

Youth Co:Lab Challenge Kit: Financial inclusion

Financial inclusion is the provision of affordable, accessible and relevant financial products to individuals and businesses that had previously not been able to access these products.

Statistics

- About one-third of Malaysians still do not have any kind of banking or financial account – 50% of low-income Malaysians (bottom 40%) do not have any financial accounts.
- Only about 66% of Malaysians above the age of 15 have accounts at a formal financial institution.
- 63% of rural households and 45% of urban households have no financial assets.
- 11% of Malaysians borrowed from financial institutions, whereas nearly 27% borrow from other sources such as family members, employers or a private lender.
- Gaps in financial inclusion across demographics¹:
 - 55% of unbanked population are women
 - 46% of youth (age 15-24) do not have formal account
 - 86% of Malaysian adults with no income & low income are not banked
 - 33% of Malaysian adults living in rural and remote east Malaysia are not banked
- Less than 2% of the bottom 40% of income earners borrow from formal financial institutions compared to 17.4% from the top 60% of income earners.
- The lack of financial assets, especially for the bottom 40%, severely limits their ability to borrow, invest, save and improve their economic opportunities.
- 11.4% or 1.4 million (2015) employment are in the informal sector - Informal traders have no credit access, foreign exchange, tax relief but whose work contributes to the economy.
- 53% of Malaysian households has no financial assets, with rural households having the highest number of those without any financial assets (63%), compared to urban households (45%).
- One-fifth of Malaysians who are nearing retirement age (between the ages of 51- 55) have less than RM 20,000 in savings. Nearly 70% of those at the age of 54 have savings less than RM 50,000. Given that average life expectancy in Malaysia is 72.6 years (male) and

¹ Bank Negara Malaysia (BNM), 2017

77.2 (female), majority of Malaysians would be without any savings for more than a decade after retirement.

Challenges

- 1. Financial literacy and capability.** A lack of financial awareness prevents people from making sound financial decisions, select financial products, which best fit their needs, and know how to use related channels, such as ATMs or mobile banking.

Ideas worth exploring: Develop financial literacy programs focuses on behavioral insights, which can improve uptake of new accounts and increase savings, including through digital financial products.

- 2. Valid identification documents.** Persons whom are undocumented have neither the basic elements of identity in the form of a passport, or national identity card to open a bank account, thereby preventing them from obtaining a valid ID to access financial services. Without a proper ID, undocumented persons cannot access social benefit transfers and wages into transaction accounts.

Ideas worth exploring: Innovative solutions that enable access to formal mechanisms without depending on traditional identification

- 3. Geographical challenges.** Globally, communities in rural and remote areas face difficulties in having an account at a financial institution, due to the high cost faced by banks in opening branches in small villages and remote areas. Customers are also not willing to travel far or wait long in queues to save relatively meager balances.

Ideas worth exploring: Capturing these savings “at source,” when and where the money is earned; low-cost ways of transacting; mobile banking.

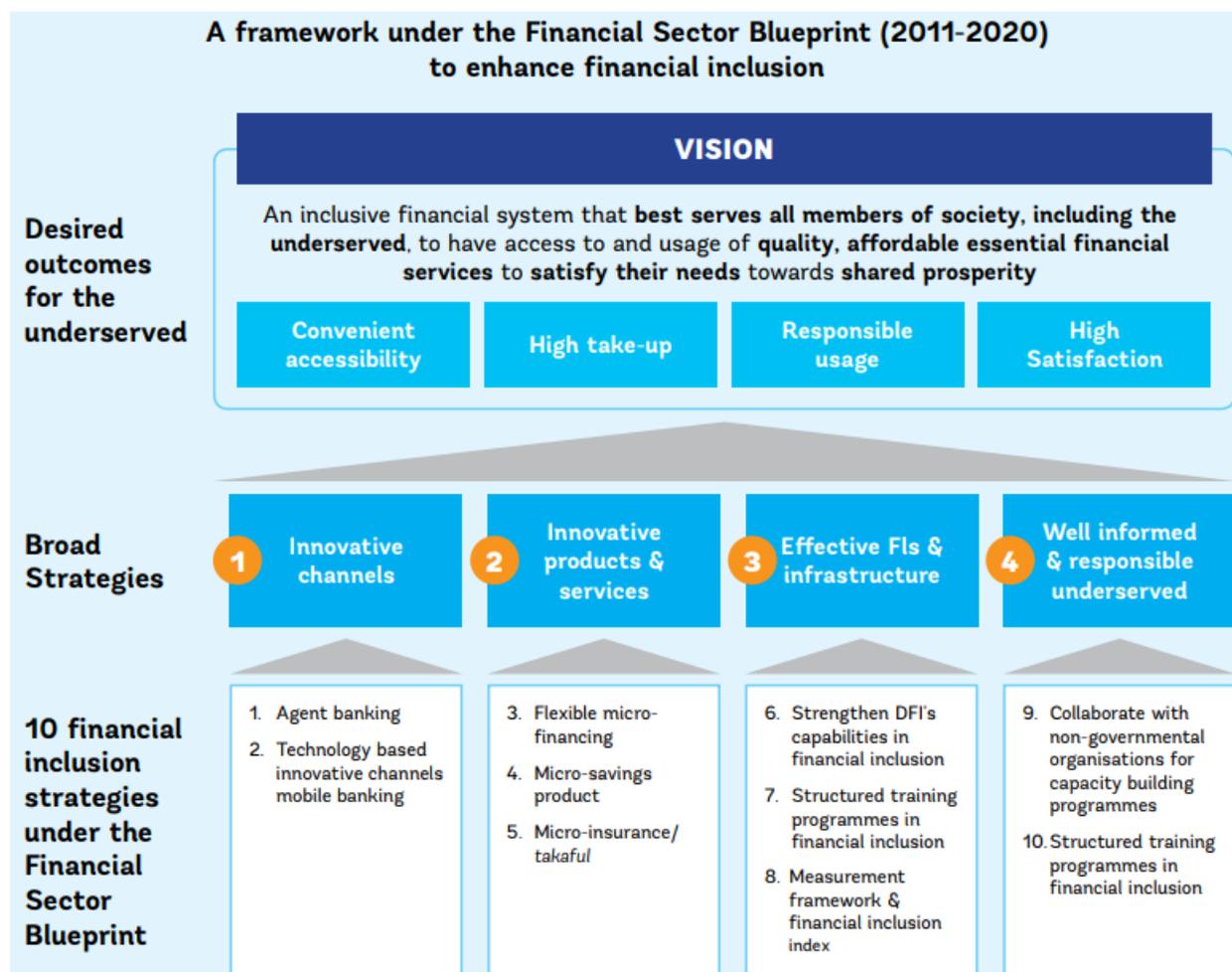
- 4. No credit history.** Many financially excluded individuals and MSMEs do not have the financial track record that banks traditionally rely on to support lending decisions, nor do they necessarily have access to proven identity, address and security details. This effectively cuts off their access to bank credit². There is little or no build-up of a financial history that can help individuals gain trust from creditors from various sources.

Ideas worth exploring: Develop creative credit profiling techniques; exploring non-traditional data, such as consumers’ internet footprint, social media usage, psychometric test results and biometric digital trails, as data sources to assess lending risk; background checks on digital identification, forgery detection and contract management system services.

5. **Unequal access based on gender.** Of the various segments that is impacted differently (youths, seniors, stateless/refugees, migrants, disabled), gender introduces an aspect that significantly impacts the stakeholders differently. Financial institutions tend to exclude women from accessing finance as they frequently do not have the collateral necessary to pay back loans and are considered high-risk clients. Women's low level of financial literacy combined with their time constraints (for example, they are more likely to do care work) prevent them from understanding the intricate process of applying for loans and having savings accounts. Consequently, they are trapped in the vicious circle of low income, low savings, poor access to credit and low returns on income.

Solutions worth exploring: Track sex-disaggregation of access to finance data; behavioural solutions that addresses the ways different genders access finance e.g. mobile banking for care workers (to reduce difficulty to go to the bank)

National framework strategies



Strategies to meet the needs of the underserved

1. Mobile wallet for the underserved

“Pay without the hassle of cash”. Boost is a pre-paid, top-up app with added mobile wallet functionality. Users are able to collect loyalty rewards, transfer and receive money as well as send and receive e-vouchers via the app. It is targeted at micro-enterprises that do not have access to loans, insurance and other financial products. It aims to bring informal traders into the formal economy.

Boost is also working on a product that will allow merchants to take a working capital loan. For the lending product, the money will be distributed to the e-wallet while payments will be deducted from the wallet, bypassing other traditional routes and lending products.

Reference links:

<http://www.theedgemarkets.com/article/responsible-business-bringing-underserved-digital-economy>

<https://www.myboost.com.my/>

2. Micro-financing for women

Women of Will is a non-profit, non-governmental organisation that helps women from disadvantaged backgrounds in Malaysia. Selected beneficiaries receive about RM2,000 in micro-credit financing and six months of business training. This scheme has apparently lifted over 68% of women borrowers above the poverty line so far.

Reference link: <http://womenofwill.org.my/our-approach/>

3. Convert plastic into gold

Digital gold savings platform HelloGold formed a unique partnership with social enterprise KLEAN to allow Malaysians to earn gold through recycling. By depositing used plastic bottles and aluminium cans into KLEAN’s dedicated reverse-vending machines, anyone can earn e-credits that can be converted into gold through the HelloGold app. Up to 0.00059 gram of gold can be earned for each can or bottle, regardless of size or weight.

Reference: <http://www.theedgemarkets.com/article/precious-metals-recycle-and-receive-gold>

4. Self-financing app for farmers

myAgro has pioneered an alternative system that matches how farmers already manage their money. Using a prepaid scratch card model — similar to buying prepaid mobile minutes — farmers can pay in advance for fertilizer, seed and training packages by buying a myAgro card at their local village store (from 50 cents to \$50), depositing their money into a layaway account by texting in the scratch-off code.

After a few months of buying the scratch cards and saving little by little, myAgro delivers the

fertilizer, seed, and training they've paid for in time for planting time. Through this bank-less savings scheme, average harvests for myAgro farmer increase from 50% – 100% over traditional farms, and net farming income increases \$150-\$300 per farmer.

Reference: <https://www.myagro.org/what-we-do/>

12 Examples of start-ups to increase financial inclusion during Fincluders Bootcamp 2017
<https://www.siliconluxembourg.lu/12-startups-to-increase-financial-inclusion-during-fincluders-bootcamp-2017/>

Potential partners

Government

- Bank Negara Malaysia (BNM)
- Ministry of Finance (MOF)
- Economic Planning Unit (EPU)
- Employees Provident Fund (EPF)
- Suruhanjaya Hak Asasi Manusia Malaysia (SUHAKAM)

SMEs / Entrepreneurs

- Policy street

Private companies

- Digital sector
- Telecommunications sector
- Banking sector
- Insurance sector

International development agencies

- World Bank
- Global Partnership for Financial Inclusion

NGOs

- Tenaganita
- Women of Will
- Suara Rakyat Malaysia (SUARAM)
- Centre for Orang Asli Concerns (COAC)
- Jaringan Orang Asal SeMalaysia (JOAS)
- Joint Action Group for Gender Equality

UN Agencies

- UN Capital Development Fund (UNCDF)
- UN Population Fund (UNFPA)
- International Labour Organisation (ILO)
- UN High Commission for Refugees (UNHCR)