Essential financial services provide opportunities for Malaysians, including 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 (Diagram 1), a comprehensive plan outlining the strategies for an inclusive financial system over the coming decade. The strategies are informed and measured by the Financial Inclusion Index, developed to track the progress and impact of the Bank's financial inclusion policies. This article provides an overview of Malaysia's focus and key initiatives in advancing financial inclusion in Malaysia since 2011 when

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.

Diagram 1



Source: Bank Negara Malaysia

the first Financial Inclusion Demand-Side Survey was conducted.

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 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.

Financial Access Points in Malaysia

Access points per 10,000 adults:
- 4.7 branches and agent banks
- 4.7 Automated Teller Machines (ATMs)
- 2.2 Cash Deposit Machines (CDMs)

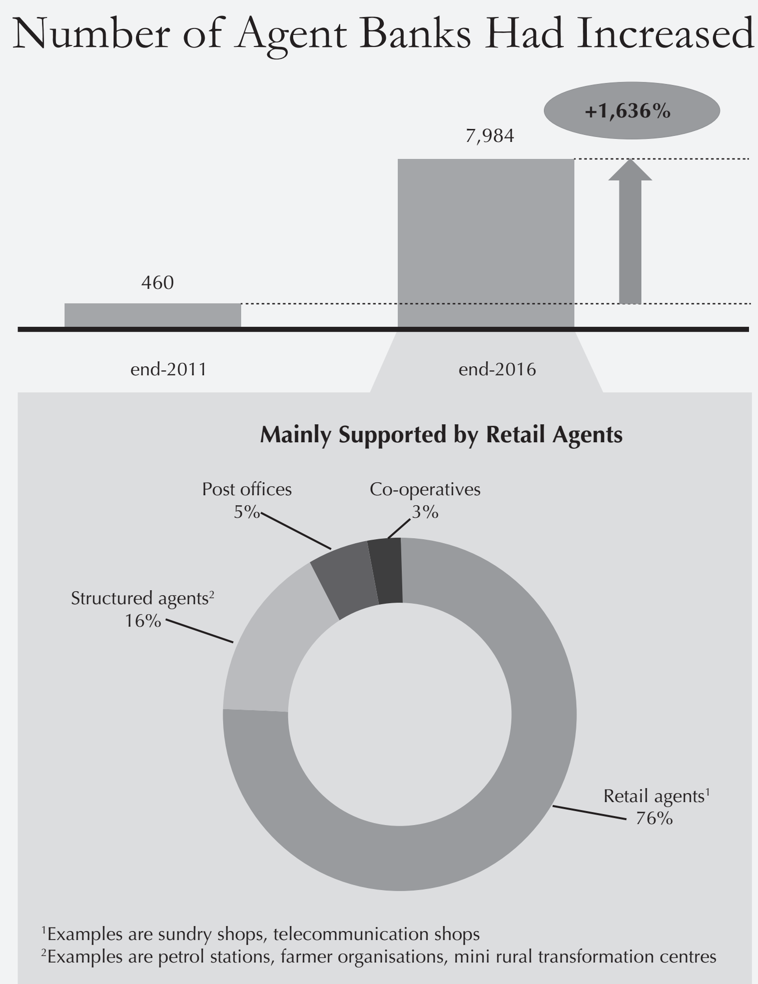
This achievement was in large part due to the establishment of agent banks, which had an important impact in increasing access to financial services particularly in the rural areas. Following the operation of agent banks, the volume of financial transactions conducted through agent banks has increased from three million transactions as at end-2012 to 100 million as at end-2016 (amounting to USD1.9 billion in value). Banks were able to expand their outreach to rural areas at lower costs (by up to 80%) compared to setting up brick-and-mortar branches, while substantially reducing the distance travelled by rural consumers (up to 140km in some locations) to access banking services. The agent banks also benefitted from higher customer traffic and increased sales.

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[1] on behalf of financial institutions via online real-time systems and biometric identity verification.

As at end-2016, 7,984 agent banks have been established nationwide, with over 25,700 new accounts opened and 100 million transactions amounting to USD1.9 billion facilitated by agent banks. Most of these transactions involved bill payments (60.8%; USD1.2 billion) and cash deposits (26.0%; USD0.5 billion).

Chart 1



Source: Bank Negara Malaysia

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

Another important development that has intensified since 2011 has been the expansion of Internet banking and mobile banking. As at end-2016, the number of Internet banking subscribers increased to 22.8 million (2011: 11.9 million) representing 71.9% of the total population, while the number of mobile banking subscribers increased to 8.9 million (2011: 1.6 million) representing 28.3% 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.

(ii) Take-up of Financial Products and Services

The take-up rate, which represents the population's usage of specific financial services 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.

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 to provide financial protection against unexpected adverse events; and supporting the provision of tailored microfinancing solutions for micro, small and medium enterprises (Diagram 2 & 3).

The provision of financial services is also supported by a comprehensive SME financing ecosystem (Diagram 4) 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.

Development financial institutions (DFIs) also have an important role in

Diagram 2

Targeted Microfinancing Solutions

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

[1] 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.

[2] 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

Diagram 3

Microfinance Scheme *(Pembiayaan Mikro)*

1. Features

- **Easy** – no collateral, minimum documentation, simple procedures
- **Fast** – turnaround time about 10 days
- **Convenient** – accessible via more than 2,000 access points
- **Amount** – up to RM50,000 for business purposes

2. Micro Enterprise Fund (MEF)

- RM200 million revolving fund
- Concessionary funding rate to Participating Financial Institutions for onward lending to viable micro enterprises

3. Participating Financial Institutions

BSN, Agro Bank, Alliance Bank, Bank Rakyat, UOB, Maybank, Public Bank, CIMB Islamic, AmBank Group, Bank Muamalat

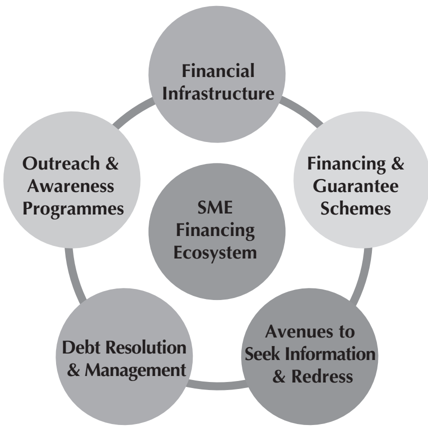
4. Achievements

- Since inception in 2006 until end-2016, RM3.5 billion in financing approved for more than 200,000 accounts
- Outstanding financing as at end-2016 stood at RM921.8 million (3.4% year-on-year growth) to more than 63,000 accounts

Source: Bank Negara Malaysia

Diagram 4

SME Financing Ecosystem



SME Financing in Malaysia

- SME financing approval rate exceeding 70%.
- Financial institutions account for 97% (USD68 billion) of total financing to SMEs.
- Share of financing to small- sized companies (40%), micro enterprises (33%) and medium-sized SMEs (28%).
- 33% of approvals were given to new customers (SME Corporation Malaysia Survey Third Quarter 2016*).

Source: Bank Negara Malaysia and SME Corporation Malaysia

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 registered 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 Ombudsman for Financial Services, 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.

(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

Diagram 5

Financial Inclusion Initiatives

Dimensions	Initiatives (2011-2015)	Moving Forward
1 Convenient Accessibility 2011 46% / 2015 97% sub-districts *(mukim)* with at least 2,000 population with at least one access point 2011 82% / 2015 99% population living in sub-districts *(mukim)* with at least one access point	EB ejen bank berdaftar Agent Banking Mobile & Internet Banking Branching policy	• Increase the number of access points in the underserved areas • Promote the opening of accounts via agent banking
2 Take-up Rate **% of adult population with financial products** deposit accounts: 2011 92%, 2015 91% financing accounts: 2011 36%, 2015 25% life insurance/ takaful policies: 2011 18%, 2015 16%	**Financial Products** Basic savings PEMBIAYAAN MIKRO Microfinancing CGC's direct financing scheme **Enabling Infrastructure** CREDIT BUREAU MALAYSIA CGC CCRIS Proportionate regulation (DFIA)	• Microsavings & microinsurance/ microtakaful for low income households • Savings product for youth • Accelerate migration to e-payment • Financing products for youth, women & persons with disabilities • ASEAN SME & Financial Inclusion Working Groups • Government-to-person payment (G2P) • Financing Guidebook for SMEs • Enhance regulatory framework on microfinance
3 Responsible Usage 2011 87% / 2015 92% Customers with active deposit accounts 2011 97% / 2015 98% Customers with performing financing accounts	Regulations • Responsible Financing Guidelines • Credit Card Guidelines Financial Advisory, Education and Redress BANK NEGARA MALAYSIA LINK AKPK POWER! Small Debt Resolution Scheme OFS OMBUDSMAN FOR FINANCIAL SERVICES OMBUDSMAN PERKHIDMATAN KEWANGAN	• Train-the-Trainers Programme on SME Financing • Financial literacy program for 1AZAM[i] participants and targeted segments (low income households, persons with disabilities, school children) • Enhance restructuring & rescheduling mechanism for SME financing [i]1AZAM (Akhiri Zaman Miskin)– Government's poverty eradication programme
4 Satisfaction Level 2011 61% / 2015 73% Customers who are satisfied with overall financial services	**Consumer and Market Conduct** • Guidelines on Product Transparency and Disclosure • Guidelines on the Imposition of Fees and Charges on Financial Products and Services • ABM-PARTNER on client charter and standard documentations	• Enhance advisory service by the DFIs • Digitalisation of delivery of products and services

Source: Bank Negara Malaysia

transparency and disclosures, and the imposition of fees and charges by banks. 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 also contributed to improved satisfaction levels. A similar initiative to introduce plain language in insurance contracts has also been pursued by the insurance industry.

Islamic finance as a key enabler of inclusion

Malaysia has a highly developed Islamic financial ecosystem that operates alongside the conventional financial system, accounting for 28% of total banking system assets. Islamic finance, guided by the overarching Shariah principle to protect and preserve the benefits and interests of society at large, is well positioned as an enabler of financial inclusion. In particular, the Islamic principles of risk-sharing and redistribution of wealth inherently complement the objectives of financial inclusion.

The introduction of Islamic investment accounts has facilitated the growth in alternative modes of risk-sharing contracts and strengthened the role of Islamic banks in optimising funds for productive uses in the economy. A consortium of Islamic banks established the Investment Account Platform (IAP) in 2016, a Shariah-compliant online investment platform that allows SMEs to list their ventures and seek financing while retail investors can view ventures, invest and track the performance.

The Bank and the industry are also focused on advancing the positive socio-economic impact of Islamic finance. Islamic banks, in collaboration with State Islamic Religious Councils (SIRC), have introduced cash *waqf*[2] to finance *waqf* activities, while allowing waqf assets to be beneficially utilised. Other initiatives include the introduction of a new Islamic debit card with a *waqf* feature and a crowdfunding platform which facilitates donations to charitable organisations with increased transparency, traceability and efficiency. *Waqf* is also being reviewed as a new growth area for developing sustainable funding for social welfare purposes, such as eradicating poverty and improving access to education and health services.

Bridging the Last Mile – Leveraging on Innovation and Technology for Financial Inclusion

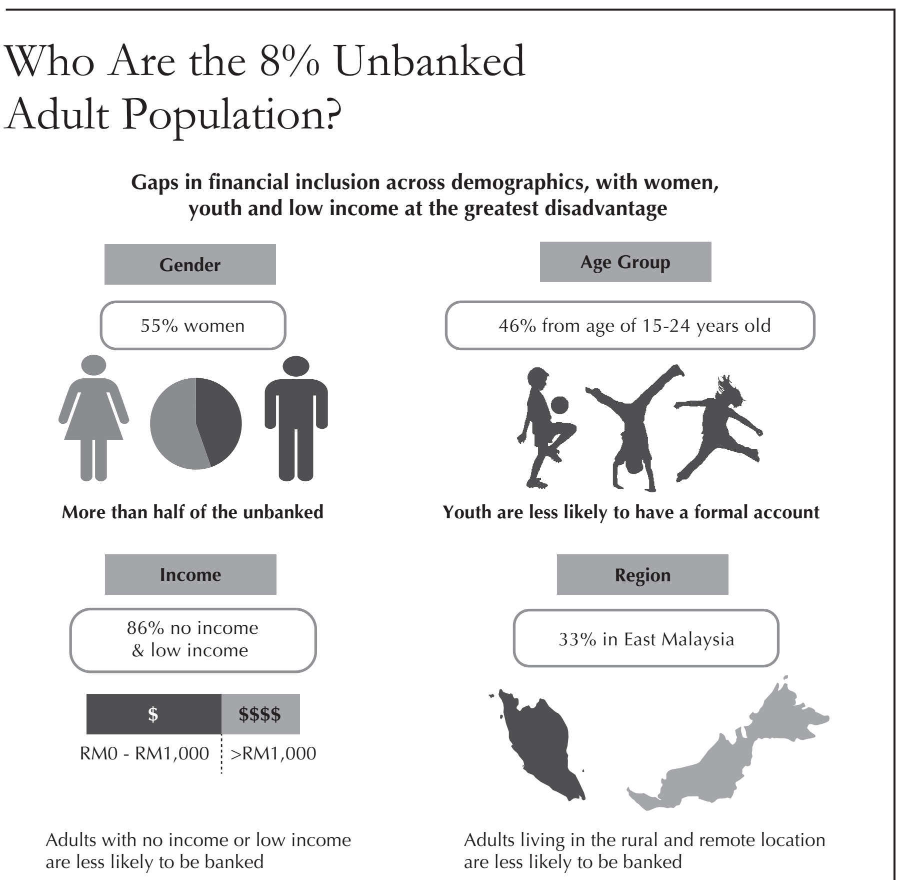
The global advent of technology has underpinned a shift towards a digital sharing economy, fundamentally changing business models and the way consumers consume. This provides new opportunities for policymakers to leverage on innovation to respond to the needs of consumers and businesses.

[2] Waqf refers to a religious endowment i.e. a voluntary and irrevocable dedication of one's wealth or a portion of it – in cash or kind, and its disbursement for Shariah-compliant projects.

Moving forward, the Bank will explore the feasibility of unlocking big data (e.g. savings behaviours, lifestyles, demographics and income patterns) to better understand consumer needs, develop tailored financial services and better assess potential borrowers' creditworthiness. Recognising SMEs' pain points in financing application, efforts are underway to develop an online SME financing aggregator to facilitate multiple financing applications seamlessly and reduce the information asymmetry between banks and SMEs. Strategic partnerships could also potentially scale up outreach to the underserved. This includes leveraging on telecommunication companies and the agent bank network to provide insurance to the masses, focusing on microinsurance products that are simple, affordable and easy to understand to encourage meaningful uptake.

These efforts will be supported by a sustained focus on effective education, support and protection for financial consumers. With this focus, the Bank expects that the remaining 8% that constitutes the unbanked population (Diagram 6) in Malaysia will be further reduced to 5% by 2020.

Diagram 6



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