



MINISTRY OF
FOREIGN AFFAIRS
PAKISTAN

Report of Developing Eight (D-8) Countries' Central Banks Experts Meeting

Hosted by
State Bank of Pakistan
at National Institute of Banking and Finance (NIBAF),
Islamabad. April 21, 2014

Promoting Cooperation for Inclusive Economic Growth

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Executive Summary

State Bank of Pakistan (SBP) hosted the Developing Eight (D-8) countries' Central Banks Experts Meeting on April 21, 2014 at NIBAF, Islamabad.

The meeting was held as part of the D-8 organization for economic cooperation on promoting inclusive financial services and Islamic Banking. This was a follow-up meeting to the 2nd meeting of the Heads of Central Banks of D-8 Countries held on 21 November 2012 at Islamabad, Pakistan

The experts' meeting was attended by high caliber participants from the D-8 central banks, officials, and private sector. The objective was to explore issues in promoting central bank cooperation among D-8 countries, identify key areas for future collaboration and to setup a mechanism for institutionalizing the future cooperation for sustained progress in this regard. The experts shared experience of member countries and deliberated on further cooperation in D-8 member countries. The diversity of participants helped in fruitful discussions and offered a range of opinions during the breakout sessions. The meeting focused on three broader subjects, these are i) Financial Inclusion, ii) Branchless Banking and iii) Islamic Finance. The breakout sessions developed recommendations for enhanced cooperation in these areas among the member countries for the consideration of the D-8 Central Banks ahead of the 3rd Heads of the Central Banks Meeting.

The summary recommendations of the two breakout sessions are as follows:

Financial Inclusion and Digital Financial Services

- Develop D-8 countries' information and sharing mechanism on National Financial Inclusion Strategies/ Policies
- Enhance future collaboration in the areas such as
 - Agents regulations and supervision
 - Digital payments infrastructure such as National Payments Gateways
 - Framework of new financial safety net
 - Financial Inclusion and Financial Stability Index
 - Consumer Education, Consumer protection and Financial capability
 - Microcredit regulations and supervision
 - Bringing SMEs in FI
 - Develop customer centric products
 - Improved Credit Information and Secured Transaction Registry
 - Surveys to assess agents/clients related issues
- Promote peer learning through information exchange and exposure visits and also maximize collaboration through existing networks such as Alliance For Financial Inclusion of these member states

Islamic Finance

- Reiterate earlier recommendations for respective governments to:
 - a. Increase Islamic financing share in public finance
 - b. Develop both Islamic banking and Islamic capital markets simultaneously
 - c. Provide funds for development / capacity building of under-served sectors
 - d. Introduce Islamic finance in academic curriculum
 - e. Support and provide funds for mass awareness on public level

- More effective 'strategy sharing and exchange platforms' be initiated especially in the following areas:
 - a. Progress made in each jurisdiction in Islamic Finance
 - b. Training and development initiatives
 - c. Development of Sukuk market in D-8 countries in order to facilitate fund flows from OIC countries to D-8 countries, to finance infrastructure development
 - d. Analysis of international regulatory reforms on Islamic finance industry in D-8 countries
 - e. Identification of strategic areas for future growth of Islamic finance
 - f. Development of new dedicated indicators to measure performance of Islamic finance industry in D-8 countries

- To consider inviting participation of other relevant regulators from insurance and capital markets in strategy/exchange platforms

- To have more regular D-8 Expert level meetings, particularly on sidelines of international forums like IFSB complemented by the use of technological platforms

After detailed deliberations, these recommendations were unanimously adopted by the experts of D-8 Central Banks.

Proceedings of the Experts' Workshop

Welcome and Opening Remarks

Mr. Ashraf Mahmood Wathra, Governor SBP chaired the inaugural session. The meeting started with welcome address by the Chair. The Governor welcomed the participants to the D-8 Central Banks Experts meeting on Cooperation for "Promoting Inclusive Financial System and Islamic Finance in D-8 countries".

He thanked the D-8 Central Banks, D-8 Secretariat in Turkey, member countries and Pakistan Foreign Office which cooperated closely with the State Bank of Pakistan for organizing the event.

While highlighting the significance of the meeting, he shared that the objectives of D-8 Organization for Economic Cooperation were to improve all member states' positioning in the global economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at international level, and improve our overall standards of living. In this backdrop, he mentioned that this event was continuation of the efforts for achieving these goals. He emphasized that events such as this one were particularly valuable in providing opportunities for sharing and learning from member countries' experiences on how to tackle challenges that may be common among our economies.

He was optimistic about the success of the meeting due to participation of highly qualified experts from D-8 central banks, members of private sector and other officials. He encouraged participants to hold an open dialogue to further strengthen the ongoing cooperation and further explore avenues for promoting Financial Inclusion, Branchless Banking and Islamic Finance in D-8 countries.

He stressed on the need for continued collaboration amongst D-8 Central Banks for inclusive economic growth. He shared that SBP like many of the D-8 Central banks has been working on making financial markets more inclusive; however, financial exclusion remains an impediment in achieving inclusive economic growth. He advised that the experts may specifically deliberate on the practical challenges involved in formulation and implementation of Financial Inclusion Strategies particularly;

- Identification of national leadership and formation of coordination platform
- Modalities used for formulation such as Data and diagnostic studies and consultation process and engagement of private sector and other stakeholders
- Modalities used for the implementation

- Incorporation of national targets and monitoring

He also highlighted that Pakistan has made significant progress on introducing Islamic banking system in the country. He shared that Islamic Banks hold a market share of 9.6 percent and 10.4 percent of the total banking sector assets and liabilities respectively, with a healthy asset quality and double digit return on equity. Accordingly, SBP has recently adopted a holistic approach through a five year Islamic Banking Strategic Plan (2014-18), which aims provide a consensus vision to the industry and an action plan to help the industry tackle key impediments to achieve the required growth and maturity.

While giving the closing remarks, he hoped that the experts would outline actions/milestones for the 3rd Heads of the Central Banks Meeting to held in Istanbul Turkey later this year.

Breakout Sessions:

After the Governor's speech, the participants broke out in two groups focusing on two broader themes. These included;

- 1) Promotion of Innovative Financial Inclusion Policies in D-8 Countries
- 2) Explore opportunities in Islamic Finance

Participants of the workshop included central banks experts, members of private sector industry, officials, and academics. Experts from the D-8 countries debated rigorously on their respective themes in context of their country specific economic and regulatory environment. The program and list of participants are given at Annexure-1 and Annexure-2 respectively. Discussions on each of these themes were held in two breakout sessions.

Theme wise discussions and specific recommendations made by the experts are summarized below;

Breakout Session 1: Promotion of Innovative Financial Inclusion Policies in D-8 Countries

The first break out session was held on "Promotion of Innovative Financial Inclusion Policies" in D-8 Member Countries. The session had representation from three of the D-8 countries, namely; Pakistan, Indonesia and Bangladesh. The session was moderated by Syed Samar Hasnain, Director-AC&MFD and IH&SMEFD-SBP. The objective of the session was to analyze the overall situation of financial inclusion in D-8 countries, highlight key branchless banking

developments and identify the priority areas for member countries to collaborate for improving financial Inclusion.

The moderator started the session by providing background of the meeting and outlined the main theme of the program. He informed the participants that the meeting was being held to enhance cooperation among the D-8 central banks and implement the decisions made in the 2nd meeting of the Heads of Central Banks of D-8 Countries.

The breakout session was divided into three parts; a) country presentations by each available D-8 member, briefly covering state of Financial Inclusion in their respective countries including recent developments, highlight branchless banking developments, incentives and potential issues / challenges, b) roundtable discussion c) developing recommendations for enhancing cooperation on promoting innovative financial inclusion in D-8 member countries.

The participants from member countries namely Mr. Noor Ahmed from SBP, Mr. Mr. Ricky Satria from Bank Indonesia and Mr. S.M. Moniruzzaman Bangladesh Bank made their respective country presentations giving the overall picture of the state of financial inclusion, developments in branchless banking in their respective country and also shared their recommendations for enhancing cooperation among the member countries. The presentations are given at Annex-3. Subsequently, other participants of the session briefly explained the role played by their respective organization in promoting financial inclusion in Pakistan.

The break out session provided an opportunity for knowledge sharing among the participants regarding current practices prevailing in respective countries and policies being pursued by the central banks.

After detailed deliberation, participants reached on main agreements and also developed joint recommendations for further collaborations among D-8 countries. These include:

Main Agreements

- The group recognizes that member countries stand at different levels of Financial Inclusion and since the regimes governing FI are different in these jurisdictions, there is a need to develop information and sharing on these regimes.
- The group recognizes that financial inclusion strategies are the clear way forward and Branchless banking/ digital financial services is a key instrument in achieving

financial inclusion and therefore D-8 central banks collaboration should address digital financial services.

- Group recommends exposure visits and maximizes collaboration through existing networks such as Alliance for Financial Inclusion of these member states.

Recommendations on process of National Financial Inclusion Strategy (NFIS)

- Develop D-8 countries' information and sharing mechanism on the following:
 - Identification of national leadership and formation of coordination platform
 - Modalities used for formulation such as Data and diagnostic studies and consultation process and engagement of private sector and other stakeholders to gain their buy in
 - Modalities used for the implementation
 - Incorporation of national targets and monitoring

Specific Recommendation on areas for future collaboration:

- Agents regulations and supervision
- Digital payments infrastructure such as National Payments Gateways
- Framework of new financial safety net
- Financial Inclusion and Financial Stability Index
- Consumer Education, Consumer protection and Financial capability
- Microcredit regulations and supervision
- Bringing SMEs in FI
- Develop customer centric products
- Improved Credit Information and Secured Transaction Registry
- Surveys to assess agents/clients related issues

Break out Session 2: Explore Opportunities in Islamic Finance

The second break out session was focused on Islamic Banking & Finance in D-8 countries. The session proceeded with the recitation of Holy Quran. Mr. Zulfiqar Ali Khokhar, Additional Director, Islamic Banking Department, State Bank of Pakistan moderated the session.

The moderator started the session by providing background of the meeting and outlined the main theme of the program. He informed the participants that it is a follow-up meeting to D-8 Governors/Experts Workshop held in November 20-21, 2012 in Islamabad, Pakistan.

The breakout session was divided into three parts; a) country presentations by each available D-8 member, briefly covering state of Islamic Finance industry in their respective countries including recent developments, incentives and potential issues / challenges, b) review of recommendations made in previous experts level meeting, c) detailed discussion leading to new/revised recommendations for the promotion of Islamic finance by D-8 members.

The participants discussed the progress on recommendations made by D-8 experts in their earlier session and deliberated further upon them while focusing on future road-map. The group came up with recommendations at D-8 level and respective government's level. They also improvised the earlier recommendations along the same lines and developed consensus on the following recommendations:

- II. Reiterate earlier recommendations for respective governments to:
 - a. Increase Islamic financing share in public finance
 - b. Develop both Islamic banking and Islamic capital markets simultaneously
 - c. Provide funds for development / capacity building of under-served sectors
 - d. Introduce Islamic finance in academic curriculum
 - e. Support and provide funds for mass awareness on public level

- III. More effective 'strategy sharing and exchange platforms' be initiated especially in the following areas:
 - a. Progress made in each jurisdiction in Islamic Finance particularly in relation to D-8 recommendations:
 - i. Islamic finance data on products, policies and initiatives, etc between D-8 countries and stakeholders
 - ii. Portal on respective country websites to facilitate access to Islamic finance information of D-8 countries
 - b. Training and development initiatives including:
 - i. Exchange programs for regulators, practitioners and Shariah scholars
 - ii. Sabbatical programs
 - c. Development of Sukuk market in D-8 countries in order to facilitate fund flows from OIC countries to D-8 countries, to finance infrastructure development
 - d. Analysis of international regulatory reforms on Islamic finance industry in D-8 countries
 - e. Identification of strategic areas for future growth of Islamic finance
 - f. Development of new dedicated indicators to measure performance of Islamic finance industry in D-8 countries

IV. To consider inviting participation of other relevant regulators from insurance and capital markets in strategy/exchange platforms

V. To have more regular D-8 Expert level meetings, particularly on sidelines of international forums like IFSB complemented by the use of technological platforms

The participants concluded the session with emphasizing the need for more concerted and coordinated efforts towards the enhanced cooperation among D-8 countries at government and regulatory levels, to harness their true potential in sustainable Islamic finance growth in D - 8 countries.

Presentations of the Breakout Sessions in the plenary

Following the breakout sessions, the recommendations of the breakout sessions were presented in the plenary for discussion and for endorsement by all participating countries. The presentations were made by Mr. Noor Ahmed from SBP and Mr. Mr. Wan Mohd Nazri Wan Osman from Bank Negara Malaysia for breakout session 1&2 respectively. The presentations are placed as annexure 4.

After detailed deliberations the members unanimously adopted the recommendations.

Closing Remarks at the D-8 Central Banks Experts Workshop

Syed Samar Hasnain, Director – AC&MFD and IH&SMEFD, State Bank of Pakistan made the closing remarks at the end of Experts' meeting. He thanked the delegates from D-8 countries, other participants and organizers for their contributions in making the meeting a successful event. While concluding, he said that the efforts we put in together would help us in attaining an improved understanding and resolving the issues faced by the member countries in areas of Financial Inclusion, Branchless Banking and Islamic Finance.

**Developing Eight (D-8) Countries Central Banks Experts Meeting Program
April 21, 2014, NIBAF, Islamabad, Pakistan**

Time	Description
09.00-09:30	Registration
09.30-09:40	Recitation from Holy Quran
09.40-10:00	Welcome & Opening Remarks by Mr. Ashraf Mahmood Wathra Governor (A), State Bank Pakistan
10.00-10:30	Tea/ Coffee Break
10.30-13:00	<p><u>Breakout Session 1: Financial Inclusion and Branchless Banking</u></p> <ol style="list-style-type: none"> 1. Presentation by each D-8 member country covering: <ul style="list-style-type: none"> • State of financial inclusion in respective country • Recent developments highlighting Policy and promotional incentives for financial inclusion • Key developments in Branchless Banking • Identify potential issues/ challenges • Suggestions for D-8 Cooperation 2. Roundtable discussion 3. Develop recommendations for promoting cooperation while focusing on <ul style="list-style-type: none"> • Formulation of National Financial Inclusion Policies • Developing policies and regulations governing specific underserved sectors e.g. microfinance, SMEs, Housing, Infrastructure, rural and agricultural finance to enhance financial inclusion. • Study policy approaches for exploring innovative delivery channels and payment systems such as agent-based banking, mobile phone banking, and post office networks. • Enhancing consumer protection and improving financial education to address financial exclusion. • Form a D-8 Consultative Group on Financial Inclusion (CGFI) with representation from each central bank for knowledge exchange exercises, consultations and produce a comprehensive document ahead of 3rd Heads of the Central Banks Meeting 4. Recommendations will be presented in Session 3: Information exchange and promotion of peer learning amongst D-8 Central Banks
10.30-13:00	<p><u>Breakout Session 2: Islamic Finance</u></p> <ol style="list-style-type: none"> 1. Presentation by each D-8 member country covering: <ul style="list-style-type: none"> • State of Islamic Finance industry in respective country • Recent developments highlighting Policy and promotional incentives for Islamic finance and banking • Identify potential issues/ challenges • Suggestions for D-8 Cooperation 2. Roundtable discussion 3. Develop recommendations for promoting cooperation while focusing on:

	<ul style="list-style-type: none"> • To review the progress of Islamic Finance Industry and exploring sustainable models to promote Islamic Finance in D-8 countries. • Development of Islamic Financial Instruments/ products and capital markets • Developing linkages and synergizing D-8 Central Banks' efforts for training and capacity building in Islamic finance. <p>4. Recommendations will be presented in Session 3: Information exchange and promotion of peer learning amongst D-8 Central Banks</p>
13.00-14:30	Lunch & Prayer
14:30-15:30	Session 3: Information exchange and promotion of peer learning amongst D-8 Central Banks
15:30-16:00	Tea/ Coffee Break
16:00-17:30	Recommendations and Closing Remarks

Session 1: Financial Inclusion and Branchless Banking
Moderator/Facilitator: Syed Samar Hasnain

S.No	Name	Designation	Organization
1	Syed Samar Hasnain	Director	State Bank of Pakistan
2	Mr. Noor Ahmed	Senior Joint Director, AC&MFD	State Bank of Pakistan
3	Mr. Abdul Haseeb	Joint Director, AC&MFD	State Bank of Pakistan
4	Mr. Rajesh Raheja	Deputy Director, BP&RD	State Bank of Pakistan
5	Mr. Erhan Akkaya	Assistant Specialist	Central Bank of Republic of Turkey
6	Mr. Ricky Satria	Senior Analyst/Assistant Director of Financial Inclusion Development and Regulation Division	Bank Indonesia
7	Mr. S.M. Moniruzzaman	Executive Director	Bangladesh Bank
8	Syed Mohsin Ahmed	CEO	Pakistan Microfinance Network
9	Mr. Khurram Rezvi	EVP/Head of Product and Technology, Branchless Banking	United Bank Ltd
10	Mr. Amir Masood Khan	CEO & President	The First Microfinance Bank Ltd
11	Mr. Tariq Mohar	Deputy CEO	Tameer Microfinance Bank Ltd

Session 2: Islamic Finance
Moderator/Facilitator: Mr. Zulfiqar Ali Khokar

S. No	Name	Designation	Organization
1	Mr. Zulfiqar Ali Khokhar	Additional Director - IBD	State Bank of Pakistan
2	Mr. Wan Mohd Nazri Wan Osman	Director, Islamic Banking and Takaful Department	Bank Negara Malaysia
3	Mr. Erhan Akkaya	Assistant Specialist, Banking and Financial Institutions Department	Central Bank of the Republic of Turkey
4	Mr. Shafqaat Ahmad	CEO	Al-Baraka Bank, Pakistan
5	Mr. Fouad Farrukh	Head of Islamic Banking	Faysal Bank, Pakistan
6	Mr. Amir Khalil ur Rehman	Islamic Banking Expert	Pakistan
7	Mr. Atif Hanif	Regional Manager	HBL, Pakistan
8	Mr. Ashfaq Ahmed	Joint Director – IBD	State Bank of Pakistan
9	Ms. Warda Rasool	Assistant Director - IBD	State Bank of Pakistan

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Financial Inclusion Strategies -
Pakistan's Experience

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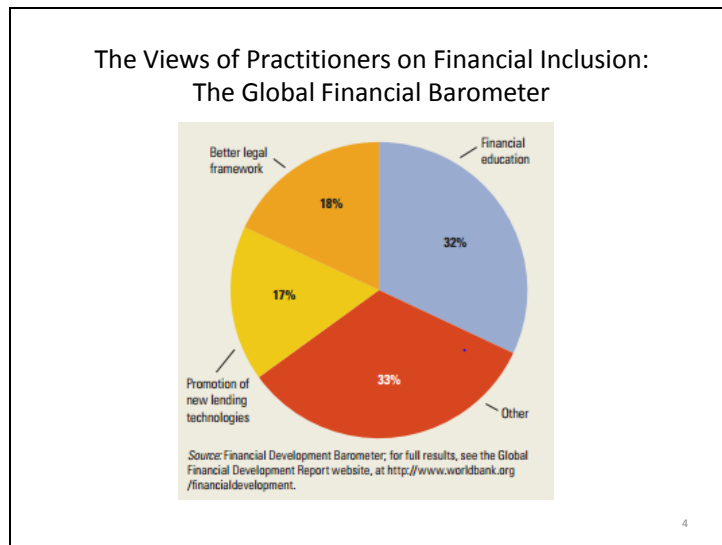
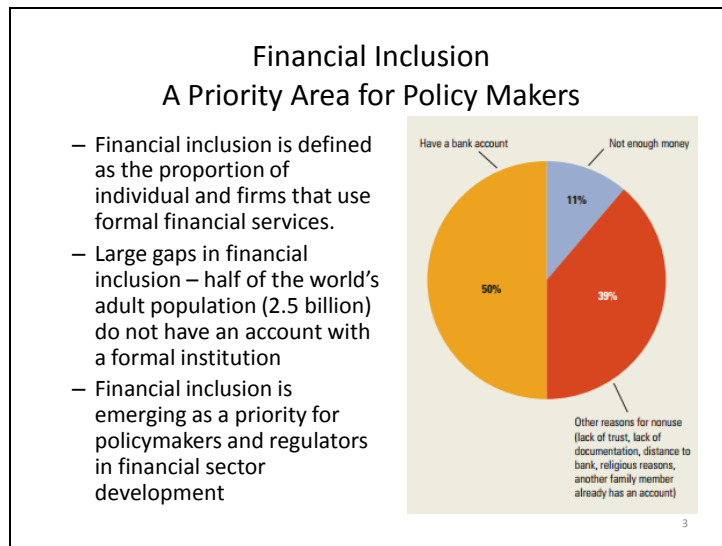
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Outline

- Significance of Financial Inclusion
- State of Financial Inclusion in Pakistan
- Pakistan's Financial Inclusion Strategy
- conclusion

2



A Global Wave of Financial Inclusion Commitments

– Financial regulators from more than 50 countries have made financial inclusion commitments to:

- i) create an enabling environment that increases access and lowers costs of financial services, including through new technology;
- ii) implement a proportionate regulatory framework that balances financial inclusion, integrity, and stability;
- iii) integrate consumer protection and empowerment as a pillar of financial inclusion; and
- iv) use data to inform policies and track results.

5

Religious Based Financial Exclusion

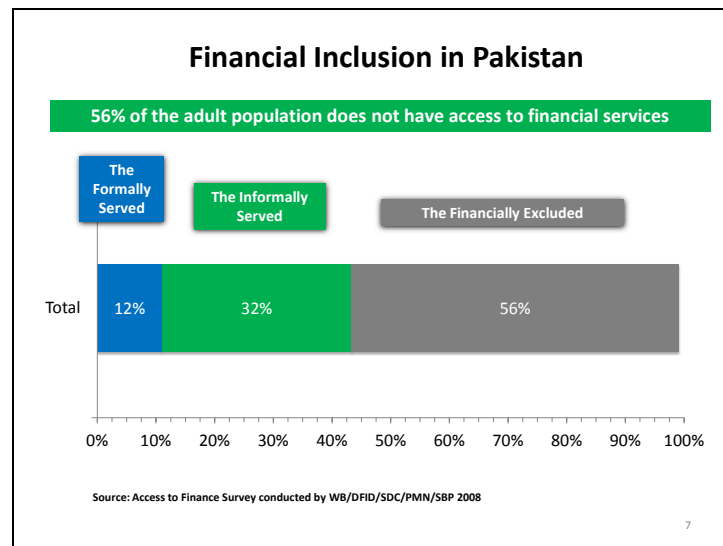
Financial Inclusion in OIC Member Countries and the Rest of the World

% of respondents, unless otherwise indicated	All	OIC countries	Non-OIC countries
Have an account at a formal financial institution*	50	25	57
Reason for not having an account			
religious reasons*	5	7	4
distance*	20	23	19
account too expensive*	25	29	23
lack of documentation*	18	22	16
lack of trust	13	13	13
lack of money*	65	75	61
family member already has an account*	23	11	28

Source: Calculations based on the Global Financial Inclusion (Global Findex) Database, World Bank, Washington, DC, <http://www.worldbank.org/globalfindex>.
* The means t-test between the Organization of Islamic Cooperation (OIC) and non-OIC countries is significant at the 1 percent level.

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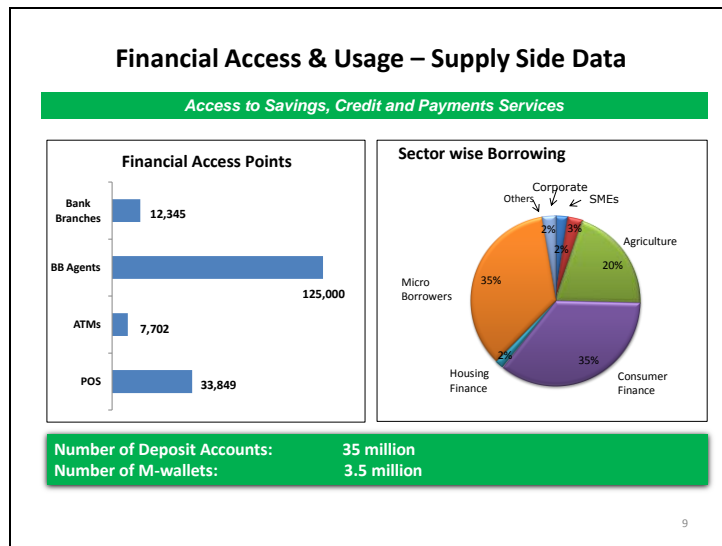
FIS – mainly addressing demand and supply side barriers

Promoting alternative models while addressing bottlenecks for supply of broad-based financial services

SBP strategy focuses on:

- Encouraging innovative models, products and delivery channels through agile policies and regulatory changes for achieving outreach
 - Sector specific Prudential Regulatory Framework to address their risks
 - » Micro, SME, Consumer, Agricultural, Islamic Banking & Corporate sectors
 - Development of Branchless Banking for remote and small value transactions
 - Development of sector specific strategies
- Addressing bottlenecks and weaknesses across sectors
 - Credit enhancement mechanism and expanding Credit Information Bureaus and payments infrastructure
- Providing smart subsidies for capacity building and testing innovations
- Promoting financial literacy
- Engaging stakeholders including private sector to improve ownership of the initiatives

8



Sector Wise Development Finance Loans

Financial Exclusion is not limited to households

End December 2013

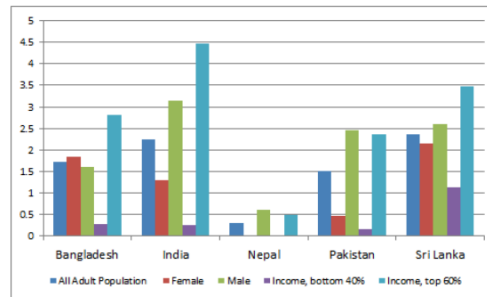
Sector s	Outstanding PKR Billion	% of total advances	% of GDP
SMEs Loans	273	6%	1.19%
Agriculture Loans	273.3*	6.06%	1.192%
Microfinance Loans	31.0	0.688%	0.13%
Housing Loans	51.3	1.13%	0.22%
Infrastructure Loans	255.2	5.66%	1.11%
Total	883.8	19.538%	3.842%

10

Usage of Digital payments/Branchless Banking

•Pakistan mobile network is well developed. The number of mobile subscribers rose from 88 million in 2008 to more than 120 million in 2013

•Nine out of 10 households have access to a mobile phone and SIM card. However, rates of mobile money registration are low
 •Despite this large mobile network, only 5% of Pakistanis use mobile money
 •Branchless Banking is growing rapidly but services are limited



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Need for National Financial Inclusion Strategy

- SBP is leading the efforts to improve financial inclusion, has undertaken a number of initiatives along with Government and donor community for Financial Inclusion in Pakistan
- Initiatives have yet to yield visible impact and have been undertaken outside of a specific framework
- Developing a National Financial Inclusion Strategy (NFIS) with the support of the WB will establish a framework and vision for the various interventions by SBP and other public and private stakeholders

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Advantages of NFIS

- FIS can be defined as road maps of actions, agreed and defined at the national or subnational level, that stakeholders follow to achieve financial inclusion objectives.
- Successful FIS coordinate efforts with the main stakeholders, define responsibilities among them, and state a clear planning of resources by, for example, prioritizing targets.
- A FIS can promote a more **effective and efficient** process to achieve significant improvements in financial inclusion and is ideally prepared with the private sector.
- **Financial inclusion is interlinked with financial stability, financial integrity, market conduct, and financial capability of consumers** and should be prepared with reference to analysis and objectives for those areas.

13

Challenges Involved In Formulation And Implementation Of NFIS

- Identification of national leadership and formation of coordination platform
- Modalities used for formulation such as Data and diagnostic studies and consultation process and engagement of private sector and other stakeholders
- Modalities used for the implementation
- Incorporation of national targets and monitoring

14

Conclusion

- *First*, financial inclusion strategies requires measurement and understanding of demand and supply side financial access data
- *Second*, there is no one size that fits all solution for financial inclusion. Countries must develop financial inclusion strategies in accordance with their demand side requirements and financial sector composition, however, key FIS ingredients includes:
 - Develop agile policies and strategies to catalize financial innovations
 - Address bottlenecks and weaknesses across sectors
 - Provide risk capital for testing innovations
- *Third*, engage stakeholders to improve ownership of the initiatives
- *Fourth*, build customer's trust and confidence in financial system and promote financial literacy
- *Last but not the least*, sustainable financial inclusion requires balancing financial stability, integrity and protection



DEFINING FINANCIAL INCLUSION

- ❖ Financial inclusion can be defined as a “state in which all people of working age have access to a full suite of quality financial services, provided at affordable cost, in a convenient manner, and with dignity for the clients” (Accion International, 2009).
- ❖ Financial inclusion encompasses the range, quality, and availability of financial services to the underserved and the financially excluded mass (IFC, WBG-2011).
- ❖ Financial inclusion needs both *unbanked and under banked households and firms as part of the target market for inclusion*


Products	Features	Channels
<ul style="list-style-type: none"> • Payments (ATM/Debit cards, Government payments, remittances, e-payments) • Savings (savings accounts, checking/current accounts, pensions, youth savings) • Insurance (Life, health, property, micro insurance and agricultural insurance) • Credit (Personal , consumer, education, mortgage, home) 	<ul style="list-style-type: none"> • Affordability (high costs, minimum requirements ceiling and fees) • Availability and convenience (days to complete transaction, documents required and physical proximity) • Quality (Consumer protection, including price transparency, fair disclosure, responsible finance practices risk management and assessment with inclusive credit information system) 	<ul style="list-style-type: none"> • Access points (banking beyond branches, • Financial infrastructure (payments and settlement system, credit reporting and collateral registries) • Institutions (banks/non banks Financial Institutions (NBFIs) insurance companies, Credit cooperatives and Micro Finance InstitutionsMFIs) • Clients (People with demand for services including excluded and underserved population)

Source: IFC, WBG, 2011

HOW FINANCIAL INCLUSION(FI) IS DEFINED IN BANGLADESH

- ❑ In Bangladesh context financial inclusion is defined as access to financial services from officially regulated and supervised entities-
- banks and Non bank financial institutions being licensed by the Bangladesh Bank and regulated under Bank Companies Act 1991 and Financial Institutions Act 1993
- MFIs by the Microcredit Regulatory Authority (MRA),
- Registered cooperatives by the Department of Cooperatives; and
- Official entities themselves including post offices and National Savings Directorate governed by the different ministries/ divisions.
- Insurance Companies regulated by IDRA* under Insurance Act 2012

*IDRA-Insurance Development Authority regulates insurance companies




BASIC CRITERIA TO MEASURE FI

- ❖ **FI is measured in three different viewpoints-**
 - ❑ Access to Institutions-Banks, NBFIs, MFIs and Insurance Companies
 - ❑ Access to Functions or Service-Payments, Savings, Credits
 - ❑ Access to use of specific financial products- Debit/Credit cards, Insurance and Consumer and Micro and SME credits .

The status of Financial Inclusion in an economy is also measured [UN, 2006] in-

- ❖ **Outreach Dimension:**
 - Number of bank branches or ATMs per 1000 square kilometers
 - Number of bank branches or ATMs per 100000 people
- ❖ **Actual Usage Dimension:**
 - Number of deposit accounts per 1000 people
 - Number of loan accounts per 1000 people
 - Deposit-GDP ratio
 - Credit-GDP ratio.




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FINANCIAL INCLUSION INITIATIVES FOR HOUSEHOLDS IN BANGLADESH

Bangladesh has taken various breakthrough initiatives for broadening financial inclusion for the households

- ❑ Token Deposit/Tk. 10 only)/No Frill Accounts for
 - Farmers (for receiving agricultural subsidies, loans and government payments)
 - Social Safety net beneficiaries (for receiving grants, aids and other financial support from government agencies)
 - Elderly citizen allowance
 - Freedom fighters allowance
 - Widow allowance
 - Other grants from government and NGOs from time to time
- ❑ Tk. 100 deposit accounts for garments workers for easily receiving their wages and other benefits
- ❑ School Banking
- ❑ Mobile Financial Services




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CONTD...

- ❑ Agent Banking
- ❑ Credit for Sharecroppers (to facilitate their crop farming with out collaterals)
- ❑ Banks and MFIs linkage for greater outreach
- ❑ Targeted agricultural credit disbursement
- ❑ Mass awareness on banking services

Apart from Bangladesh Bank, Micro Finance Institutions(MFIs), Credit cooperatives, and Postal services also provides some basic financial services like deposits, payments and remittances.



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STATUS OF FI IN BANGLADESH

○ Outreach Dimension

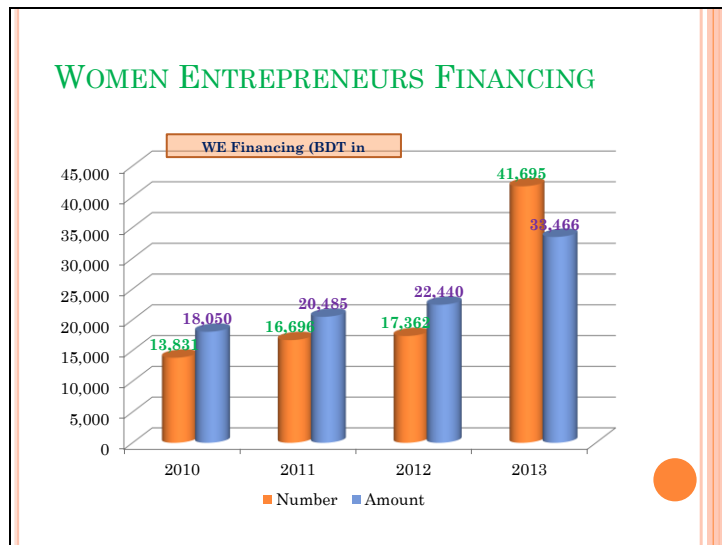
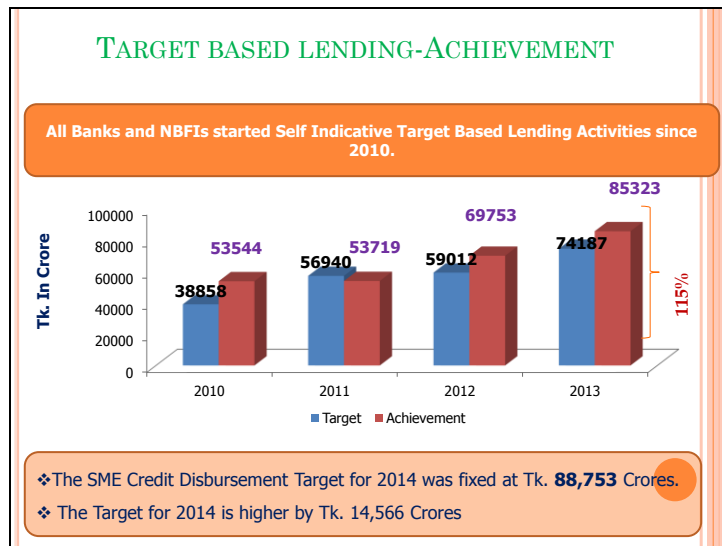
Year	Number of bank branches per 1000 sq. km	Number of ATMs per 1000 sq. km	Number of bank branches per 100000 people	Number of ATMs per 100000 people
2009	48.08	7.96	5.08	0.81
2010	51.89	14.43	5.28	1.44
2011	53.95	20.04	5.31	1.97
2012	56.39	29.36	5.46	2.84
2013	57.11	35.45	5.49	3.41

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STATUS OF FI IN BANGLADESH

○ Actual Usage Dimension

Year	Number of deposit accounts per 1000 people	Number of loan accounts per 1000 people	Deposit-GDP ratio	Credit-GDP ratio
2009	267.29	60.24	0.49	0.38
2010	329.58	62.60	0.53	0.43
2011	368.33	63.94	0.56	0.44
2012	385.33	62.94	0.58	0.45
2013	398.52	62.91	0.55	0.41



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**STATUS OF FINANCIAL INCLUSION
IN BANGLADESH: AT A GLANCE**

Criteria	Coverage
Population(15+)	95.6 million
Active Population (15+)	56.7 million
No. of Bank deposit Accounts (June 2013)	61.2 million
Bank account of farmers and other low income people (October 2013)	13.3 million
No. of Mobile Banking Accounts (October 2013)	10.2 million
No. of Mobile Banking Agents (October 2013)	10.8 million
No. of ATM Booths	5250
No. of POS Terminals	22,300
No. of Debit Cards	7.23 million
No. of Credit Cards	0.83 million

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**STATUS OF FINANCIAL INCLUSION IN BANGLADESH:
MICROFINANCE INSTITUTIONS (MFIs)**


No. of MFIs under MRA (September 2013)	692
No. MFI Branches (June 2012)	18,066
No. of MFI clients (June 2012)	35.8 million
No. of Microcredit clients (June 2012)	28.2 million



Slide 13


STATUS OF FINANCIAL INCLUSION IN BANGLADESH:
INSURANCE, POST OFFICE & COOPERATIVES

No. of Insurance Companies	62
No. of Post Offices	10,000
Post Offices with Electronic Money Transfer Service (EMTS)	2,750
Post Offices with Postal Cash Cards (PCC)	838
No. of Institutions enlisted under Bangladesh Samabay Bank	474
No. of Cooperatives under Cooperative Society	0.18 million




Slide 14

Thank you




Slide 1



**FINANCIAL INCLUSION
&
BRANCHLESS BANKING**

D-8 COUNTRIES –CENTRAL BANKS EXPERTS MEETING ON
FINANCIAL INCLUSION & ISLAMIC FINANCE
APRIL 21, 2014, NIBAF ISLAMABAD

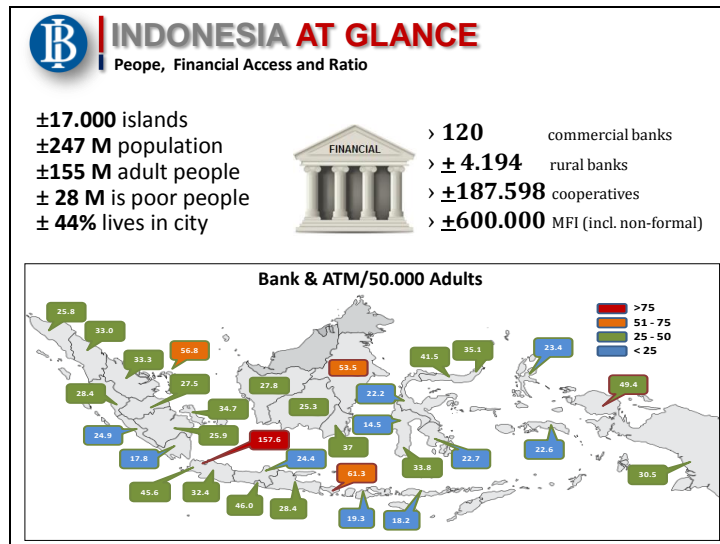
FINANCIAL INCLUSION 2020 

FINANCIAL INCLUSION & SME DEPARTMENT
BANK INDONESIA, 2014

Slide 2

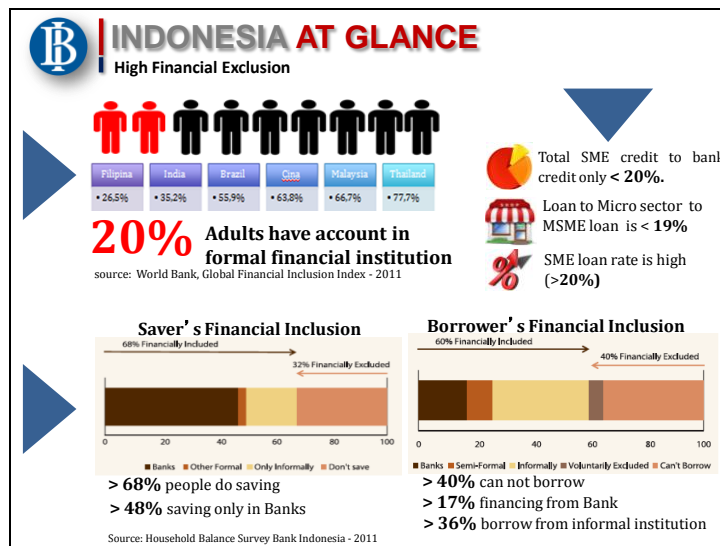
-  **1 INDONESIA AT GLANCE**
-  **2 FINANCIAL INCLUSION**
-  **3 DIGITAL FINANCIAL SERVICES**
-  **4 ISSUE & CHALLENGES**
-  **5 SUGGESTION**

Slide 3



- ❑ The number of bank branches and ATMs increased every year.
- ❑ The number of bank branches in January 2014 reached 35.931 offices, and 76,348 ATMs.

Slide 4

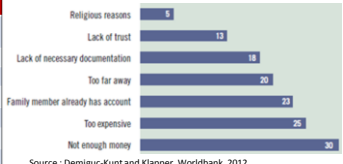


Slide 5

INDONESIA AT GLANCE

CAUSE & RESULT

Demand (people)	Supply (bank)
<ul style="list-style-type: none"> No bank around or it takes time and cost to the nearest branch Higher cost for small transaction Low financial literacy Unmet product Culture & habit Low income Long queue 	<ul style="list-style-type: none"> Higher cost for set-up a new branch in each corner Regulation by regulator Requirement by bank Complex process High formality Prefer non-grass root customer Prefer bigger transaction



Source : Demiguc-Kunt and Klapper, Worldbank, 2012

Indicator	Total Population (million)*	Bank Branch/ 100,000 Adults	Bank Branch/ 1,000 km ²	ATM / 100,000 Adults	ATM / 1,000 km ²	Bank Saver/ 1,000 Adults	Bank Borrower/ 1,000 Adults	Loan/ GDP (%)	Deposit/ GDP (%)
Bangladesh	154.7	8.08	64.72	5.03	40.32	513.31	87.10	55.50	68.93
Brazil	198.7	47.26	8.24	118.60	20.68	662.37	380.53	42.42	45.97
China	1,351	7.72	9.17	37.51	44.55	13.23	271.71	90.21	140.27
India	1,237	11.38	33.17	11.21	32.67	1042.48	151.06	54.24	68.64
Indonesia	246.9	9.59	9.24	36.47	35.15	708.12	225.89	32.85	39.13
Kenya	43.18	5.49	2.31	9.94	4.18	662.26	N/A	44.56	59.81
Malaysia	29.24	19.91	13.00	52.94	34.56	2305.81	725.22	117.09	146.93
Mexico	120.8	14.52	6.41	47.33	20.89	291.40	228.62	17.29	20.76
Pakistan	179.2	8.97	13.40	5.42	8.10	268.30	25.69	18.97	33.23
Philippines	96.71	8.13	17.26	19.31	41.00	497.57	N/A	20.94	38.15
Sri Lanka	20.33	17.49	43.71	15.41	38.51	N/A	N/A	44.83	46.38
Thailand	66.79	11.77	12.55	84.16	89.70	1,132.21	276.15	74.08	77.63
Vietnam	88.78	3.18	6.91	21.16	46.02	N/A	N/A	111.88	119.67

Source : Financial Access Survey IMF, 2012

*) Countries Data, World Bank

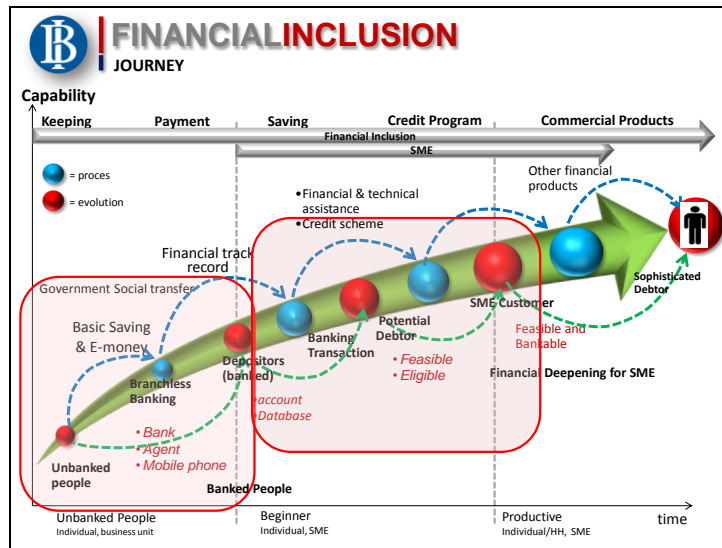
Slide 6

02 | FINANCIAL INCLUSION

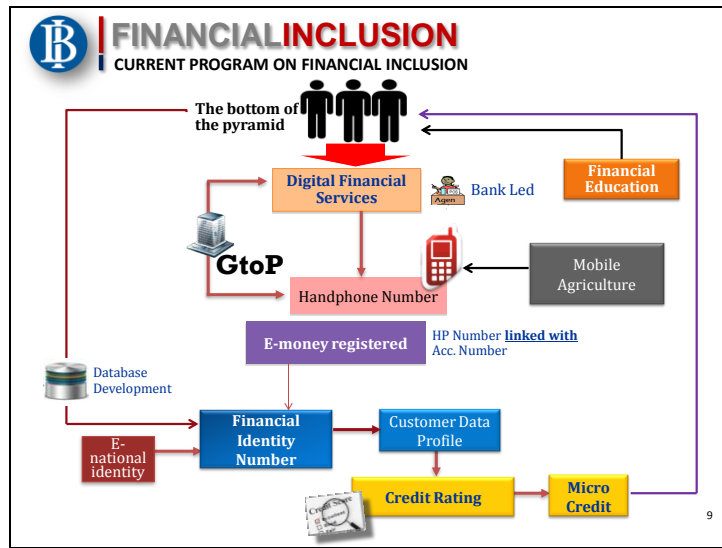
Slide 7



Slide 8



Slide 9




Slide 10

No	ASPECT	REMARK
1	Infrastructure	<ul style="list-style-type: none"> - Regional credit insurance agency - Credit rating for the SMEs* - Set-up SMEs database - Pilot project branchless banking - New business model for remittance* - Mobile agriculture* - Financial identity number* - Financial Inclusion Index *
2	Payment system	<ul style="list-style-type: none"> - National payment gateway* - New business model for G2P (account based)* - Pilot project G2P through e-money* - P2P transfer through mobile number and interoperable amongst Telco
3	Regulation	<ul style="list-style-type: none"> - New e-money - Digital financial service (agent bank through e-money)
4	Financial Education	<ul style="list-style-type: none"> - For student including school curricula - Sectoral (migrant worker, farmer, fisherman)

*) on progress

Slide 11

 FINANCIAL INCLUSION CURRENT STATE		
No	ASPECT	REMARK
5	Saving	<ul style="list-style-type: none">- Basic saving account- Campaign "Let's Go to the Bank"
6	Financing	<ul style="list-style-type: none">- Linkage Program : collaboration between rural banks and commercial bank in term of loan- APEX Bank : collaboration between rural banks and commercial banks in term of liquidity assistance- Clustering : mentorship for specific sector- Lending Model : set up financing scheme for specific sector- Loan Program for People (KUR) : facilitator of financing for SMEs with partial guarantee by government

*) on progress 11

Slide 12



**DIGITAL
FINANCIAL
SERVICES**
Poor is bankable....

 BANK INDONESIA

IB | DIGITAL FINANCIAL SERVICES
 MAIN FACTORS : MOBILE PHONE & AGENT

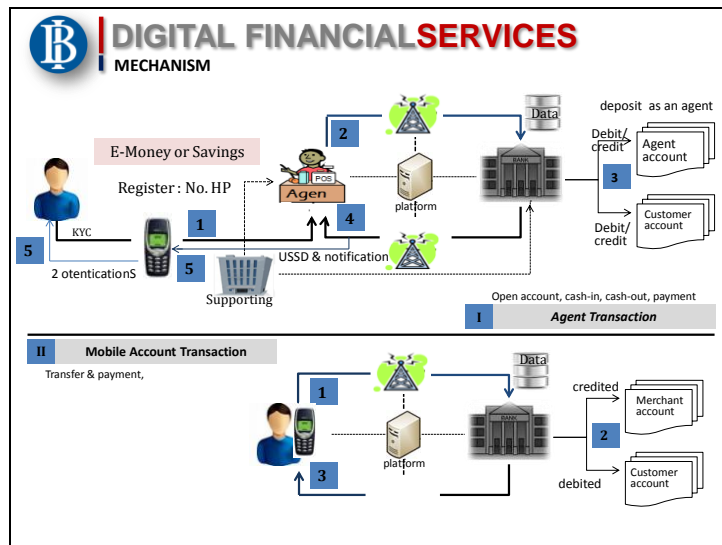
“ the provision of some mix of financial and payment services that are delivered and managed using mobile or web technologies and a network of agents ”*)

HIGH MOBILE PHONE PENETRATION₁₎

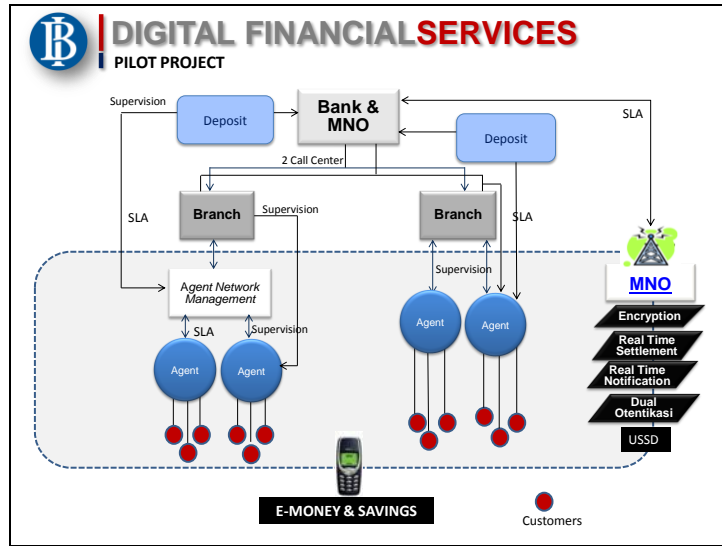
>15 YEARS WORKS IN INFORMAL SECTOR

1) Source: Bank Indonesia Survey, 2012
 Source: Telco's Marketing Comparison Data, 2012
 2) Source: National Statistic, August 2013.

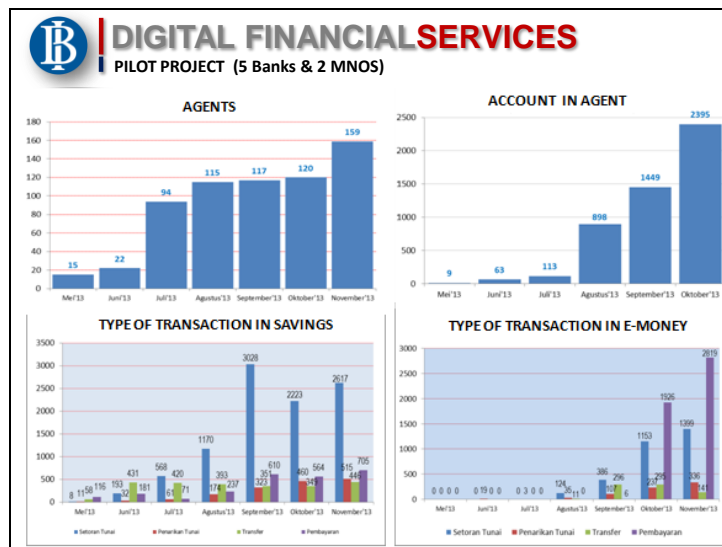
*) Old Problems, New Solution: Harnessing Technology and Innovation in the Fight against Global Poverty, Thw 2012
 Brookings Blum Roundtable Policy Briefs, Cameron Peake, Mercy Corps, 2012.



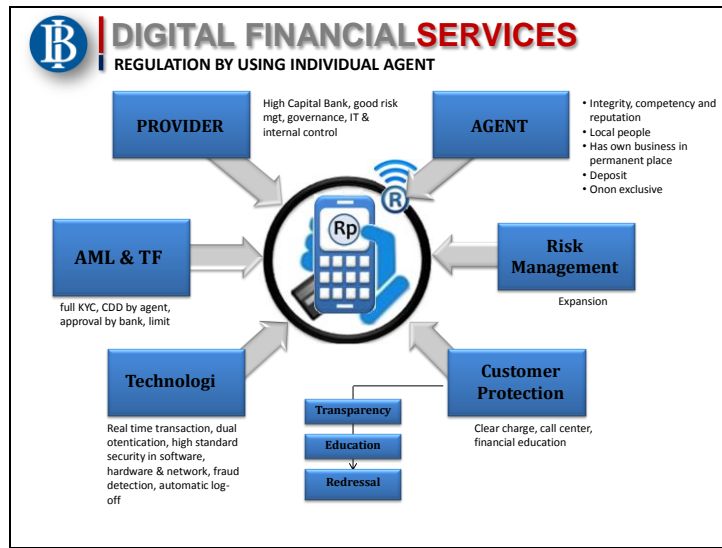
Slide 15



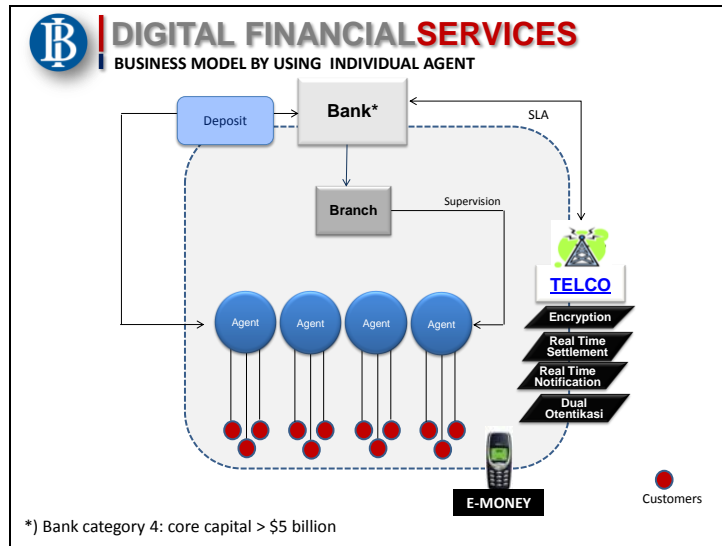
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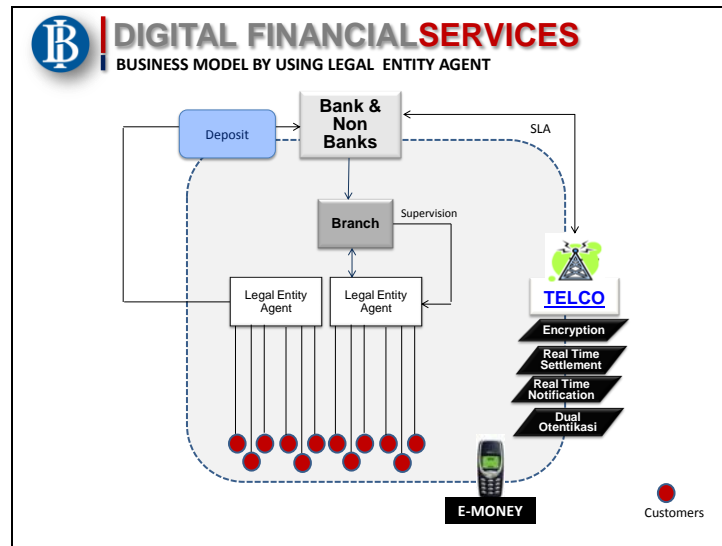
Slide 17



Slide 18



Slide 19



Slide 20

04 | CHALLENGES

BANK INDONESIA


Slide 21

No	FACTOR	REMARK
1	Infrastructure	<ul style="list-style-type: none">- Quality of telecommunication network- Adequate security- Interoperability
2	Provider	<ul style="list-style-type: none">- Sustain business model- Understanding customer needs- Quality of services- Proper customer protection- Combating AML & TF- Inactive client and agent
3	Agent	<ul style="list-style-type: none">- Cash management- Quality of services- KYC
4	Customer	<ul style="list-style-type: none">- Literacy level- Lack of trust to agent and mobilephone- Marketing target
5	Regulator	<ul style="list-style-type: none">- Balancing risk & innovation- Balancing KYC and combating AML/TF- Private sector leadership- Balance competition- Interoperability VS systemic concern- Coordination


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05 | **SUGGESTION**

 **BANK INDONESIA**


Slide 23

 **SUGGESTION**
REGULATION BY USING INDIVIDUAL AGENT


1. Set-up principles for financial inclusion for D8 countries
2. Set-up principles and framework for Islamic Finance and Financial Inclusion.
3. Framework of new safety net
4. Guideline of simple KYC for D8
5. Framework for branchless banking supervision
6. Financial Inclusion and Financial Stability Index
7. Credit rating for micro loan
8. Develop a set measure of data
9. Sharing knowledge and experience
10. Capacity building
11. Specific program

Slide 24

Thank you



Now, we Can step-in into the "Bank"

 BANK INDONESIA

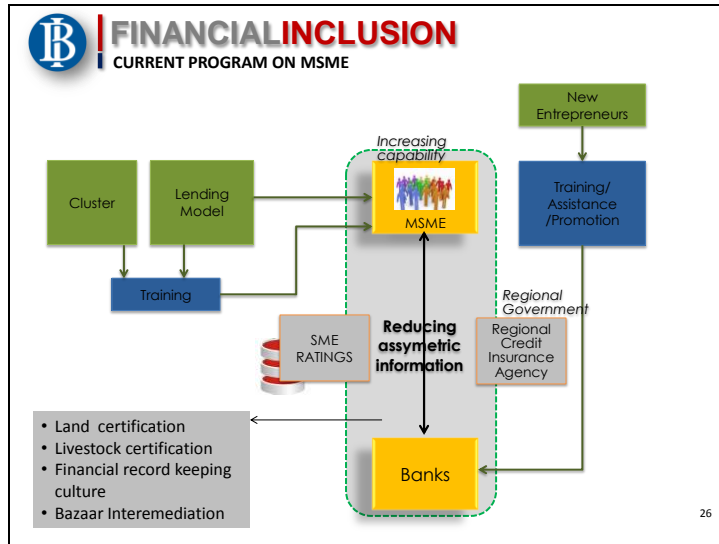
Slide 25

IB | DIGITAL FINANCIAL SERVICES
INDIVIDUAL AGENT VS LEGAL ENTITY BUSINESS

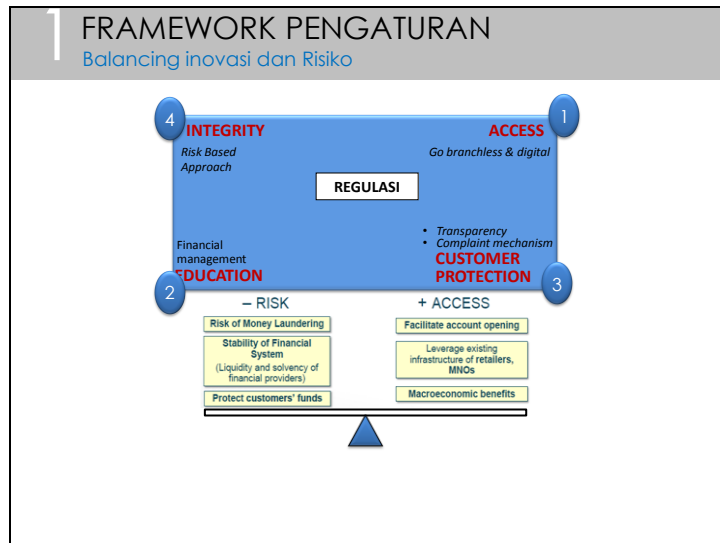
Individual Agent	Legal Entity Business
Unlimited working hours	Limited working hours
Informal and flexible	Informal
High <i>engagement</i>	Lower <i>engagement by employee</i>
No employee and no turn over	High turn over of employees
Benefit for the owner, new income	Benefit for the owner
High <i>commitment</i>	Lower <i>commitment</i> by employees
Proud as banks' agent	Lower risk compare to individual agent type
Proud to serve community	Just normal business
Limited ability	Bigger ability

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IB | FINANCIAL INCLUSION
CURRENT PROGRAM ON MSME



Slide 27



Slide 28

Financial Sector & Economic Deelopment

- Sektor keuangan merupakan **strong contributor** kepada pertumbuhan (Baghehot, 1873; Schumpeter, 1912; Hicks, 1969 and Miller, 1998)
- Goldsmith (1969) melalui cross-country study menyimpulkan size dari sistem keuangan positif **contributes kepada pertumbuhan ekonomi**.
- King and Levine (1993) improve on the work of Goldsmith, menegaskan bahwa terdapat **strong positive relationship** antara 3 indikator pertumbuhan (*real per capital growth, growth in capital accumulation and total productivity growth*) dan *financial development measures* (*liquid liabilities over GDP, bank credit over bank credit plus central bank domestic assets and credit to private sector divided by GDP*).
- Levine (2005) menegaskan bahwa perkembangan sektor keuangan **contributes** kepada pertumbuhan karena **menyediakan informasi** akan proyek-proyek potensial, **monitoring pelaksanaan investasi**, memperluas risk management dan diversifikasi, meningkatkan tabungan dan fasilitator pertukaran *goods and services*.

LATARBELAKANG

TEORI KEUANGAN INKLUSIF & SSK

1. *Financial crisis highlights perlunya customer protection, financial access dan financial stability mutually reinforcing*)*
2. **Penurunan risiko likuiditas.**
3. **Penurunan risiko kredit.**
4. **Peningkatan kapabilitas pengelolaan keuangan via edukasi.**
5. **Peningkatan persaingan.**
6. **Peningkatan kesempatan untuk berinteraksi dengan sector keuangan dan sistem ekonomi yang lebih luas.**
7. *Financial exclusion adalah risiko dalam usaha mencegah money-laundering and terrorist financing (FATF).*
8. *Informal financial services dapat menjadi sumber instabilitas.*

Trinity to make Financial Stability Possible

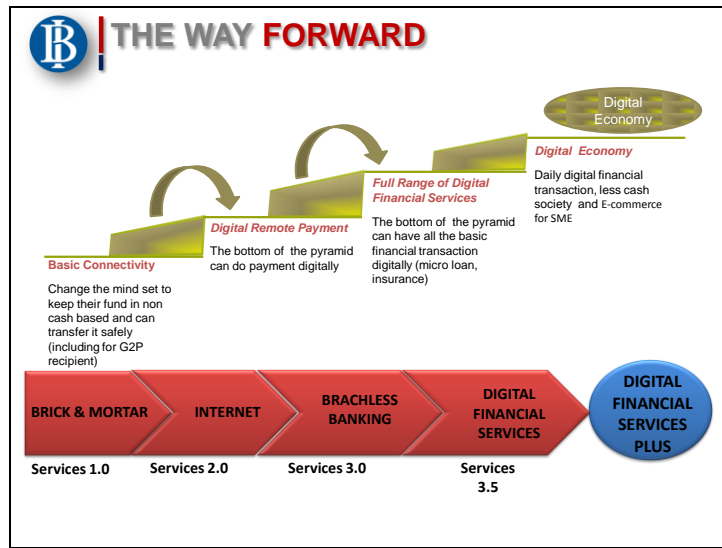
Keuangan inklusif membantu penurunan tekanan risiko likuiditas dan risiko kredit (mikroprudensial) sehingga mengurangi risiko sistemik (makroprudensial)

1. Khan HR. Financial Inclusion and financial stability: are they 2 sides of the same coin?, Indian Banker Association, Chennai, 2011
2. Hawkins, Penelope (2006). "Financial access and financial stability", in Bank for International Settlements, *Central banks and the challenge of development*, pp 65–79, www.bis.org/events/cbc06.pdf.
3. Haning, A. and Jasen, S. Financial Inclusion and Financial Stability: Current Policy Issues ADInstitute ADInstitute working paper series, No. 259, December 2010.
4. Cull, Robert, Asli Demiguc-Kunt and Timothy Lynam. *Financial Inclusion and Stability: What Does Research Show?*, 2012, CGAP
5. Cohen, Monique, Danielle Hopkins, and Julie Lee. 2008. "Financial Education: A Bridge between Branchless Banking and Low-Income Clients", Working Paper No.4. Washington, D.C.: Microfinance Opportunities.
6. Tadu, R. and Muyambri, B. (2013). Financial Inclusion and Financial Stability: the important role of financial regulation in explaining the relationship. *Journal of Research in International Business and Management* Vol. 3(4)pp 139-149, April 2013.
7. Dittus, Peter and Michael Klein. 2011. "On harnessing the potential of financial inclusion." BIS Working Paper No:347, Switzerland: Bank for International Settlement.

LAYANAN KEUANGAN DIGITAL

<p>1 Customer Activation</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: We could turn a 30 day sign up process into 30 seconds?</i></p>	<p>2 Distribution</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: Everyone was an agent?</i></p>	<p>3 Payments Front-End</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: Anyone with a phone could send or receive money?</i></p>
<p>4 Payments Back-End</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: Payment processing was digital and close to zero in cost?</i></p>	<p>5 Integration</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: You could send money to any person in the world?</i></p>	<p>6 Products</p> <hr style="width: 80%; margin: 0 auto;"/> <p><i>What If: Every mobile phone came with a savings account and insurance?</i></p>

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Slide 1

Key Recommendations

Breakout Session: Financial Inclusion
and Digital Financial Services

Slide 2

Main Agreements

- The group recognizes that member countries stand at different levels of Financial Inclusion and since the regimes governing FI are different in these jurisdictions, there is a need to develop information and sharing on these regimes.
- The group recognizes that Financial inclusion strategies are the clear way forward and Branchless banking/ digital financial services is a key instrument in achieving financial inclusion and therefore D-8 central banks collaboration should address digital financial services.
- Group recommends exposure visits and maximize collaboration through existing networks such as Alliance For Financial Inclusion of these member states.

Slide 3

Recommendations on process of NFIS

- Develop D-8 countries information and sharing mechanism on the following
 - Identification of national leadership and formation of coordination platform
 - Modalities used for formulation such as Data and diagnostic studies and consultation process and engagement of private sector and other stakeholders to gain their buy in
 - Modalities used for the implementation
 - Incorporation of national targets and monitoring

Slide 4

Specific Recommendation on Interventions

- Agents regulations and supervision
- Digital payments infrastructure such as National Payments Gateways
- Framework of new financial safety net
- Financial Inclusion and Financial Stability Index
- Consumer Education, Consumer protection and Financial capability
- Microcredit regulations and supervision
- Bringing SMEs in FI
- Develop customer centric products
- Improved Credit Information and Secured Transaction Registry
- Surveys to assess agents/clients related issues

Slide 1

ISLAMIC FINANCE IN D-8

Summary D-8 Experts' Level Meeting held on April 21st, 2014

Slide 2

Process

- Country presentations
- Review of previous recommendations
- Discussion
- New / Revised Recommendations

Recommendations

1. Reiterate earlier Recommendations for respective governments to:

- Increase Islamic financing share in public finance
- Develop both banking and capital markets simultaneously
- Provide funds for development / capacity building of under-served sectors
- Introduce Islamic finance in academic curriculum
- Support and provide funds for mass awareness on public level

Recommendations

2. More effective strategy sharing and exchange platform especially in the following areas:

- Progress made in each jurisdiction on Islamic finance development particularly on D8 recommendations on Islamic finance
 - Islamic finance data, products, policies and initiatives between D-8 countries and stakeholders
 - Portal link to facilitate access to Islamic finance information of D8 countries
 - Training and development initiatives
 - Exchange programs among regulators, practitioners and Shariah scholars
 - Sabbatical programs among academia in D8 countries
- Strategy for development of sukuk market in D8 countries to facilitate fund flows from OIC countries to D-8 countries, and to finance infrastructure development
- Analysis of international regulatory reforms on Islamic finance industry in D-8 countries.
- Strategic areas of future of Islamic finance and new indicators to measure performance of Islamic finance industry

Recommendations



3. To consider inviting participation of other relevant regulators from insurance and capital market in strategy exchange platform

4. To have more regular meetings, particularly on sidelines of international forums like IFSB, complemented by the use of technological platforms.