



# Financial Inclusion Framework 2023 – 2026

## *Strategy Paper*



## About the Strategy Paper

Developed by Bank Negara Malaysia (“the Bank”) to align with the Financial Sector Blueprint 2022 – 2026 (“the Blueprint”), the 2nd Financial Inclusion Framework 2023 – 2026 (“the Framework”) serves as a four-year strategic roadmap and principle-based guidance to advance financial inclusion in Malaysia.

The Framework sets out the vision, desired outcomes, policy objectives and strategies in advancing financial inclusion holistically. The Framework also provides principle-based guidance on defining the financially unserved and underserved, with the aim of ensuring greater alignment of industry efforts with inclusive finance goals.

The Bank has consulted key stakeholders in developing the Framework. Constructive feedback and suggestions have been received during the consultation period and have been incorporated in the issuance of the Framework.

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# TABLE OF CONTENTS

## **PART A: Bridging Economic Empowerment and Inclusive Growth**

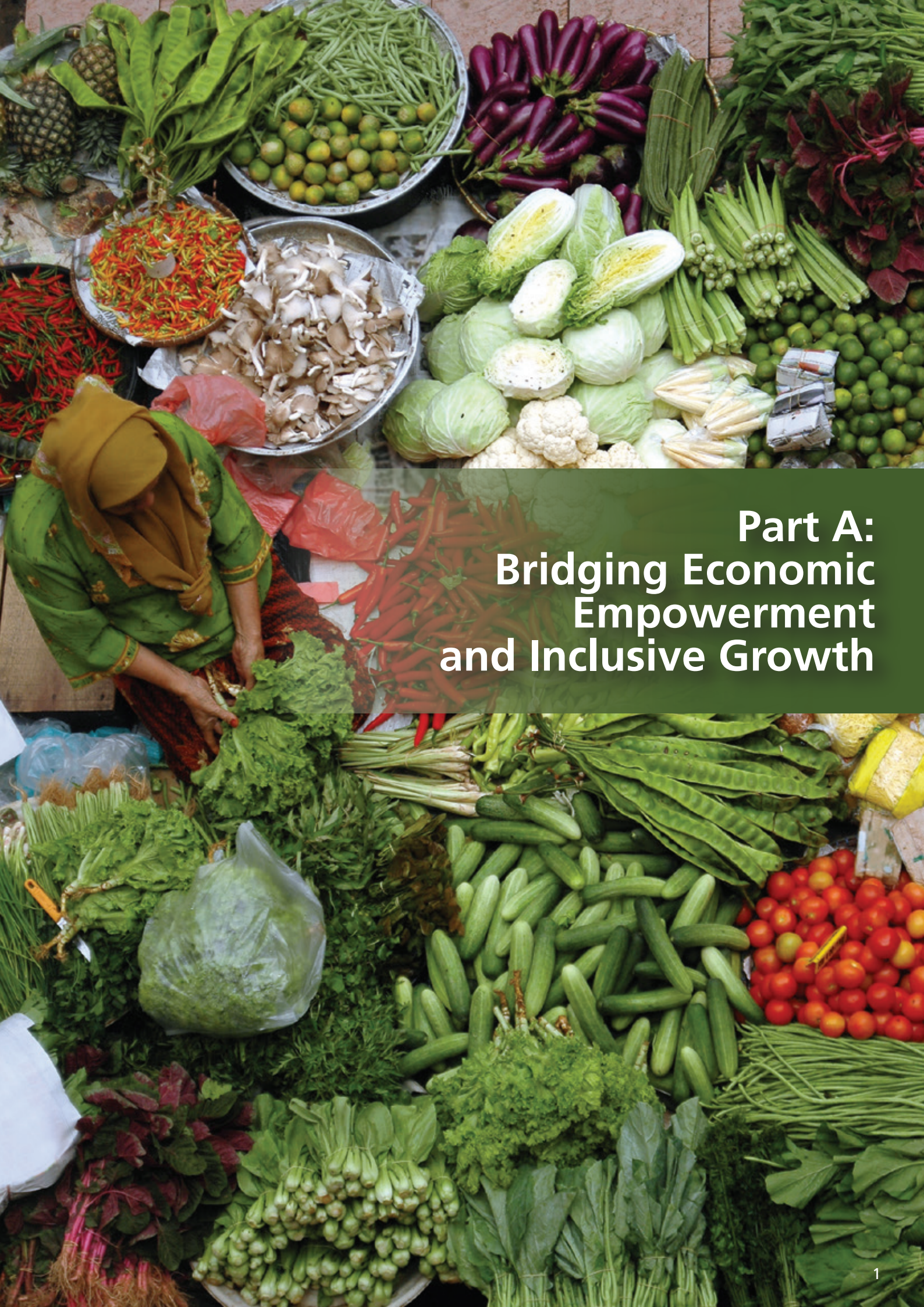
1. Overview: Advancing Financial Inclusion
2. Malaysia's Advancement in the Past Decade
3. Crossing Remaining Hurdles to Run the Last Mile

## **PART B: Strategic Direction of the Renewed Framework**

4. Vision of the Financial Inclusion Framework 2023 – 2026
5. Guidance on Unserved and Underserved Segments
6. Desired Outcomes
7. Policy Objectives and Strategies
8. Cross-cutting Themes

## **PART C: Translating Policy to Action**

9. Strategic Enablers for Successful Implementation
10. Monitoring and Evaluation Framework
11. Key Performance Indicators and Targets



**Part A:  
Bridging Economic  
Empowerment  
and Inclusive Growth**

# Bridging Economic Empowerment and Inclusive Growth

## 1 Overview: Advancing Financial Inclusion

- 1.1 An inclusive financial system provides a foundation for building strong and resilient households, communities, and economies. In this regard, financial inclusion strategies must facilitate meaningful access and effective usage of affordable financial products and services that allow consumers to save, invest, protect against risks and build financial buffers for current and future needs. To make this happen, having the skills and knowledge to make the right financial decisions are important. This will lay the foundation for individuals and businesses to improve their financial health and resilience, stimulate the economy and promote socio-economic growth.
- 1.2 Financial inclusion is also an important enabler in achieving eight of the 17 Sustainable Development Goals (SDGs). United Nations has estimated that achieving the SDGs will create at least US\$12 trillion of market opportunities and 380 million new jobs globally, with climate change efforts saving at least US\$26 trillion by 2030<sup>1</sup>.



Financial inclusion is positioned prominently in 8 of the 17 SDGs - Source: UNCDF

- 1.3 The recent COVID-19 pandemic has caused economic disruptions that eroded financial buffers of many individuals and households, particularly, the underserved and vulnerable segments as well as businesses, especially the small and medium enterprises (SMEs)<sup>2</sup>. Therefore, financial inclusion strategies going forward will need to take into account these new realities in order to deliver meaningful outcomes that can improve the financial well-being of people in this country.

<sup>1</sup> Business and Sustainable Development Commission, 2017; Better Business Better World; Report of the Global Commission on the Economy and Climate, 2018

<sup>2</sup> SMEs refer to micro, small and medium enterprises, as defined by SME Corporation Malaysia (as per Guidelines on National SME Definition issued by SME Corporation Malaysia), accessible at: [https://www.smecorp.gov.my/images/pdf/2022/Guideline\\_on\\_SME\\_Definition\\_Updated\\_September\\_2020\\_Final.pdf](https://www.smecorp.gov.my/images/pdf/2022/Guideline_on_SME_Definition_Updated_September_2020_Final.pdf)

Diagram 1: Key progress of financial inclusion in the past decade



Source: Bank Negara Malaysia, data as of end-2020 unless specified otherwise.

2.1 The Bank's commitment towards a progressive and inclusive financial system is embedded in the Central Bank of Malaysia Act 2009. Since the implementation of the 1<sup>st</sup> Financial Inclusion Framework 2011-2020, significant progress has been achieved which broadened the level of financial inclusion in the country.

### Accelerated Adoption of Digital Financial Services Post Pandemic

2.2 COVID-19 has affected our day-to-day living including how we conduct finance. In particular, the pandemic has accelerated the adoption of digital financial services (DFS). The recent Financial Capability and Inclusion Demand Side Survey 2021-2022<sup>3</sup> (FCI Survey 2021-2022) estimated that 74% of Malaysians use DFS. In addition, the World Bank's Global FINDEX Report (2021) revealed that 79% of Malaysian adults use digital payments, of which 42% did so for the first time during the pandemic. In turn, receiving digital payments has catalysed the use of other financial services, including savings and borrowing.

**Diagram 2: Digital Financial Services Trends in Malaysia**



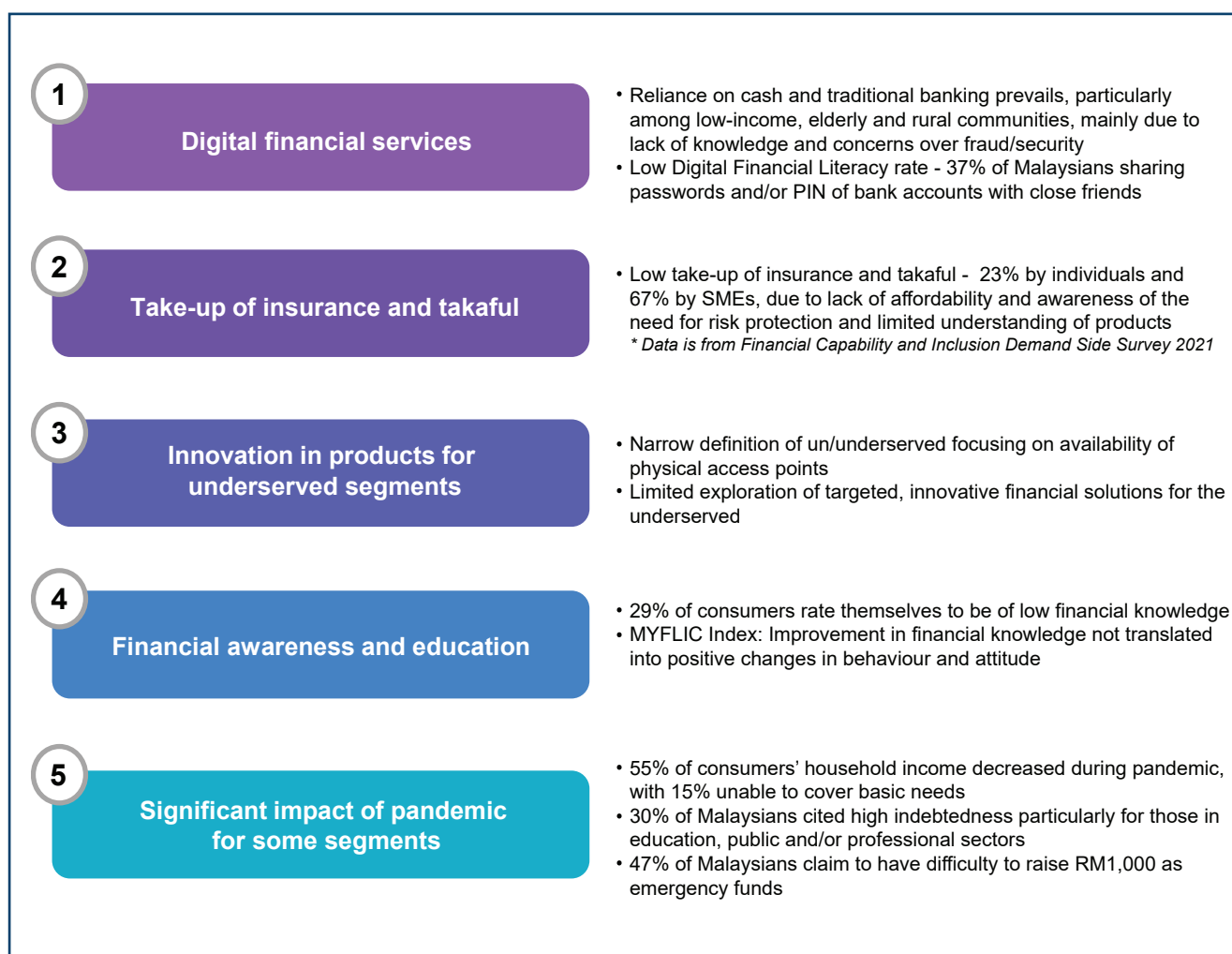
Source: World Bank's Global FINDEX Report (2021)

<sup>3</sup>The Financial Capability and Inclusion Demand Side Survey is conducted every three years to assesses the level of financial capability of Malaysians based on measures of financial knowledge, behaviour and attitude.

### 3 Crossing Remaining Hurdles to Run the Last Mile

- 3.1 In ensuring that financial inclusion strategies yield the desired outcomes, the Bank continuously monitors and measures the level of financial capability and inclusion in Malaysia. In recent years, the Bank conducted the FCI Survey 2021-2022 and the SME Financing Survey 2021<sup>4</sup> to gain insights into the current level of financial capability and inclusion in Malaysia, particularly in the post-pandemic environment.
- 3.2 Despite the progress made in the past decade, the survey findings highlighted several barriers and challenges that need to be addressed to further advance financial inclusion.

**Diagram 3: Barriers and Challenges to Financial Inclusion**



Source: Demand-side data from World Bank's Global FINDEX Report (2021), Financial Capability and Inclusion Demand Side Survey 2021-2022

<sup>4</sup> SME Financing Survey 2021 was conducted to assess the business conditions and needs, challenges and behaviour of Malaysian SMEs in accessing financial products and services, especially in the post-pandemic environment.

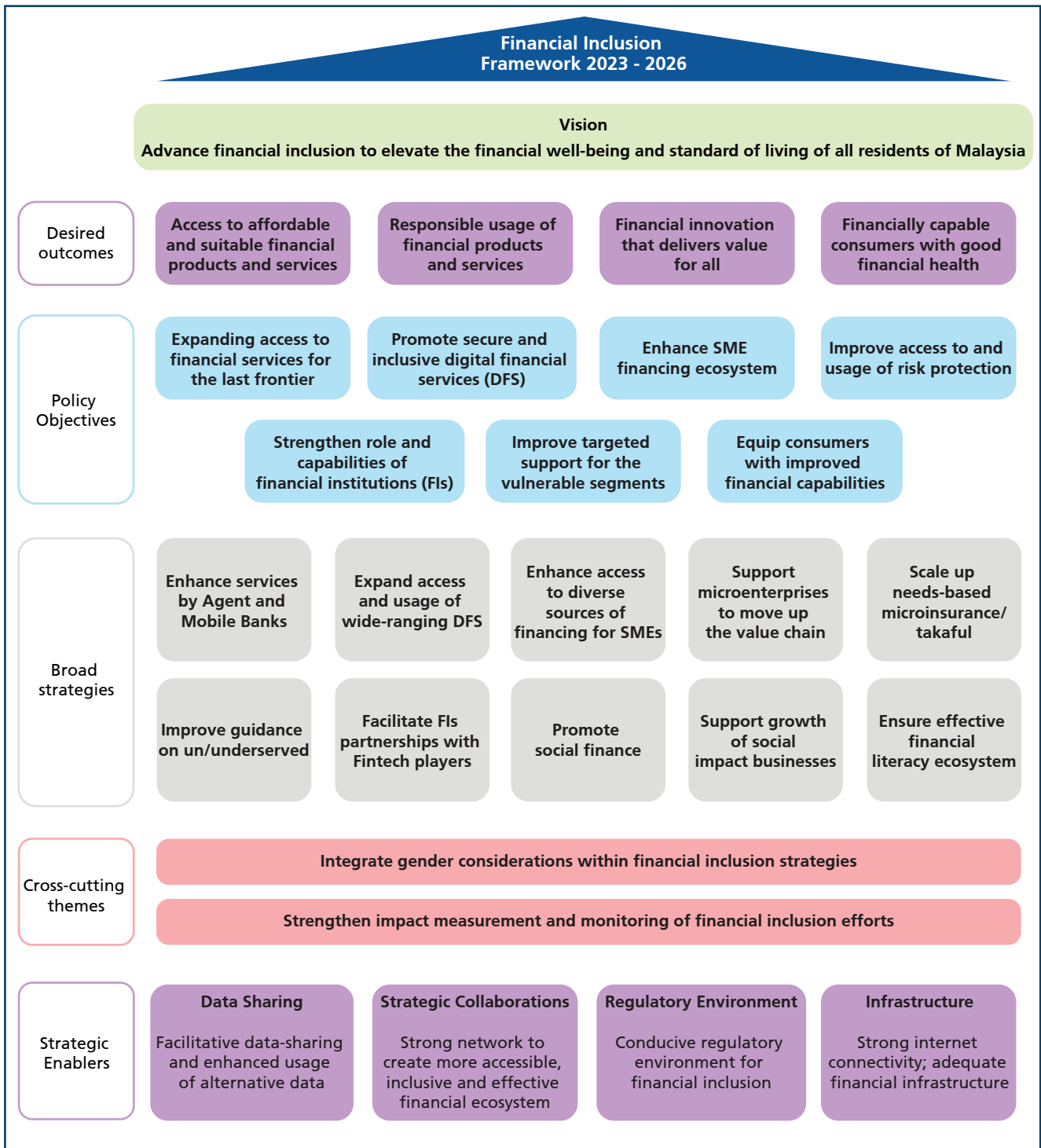
- 3.3 To this end, the Blueprint lays out wide-ranging strategies to elevate the financial well-being of households and businesses. The financial inclusion strategies and aspirations outlined in this Framework are aligned to meet the goals envisioned in the Blueprint.
- 3.4 At the national level, advancing the financial inclusion agenda remains a key priority under the Twelfth Malaysia Plan 2021 – 2025 (*Rancangan Malaysia Kedua Belas, RMK12*). The aim is to ensure all Malaysians have meaningful access to quality and affordable financial services, with emphasis on innovative financial solutions and technology-led modes of delivery. This will be key to meeting RMK12's objective to achieve a prosperous, inclusive and sustainable society.



## Part B: Strategic Direction of the Renewed Framework

# The Strategic Direction of the Renewed Framework

**Diagram 4: The Framework at a Glance**



## 4 Vision of the Financial Inclusion Framework 2023 - 2026

- 4.1 The Framework sets out a clear vision to “Advance financial inclusion to elevate the financial well-being and standard of living of all residents of Malaysia” by:
- i. enabling everyone to benefit from an accessible and inclusive financial ecosystem;
  - ii. equipping individuals and businesses with affordable and suitable financial solutions; and
  - iii. empowering consumers with the financial capability to make sound financial decisions and meaningfully participate in the financial system.
- 4.2 Greater financial inclusion enables households and businesses to improve their overall financial well-being and be better at responding to changes in financial circumstances. This in turn will build their financial resilience, including through economic cycles.
- 4.3 This Framework serves as a four-year strategic roadmap to advance financial inclusion as a means to an end, instead of an end in itself. The Framework features:
- i. a more expansive and holistic approach to transition the focus from accessibility and usage to achieving broader development outcomes as well as financial resilience and well-being;
  - ii. seven policy objectives to address remaining gaps and accelerate the advancement of financial inclusion;
  - iii. four strategic enablers to support the effective implementation of the Framework;
  - iv. principle-based guidance to identify the unserved and underserved - covering broader challenges of exclusion beyond geography, and includes various aspects of financial vulnerabilities; and
  - v. two cross-cutting themes as underlying implementation principles:
    - embedding gender equality considerations for greater socio-economic outcomes; and
    - strengthening impact measurement and evaluation of financial inclusion efforts across the industry to promote greater accountability.
  - vi. list of key performance indicators (KPIs) that will account for the quality of financial services and components of financial capabilities and health (to be published in 2023 upon consultation with stakeholders).

## 5 Guidance on Unserved and Underserved Segments

- 5.1 In line with the Blueprint’s call on the need to improve guidance on how financial institutions can define the financially unserved and underserved segments, the Framework provides a principle-based guidance<sup>5</sup>, based on the following six key characteristics:
- i. Physically challenging to reach given geographical accessibility;
  - ii. Unable to conduct digital transactions or adopt digital solutions, due to a lack of digital literacy, capability or connectivity;
  - iii. Face difficulties obtaining financial services given their risk profiles;
  - iv. Face difficulties accessing financial products due to information asymmetry or concerns on commercial viability especially in new growth areas;

<sup>5</sup> The guidance is aligned with definitions provided under the relevant policy documents issued by the Bank including the Policy Document on Agent Banking (2022), Policy Document on Licensing Framework for Digital Banks (2020), Exposure Draft on Fair Treatment of Vulnerable Consumers (2023), and Exposure Draft on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (2022), and complements existing guidance and policy documents issued by the Bank.

- v. Are likely to be more vulnerable due to personal circumstances, including changes in personal circumstances, exposing consumers to greater risk of experiencing harm; and/or
- vi. Gaps in financial literacy hindering the effective take-up and meaningful usage of financial products and services.

**Diagram 5: Principle-based guidance on the financially unserved and underserved**

### Characteristics of unserved and underserved segments

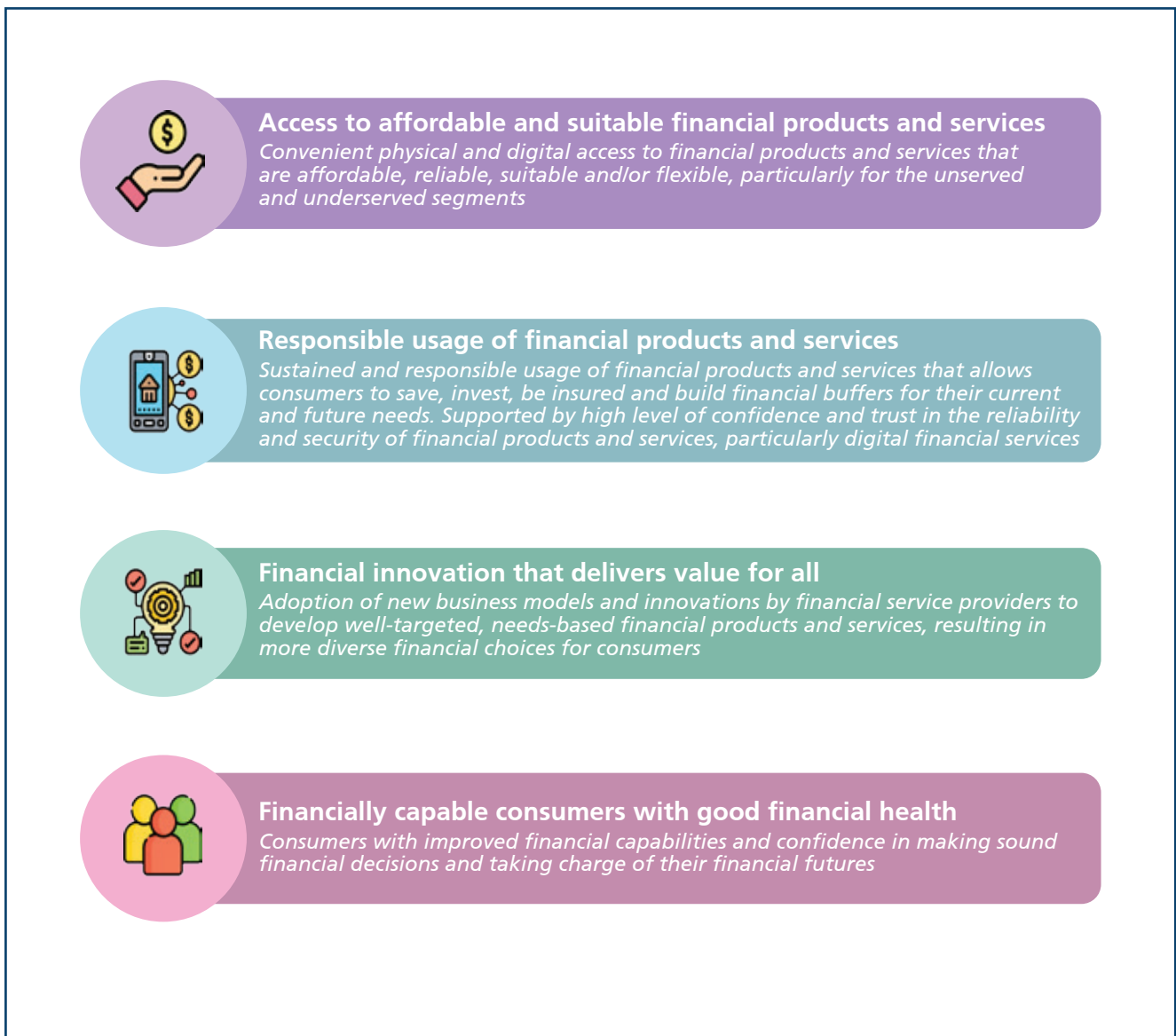


<sup>1</sup> Aligns with definition of 'vulnerable consumer' under the Exposure Draft on the Fair Treatment of Vulnerable Consumers (2023)

## 6 Desired Outcomes

6.1 The Framework focuses on delivering four key Desired Outcomes that will drive and focus our collaborative efforts to attain the Vision.

**Diagram 6: Desired Outcomes for Financial Inclusion**



### Diagram 7: Overview of Policy Objectives and Strategies of the Framework



#### Policy Objective 1: Expand financial access for the “last frontier”

- Enhance role of agent banks and mobile banks
- Support transition to digital financial services and build cash lite communities in remote and underserved areas
- Promote greater interoperability of financial services in underserved areas



#### Policy Objective 2: Promote secure and inclusive digital financial services

- Promote accessible, affordable and convenient digital payments
- Widen provision and usage of e-remittance services, particularly for SMEs and migrant workers
- Promote digital insurance/takaful that leverages technology to improve quality and affordability
- Ensure smooth operationalisation of digital banks as catalyst for financial inclusion



#### Policy Objective 3: Enhance SME financing ecosystem

- Improve access to diversified funding sources to encourage greater supply of financing and income-generating activities
- Facilitate ‘second-chance’ for non-viable borrowers
- Enhance support for microenterprises and informal businesses to move up the value chain



#### Policy Objective 4: Improve access to and usage of risk protection

- Enhance availability and accessibility of more diverse microinsurance/microtakaful offerings
- Increase consumer awareness and understanding of risk protection for households and businesses



### **Policy Objective 5: Strengthen financial institutions' role and capabilities in promoting financial inclusion**

- Improve alignment of industry's efforts with inclusive finance goals
- Improve access to data on profiles, needs, usage and behaviour of the unserved and underserved
- Review guidelines for Basic Banking Services
- Facilitate greater collaborations and capacity building between Development Financial Institutions (DFIs) and Financial Institutions (FIs) with other stakeholders
- Ensure proportionate regulatory approach for DFIs to enhance capacity to sustainably deliver developmental impact
- Pursue regulatory reforms to strengthen consumer protection
- Enhance support towards greening finance and financing green
- Integrate social finance into the financial ecosystem to improve access to funding for segments that face challenges in accessing commercially-driven finance



### **Policy Objective 6: Improve targeted support for the vulnerable segments**

- Facilitate provision of appropriate funding/financing and capacity building for social impact businesses and co-operatives that support well-being of the vulnerable segments
- Enhance policy and regulations to ensure vulnerable consumers are treated fairly by financial service providers



### **Policy Objective 7: Equip consumers with improved financial capabilities**

- Collaborate with the Financial Education Network (FEN) to drive national collaboration on financial education initiatives by expanding strategic partnerships
- Collaborate with FEN to enhance the Programmatic Roadmap to ensure effective implementation and monitoring of the National Strategy for Financial Literacy Scale up targeted engagement measures to elevate financial literacy and inclusion

## Policy Objective 1: Expand access to financial services for the “last frontier”

### Policy Objective 1

Expand financial access for the “last frontier”

### Intended Outcomes:



All sub-districts (*mukim*) with financial access points



Greater migration towards digital financial channels among underserved segments



7.1 Malaysia has made significant progress in widening financial access points covering 96% of sub-districts (*mukim*). However, financial barriers remain to the “last frontier” unbanked population, particularly in remote and underserved areas. Hence, the focus in the medium term will be on:

- ensuring access to and availability of financial services to segments currently unserved and underserved; and
- facilitating on-boarding processes for the population to transition to digital financial channels.

7.2 Policy Objective 1 lays out strategies for stakeholders to reduce barriers currently impeding access to appropriate financial products and services.

#### Strategies



### 1 Enhance role of agent banks and mobile banks

- Expand location of agent banks with wide range of services offered (e.g. facilitate e-payments, remittances, money services businesses (MSBs) and insurance/takaful-related services) and allow agent banks to facilitate simple account opening without visiting bank branches
- Increase deployment of mobile banks and ensure mobile banks offer basic services i.e. deposits, withdrawals, advisory and digital onboarding (e.g. 1st time activation of online accounts, how to download mobile apps, do's and don'ts in digital banking)

### 2 Support transition to digital financial services and build cash lite communities in remote and underserved areas

- Expand eDuit Desa<sup>1</sup> programme to targeted communities (e.g. elderly, rural communities, microentrepreneurs) to facilitate digital onboarding of financial services
- Collaborate with relevant stakeholders to support digital literacy and digital financial literacy initiatives (e.g. Malaysia Digital Economy Corporation's (MDEC) Digital Nomad, MyDigitalCorp, Securities Commission's (SC) Digital Desa for Senior Citizens) and leverage on local teachers and students as agents of change to cultivate cashless culture

### 3 Promote greater interoperability of financial services in underserved areas

- Promote interoperability for the services under agent banks and mobile banks
- Increase MyDebit Cash Out (MDCO) merchants in underserved areas with low digital finance coverage




<sup>1</sup> Refers to the campaign launched by the Bank in October 2022 to increase public awareness and encourage the usage of e-payments among rural residents and microentrepreneurs

## Policy Objective 2: Promote secure and inclusive digital financial services

### Policy Objective 2

Promote secure and inclusive digital financial services

### Intended Outcomes:

-  Stronger trust in reliability and security of digital financial services
-  Increase in adult population using digital financial services
-  Increase in e-payment per capita at a Compound Annual Growth Rate (CAGR) of more than 15%



- 7.3 The rapid growth of DFS opens enormous opportunities to deepen financial inclusion and expand access to previously excluded and underserved populations. However, these opportunities can only be fully realised if the population is equipped with the knowledge to use them effectively, responsibly and confidently. Low awareness and trust, as well as limited digital financial literacy can preclude consumers from competently and confidently using DFS.
- 7.4 Therefore, focus is being accorded to promote more secure and inclusive digital financial services that can encourage greater financial inclusion by effectively meeting the needs of the unserved and underserved segments. More efforts will also be channeled to elevating digital financial literacy (DFL) and improving trust to encourage greater usage of DFS.

#### Strategies



- 1 Promote accessible, affordable and convenient digital payments**
  - Promote wider access to digital payment infrastructures to ensure efficiency and reliability of e-payments
  - Assess and foster readiness of e-payment platforms to support digital financial services (e.g., insurance, remittance)
  - Create a conducive regulatory environment by introducing a regulatory framework in 2023 to promote innovation whilst safeguarding consumers' interest
  - Intensify awareness programs to support digital payment usage (e.g., Cashless Campaigns)
- 2 Widen provision and usage of e-remittance services, particularly for SMEs and migrant workers**
  - Encourage greater e-KYC adoption to onboard individuals and businesses
  - Conduct public awareness drive on availability of e-remittance services, in collaboration with industry and leveraging on social media
- 3 Promote digital insurance/takaful that leverages technology to improve quality and affordability**
  - License new digital insurers and takaful operators that deliver on intended value propositions of inclusion, competition and efficiency
- 4 Ensure smooth operationalisation of digital banks as catalyst for financial inclusion**
  - Ensure policy environment remains relevant for digital banks to evolve business models to effectively deliver on financial inclusion objectives

## Policy Objective 3: Enhance SME Financing Ecosystem

### Policy Objective 3

Enhance SME financing ecosystem

### Intended Outcomes:

- Greater share of SME financing to total business financing
- Greater access to non-debt based financing
- Increase in number of informal businesses graduating to formal and SMEs moving up the value chain, with improved income



- 7.5 One of the game changers highlighted in RMK12 is transforming SMEs as the new driver of growth, which includes accelerating SME development through technology and digital adoption. Whilst SMEs are showing positive signs of recovery post-pandemic, the sector is still grappling with lower-than-desired capacity, labour shortages, rising overhead costs and supply chain disruptions. Furthermore, recent surveys indicate that technology adoption and digital transformation among SMEs are still relatively poor compared to larger corporations.
- 7.6 The strategies under this policy objective will complement ongoing initiatives for SME development outlined in RMK12 and the Blueprint:
- to digitalise the SME sector and support its transition to green economy; and
  - provide a conducive and holistic ecosystem to support the growth of SMEs.
- 7.7 In this regard, the Bank has also introduced special funds, with the objective to providing access to financing at reasonable cost for SMEs in all economic sectors. The funds aim to support the recovery of SMEs, accelerate innovation and promote digital transformation as well as transition to green business models. In addition, the strategies will focus on the following:
- improving access to diversified funding sources;
  - facilitate 'second chance' for non-viable borrowers; and
  - enhance support for microenterprises and informal businesses to improve their income and move up the value chain.

#### Strategies



- 1 Improve access to diversified funding sources to encourage greater supply of financing and income-generating activities**
  - Enhance microfinance provisions:- Holistically review *Skim Pembiayaan Mikro (SPM)* to ensure relevance and effectiveness, including gaps for pockets of underserved micros (e.g., informal businesses, gig workers)
  - Establish simplified portfolio guarantee scheme, in collaboration with relevant strategic partners
  - Improve access and use of alternative data to develop targeted, innovative solutions by microfinance Financial Services Providers (FSPs) and Digital Banks
  - Review BNM's Funds to ensure the continued relevance of the funds in meeting the needs of the target segments
  - Allow FIs to offer nano/ social/ blended finance as means to help the un/underserved SMEs build track record and reduce information asymmetry, before transitioning to larger, purely commercial microfinancing
- 2 Facilitate 'second-chance' for non-viable borrowers**
  - Support efforts to enhance and simplify insolvency framework to ease cost and time needed for SMEs' exit and restarting of business ventures. This includes Corporate Voluntary Arrangements (CVA) for SMEs, efficient market-driven restructuring programs simplification of winding up procedures for non-viable SMEs
- 3 Enhance support for microenterprises and informal businesses to move up the value chain**
  - Ensure structured support on business formalisation, business matching, mentoring and financial management, improve referral channels to link SMEs to other financial and business solution providers and encourage better financial management through improved access to and awareness of financial solutions tailored to small businesses

## Policy Objective 4: Improve access to and usage of risk protection

### Policy Objective 4

Improve access to and usage of risk protection

### Intended Outcomes:



Insurance/takaful penetration rate of 4.8-5.0% (as % of GDP) by 2026



Significant increase in take-up of insurance/takaful, including by low-income and youth segments, with doubling in number of individuals subscribed to microinsurance/microtakaful



7.8 The pandemic has underscored the importance of financial resilience and the need for risk protection solutions in times of uncertainty. Insurance/takaful cushions businesses and individuals against a variety of unforeseen risks, helps to build retirement savings and contributes to advancing an inclusive, resilient society. Despite these benefits, the take-up of insurance/takaful products in Malaysia remains relatively low, particularly among the lower income and youth segments. This is due to income constraints, lack of suitable choices and low awareness of its importance and usage.

7.9 In this regard, efforts must be channelled to develop a protection landscape that is efficient, competitive and inclusive in meeting the needs of the unserved and underserved segments. The priority in the coming years will be to further promote the growth of a diverse microinsurance/microtakaful market that delivers products that are accessible, affordable, needs-based as well as easy to use by:

- encouraging broader offerings under the *Perlindungan Tenang*<sup>6</sup> framework with more targeted and proportionate regulations; and
- ensuring more seamless data-sharing across the industry.

7.10 FEN will be intensifying financial literacy initiatives to further improve consumer awareness and understanding of risk protection and the benefits of *Perlindungan Tenang* among key segments that most need it.

### Strategies



#### 1 Enhance availability and accessibility of more diverse microinsurance/microtakaful offerings

- Promote greater product innovation guided by flexibilities within the *Perlindungan Tenang* framework by:
  - Facilitating insurance and takaful operators (ITOs) to expand distribution channels and offer more diverse products;
  - Facilitating applications for product bundling and provision of value-added services; and
  - Further develop and provide ITOs with access to more granular demand-side data and demographic information to enable better identification of protection coverage gaps, risks and behaviours of unserved or underserved segments
- Promote seamless sharing of data and experiences across industry to enable innovation and efficiency e.g. facilitate democratisation of data from existing operators of national scheme (e.g. *mySalam*) to wider industry players

#### 2 Increase consumer awareness and understanding of risk protection for households and businesses

- Advance financial education and literacy initiatives on the importance of risk protection offerings, particularly for the vulnerable segments that need it most

<sup>6</sup> *Perlindungan Tenang* is a national initiative to provide simple and affordable insurance and takaful plans with a convenient claims process.

## Policy Objective 5: Strengthen financial institutions' role and capabilities in promoting financial inclusion

### Policy Objective 5

Strengthen financial institutions' role & capabilities in promoting financial inclusion

### Intended Outcomes:

- Greater use of forward-looking and alternative data alongside traditional metrics
- Increase in provision of suitable financial products targeted to meet the needs of unserved and underserved segments
- Conducive regulatory environment that encourages innovation, safeguards consumers' interests and supports development of green sectors and green finance solutions



7.11 In a rapidly changing business environment post pandemic, financial institutions are well-placed to leverage on the following:

- high levels of digital adoption by financial institutions and an enabling e-payments ecosystem;
- access to a comprehensive credit data infrastructure;
- partnerships with fintech players to access the expanding digital data footprint of financial consumers;
- established business conduct regulatory frameworks and close supervision that promote consumer confidence. This includes effective redress mechanisms for grievances; and
- active and sustained financial literacy programs.

7.12 In this context, financial institutions can play a transformative role in financial inclusion by taking advantage of innovation to strengthen digital channels and platforms, as well as develop customised and simplified financial solutions that meet the needs of customers at an affordable cost. To support this, the Bank will continue to facilitate a conducive and enabling regulatory environment to encourage innovation, safeguard consumers' interests and support the development of green sectors and green finance solutions.

## Strategies



- 1 Improve alignment of industry's efforts with inclusive finance goals**
  - Provide principle-based guidance on definition and characteristics of the financially unserved and underserved
  - Communicate financial inclusion targets and KPIs and standardise reporting to promote wider KPI disclosures by the industry
- 2 Improve access to data on profiles, needs, usage and behaviour of unserved and underserved segments**
  - Enable data sharing arrangements with FIs, microfinance institutions and key government agencies to facilitate development of alternative credit scoring models and support consumers to make better informed financial decisions
- 3 Review guidelines for Basic Banking Services**
  - Review the minimum level of services offered by the FIs to ensure continued relevance according to the needs of financial consumers
- 4 Facilitate greater partnerships, collaborations and capacity building between Development Financial Institutions (DFIs) and Financial Institutions (FIs) with other stakeholders** (e.g., Fintech players, international DFIs, Govt agencies, *zakat* institutions<sup>1</sup>, non-governmental organisations) to elevate the DFIs and FIs' ability to develop innovative business models and customised products for the underserve
- 5 Ensure proportionate regulatory approach for DFIs to enhance capacity to sustainably deliver developmental impact**
  - Ensure policy environment is relevant for digital banks to evolve business models to effectively deliver on financial inclusion commitments
- 6 Pursue regulatory reforms to strengthen consumer protection** (e.g., Consumer Credit Act by the Consumer Credit Oversight Board, standards on data governance and protection, etc.)
- 7 Enhance support towards greening finance and financing green**
  - Strengthen regulatory and supervisory expectations on industry's management of climate risks
  - Collaborate with fintech players to develop green financial solutions
- 8 Integrate social finance into the financial ecosystem to improve access to funding for segments that face challenges in accessing commercially-driven finance**
  - Scale up financial institutions' participation in iTEKAD, encourage diverse social finance funds, and facilitate collaboration with implementation partners<sup>2</sup> nationwide
  - Advocate for advancement of social finance ecosystem by encouraging infrastructure improvements and integrating social finance in business strategies
  - Develop better measures of value and impact for more transparent disclosure of social finance initiatives
  - Explore and implement innovative models of social finance to include guarantee mechanism

<sup>1</sup> Refers to Islamic organisations that manages the collection and distribution of *zakat* (alms).

<sup>2</sup> Implementation partner refers to all parties involved in rolling out social finance programmes in partnership with the financial institutions, including but not limited to government and private agencies, NGOs, fintech providers, change makers, social enterprises, corporations and even individuals.

## Policy Objective 6: Improve targeted support for the vulnerable segments

### Policy Objective 6

Improve targeted support for the vulnerable segments

### Intended Outcomes:

- 🎯 Growth in social finance solutions and other value-added services (e.g. upskilling), especially for the vulnerable segments
- 🎯 Increase in access to innovative funding/financing for the social enterprise sector
- 🎯 Increase in usage and satisfaction of formal financial advisory and redress avenues



- 7.13 Financial inclusion is a key enabler in reducing poverty and boosting shared prosperity. The FCI Suvey 2021-2022 revealed that 55% of consumers' household income decreased during the pandemic, with 15% unable to cover basic needs. In addition, 47% of Malaysians have difficulty raising RM1,000 as emergency funds. These heightened vulnerabilities may create a cycle of debt and negatively impact the long-term financial security of those affected.
- 7.14 Thus, priority will be accorded to implement financial inclusion strategies that will improve socio-economic impact and narrow income inequality for the most vulnerable segments in our society. This includes facilitating the integration of social finance as an integral part of the financial ecosystem, and to support and leverage on existing platforms for social impact businesses to obtain appropriate financing and build necessary financial management skills. Suitable financing and protection solutions can be designed to support the vulnerable segments with the aim to improve their income generation potential to provide financial security and ultimately improve their financial well-being.
- 7.15 Complementing this, the Bank will continue to ensure access to effective avenues for financial advisory and redress mechanisms for vulnerable consumers. The Bank will also further strengthen policies and regulations to ensure vulnerable consumers are treated fairly by financial service providers.

#### Strategies



- 1 **Facilitate provision of appropriate funding/financing and capacity building for social impact businesses and co-operatives that supports well-being of the vulnerable segments**
  - Review and enhance iTEKAD and/or BNM Funds' eligible beneficiaries to include viable and accredited social enterprises
  - Encourage financial institutions' support in fulfilling social enterprises' funding needs beyond grants
  - Facilitate information-sharing and strategic collaboration between financial institutions and relevant stakeholders (e.g. leading global social impact bond providers, Ministries, Govt. agencies and *zakat* institutions) to expand capacity building efforts and widen outreach to vulnerable segments
- 2 **Enhance policy and regulations to ensure vulnerable consumers are treated fairly by financial service providers**
  - Enhance the Policy Document on Fair Treatment of Financial Consumers to introduce requirements on financial service providers to provide appropriate assistance to vulnerable consumers, including those rendered vulnerable due to specific circumstances
  - Ensure access to effective avenues for information on financial advisory and redress

## Policy Objective 7: Equip consumers with improved financial capabilities

### Policy Objective 7

Equip consumers with improved financial capabilities

### Intended Outcomes:



Improvements in MYFLIC index and broad-based increase in Malaysia's OECD/INFE financial literacy scores



Increase in responsible usage and improved financial health



- 7.16 Consumers are now facing an increasingly complex digital financial environment. The pandemic has also revealed that financial vulnerability can affect anyone, irrespective of income or education. With this as context, the goals of the National Strategy for Financial Literacy (NS) will continue to be pursued to ensure that the population can confidently navigate financial decisions during challenging times and in an increasingly digital economy.
- 7.17 The Financial Education Network, or FEN, is an inter-agency platform of eight partner institutions<sup>7</sup> committed to raising the level of financial literacy in Malaysia. FEN will continue to drive the implementation of the NS and is committed to providing free access to financial knowledge, tools and resources as well as strengthening the measurement and evaluation of the initiatives for greater impact. FEN will work together with the financial industry to undertake more targeted efforts to support individuals and groups facing challenges that could make them more vulnerable financially. This includes rural communities, youth, gig workers, SMEs and lower-income households.
- 7.18 Further to this, financial institutions have an important role to address the misalignment between information and resources made available to financial consumers, and the way in which they consume, process and act on such information. Better use of data and behavioural insights by financial institutions can help close this gap and advance smarter financial education to bring about positive change.

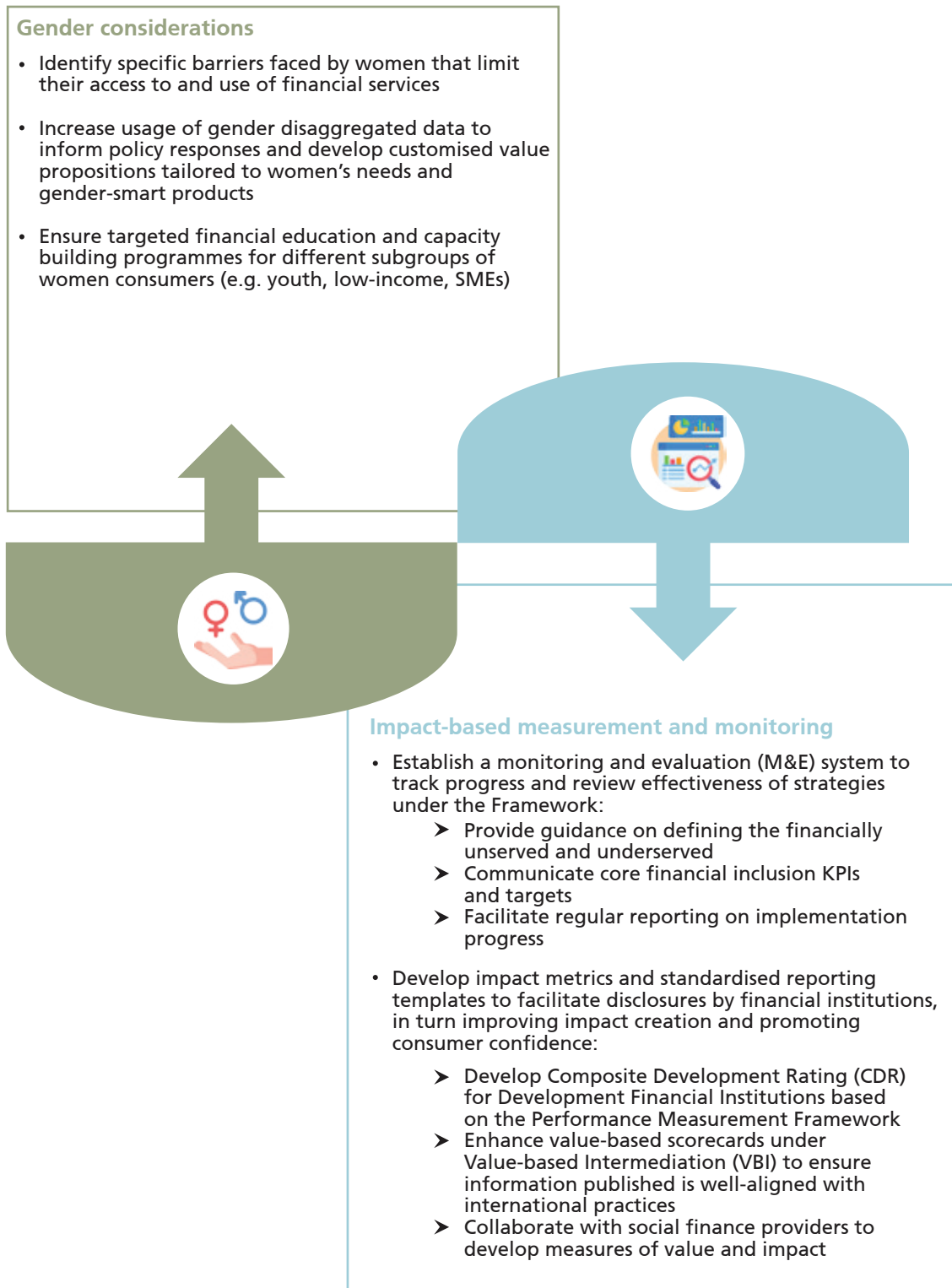
## Strategies



- 1 **Collaborate with FEN to drive national collaboration on financial education initiatives by expanding strategic partnerships**
  - Expand strategic partnerships and strengthen FEN's branding as a national advocate for financial literacy
  - Improve evidence-based research and measurements aimed at identifying and understanding gaps, needs, contexts, and behavioural outcomes via Financial Education Measurement and Evaluation (FEME) Framework and Financial Capability and Inclusion (FCI) Survey
  - Provide tangible improvements in the design and delivery of financial literacy interventions through the use of behavioural insight studies
- 2 **Collaborate with FEN to enhance the Programmatic Roadmap to ensure effective implementation and monitoring of the National Strategy for Financial Literacy**
  - Strengthen impact evaluation by developing annual KPIs under the four focus areas (Solutions, Access, Awareness and Application) of the FEN Programmatic Roadmap
- 3 **Scale up targeted engagement measures to elevate financial literacy and inclusion**
  - Scale up targeted and focused engagement measures to elevate financial literacy particularly on risk protection, digital financial literacy and financial management for SMEs (incl. entrepreneurs, informal sector, gig workers), workplace employees, youth and school students
  - Incorporate education on climate risks within financial literacy engagement and conduct capacity building on greening SMEs

<sup>7</sup> FEN members comprise the Ministry of Education Malaysia, Ministry of Higher Education, Bank Negara Malaysia, Securities Commission Malaysia, Employees Provident Fund, *Perbadanan Insurans Deposit Malaysia* (The Malaysian Deposit Insurance Corporation), *Permodalan Nasional Berhad* (National Fund Management Company) and *Agensi Kaunseling dan Pengurusan Kredit* (Credit Counselling and Debt Management Agency).

Diagram 8: Cross-cutting thematic considerations for financial inclusion strategies



The Framework highlights two thematic considerations to be integrated within the financial inclusion strategies across the board:

### **Embedding gender considerations within financial inclusion initiatives**

- 8.1 Globally, almost three quarters of a billion women continue to be excluded from formal financial services, with a global gender gap of about 6%<sup>8</sup>. In Malaysia, while there is no significant gender gap in financial account ownership and access to credit, disparities in economic participation remain to be addressed. The labour force participation rate for women in Malaysia at 51%, is below that of the developed economies<sup>9</sup>. Furthermore, women-owned SMEs make up only about 20% of total SMEs in Malaysia<sup>10</sup>.
- 8.2 Improving gender equality is an increasingly important priority for policymakers globally in the pursuit of sustainable development. In Malaysia, the RMK12 outlines aspirations and initiatives for women empowerment, particularly to strengthen the development of women entrepreneurs and to increase women's labour force participation rate to 59% by 2025.
- 8.3 Complementing these efforts, financial inclusion interventions should be more intentional about ensuring equitable financial access for women consumers. With better access and capabilities, women consumers also become more likely to invest in health, education and businesses, which benefit not only the women themselves but also their families and the wider society.

### **Strengthening impact-based measurement and monitoring of industry-wide financial inclusion efforts**

- 8.4 To ensure industry-wide efforts are well aligned and effective, the monitoring and impact assessment of financial inclusion initiatives must be strengthened. A monitoring and evaluation (M&E) process will be developed to systematically track and evaluate the performance of the strategies under this Framework.
- 8.5 Efforts will be focused on collaborating with financial institutions to develop standardised reporting metrics and promote more transparent impact-based evidences on financial inclusion. This would allow financial institutions to systematically demonstrate and continually improve their commitment towards supporting financial inclusion and the broader Environmental, Social and Governance (ESG) goals and the SDG agenda. Consequently, this will instill greater confidence in consumers and investors seeking to deal with institutions that are aligned to ESG goals.

<sup>8</sup> Source: The World Bank's Global FINDEX Report (2021)

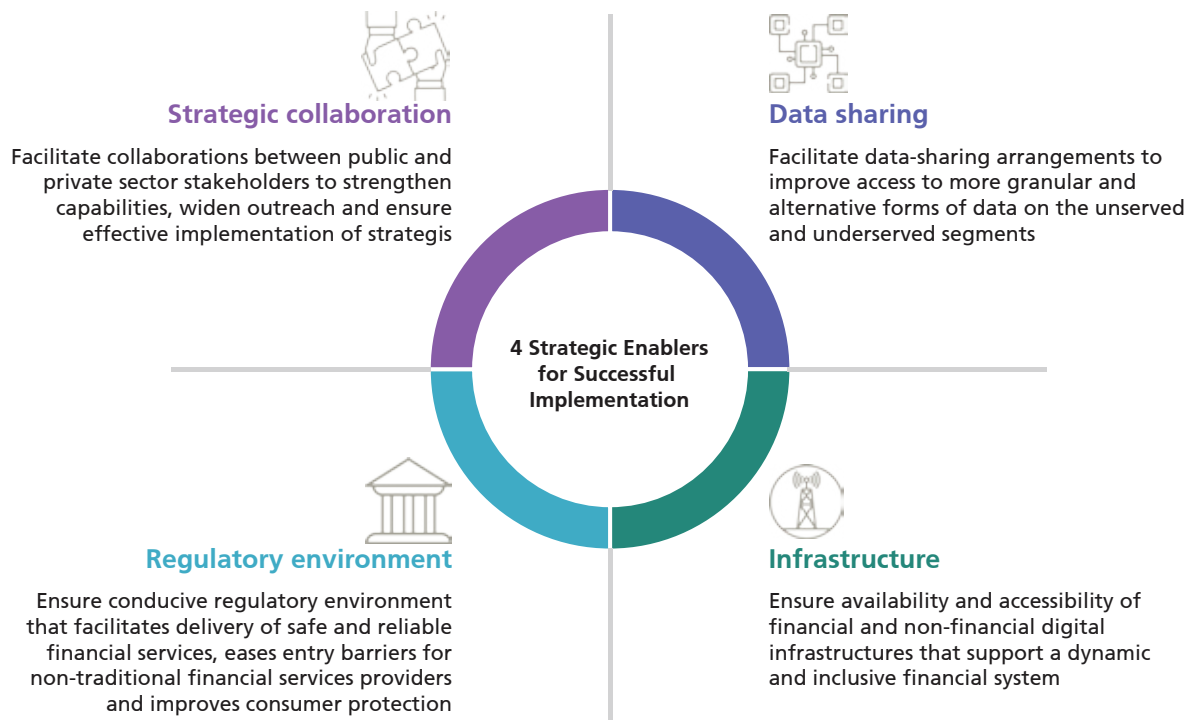
<sup>9</sup> For comparison, the labour force participation rate for women in Singapore is 59%, 60% in Australia and 65% in New Zealand. Labour force participation rate for women in other ASEAN countries are also higher, e.g., 70% in Vietnam, 59% in Thailand, and 54% in Indonesia. Source: The World Bank Database (2021).

<sup>10</sup> Source: Department of Statistics Malaysia (2016)



## **Part C: Translating Policy To Action**

Diagram 9: Strategic enablers to support successful implementation of financial inclusion strategies



The Framework also identifies four strategic enablers involving industry-wide efforts that support the successful realisation of policy objectives and strategies for financial inclusion. These on-going efforts are in line with strategies outlined in the Blueprint:

**9.1 Strategic collaborations** – Achieving common goals of inclusivity and well-being aligned to broader national development policies will require greater coordination, synergies and collaboration between stakeholders in both the public and private sectors. Focus will be given to facilitate strategic collaborations between the financial sector and other actors in the ecosystem (e.g., Government Ministries and agencies, financial and non-financial infrastructure providers, non-profit organisations) to strengthen capabilities, widen outreach and ensure the effective implementation of the financial inclusion strategies.

**9.2 Data sharing** - With more open data sharing across the industry, financial service providers have access to more granular and alternative forms of data for:

- better targeted financial solutions; and
- enrich creditworthiness assessments for thin-file consumers.

This will also offer better quality information back to consumers to make informed financial decisions and nudge them towards better financial behaviour, which in turn improves their financial well-being.

9.3 **Infrastructure** - Focus continues to be given to ensure the financial infrastructure (e.g., interoperable payment systems, credit reference and reporting firms, credit guarantees) is effective in serving a dynamic and inclusive financial system. With the acceleration of DFS, the availability and accessibility of broader non-financial digital infrastructures are crucial to ensure that hard-to-reach segments can participate meaningfully in the financial system.<sup>11</sup>

9.4 **Conducive regulatory environment** - The Framework also takes into consideration the continued need to ensure a regulatory environment that facilitates financial inclusion. This includes facilitating the provision of financial services that are safe and reliable, easing entry barriers for non-traditional financial service providers and improving consumer protection standards. The Bank also continues to ensure a proportionate regulatory approach for DFIs to support the sustainable delivery of developmental impact by the DFIs.

**Diagram 10: Strategies under the Framework are aligned with the Financial Sector Blueprint 2022 - 2026**

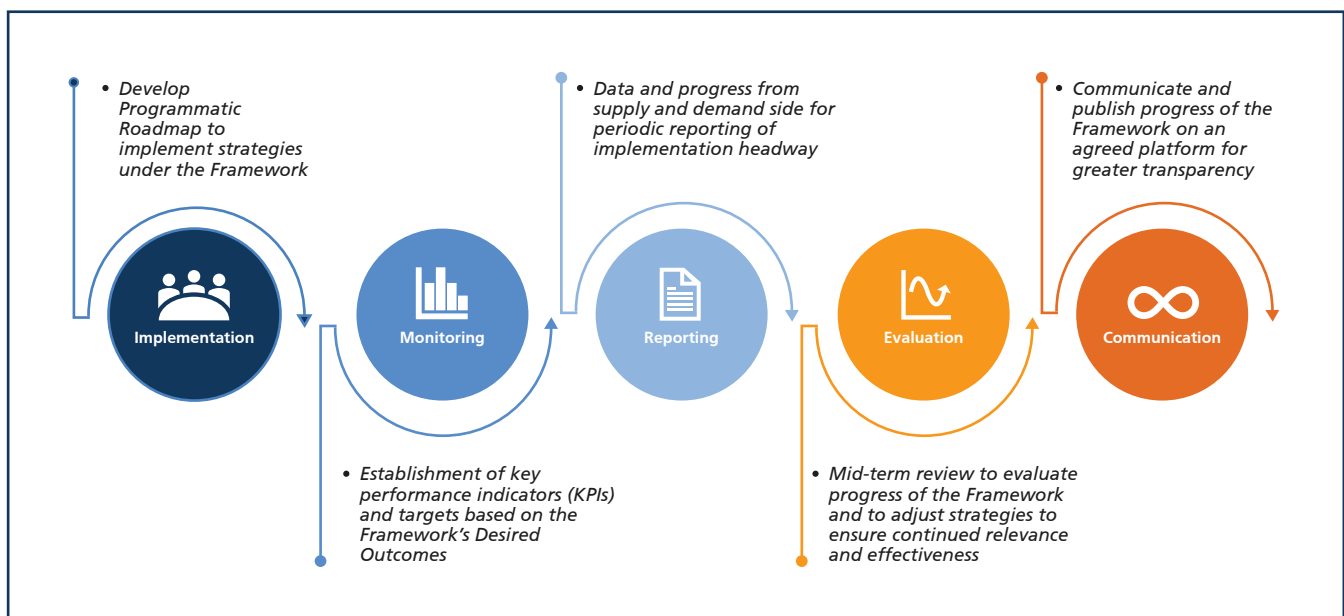


<sup>11</sup> Please refer to "Strategic Thrust 3: Advance Digitalisation of the Financial Sector" in the Blueprint for more information on efforts to enhance financial and non-financial infrastructures to support the broader financial system.

## 10 Monitoring and Evaluation Framework

- 10.1 The Bank will develop a structured M&E process to track the performance and progress of the strategies outlined in the Framework. This will ensure that the financial inclusion strategies are implemented as planned, reviewed and calibrated when necessary, to achieve the Framework's desired outcomes. The advancement and progress of financial inclusion will then be published to promote greater transparency and maximise the drive towards achieving financial inclusion goals and targets.
- 10.2 The Bank will drive and coordinate the M&E process which encompasses the key elements stipulated in Diagram 11. The Bank will engage with key stakeholders and monitor the implementation of the strategies outlined in the Framework. The monitoring of strategies will include updates on action plans, progress, outcome and impact of financial inclusion initiatives by the stakeholders. These in turn will be reflected in the progress of the key performance indicators to capture the collective industry and various stakeholders' performance in driving financial inclusion objectives.

**Diagram 11: Key Elements of M&E Process**



## Diagram 12: A Guide for Financial Institutions to Measure Financial Inclusion Outcomes

### Financial Inclusion Outcome Measurement for Financial Institutions



As a guide for financial institutions to measure financial inclusion outcomes, data should be incorporated into existing processes, such as product development, credit approvals and decision making.

Financial institutions can:

- Identify financial inclusion core indicators
- Define their data architecture and data collection strategies based on the indicators
- Reorganise data governance model to better manage and report financial inclusion data (including ESG and SDG data where relevant)

## 11 Key Performance Indicators and Targets

11.1 Setting the right KPIs and targets plays a critical role in the financial inclusion policy-making process and in driving the design and implementation of strategies and initiatives. The performance of the Framework will be evaluated based on a set of headline indicators and targets tied to the Desired Outcomes. These headline indicators and targets will be a key component of the M&E process.

11.2 The Bank in consultation with relevant stakeholders will develop a comprehensive and appropriate set of KPIs and targets. The aim is to incorporate inputs from the industry and key stakeholders to ensure a stronger and effective coordinated implementation which is aligned to the objectives of national development plans. The KPIs and targets will be published as part of the Strategy Paper's addendum in 2023.

