

COMCEC

Global Trends in Financial Inclusion and Best Practices

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Ankara



Outline

‘Enhancing Financial Inclusion in the COMCEC Countries’ Report

Financial Inclusion

Best Practice in Financial Inclusion

Mobile Banking in Kenya

Agent Banking Strategy of Banco Bradesco in Brazil

Islamic Finance in Malaysia

Private Pension System of Turkey

Discussion Session

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Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Enhancing Financial Inclusion in the COMCEC Countries



The COMCEC Coordination Office
February 2014

- The COMCEC Office & Deloitte Consulting
- Aimed to define alternative ways to enhance financial inclusion
- Desktop research, literature review, subject matter experts (SMEs) and Deloitte analysis
- Report's outline:
 - Conceptual framework for financial inclusion and recent developments in the international agenda
 - A snapshot of financial inclusion at a glance in the COMCEC Countries
 - Reviewing institutional framework for financial inclusion in/among the COMCEC Countries
 - Identifying barriers on enhancing financial inclusion and introducing measures for reducing financially excluded population in the COMCEC Countries
 - Conclusion and recommendations

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What is «Financial Inclusion»?

According to the World Bank, financial inclusion is defined as advancing universal access to appropriate and affordable financial services*. As defined in the Global Financial Development Report (GFDR) 2014, "Financial inclusion is the usage of financial products"



Center for Financial Inclusion defines financial inclusion as a state in which all people have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients**



Financial Inclusion means that households and business have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably in a well regulated environment***



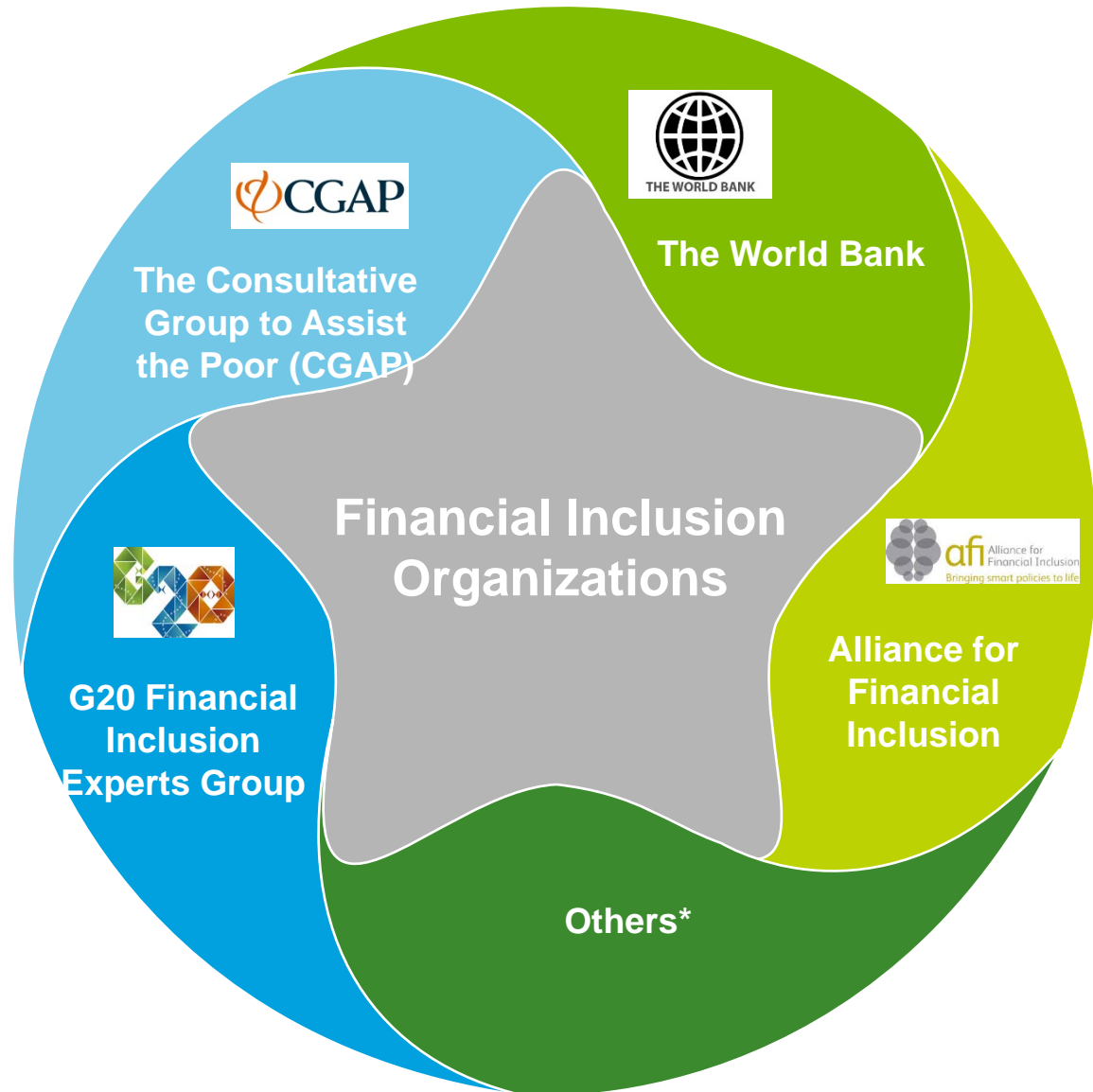
* World Bank, Global Findex (Washington, DC: 2012)

**Center for Financial Inclusion, Seizing the moment: On the road financial inclusion, 2013

*** <http://www.cgap.org/topics/financial-inclusion>

Specific Organizations for Financial Inclusion

There are many local and global specific organizations towards financial inclusion. The World Bank, AFI, CGAP and G20 FI Experts are the most known all over the world by their projects. And there are also local organizations concentrating on increasing financial inclusion on local level.



Specific Organizations for Financial Inclusion

The World Bank

Recognizing the need for better data to support the financial inclusion agenda, the World Bank's Development Research Group, with a **10-year grant from the Bill & Melinda Gates Foundation**, has initiated the **Global Financial Inclusion database (Global Findex)**

G20 Financial Inclusion Experts Group

At the Pittsburgh G20 Summit in 2009, G20 Leaders committed to improving **access to financial services for poors**. G20 committed to the launch of the Global Partnership for Financial Inclusion (GPFI). Innovation subgroup of G20 Financial Inclusion Experts Group **defined key principles for innovative financial inclusion**

CGAP

The Consultative Group to Assist the Poor (CGAP) is an organization of the World Bank that is established in 1995. CGAP aims to **develop innovative solutions for financial inclusion** through its experience on economic growth and its network that has **active engagement with financial service providers, policy makers, and funders**.

AFI

AFI is an organization that has **unique peer-to-peer learning model** to encourage and enable financial policymakers to exchange knowledge. AFI has created "**The Maya Declaration**" which is the first global and measurable set of commitments by developing and emerging country policy makers to unlock the economic and social potential of the financially excluded population.

Strategies of Specific Organizations for Financial Inclusion



The World Bank

The access and usage data for Global Findex was collected through interviews in 147 countries over the 2011 calendar year.

According to World Bank, Financial inclusion can be measured along the three main dimensions:

- Access
- Usage
- Quality



G20 Financial Inclusion Experts Group

Innovation subgroup of G20 Financial Inclusion Experts Group defined key principles for innovative financial inclusion:

- Leadership
- Diversity
- Innovation
- Protection
- Empowerment
- Cooperation
- Knowledge
- Proportionality
- Framework

The Consultative Group to Assist the Poor

CGAP priorities and their definitions can be listed as

- Understanding demand to effectively deliver for the poor
- Financial innovation for smallholder families
- Developing robust provider ecosystems
- Building and enabling protective policy environment globally
- Promoting effective and responsible funding for financial inclusion



Alliance for Financial Inclusion

The policy areas that determined by AFI can be listed as:

- Balancing integrity and inclusion
- Banking beyond branches
- Consumer protection and market conduct
- Financial inclusion strategy
- Measuring financial inclusion
- Microcredit and savings
- SME finance
- General financial inclusion





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INCLUSION | **ACCION**

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Join the movement at financialinclusion2020.org.

The world has the resources and the know-how to make
financial inclusion a reality for these 2.5 billion by 2020.

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Best Practices in Financial Inclusion



Best Practices are mainly can be categorized into three groups. These are;

- Supply side oriented best practices
- Demand side oriented best practices
- Regulation and supervision side oriented best practices

Best Practices and Case Studies in Financial Inclusion

«Enhancing Financial Inclusion in the COMCEC Countries» Reports includes fourteen different best practice all over the world. Today, 4 best practice , 2 from the COMCEC member states and 2 from others, will be presented.

1. National Payments Strategy for Ireland
2. **Extending the Range and Reliability of Financial Services to the Poor with Mobile Banking in Kenya**
3. Allianz's Micro Insurance Strategy in India
4. **Agent Banking Strategy of Banco Bradesco in Brazil**
5. The Financial Inclusion Taskforce in the UK
6. Building a Payments Highway in Egypt
7. Facilitating Safe and Efficient M-Banking in Rural India
8. Innovative Models for Financial Education
9. Financial Literacy Project in Canada
10. Malaysian Financial Literacy Experience
11. National Financial Inclusion Strategy in Pakistan
12. Branchless Banking in Argentina
13. **Islamic Finance in Malaysia**
14. **Private Pension System of Turkey**



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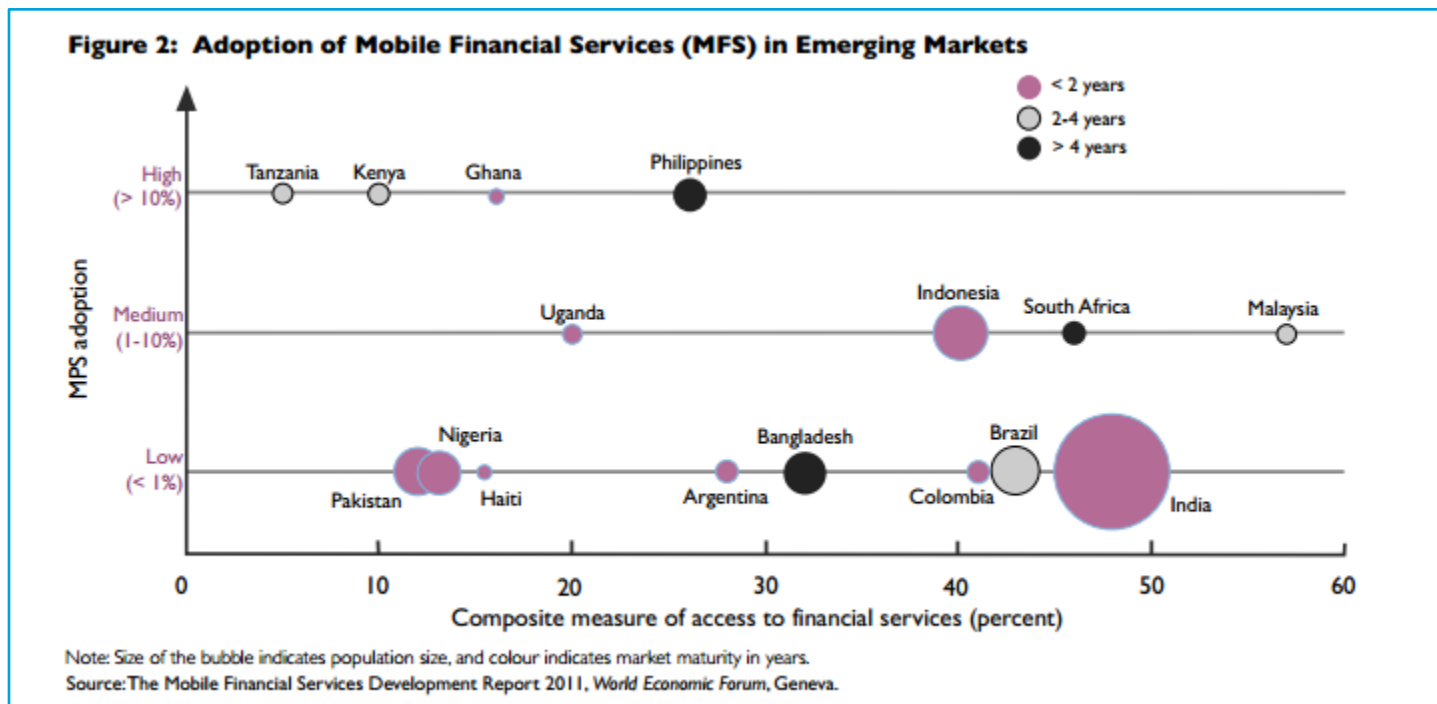
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Mobile Banking in Kenya

«Mobile banking will change your life» J. Watters



Mobile Banking



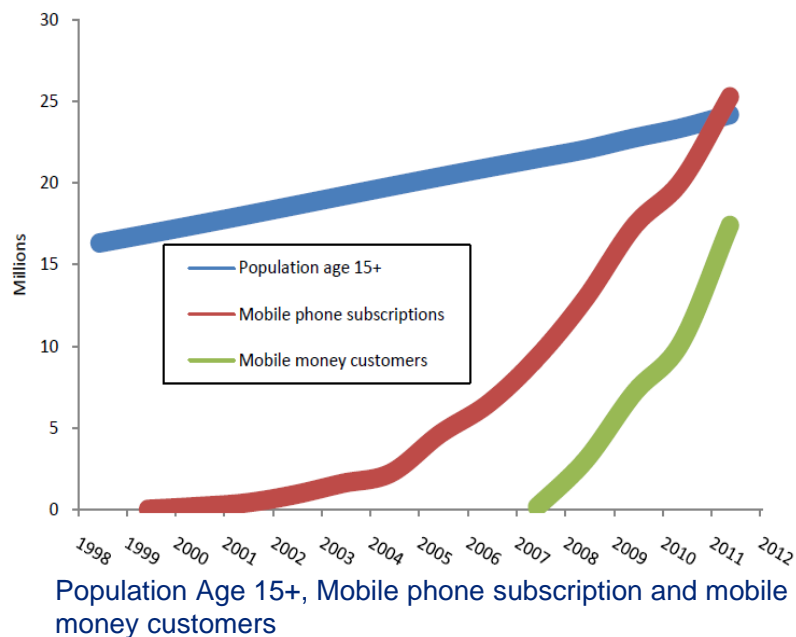
- **Mobile banking** is a financial services solution that has been developed to provide financial services with easy access to manage daily financial transactions through mobile phones or similar devices.
- Today, mobile phones represent a potential channel for promoting financial inclusion, given their extensive penetration in the population and feasibility of interconnecting data securely and economically.
- The use of mobile phones linked to banking products enables the development of new business models to provide financial services to people who traditionally would have been excluded from the formal financial system.

Mobile Banking

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- The use of mobile phones linked to banking products enables the development of new business models to provide financial services to people who traditionally would have been excluded from the formal financial system.
- Technological advances hold promise in the expansion of financial inclusion. Transaction costs become an obstacle for financial inclusion if providers cannot profitably serve low income consumers. Innovations in technology, such as mobile banking, mobile payments and the biometric identification of individuals, help reduce transaction costs.
- According to the AFI (Alliance for Financial Inclusion, 2010), there are nearly 100 million people worldwide who use mobile financial services, the majority of whom are in Asia and Africa, and this group is growing rapidly. Though the degree of penetration of the implementation of mobile financial services continues to be modest in most countries, there can be an accelerated incorporation of those services in some regions.
- More recently, much attention has been focused on the role of mobile banking applications in financial inclusion. The reason is that mobile phones have been adopted by consumers at a rapid rate, becoming almost ubiquitous. They are now well within the reach of many poor individuals around the world. In many low- and middle-income countries, the share of the population that has access to a mobile phone is considerably larger than the share of the population that has a formal bank account

Kenya

Mobile Phone Subscription



General Information



- Kenya plays a significant role in the East African economy, representing almost 40 percent of the region's GDP
- Kenya faces the imperative of reaching a large majority of the population which has been excluded from the formal financial systems.
- Kenya has succeeded in significant expanding the reach of financial services over the past several years with the mobile financial services implementations.

World Development Indicators

	2008	2009	2010	2011	2012
GNI per capita, PPP (current international \$)	1,540	1,550	1,610	1,680	1,730
Population (Total in million)	38.8	39.8	40.9	42.0	43.2
GDP (current US\$ in billion)	30.4	30.6	32.2	33.6	40.7
GDP growth (annual %)	2	3	6	4	5
Life expectancy at birth, total (years)	58	59	60	60	..

Mobile Banking in Kenya



Interview with Nick Hughes, Head of International Mobile Payment Solutions, Vodafone Group on mobile payment service M-PESA in Kenya

Mobile Banking in Kenya

Case:

- Kenya's popular mobile payment service, M-PESA, is operated by a private telecommunications provider and has reached nationwide appeal independently of the traditional banking sector.
- Safaricom, which is mainly a mobile operator, is the founder of M-Pesa and is supported by Vodafone in its application process. M-Pesa provides the opportunity to transfer funds to both M-Pesa customers and non-customers, apply for a loan, pay bills, and perform other financial services.
- The funds held in M-Pesa are deposited into the local banks in Kenya. In case of bankruptcy of Safaricom, the customer's deposits are under the control of Central Bank of Kenya.
- M-PESA experiment provides important insights into the regulation of financial services in developed economies

Results:

- Safaricom currently employs 40,000 agents all over the country to serve 17 million of M-Pesa users. It is widely preferred in transferring money from urban to rural areas. After it has become successful and popular, Safaricom decided to export the system to Tanzania, Afghanistan and India.
- Today, 17 million customers are registered to M-Pesa and the system is being used to transfer 25% of the country's total GDP.
- Kenya, one of the countries where the adoption of mobile payments has been most successful, the value of transactions among banks is nearly 700 times larger than the value of all transactions among M-PESA mobile accounts (Jack and Suri 2011).



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Agent Banking Strategy of Banco Bradesco in Brazil

“Agent banking business” means the business carried out by an agent on behalf of an institution as permitted under this guideline.



Why Agency Banking?

There are three main advantages of agency banking that helps to enhance financial inclusion. These are;

- **Distribution Strategy**

- Agency banking enables banks to extend their reach not only into areas with poor branch penetration but also up to the doorstep of those who are reluctant or otherwise unable to make a trip to the nearest branch

- **Channel Innovation**

- Agency banking is an important channel innovation that has improved banking penetration in underserved areas in the past,
- Banks are able to reach new customer segments by becoming an integrated component of multi channel banking

- **Cost Effective Model**

- Agency banking rationalize banks' operational expenditure and reduce the cost to customers while enabling wider reach
- Agents also take up the responsibility of on-boarding, managing and servicing customers
- Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher

Brazil

Banco Postal case unique in Brazil

Bradesco submitted winning bid to offer banking services inside post offices,

- 5950 Banco Postal outlets in Brazil with 91 in Amazonia
- Majority of Banco Postal outlets in rural areas
- Rural outlets see high volume of transactions (e.g., Manacupuri does >10,000 transactions a month although 200 km from Manaus)
- 90% of post office transactions in rural areas now devoted to Banco Postal
- Enormous brand recognition and loyalty – many call agents ‘Banco Postals’

General Information



The Central Bank of Brazil has been working to increase and improve access to financial services since the 1990s in three main ways

- by expanding and strengthening distribution channels for financial services,
- by developing instruments to better adapt financial services to the needs of lower-income segments of the population, and
- by guaranteeing the quality of financial services provision

World Development Indicators

	2008	2009	2010	2011	2012
GNI per capita, PPP (current international \$)	10,080	10,080	10,890	11,300	11,530
Population (Total in million)	191.8	193.5	195.2	196.9	198.7
GDP (current US\$ in billion)	1.653	1.620	2.143	2.477	2.253
GDP growth (annual %)	5	0	8	3	1
Life expectancy at birth, total (years)	73	73	73	73	..

Agent Banking Strategy of Banco Bradesco in Brazil

BANKING AT YOUR DOORSTEP



Agent Banking Strategy of Banco Bradesco in Brazil

Case:

- Globally, the retailers and post offices are increasingly being utilized as distribution channels for financial services.
- The initial step for that goal was the merge of Banco Postal and Banco Bradesco in 2001
- After the merge 5,300 post offices has also become a bank branches
- Banco Postal clients have also become Bradesco's clients allowing customers meet with new financial services and products
- The innovative banking services required some regulation to control the market and protect the customers

Results:

- The initiative has encouraged other banks' for alternative merges or corporations
- Only in three years,
 - US\$1 billion in transactions through Brazil's 90,000 agents
 - 12 million current accounts and more now
- Excluding Banco Postal, the average agent earned:
 - US\$ 48.5/day in commission, and US\$ 5.17 a day profit
 - US\$0.26 per transaction
 - Average profit margin of 10.6%
- Regulations are done and required business environment is created with sustainability



Bradesco

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Islamic Finance in Malaysia

"If you invest in Islamic finance products, you tend not to be sensitive to developments in interest rates."

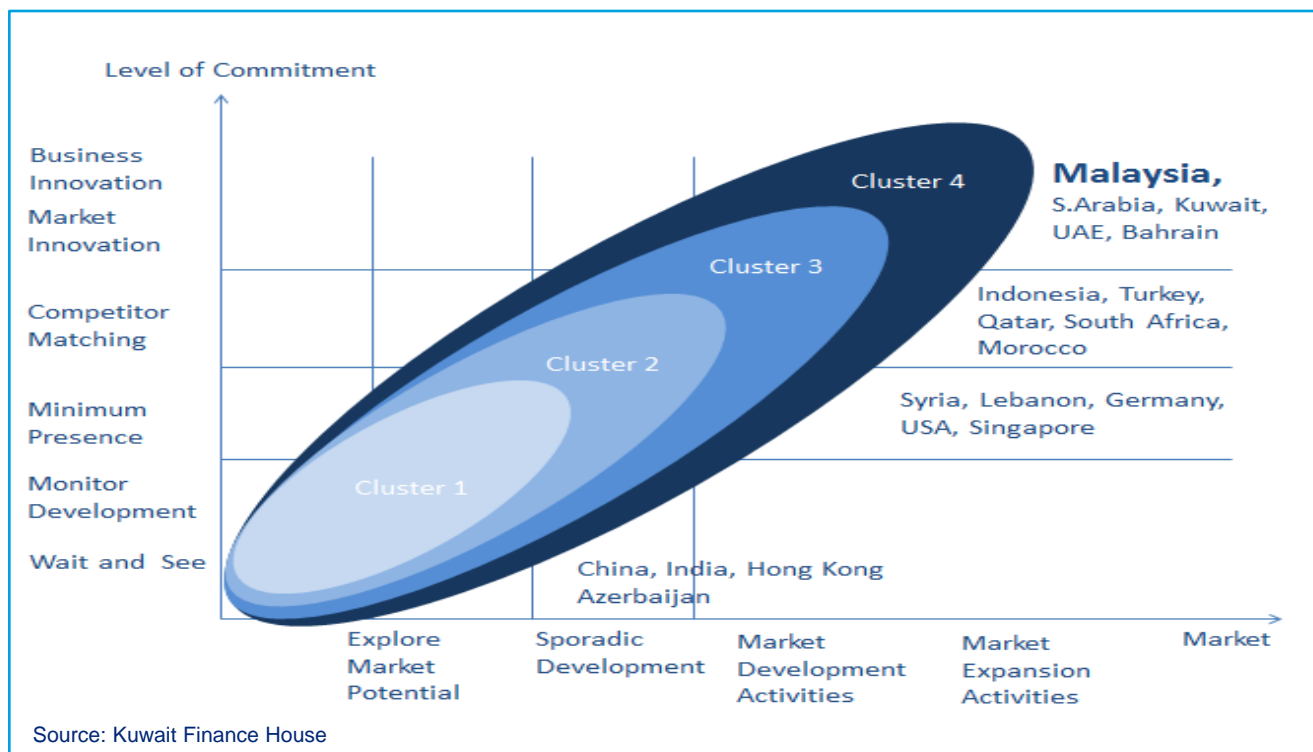


Why Islamic Finance?

- **Beliefs and Trust Issues**
 - An alternative system of banking that complies with Sharia Law
 - The underlying principles of Islamic banking are mutual risk and profit sharing among all parties
- **Need for an alternative**
 - Malaysia, Gulf countries, Turkey and North Africa region demand Islamic Finance for Muslims' financial needs
 - Non-Muslim voluntarily financially excluded segments also create demand for Islamic Finance
- **Better Performance**
 - Islamic Finance has performed better than conventional banking in recent years
 - The success factors that rely on the growth of Islamic finance determined as
 - Continuous product innovation,
 - Strong financial institutions
 - Broad range of innovative Islamic investment products,
 - Well-structured market by regulatory and supervision agency.

Regulatory and legal factors play an important role in the development of Islamic Finance. In the North Africa, extensive Islamic banking laws are not applied, and sometimes licensing requirements can be challenging with capital requirements.

Islamic Finance



- Kuwait Finance House illustrated the level of Islamic Finance in clusters and showed selected countries in what cluster they are
- Clustering methodology rely on countries level of commitment and their market situation. According to Clustering
 - When market situation reaches expansion activities and level of commitment reaches innovation phase, countries are in Cluster 4 «Best Improved Markets»
 - Malaysia has the best improved Islamic Finance market all over the world while S.Arabia, Kuwait, UAE and Bahrain are in cluster 4 with Malaysia

Malaysia

Shari'ah Compliant Asset Rankings*

Rank	Country	Shari'ah compliant assets \$US billion	No of institutions offering sharia services	Muslim population in millions	% of total population
1.	Iran	476	28	73.6	99.5%
2.	S. Arabia	227	41	25.5	93.0%
3.	Malaysia	197	41	18.1	63.7%
4.	UAE	87	19	5.8	76.9%
5.	Kuwait	73	26	2	74.1%
10.	Turkey	12.1	4	71.3	98.0%
14.	Egypt	6.5	3	76.9	94.6%
18.	Jordan	1.9	9	6	97.2%
20.	Yemen	1.6	1	23.8	99.1%

*2013

General Information



- Malaysia has progressed from an economy dependent on agriculture and primary commodities to a manufacturing-based, export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries
- Malaysia's vision for the financial sector involves transformation into a high value-added and high-income economy through effective and efficient policies
- Malaysia has achieved remarkable progress in providing access to basic bank accounts to the majority of the population, taking the advantage of mobile phones and online banking to expand the access.

World Development Indicators

	2008	2009	2010	2011	2012
GNI per capita, PPP (current international \$)	14,140	13,930	14,680	15,610	16,270
Population (Total in million)	27.3	27.8	28.3	28.8	29.2
GDP (current US\$ in billion)	231.0	202.3	247.5	289.3	305.0
GDP growth (annual %)	5	-2	7	5	6
Life expectancy at birth, total (years)	74	74	74	75	..

Islamic Finance in Malaysia



Case:

- With the Islamic Banking Act in 1983 the liberalization of the Islamic financial system has triggered with more Islamic financial institutions
- Product innovation and Sharia Compliance have increased the usage
- The industry is first developed in Malaysia where only 63.7% of population is Muslim
- According to UK Islamic Finance Secretariat (UKIFS), Sharia compliant assets have grown up YoY by %21 in 2010, from \$933bn to \$1130bn

Results:

- Malaysia is one the best practice of Islamic Finance with its wide product and services range
- As a result of best practice the success factors for the growth of Islamic finance is defined in Malaysia Experience:
 - Product innovation
 - Diversity of suppliers in market
 - Innovative Islamic investment instruments
 - Well structured market based on regulatory and legal best practices

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Private Pension System of Turkey

«The economy of Turkey is defined as an emerging market economy by the IMF and is mostly developed, positioning Turkey as one of the world's newly industrialized countries.»

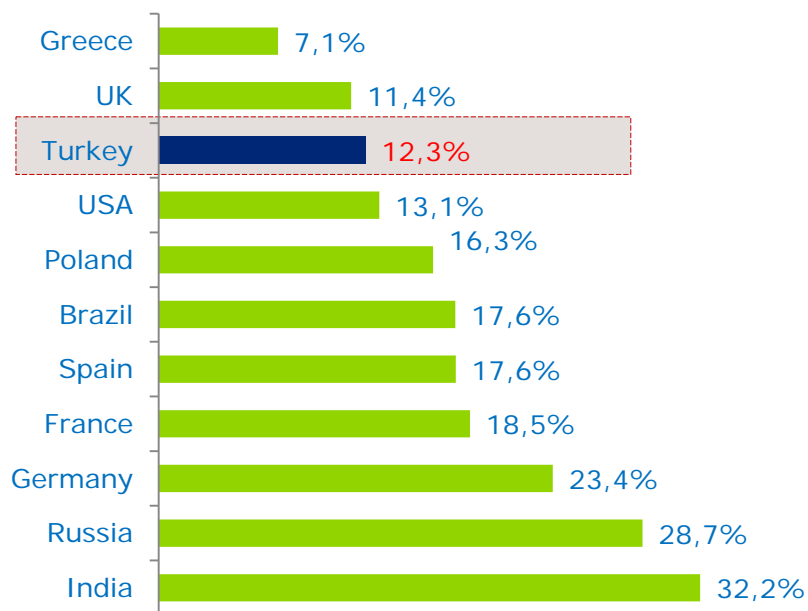


Private Pension System

- According to the OECD;
 - « *The Private pension plan is a pension plan administered by an institution other than general government. Private pension plans may be administered directly by a private sector employer acting as the plan sponsor, a private pension fund or a private sector provider. Private pension plans may complement or substitute for public pension plans. In some countries, these may include plans for public sector workers*»
- Objective of Private Pension System can be listed as:
 - To reduce burden of state social security and increase scope of social security
 - To improve welfare level of participants
 - Contribute to economic development by creating long term resource
 - To deepen capital markets
- Collective investment instruments issued especially for participants of private pension systems by pension companies
- Additional financial resources promote marginal savings
- Higher rate of real return than state -run pension systems

Turkey

Gross National Savings*



% of GDP, 2012

General Information



- Turkish economy, with an outstanding performance, registered Turkey as an exceptional emerging market, being the 16th largest economy in the world (2012).
- Turkey has a total population of 77 million, with nearly half of them below 30 years of age.
- Low rate of participation in the labour market has been one of the prominent challenges that Turkey has been addressing.

*<http://www.tradingeconomics.com/turkey>

World Development Indicators

	2008	2009	2010	2011	2012
GNI per capita, PPP (current international \$)	15,000	14,380	15,810	17,070	18,190
Population (Total in million)	70.3	71.2	72.1	73.1	74.0
GDP (current US\$ in billion)	730.0	614.6	731.1	774.8	789.3
GDP growth (annual %)	1	-5	9	9	2
Life expectancy at birth, total (years)	74	74	74	75	..

Source: IMF

Note: Gross National Savings is expressed by IMF as gross disposable income less final consumption expenditure after taking account of an adjustment for pension funds. For many countries, the estimates of national saving are built up from national accounts data on gross domestic investment and from balance of payments-based data on net foreign investment

Private Pension System of Turkey

Case:

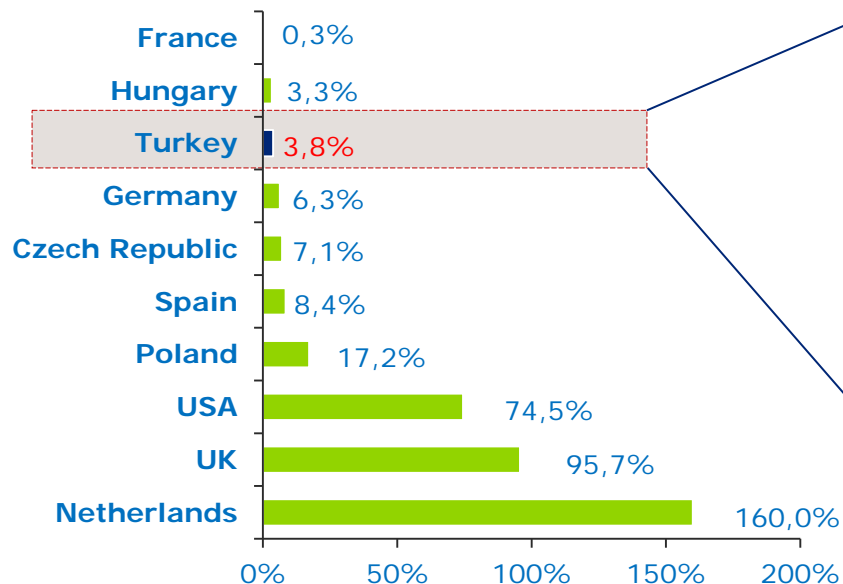
- The system functions on the basis of voluntary participation and anybody who is able to use his civil rights can enter the system.
- The contributions are transmitted by the retirement companies, established with permission of Under secretariat of Treasury, to the pension funds, established as the structure of a mutual fund and authorized by Capital Markets Board (CMB).
- Pension funds may invest in fixed yield capital market instruments, such as repos and treasury bonds, as well as variable yield instruments, such as stocks.
- Participants of the system are recently encouraged by government contributions. Government will contribute %25 of the monthly participant contribution into a separate pension contract.

Results:

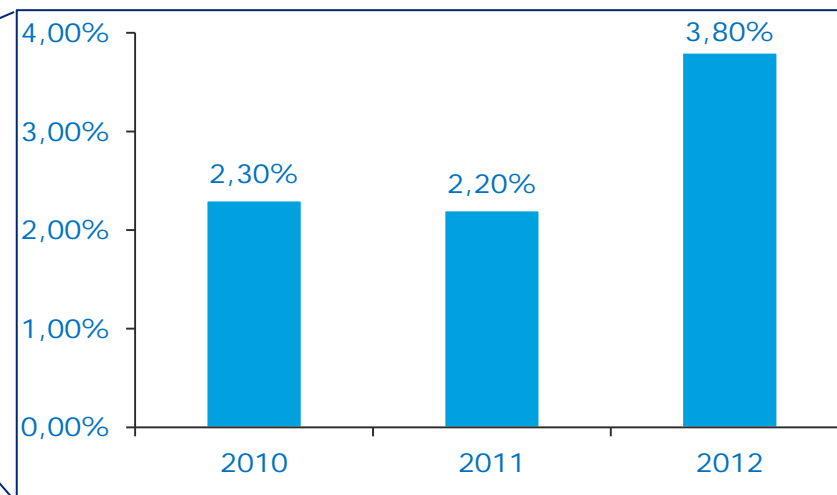
- By the end of 2013, the system has reached to 4.1 million contracts. The number of participants has grown by 75% Compound Annual Growth Rate since 2003.
- During the same period, asset under management have increased by 130% Compound Annual Growth Rate reaching TL 25 billion*
- The ratio of pension funds to GDP in Turkey has increased 65% from 2010 to 2012. (reached 3.8% from 2.3%)
- The ratio is still significantly lower than major OECD countries. However, there is a great potential to be achieved as government promotes savings.

Private Pension System of Turkey

Pension Funds Relative to the Size of the Economy (as % of GDP) 2012



Pension Funds Relative to the Size of the Economy (as % of GDP) in Turkey



Source: OECD

- Turkey has a private pension system (BES) launched in 2003 complementary to the existing public social security systems such as SSK, Bağ-Kur or Government Retirement Fund.
- The aim of the system is to voluntarily convert people's earnings to long-term savings to ensure their welfare in retirement.
- By the end of 2013, the system has reached to 4.1 million contracts. The number of participants has grown by 75% Compound Annual Growth Rate since 2003. During the same period, asset under management have increased by 130% Compound Annual Growth Rate reaching TL 25 billion.

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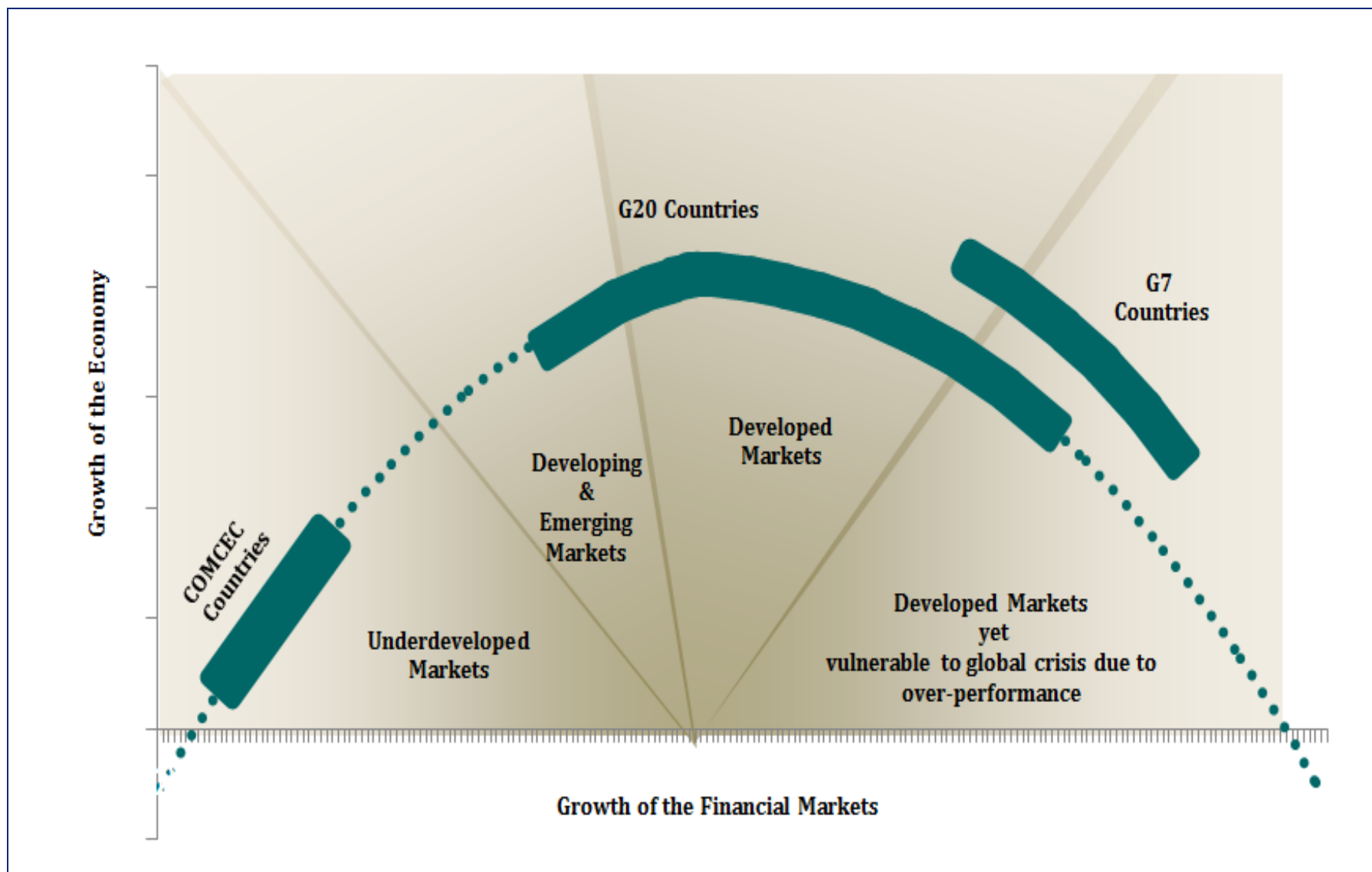
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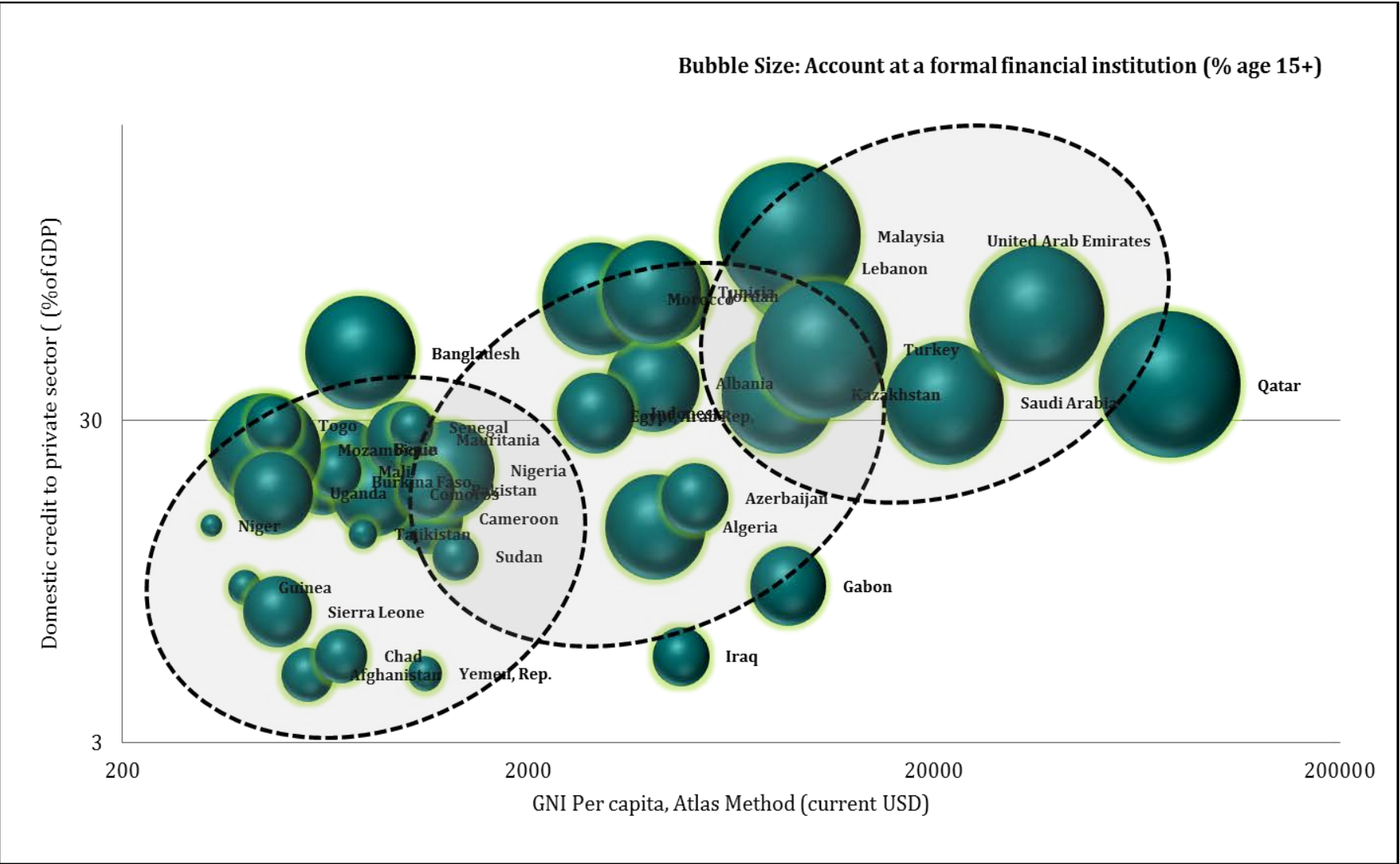
How do you evaluate the impacts of financial inclusion on your country's economy?

Discussion Session



**How do you evaluate the current situation
and progress of COMCEC countries towards
financial inclusion?**

Discussion Session





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