Overview of Financial Inclusion in Malaysia

• Background of financial inclusion in Malaysia
• Challenges and strategies to further financial inclusion
• Current status of financial inclusion

Development Finance and Enterprise Department
Bank Negara Malaysia
Malaysia – General introduction

- **Geographic coordinates:**
  - 2 30 N, 112 30 E

- **Area:**
  - Total: 329,758 km²

- **Population:**
  - 29.7 million (2013)

- **Demography:**
  - 51% male
  - 49% female

- **Median age:**
  - **Median age:** total: 27.4 years
  - **Male:** 27.2 years
  - **Female:** 27.6 years (2013 est.)

- **Urbanisation**
  - **Urban population:** 72% of total population (2010)
  - **Rate of urbanisation:** 2.4% annual rate of change (2010-2015 est.)

- **Life expectancy at birth**
  - **Total population:** 74.04 years

- **Literacy** (2000)
  - **Total population:** 88%
  - **Male:** 92%
  - **Female:** 85%
## Malaysia – Economic Data

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
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<tbody>
<tr>
<td><strong>GDP (current prices):</strong></td>
<td>RM984 billion ($299 billion) (2013)</td>
</tr>
<tr>
<td><strong>GDP - composition, by sector of origin:</strong></td>
<td></td>
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<tr>
<td>• agriculture:</td>
<td>11.2%</td>
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<tr>
<td>• industry:</td>
<td>40.6%</td>
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<tr>
<td>• services:</td>
<td>48.1% (2013 est.)</td>
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<tr>
<td><strong>GDP (real growth rate):</strong></td>
<td>4.7% (2013)</td>
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<tr>
<td><strong>Gross national savings:</strong></td>
<td>31.2% of GDP (2013 est.)</td>
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<tr>
<td><strong>Labor force:</strong></td>
<td>12.92 million (2012 est.)</td>
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<tr>
<td><strong>Unemployment rate:</strong></td>
<td>3.1% (2012 est.)</td>
</tr>
<tr>
<td><strong>Population below poverty line:</strong></td>
<td>3.8% (2009)</td>
</tr>
<tr>
<td><strong>Inflation rate (consumer price):</strong></td>
<td>2.1% (2013)</td>
</tr>
<tr>
<td><strong>Exchange rates:</strong></td>
<td>Malaysian ringgit (MYR) per US dollar - 3.29 (2013)</td>
</tr>
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</table>
In 2009, the New Economic Model identified inclusiveness as a key part of growth.

An important component of our financial sector policies is financial inclusion, to ensure that all segments of society get access to financial services irrespective of geographical location, income strata or the economic activity they belong to – YAB Prime Minister, Dato Sri Mohd Najib bin Tun Abdul Razak, 2009

Note: In 2009, 40% of Malaysian households represent a total of 2.4 million household had a total income less than RM2,300 (USD741) per month (RMK10)
Financial sector development in the last decade sets critical foundation of financial inclusion

<table>
<thead>
<tr>
<th>Focus Areas</th>
<th>Selected Measures / Initiatives</th>
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<tbody>
<tr>
<td>Financial Infrastructure</td>
<td>• Central Credit Reference Information System (CCRIS)</td>
</tr>
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<td></td>
<td>• Credit Guarantee Corporation (CGC)</td>
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<td>• Credit Bureau Malaysia</td>
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<tr>
<td>Financial Service Providers</td>
<td>• Strengthened role of DFIs</td>
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<td>• Cooperatives Commission of Malaysia</td>
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<tr>
<td>Distribution Channels</td>
<td>• Guidelines on branching and e-banking</td>
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<td>• Guidelines on shared banking services</td>
</tr>
<tr>
<td>Banking Products and Services</td>
<td>• Basic banking services and products</td>
</tr>
<tr>
<td></td>
<td>• <em>Pembiayaan Mikro</em> (Microfinance)</td>
</tr>
<tr>
<td>Financial Literacy, Advisory, Awareness,</td>
<td>• Consumer Education and Protection</td>
</tr>
<tr>
<td>Redress</td>
<td>• AKPK &amp; Small Debt Resolution Scheme (SDRS)</td>
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<td>• BNMLINK &amp; TELELINK</td>
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<td></td>
<td>• Aggressive promotional initiatives</td>
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<tr>
<td>Catalyse Comprehensive SME Development</td>
<td>• National SME Development Council</td>
</tr>
</tbody>
</table>
FIs were leveraged as key channels for financial inclusion

Financial Institutions Regulated by BNM

- Commercial Banks
- Islamic Banks
- Investments Banks
- Development Financial Institutions
- Insurance Companies
- Reinsurance Companies
- Takaful Operators
- Payment System Operators

Non-bank Financial Intermediaries Overseen by Ministries and Government Agencies

- Provident & Pension Funds¹
- MFIs (AIM & TEKUN)²
- CAGAMAS²
- Housing Credit Institutions⁴
- Pilgrim Fund Board¹
- CGC²
- Cooperatives³
- Money Lenders & Pawn Brokers⁴

Note:
1 Statutory bodies
2 Majority owned by Government
3 Significantly owned by Government
4 Purview of Cooperatives Commission
4 Purview of Ministry of Housing and Local Government
As a result, significant improvements were achieved in the level of financial inclusion since 2000

Key improvements

1. Outreach
   Increase from 2000-2013
   Branches per 10,000 adults
   - End-2000: 1.1
   - End-2013: 4.0

2. Take-up of deposits
   Increase from 2000-2013
   Deposits accounts per 10,000 adults
   - End-2000: 19,738
   - End-2013: 32,846

3. Take-up of loans
   Increase from 2000-2013
   Loans accounts per 10,000 adults
   - End-2000: 3,105
   - End-2013: 8,673

Malaysia ranks high in terms of financial access

<table>
<thead>
<tr>
<th>Category</th>
<th>Ranking</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Ease of Access to Loans'</td>
<td>No. 5 out of 62</td>
<td>World Economic Forum (The Global Competitiveness Reports 2013-2014)</td>
</tr>
<tr>
<td>'Ease of Access to Credit'</td>
<td>No. 5 out of 62</td>
<td>World Economic Forum (The Financial Development Report 2012)</td>
</tr>
<tr>
<td>'Venture Capital Availability'</td>
<td>No. 7 out of 148</td>
<td>World Economic Forum (The Global Competitiveness Report 2013-2014)</td>
</tr>
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</table>
The new Central Bank Act 2009 made inclusive financial system a primary function

**CBA 1958**
Mandates broadly defined

**Principal objects**
- Issue currency and to keep reserves safeguarding the value of currency
- Promote monetary stability and a sound financial structure
- Promote the reliable, efficient and smooth operation of national payment and settlement systems and ensuring that systems policy is directed to the advantage of Malaysia
- Act as a banker and financial adviser to the Government
- Influence the credit situation to the advantage of Malaysia

**CBA 2009**
Strategically focused

**Principal objects**
Promote **monetary stability** and **financial stability** conducive to the **sustainable growth** of the Malaysian economy

**Primary functions**
- Formulate and conduct monetary policy
- Promote exchange rate regime consistent with fundamentals
- Regulate and supervise financial institutions
- **Promote sound, progressive and inclusive financial system**
- Provide oversight over the money and foreign exchange market
- Hold and manage foreign reserves of Malaysia
- Issue currency
- Exercise oversight over payment system
The vision of an inclusive financial system in Malaysia is outlined to meet the needs of consumers including the underserved for financial services.
Nevertheless, there are still challenges towards achieving full financial inclusion

### Challenges

#### Sub-optimal Physical Access

1. **Lower physical outreach compared to high income countries**
   - Per 100k adults:
     - Malaysia: Branches 15, ATMs 52
     - High income countries: Branches 32, ATMs 94
   - 100% of districts have FI access points, however, preliminary findings show that there are still 54% of sub-districts (mukims) with more than 2,000 population in Malaysia are yet to be served (449 out of 837 mukims unserved)

2. **17% of adult population live in mukims with more than 2,000 population with no FI access points**

#### Sub-optimal Take-up

1. **8% of Malaysian adults do not have deposit accounts**

2. **Take up of financial services by low income households is lower than general households**

### Description

<table>
<thead>
<tr>
<th>Description</th>
<th>Malaysia</th>
<th>High income countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower physical outreach compared to high income countries</td>
<td></td>
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<tr>
<td>Per 100k adults</td>
<td>Branches</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>ATMs</td>
<td>52</td>
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<table>
<thead>
<tr>
<th>Take up of financial products</th>
<th>General households</th>
<th>Low income households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings a/c</td>
<td>90%</td>
<td>76%</td>
</tr>
<tr>
<td>Credit card</td>
<td>24%</td>
<td>2%</td>
</tr>
<tr>
<td>Insurance</td>
<td>41%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source:
3. Individuals with monthly income below RM1,000
A framework was developed under the Financial Sector Blueprint (2011 – 2020) to enhance financial inclusion

**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**

**Desired outcomes for the underserved**

- Convenient accessibility
- High Take-up
- Responsible usage
- High satisfaction

**Broad Strategies**

1. **Innovative channels**
   1. Agent banking
   2. Technology based innovative channels - mobile banking

2. **Innovative products & services**
   3. Flexible micro-financing
   4. Micro-savings product
   5. Micro-insurance/takaful

3. **Effective FIs & infrastructure**
   6. Strengthen DFI’s capabilities in financial inclusion
   7. Structured training programmes in financial inclusion
   8. Measurement framework & Fin. inclusion index

4. **Well informed & responsible underserved**
   9. Leverage NGOs for capacity building programmes
   10. Financial literacy

**10 financial inclusion strategies under the Financial Sector Blueprint**
Since the launch of financial inclusion blueprint strategies in December 2011, 5 strategies have been implemented

1. **Agent banking regulatory framework**
   - Aims to provide a conducive environment for agent banking to thrive in a **safe and sustainable manner**, without compromising **consumer protection**.

2. **MyMobile (Mobile banking platform)**
   - MyMobile platform allows **all phones**, including phones with no internet access, to access banking services began its pilot in February 2012.

3. **Asian Institute of Finance (AIF)— Financial Inclusion Programme**
   - AIF launched financial inclusion leadership programme in 2012 to provide world class **leadership & technical training** to micro finance practitioners in the region.

4. **Monitoring framework with KPIs and development of a financial inclusion index**
   - Demand-side survey data and supply side data to enable evidence-based policy formulation and monitoring mechanism via key indicators and Index.

5. **Financial literacy via mobile LINK and partnerships**
   - Extends **advisory** on financial services to **semi-urban/rural areas** in Malaysia.
Agent Banking enhances outreach of financial services to the underserved

**Performance as at end-2013**

**Agent banking piloted by 3FIs**

- **Number of Agents**
  - 5,474 banking agents nationwide

- **Transactions by Agents**
  - >13.8 million transactions worth >RM1.6 billion

- **↑ served mukims**
  - From 46% (end-2011) to 92.5%

- **↑ served DUN**
  - From 72.9% (end-2011) to 99.8%
Malaysians can access financial services anytime through MyMobile (pilot stage)

Opportunity
- Mobile banking can cover all mukims
- Adoption of mobile banking has been increasing

Benefits
- Available on all mobile phones
- Internet connection is not required
- Safe and secure
- Consumers are educated on how to use

Types of services
- View transaction history & balances
- Fund transfers (e.g. same bank & inter-bank)
- Bill payments
- Credit card repayment
- Airtime reload transactions
- Mobile to mobile transactions

Achievements
- 3 participating FIs
- 3 participating Telcos
- 132,275 registered users as at end-2013
- 1.5 million transactions, of which 254,237 are financial transactions valued at RM21.3 million

MyMobile System
- 3 Telcos (Maxis, Celcom & Digi)
- Government
- MyMobile *500*888#
- 132,275 users
- 3 FIs (Maybank, CIMB & Public Bank)
- 3 participating FIs
- 3 participating Telcos
The financial inclusion index has been developed to measure 4 dimensions, customised to the Malaysian context.

### 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:
   - Convenient Accessibility
   - Take-up Rate
   - Responsible Usage
   - Satisfaction Level

### Dimensions & Indicators

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Key Performance Indicators</th>
<th>Data (%) 2011 -Baseline</th>
<th>Data (%) 2013</th>
<th>Target (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Convenient Accessibility</strong></td>
<td>• % of mukim with at least 2000 population with at least 1 access point</td>
<td>46</td>
<td>93</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>• % of population living in mukim with at least one access point</td>
<td>82</td>
<td>98</td>
<td>95</td>
</tr>
<tr>
<td><strong>Take-Up Rate</strong></td>
<td>• % of adult population with deposit accounts</td>
<td>92</td>
<td>92</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>• % of adult population with financing accounts</td>
<td>36</td>
<td>36</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>• % of adult population with life insurance/takaful policies</td>
<td>18</td>
<td>18</td>
<td>40</td>
</tr>
<tr>
<td><strong>Responsible Usage</strong></td>
<td>• % of customers with active deposits</td>
<td>87</td>
<td>92</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>• % of customers with performing financing accounts</td>
<td>97</td>
<td>98</td>
<td>97</td>
</tr>
<tr>
<td><strong>Satisfaction Level</strong></td>
<td>• % of customers who are satisfied</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Overall financial services</td>
<td>61</td>
<td>61</td>
<td>80</td>
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</table>
Innovative outreach channel via Mobile LINK

**Background**

- Mobile LINK was launched on 9 Dec 2011
- It is an innovative channel to achieve greater outreach in serving communities of semi-urban and rural areas
- Terminals in coach are connected to CCRIS, Consumer Redress Mechanism System (CRMS) and BNM’s website
- Services provided include enquiry on CCRIS and financial advisory on financial products

**Achievements to date (as at end-2013)**

<table>
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<tr>
<th>Category</th>
<th>Figure</th>
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<tbody>
<tr>
<td>Total no. of engagements</td>
<td>97</td>
</tr>
<tr>
<td>No. of states covered</td>
<td>13</td>
</tr>
<tr>
<td>No. of sub-districts covered</td>
<td>112</td>
</tr>
<tr>
<td>No. of participants</td>
<td>28,086</td>
</tr>
</tbody>
</table>
### Key Financial Inclusion - Supply Side Data

**Access Points**
- No. of bank branches per 10,000 adults: 1.5
- No. of ATMs per 10,000 adults: 5.4
- Districts served with bank access points (%): 100%

*Note: 8 unserved districts in 2010 have access points by June 2011*

**Loan Accounts**
- No. of loan accounts per 10,000 adults: 8,673

**Deposit Accounts**
- No. of deposit accounts per 10,000 adults: 32,846
- Proportion of Basic Savings accounts: 18.4%

**Insurance Penetration**
- No. of conventional & takaful policies in force per 10,000 adults: 7,231

### Key Financial Inclusion - Demand-Side Survey Findings

**Profile of Survey Respondents**
- 2,000 Malaysian adults between 16 to 64 years old

**Convenience**
- 80% indicated that access to financial services is convenient
- 84% were unaware of agent banking services.

**Take-up, Preference and Behaviour**
- 92% have deposit accounts.
- 39% have credit accounts.
- 60% indicated that financial institutions are the most preferred source of borrowing.
- ATMs and bank branches are the most popular methods of transferring money.

*Note: Data as at end-2011*

*Note: Data as at end-2013*
The National SME Development Council (NSDC) was established as the highest policy making body to chart SME development.

- **Description**
  - Chaired by Prime Minister
  - Secretariat: Bank Negara Malaysia (from 2004 to July 2008)
  - Current Secretariat: SME Corporation Malaysia

- **Roles**
  - Formulate broad policies and strategies for comprehensive development of SMEs across all sectors
  - Oversees coordination of and ensure effectiveness in policy implementation

- **3 Strategic Thrusts**
  - Enhance access to financing
  - Build SME capacity
  - Strengthen infrastructure
Holistic framework implemented to assist SMEs

I. Financial Infrastructure
- Microfinance Institutional Framework
- Strengthening the DFI
- Central Credit Referral Info Syst (CCRIS)
- Credit Guarantee Corp. (CGC) & Credit Bureau M’sia
- Financing Facilitation (ABM-PARTNER)

II. Financing Schemes
- Various BNM SME Funds
- Venture Capital Funds for Agriculture & ICT
- Financing for new growth areas

III. Guarantee Schemes
- Various CGC Guarantee Schemes
- Green Technology Financing Scheme
- EXIM Overseas Guarantee Facility

IV. Avenues to Obtain Information & Advice/Redress
- BNMLINK, BNMTELELINK, Mobile LINK
- Financing Help Desks at SME Business Associations
- ABMConnect
- Bankinginfo and SMEinfo
- Complaint & SME Advisory Units at FIs

V. Debt Resolution & Management
- Small Debt Resolution Scheme (SDRS)
- Agensi Kaunseling dan Pengurusan Kredit (AKPK)

VI. Outreach & Awareness Programmes
- SME financial exhibitions
- Mass media advertisements
- Distribution of promotional materials through strategic partners, including Local Authorities
SMEs in Malaysia rely on banking institutions as the main source of financing

**Financing Outstanding as at end-Mar 2013**

*RM billion*

- **BIs**
  - 182.6 (USD55.3)
- **DFIs**
  - 12.3 (USD3.7)
- **Government Funds and Schemes**
  - 7.8 (USD2.4)
- **Venture Capital**
  - 2.8 (USD0.8)
- **Factoring and Leasing**
  - 0.9 (USD0.3)

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- Various sources of financing available for SMEs
- SME financing by the financial institutions as a percentage of GDP was 20.2%
- Banking institutions are the main financiers for SMEs:
  - Representing 88% of total SME financing
  - 569,630 SME accounts in banks (DFIs: 104,258 SME accounts)

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*a* As at end-Sep 2012. Excluding government funds that are channeled through FIs.

*b* As at end-2012

Source: Bank Negara Malaysia, SME Corp. Malaysia and Securities Commission
Moving forward, 2 key Plans will facilitate innovation-led and productivity-driven growth to achieve high income nation.

**SME Development Framework**

**Goal of SME Masterplan**

1. Increase Business Formation
2. Expand number of high growth and innovative firms
3. Raise Productivity
4. Intensify formalisation

**Desired Outcome**

Innovative and competitive SMEs across all sectors that play greater roles towards achieving high income nation and contribute to the social well-being

A financial system is supportive of economic transformation

**Recommendations in Financial Sector Blueprint**

1. Enhance capability to support high value activities
2. Increase supply of broad range of private risk capital funding
3. Improve access to information
4. Enhance access to financing for micro enterprises

Source: SME Corp Malaysia and Bank Negara Malaysia
Thank you