

map

MAKING ACCESS POSSIBLE



MAP Myanmar Financial Inclusion Roadmap Workshop



2nd National Conference on Financial Inclusion:
Map Myanmar Financial Inclusion Roadmap

Nay Pyi Taw, Myanmar, 21 May 2014



#mapFI

With:



What is MAP?

Overarching policy objectives for MAP

Supply
financial services



To the
excluded and underserved
population



To:

- improve welfare & incomes
- Support economic growth & national development



Point of Departure for MAP

(1) Understand
the **policy obj.**
and **context** of
the country



(2) Identify
discrete **target**
markets



(3) Determine
needs **across**
financial
services



(4) Identify
Institutions best
positioned to
serve

Why financial access is important in Myanmar?

1. To improve household welfare, especially in rural areas
2. To increase agricultural productivity to enhance food security
3. To improve economic opportunities for SMEs
4. To improve levels of formal financial intermediation to fund growth and development

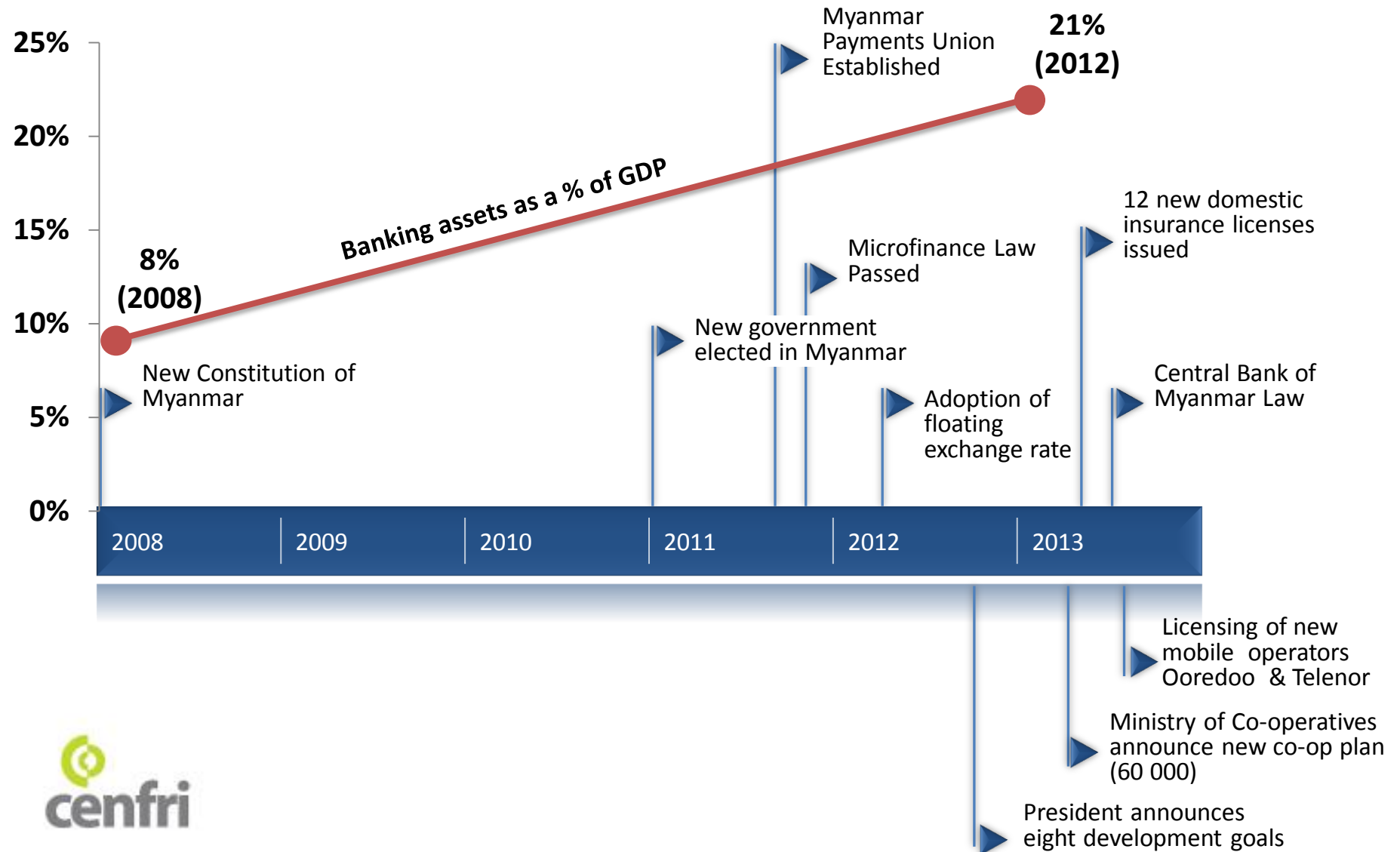
President U Thein Sein eight development tasks:

“... there are eight tasks that can be implemented for rural development and poverty alleviation. They are:

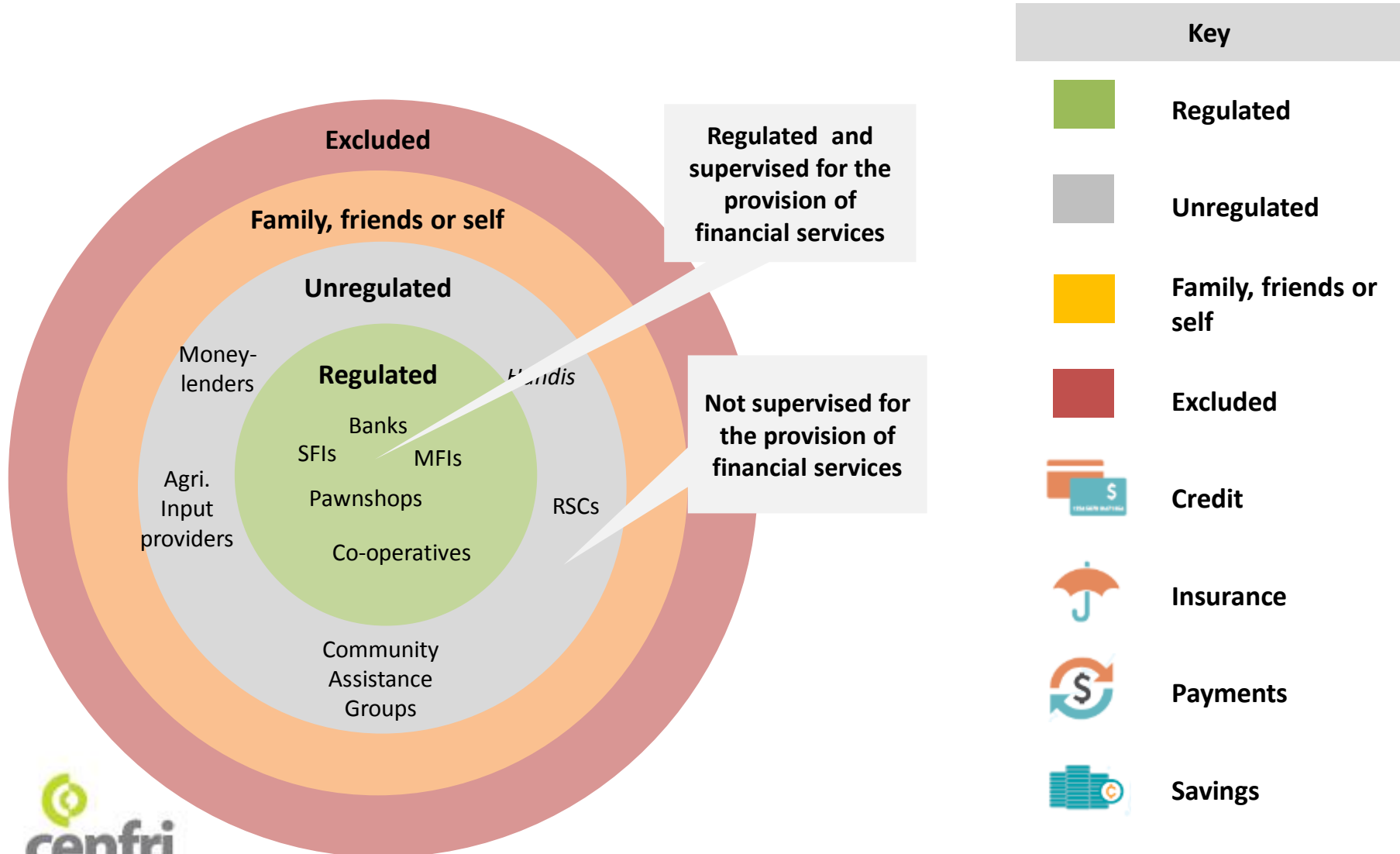
1. **Development of agricultural production sector**
2. **Development of rural productivity and cottage industries**
3. **Development of micro saving and credit enterprises**
4. **Development of rural cooperative tasks**
5. Development of rural socio-economy
6. Development of rural energy
7. Environmental conservation.”

Source: First national workshop on rural development and poverty alleviation held in May 2011

Financial sector trends: Regulatory Revolution



Overview of financial sector institutions

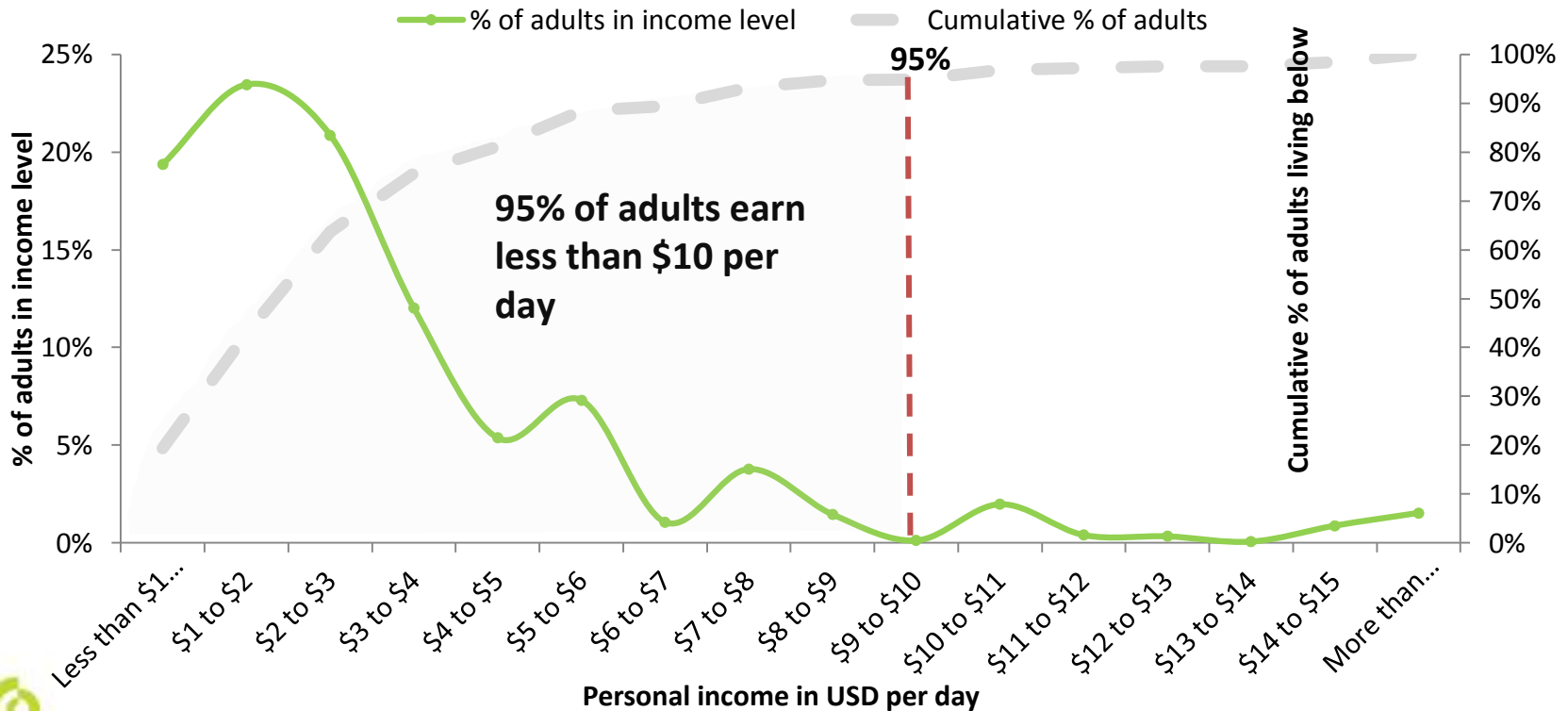


WHO IS FINANCIAL INCLUSION FOR?

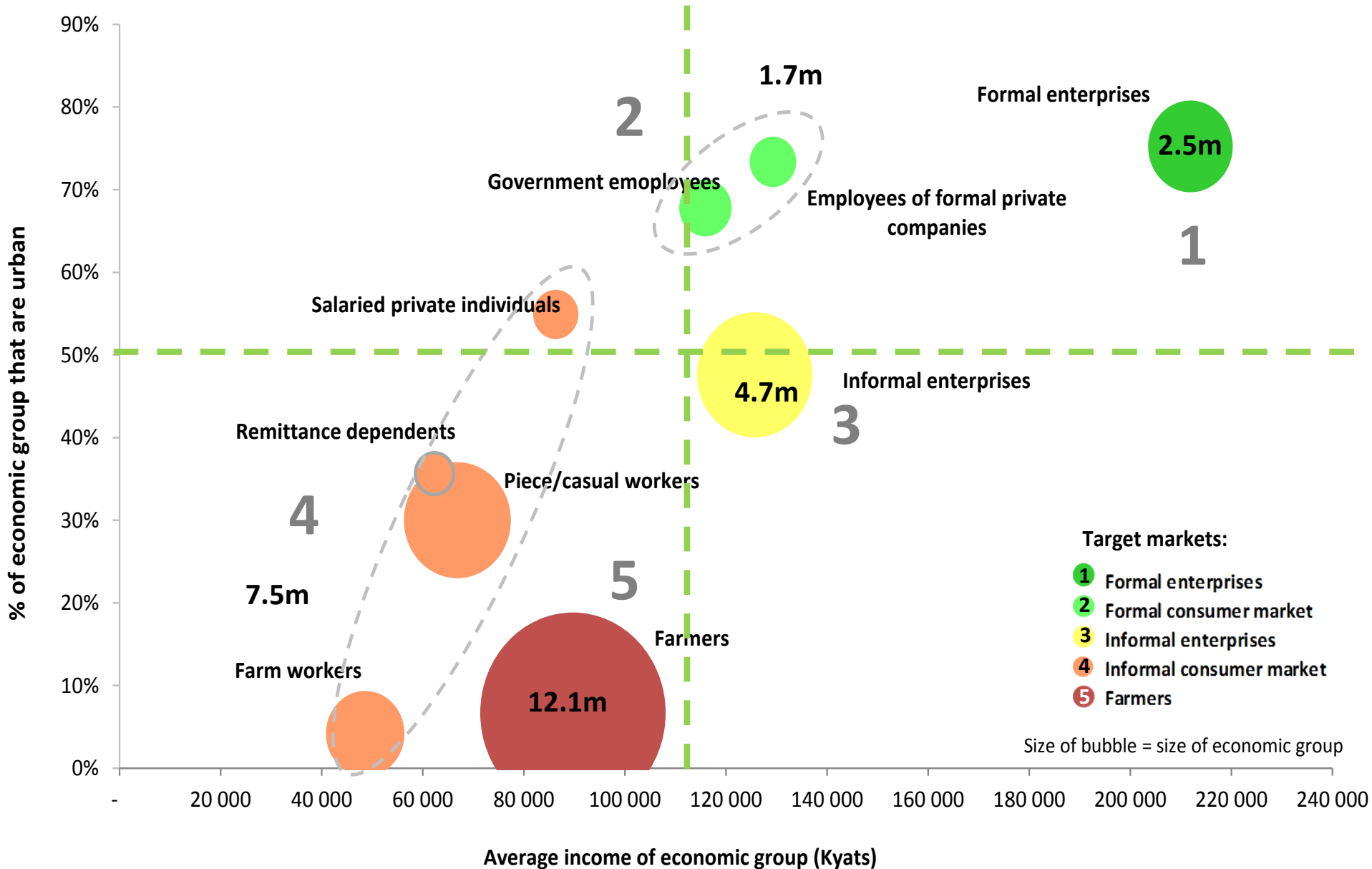
Bulk of population requires increased access to financial services

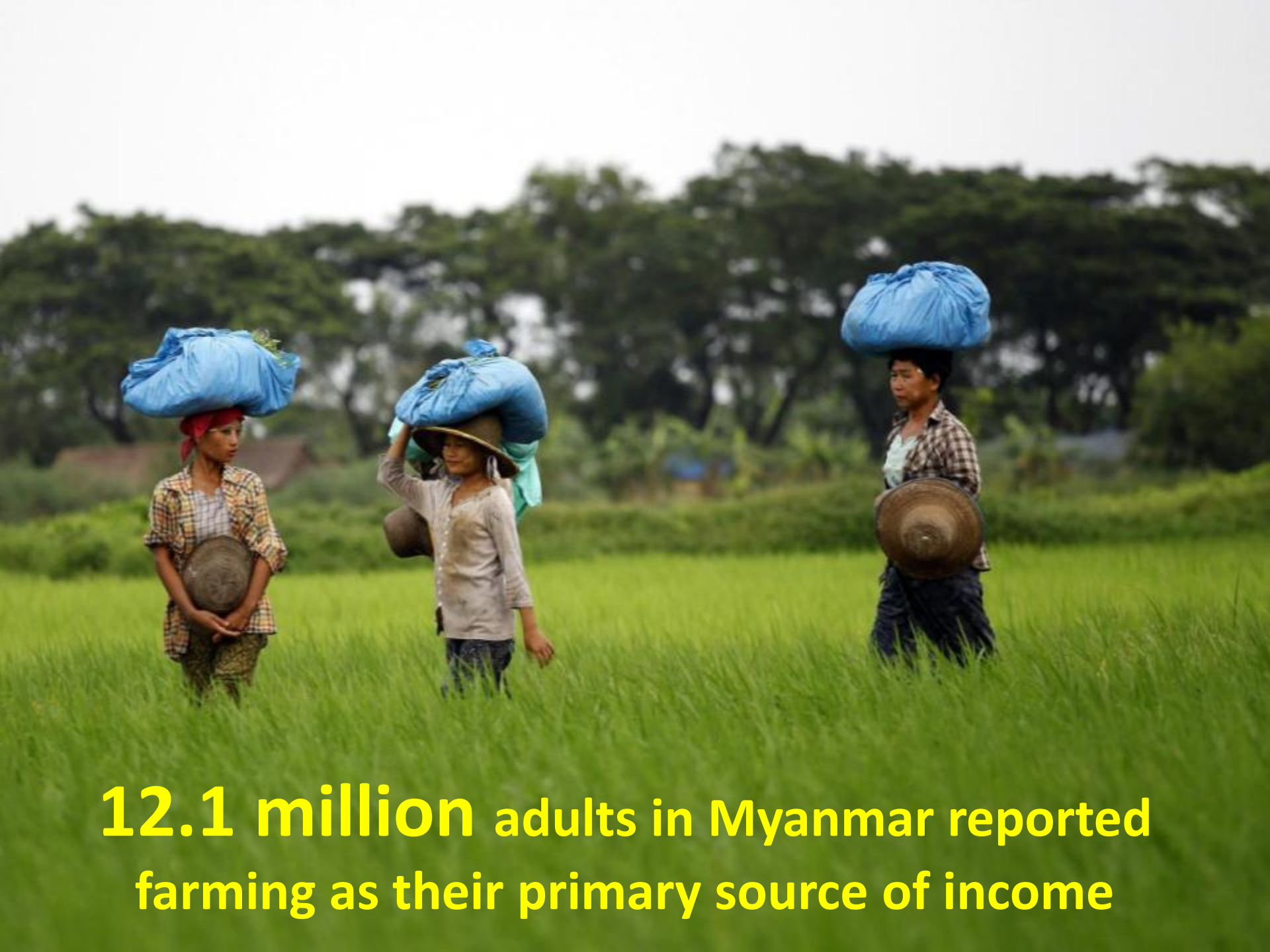


39.7 m adults 70% Rural 30% Urban







Five discrete target markets





12.1 million adults in Myanmar reported farming as their primary source of income

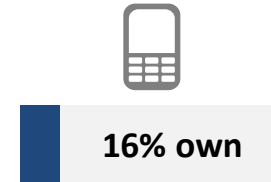
Target market 1: Farmers

Financial Usage Key			
Regulated	Unregulated	Family, friends and self	Excluded
			

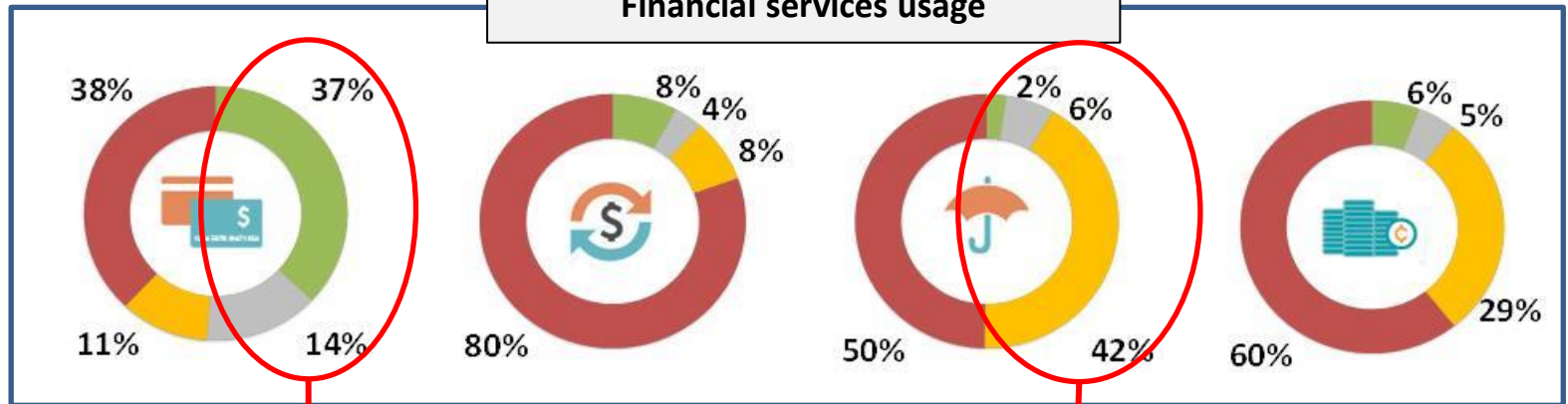
12.1m Farmers



 95 per month

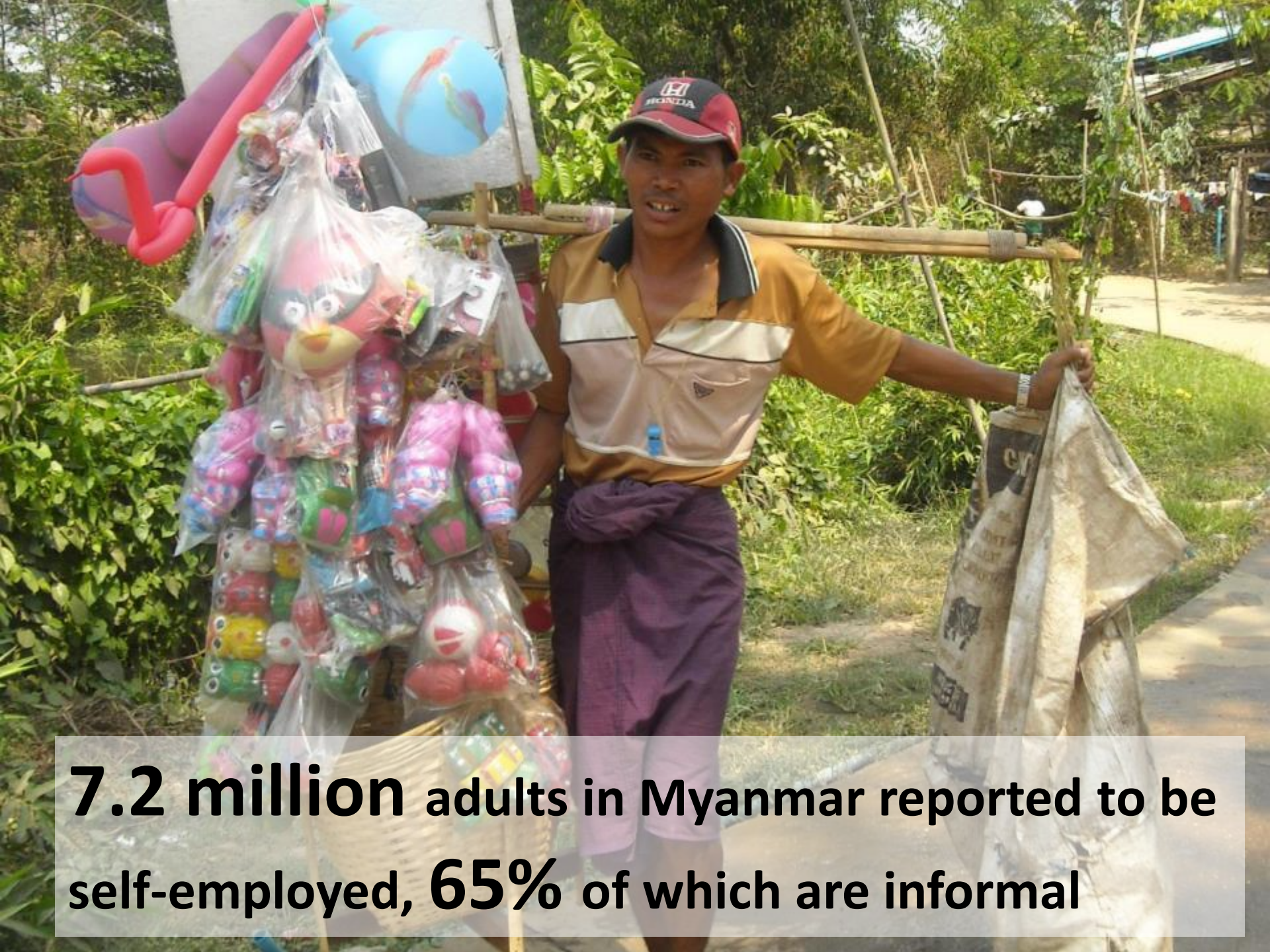


Financial services usage







1. Farmers have high take-up of regulated credit, but unmet demand still exists

2. Farmers reported high need for regulated insurance products.



7.2 million adults in Myanmar reported to be self-employed, **65%** of which are informal

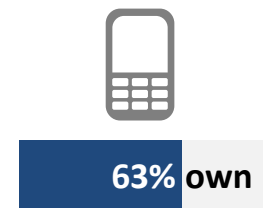
Target market 2: Formal enterprises

Financial Usage Key			
Regulated	Unregulated	Family, friends and self	Excluded
			

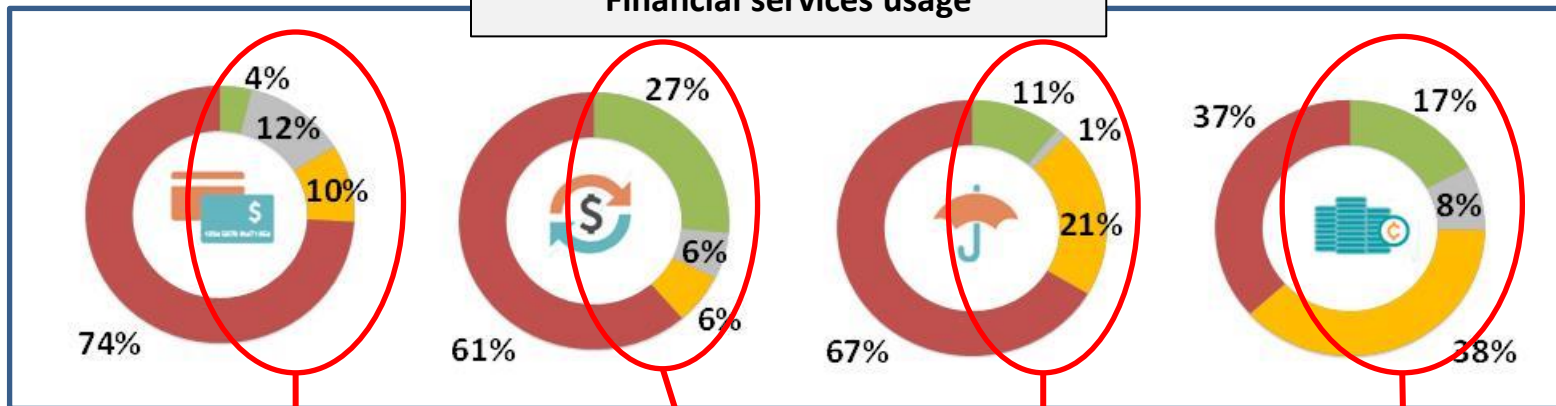
2.5m adults



 224 per month







Financial services usage



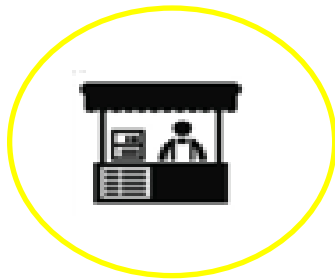
1. Formal enterprises reported low credit usage for productive purposes

2. Formal enterprises reported comparatively high use of savings, payments and insurance products


Target market 3: Informal enterprises


Financial Usage Key			
Regulated	Unregulated	Family, friends and self	Excluded
			

4.7m adults

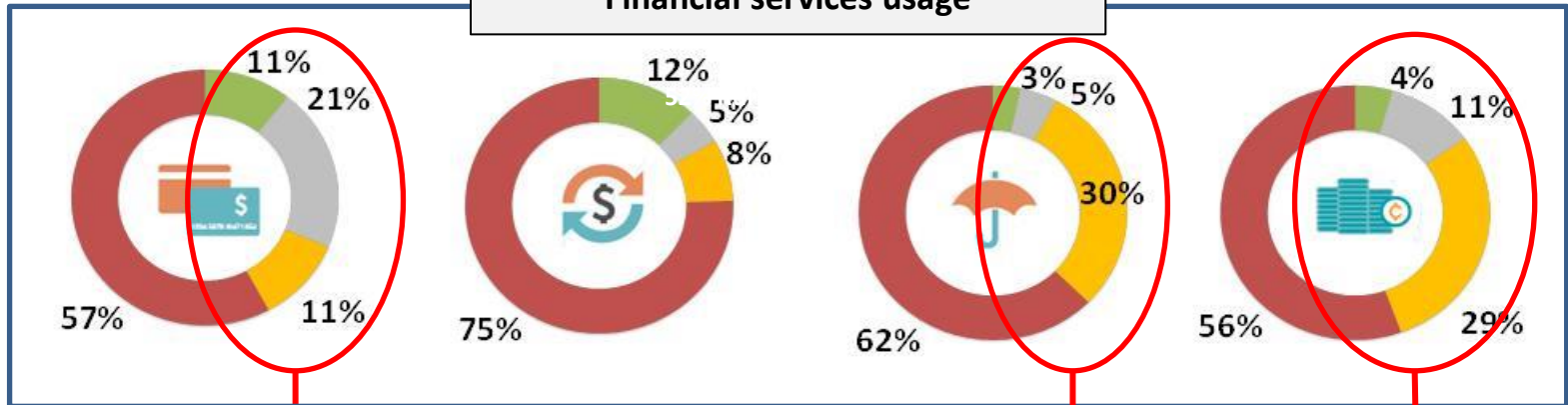


 133 per month


52% rural


37% own





Financial services usage



1. Informal enterprises usage of unregulated credit is nearly twice that of regulated

2. Informal enterprises have high reliance on family, friends or themselves for savings and risk mitigation needs

Target market 4: Formal consumers


Financial Usage Key			
Regulated	Unregulated	Family, friends and self	Excluded
			

1.7m adults

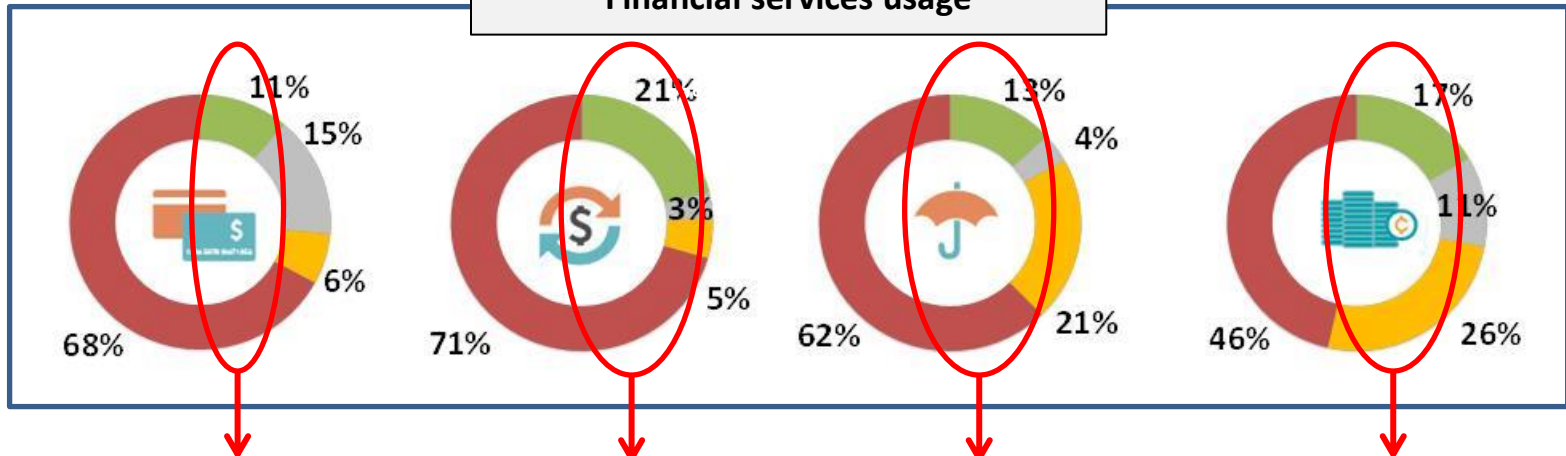


 128 per month


70% Urban






46% own

Financial services usage



1. Generally high take-up of regulated financial services
2. Government employees have highest take-up of regulated financial services.
3. Private employees have low levels of borrowing, but high take-up of insurance and savings.


Target market 5: Informal consumers


Financial Usage Key			
Regulated	Unregulated	Family, friends and self	Excluded
			

7.5m adults

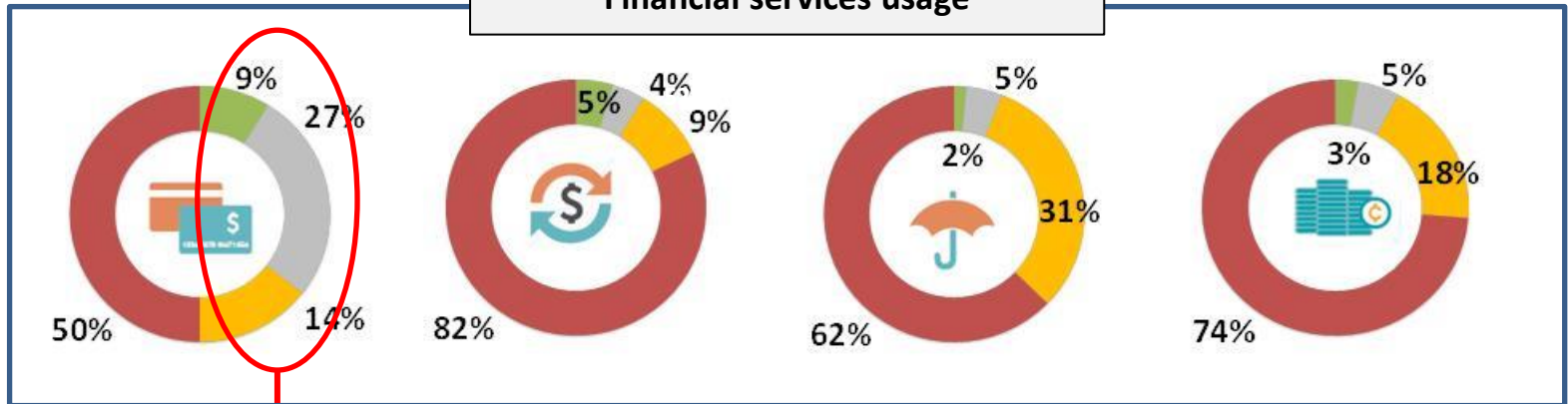


\$ 66 per month


75% Rural






11% own

Financial services usage




1. Except for credit, informal consumers have the lowest take-up of financial services from regulated or unregulated financial services providers.

Overview of financial sector reach

	Regulated						Unregulated						Friends, Family or self	Excluded
	Banks	SFIs	MFIs	MIC	Co-ops	Pawn-shops	RSCs	Agri input providers	Money-lenders	Community-based assistance groups	Hundis	Pawn-shops		
Branches	577	537	418	39	7490	2026	3	N/A	400 000	N/A	N/A	N/A	N/A	N/A
	✓	✓	✓		✓	✓	✓	✓	✓			✓	✓	
	✓	✓									✓		✓	
	✓	✓	✓	✓	✓								✓	
			✓	✓	✓					✓			✓	

Source: MMSE (2013), CCS (2013), FinScope (2013) and Supply-side interviews (2013)

-  Regulated financial service
-  Unregulated financial service

MARKET FINDINGS BY THEME

Market Findings: 6 themes

1. Myanmar population is thinly served by financial services
2. Limited infrastructure constraining business models and product offerings
3. High level of informality throughout the economy
4. Capital constrained regulated retail financial sector
5. Constrained product offering undermines value to customers
6. Current regulatory environment not enabling expansion of rural provision and discouraging delivery to urban poor

30% of adults reported to use at least one financial service from a regulated financial services provider



1. Myanmar population is thinly-served by financial services

2. State-provision of credit drives take-up in rural areas

~5% of rural adults access more than one financial service from a regulated institution

~9% of urban adults access more than one financial service from a regulated institution

3. Non-account based payments via Banks

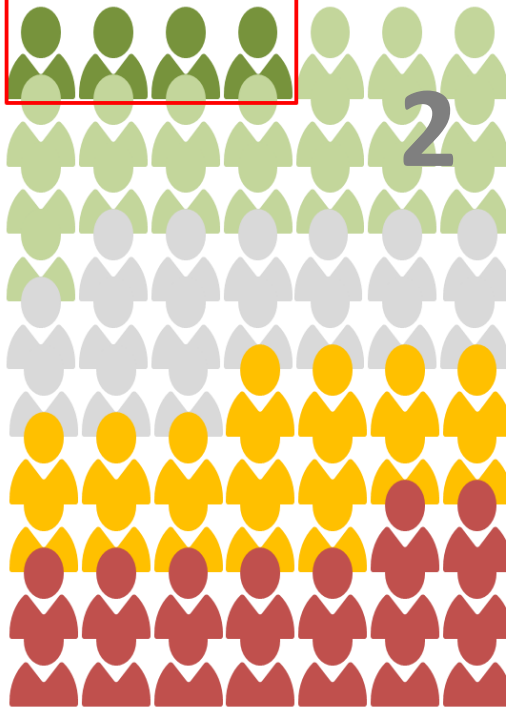
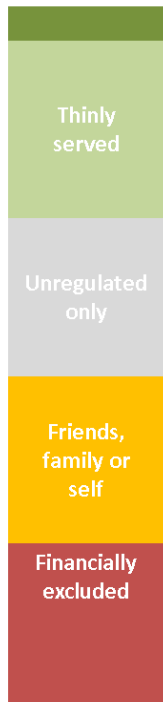
~6% of adults access more than one financial service from a regulated institution

~25% of adults access only one financial service from a regulated institution

~23% of adults access financial services only from unregulated institutions

~29% of adults meet their financial needs through family, friends or themselves only

~18% of adults do not access financial services



27.5 million adults

Rural 1



12.2 million adults

Urban

Broadly served

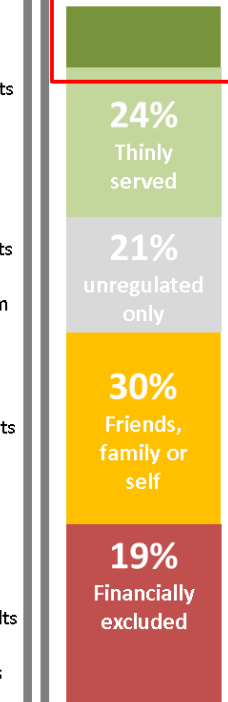


~20% of adults access only one financial service from a regulated institution

~18% of adults access financial services only from unregulated institutions

~31% of adults meet their financial needs through family, friends or themselves only

~23% of adults do not access financial services

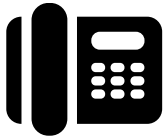


39.7 million adults

Total

1. Regulated financial services reach even the lowest-income categories

2. Limited infrastructure constraining business models and product offerings



0.9 % of the population subscribes to landline service



Severe physical infrastructure inadequacies amplify distribution challenges



89% of urban households have electricity while only 34% of rural households have electricity (*UNDP IHLC Myanmar survey , 2011*)



Less than 3% of adults reported to have used internet in the last month (*FinScope, 2013*).



Myanmar has the lowest road density in South East Asia with 41.3 km (2005) of road per thousand square kilometres (compared to 352.4 km in 2006 in Thailand (Source: ADB, 2012)

2. Limited infrastructure constraining business models and product offerings



- MADB uses village-level committee to assess loans

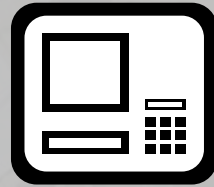
Key institutional infrastructure still missing

Credit bureau



Myanmar currently has no credit bureau

Payments systems



Payments infrastructure is still underdeveloped but it is slowly being redressed (Myanmar Payment Union (MPU) and the Central Bank)

Capital market



There is currently no formal capital market in Myanmar

Foreign Exchange Market



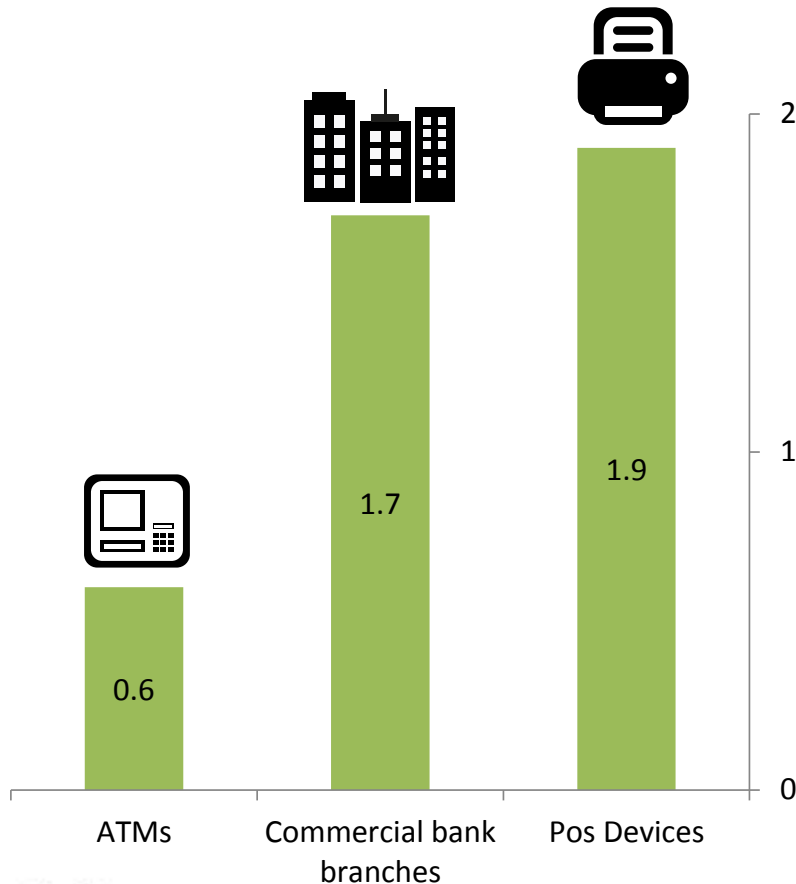
Although Myanmar has a foreign exchange market, it still experiences many rigidities

Myanmar. Rob Safar 21 September 2012.

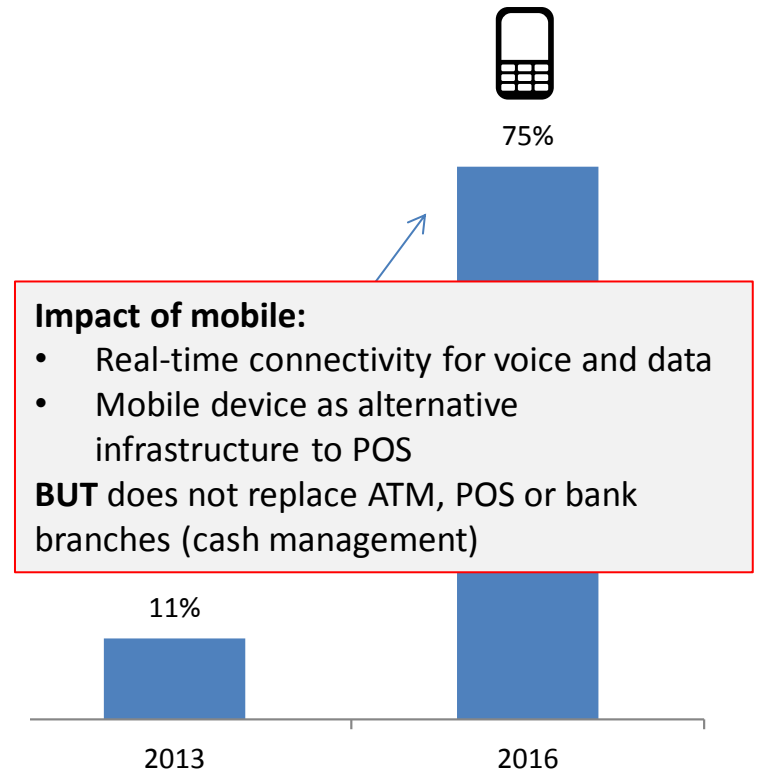
ACTIONAID TELLOW EILEEN AUNG

2. Limited infrastructure constraining business models and product offerings

Distribution points per 100, 000 population



Mobile phone penetration expected to leapfrog



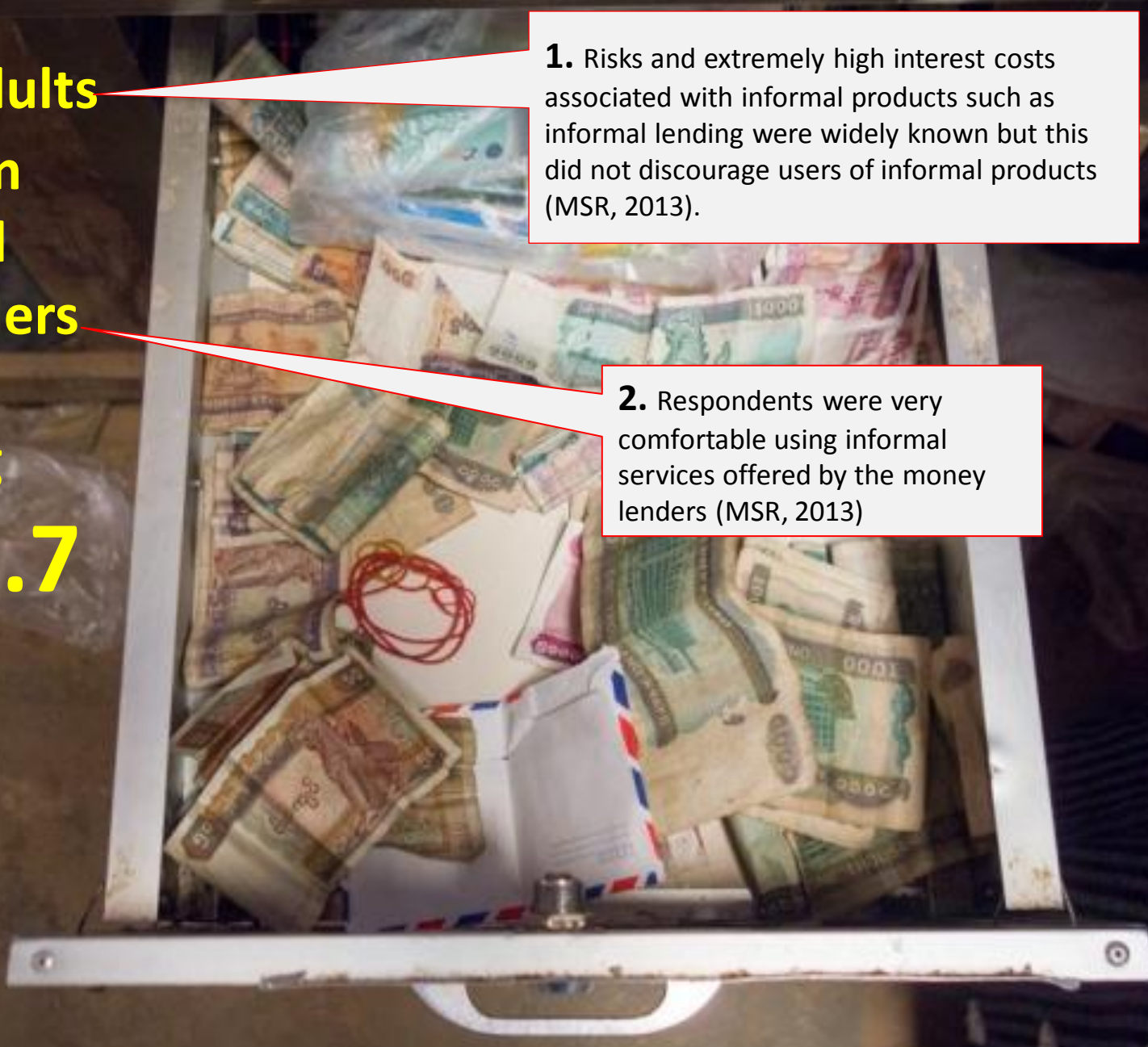
Impact of mobile:

- Real-time connectivity for voice and data
- Mobile device as alternative infrastructure to POS

BUT does not replace ATM, POS or bank branches (cash management)

Ooderoo and Telenor have committed to reaching the government mobile penetration target of 75-80% by 2016

**5.9 m adults
borrow from
unregulated
money-lenders
with total
outstanding
debt of \$3.7
billion**



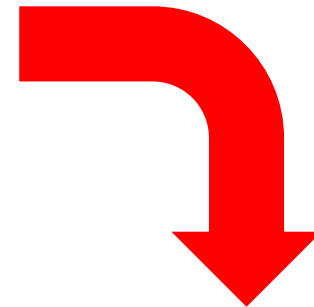
1. Risks and extremely high interest costs associated with informal products such as informal lending were widely known but this did not discourage users of informal products (MSR, 2013).

2. Respondents were very comfortable using informal services offered by the money lenders (MSR, 2013)

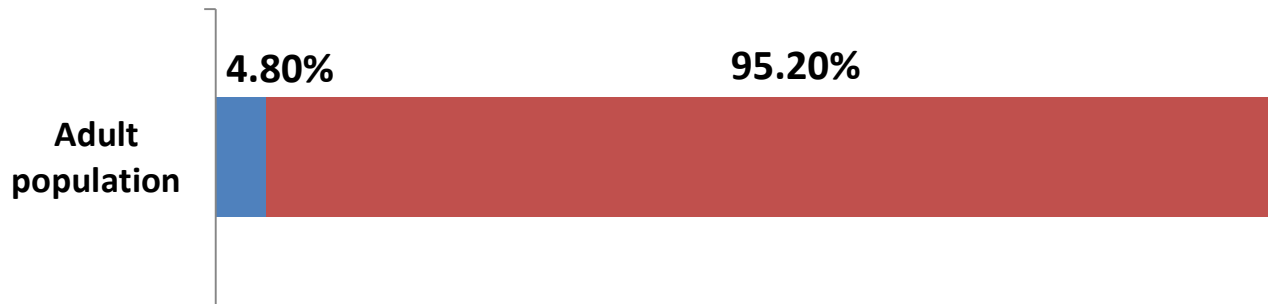
3. High level of informality throughout economy

Cash-driven economy

% of adults that only use cash-based payments:

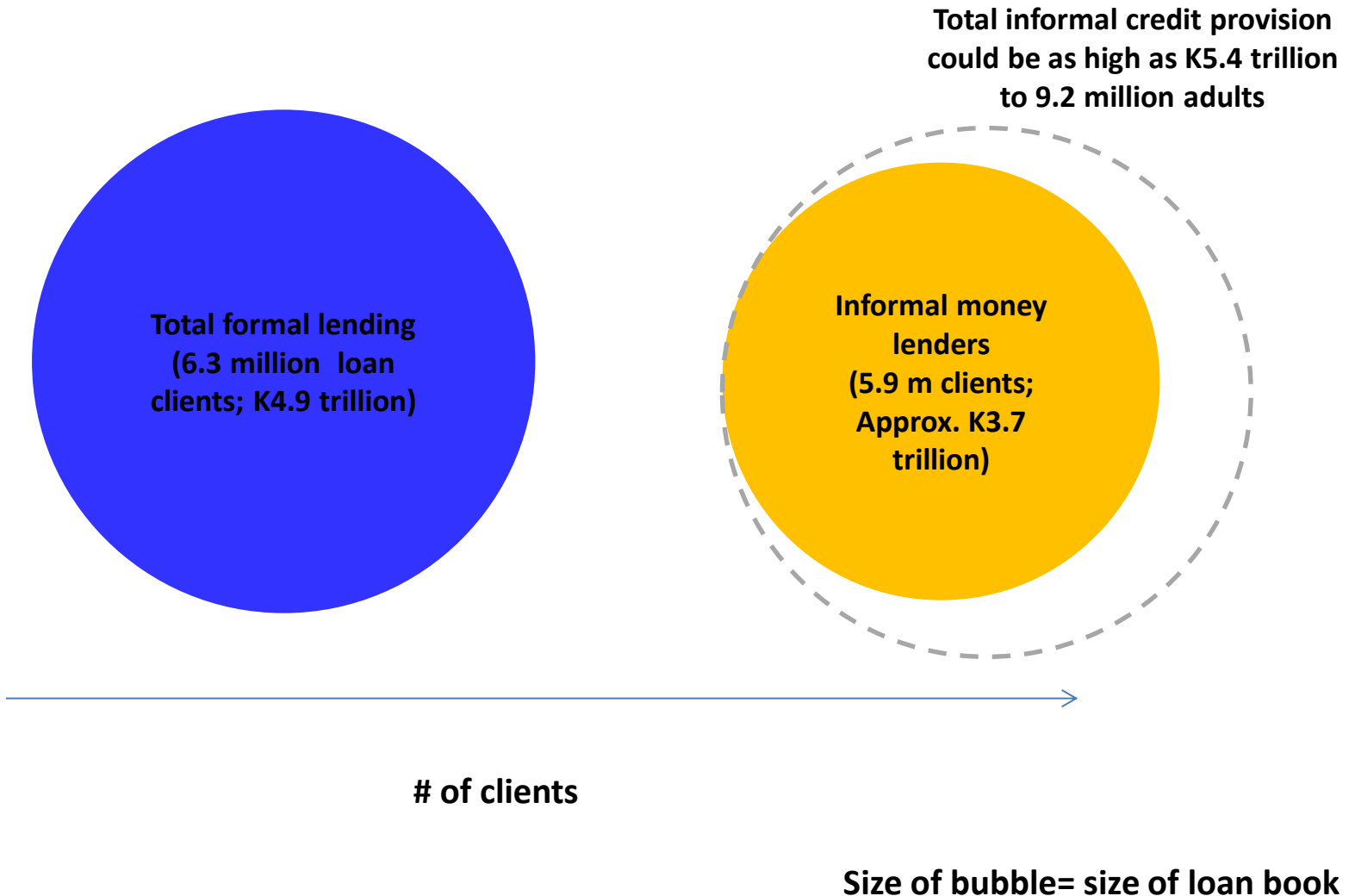


■ Banked ■ Unbanked



3. High level of informality throughout economy

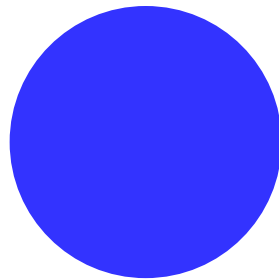
Unregulated credit



3. High level of informality throughout economy

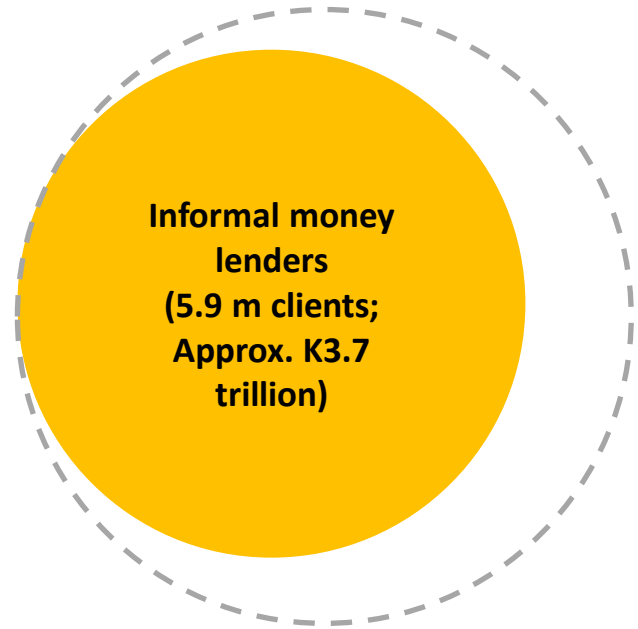
Unregulated credit

Total non-commercial-bank formal retail credit (K1.1 trillion to 6.2 million adults)



Total informal credit provision could be as high as K5.4 trillion to 9.2 million adults

Informal money lenders (5.9 m clients; Approx. K3.7 trillion)



of clients

Size of loan book= size of loan book

3. High level of informality throughout economy

Unregulated insurance

	# of policyholders	Premiums	Risks covered
Myanmar Insurance (formal)	800000	K1.7bn	<ul style="list-style-type: none"> • Retail insurance mostly limited to life insurance • Compulsory life/endowment policies: approximately 800k government and military personnel with compulsory cover • Limited number of voluntary policies
MFIs (Unregulated)	530000	K1.5bn	<ul style="list-style-type: none"> • Wide variety of cover: life, debt, health, disability, crop, housing • Compulsory
Co-ops (Unregulated)	40000	K19m	<ul style="list-style-type: none"> • Wide variety of cover: Life, debt, disability, disaster cover for housing • Compulsory

12% of adults save with a regulated or unregulated service provider

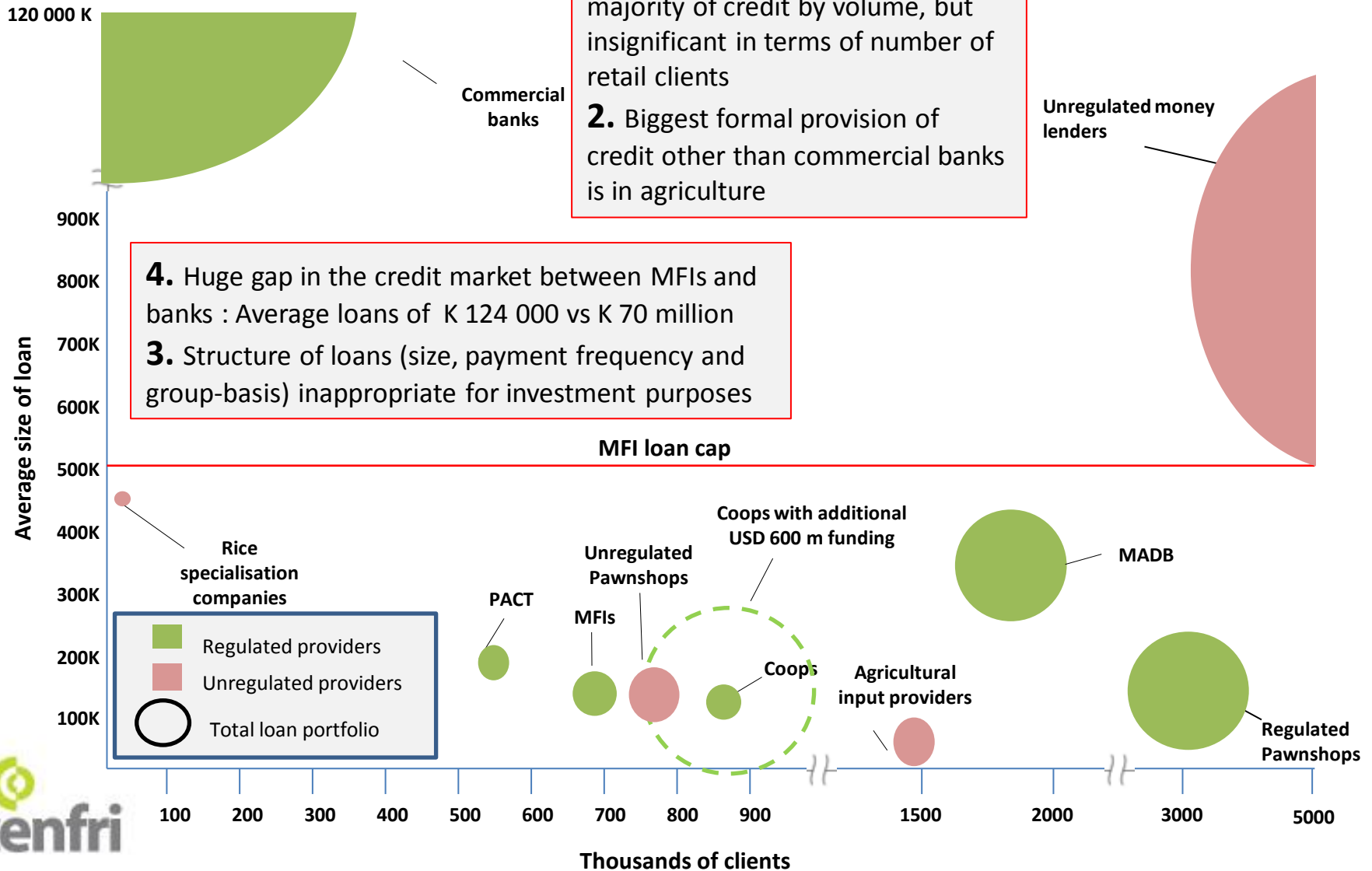


26% of adults report saving, but do not save with a regulated or unregulated service provider

4. Capital constrained regulated retail financial sector

- 1. Commercial banks provide majority of credit by volume, but insignificant in terms of number of retail clients
- 2. Biggest formal provision of credit other than commercial banks is in agriculture

- 3. Structure of loans (size, payment frequency and group-basis) inappropriate for investment purposes
- 4. Huge gap in the credit market between MFIs and banks : Average loans of K 124 000 vs K 70 million



4. Capital constrained regulated retail financial sector

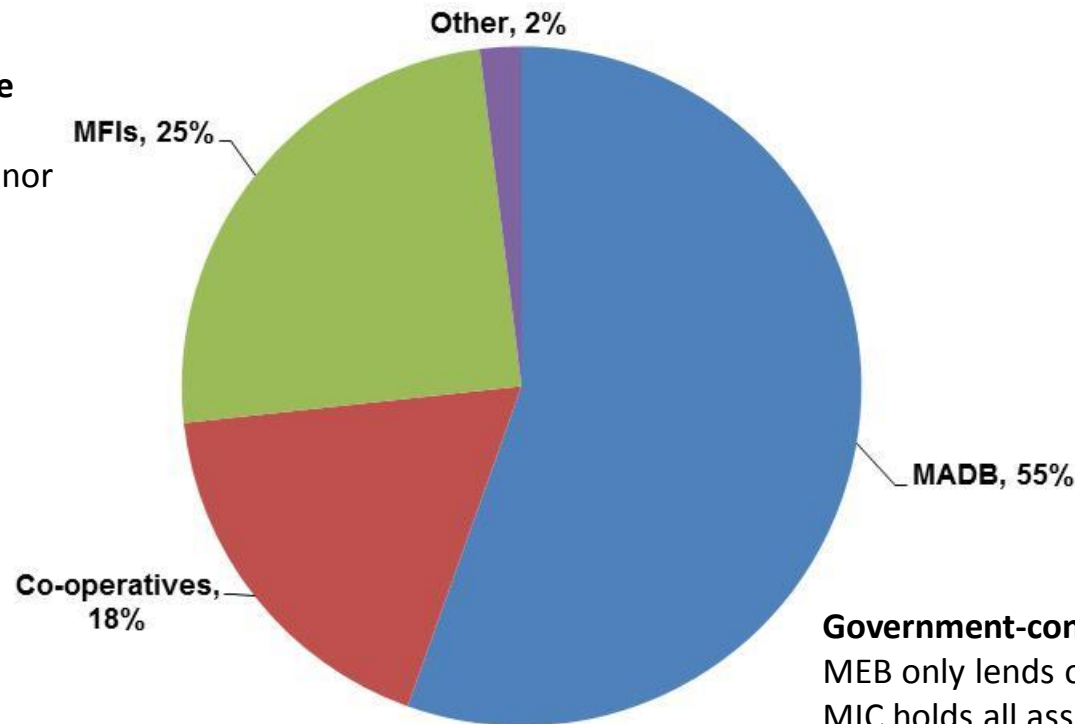
Mandated capital in low-income credit market: proportion of regulated portfolio (excluding pawnshops) controlled by key parties

Mostly funded by donor **wholesale funding**

Impediments on bringing more donor funding into country
(includes some owners equity for domestic MFIs)

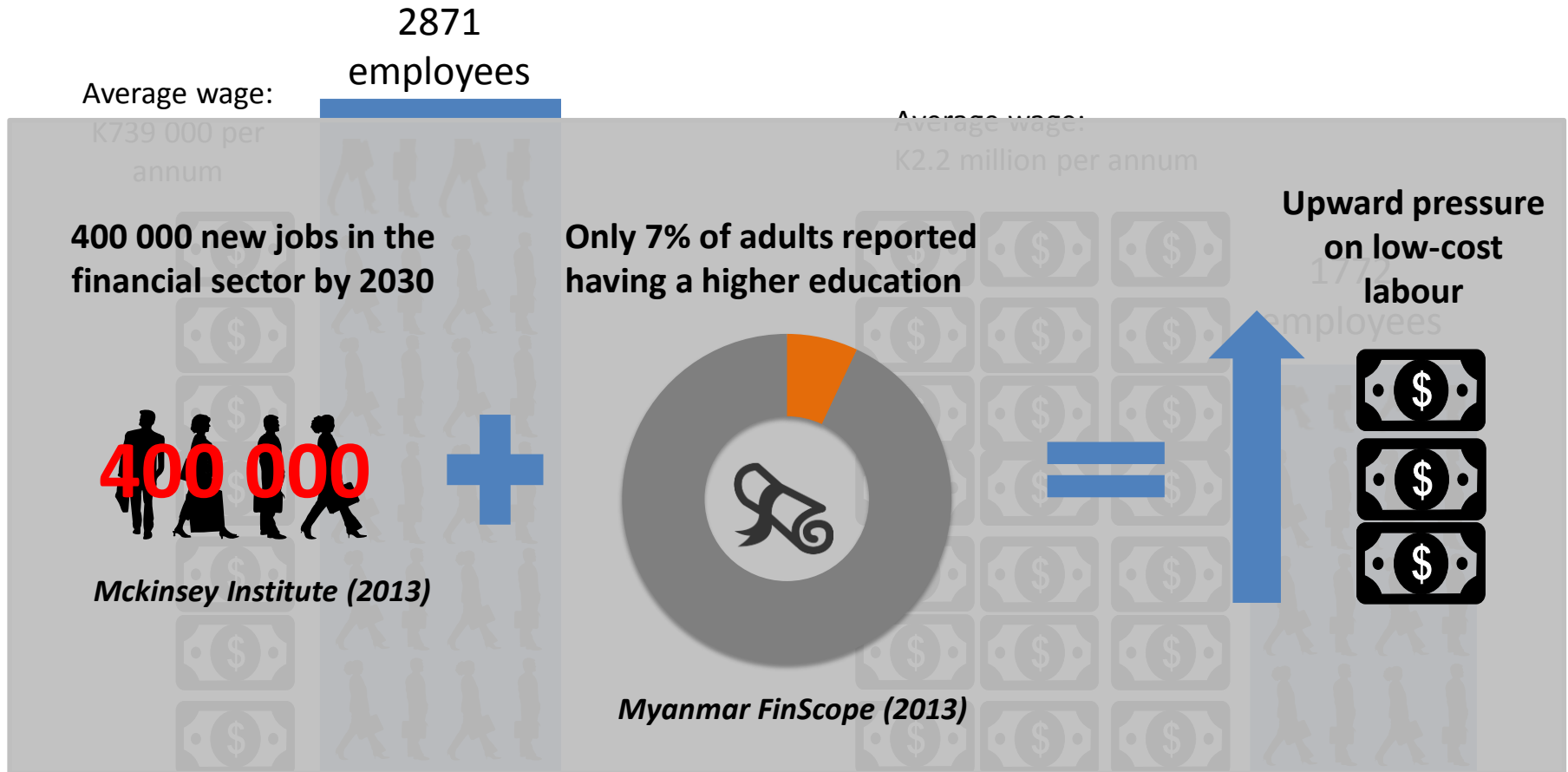
Mostly **member deposits** (to date)

Low-income credit providers not able to raise voluntary deposits
Banks able to raise voluntary deposits, but unlikely to channel to low-income market



Government-controlled funding
MEB only lends out 11% of deposits
MIC holds all assets in government bonds
Gov raised \$600m for co-operatives

4. Capital constrained regulated retail financial sector



“Our old house was destroyed by Cyclone Nargis. I had to sell half of the garden land to build the new house. If we don’t have money, we have to borrow from others to solve the problem. I think that insurance is the way to mitigate the risk. From the past experience, I think that we should have insurance. But I don’t know how to do it and where to find information.”

A photograph of a rural village with traditional thatched-roof houses. The houses are built on stilts and have steeply pitched roofs made of dried palm leaves or similar natural materials. In the foreground, there is a body of water, possibly a pond or a small stream, which reflects the houses and the sky. A person is standing near one of the houses, and there are some sacks and other items on the ground. The background shows a green field, likely a rice paddy, under a clear sky.

3% of adults have insurance from a regulated financial services provider

5. Constrained product offerings undermine value to customers

Various **mismatches** between **product features** and apparent **consumer needs**.



Products either completely **unavailable** or available but **features not suitable**

Reasons for mismatches include:

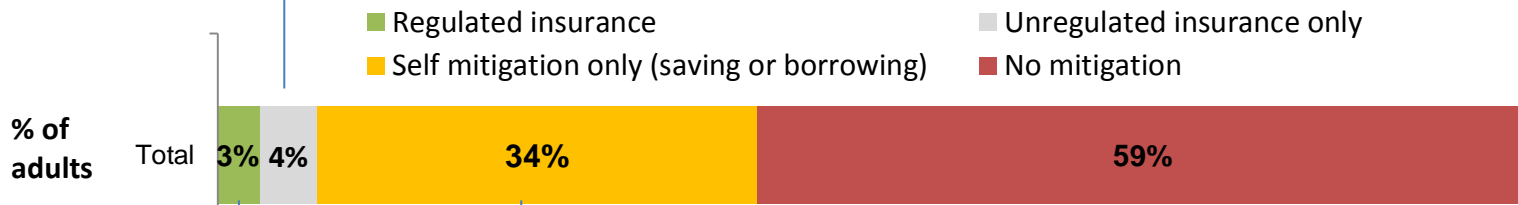
1. **Regulatory constraints** on appropriate features
2. **Infrastructure constraints** undermining market's ability to offer appropriate features
3. **Consumer choice/discretion**
4. **Market choice/incentives:** market not offering appropriate features but no regulatory or infrastructure constraint on doing so

Result: Consumers turn to unregulated sector to fulfil needs

5. Example 1: Credit and savings used to manage insurable risks

Provident and welfare funds operated by INGO MFIs and co-operatives and the majority of the 690 000 MFI clients are covered by these funds.

Need for health and agricultural insurance



Driven by compulsory insurance offered my MIC (life and endowment)

Dealing with key risk events like illness and agricultural related risks through savings, borrowing or selling assets

- **48% of farmers experienced crop losses and 43% drought, poor rainfall or loss of access to water:** In the absence of insurance products, 42% of farmers who have experienced agri-related risks rely on credit, 10% on savings and 22% will sell assets or reduce expenditure.
- **31% of adults affected by this risk in last year:** Of those who have experienced illness the majority of individuals have relied on credit (47.7%) followed by the sale of assets or reduced expenditure (27%) or have relied on savings (22%).



5. Example 2: MADB product features and service

Service



- Loans **not disbursed in time**
- High transaction costs



Loan Term



- Repayment **due** immediately after harvest



Loan Size



- Currently **K 100 000 per acre**
Estimated requirement: K 120 000 to **K 300 000 per acre**



Farm Size



- Provide financing per acre up to **10 acres**
- 2.1 adults involved in farming have farms larger than 10 acres



Crop type



- Bulk of MADB loans earmarked for paddy
- Farmers **not** involved in **paddy**: much **lower access to credit**



5. Example 3: MFI credit products and features

Group collateral



- Group guarantee not conducive to more advanced and individualised products



Loan Term



- All MFI loans only **one year maximum term**



Loan Size



- Currently loan values not meeting needs
- MFI **average loan size** is K 124 000 compared to **commercial banks K 70m**



5. Example 4: Payment system impact on ability to raise deposits and offer value to consumers

Product features



- Restricted payments functionality and infrastructure undermines value and utilisation of bank accounts

*“My working hours are from 7am to 7pm. I don’t have time to go the bank. For my **small amount** of saving, I cannot wait at bank. If there is **mobile banking**, I am sure to use bank service for saving. “*

- Home Nurse, Female, 22-30 years old and single, Yangon







6. Current regulatory environment not enabling expansion of rural provision and discouraging delivery to urban poor

- Rural poverty relief as policy objective
- Rural take-up relatively high but substantial needs remains unaddressed
- Challenging to serve rural markets at best of times
- Current rural delivery driven by mandated capital and subsidised operations
- Current MFI regulations (e.g. rates caps, loan caps and restrictions on raising capital) makes it difficult for even subsidised and mandated models to operate and expand.
- Urban poor also require services: but regulatory emphasis discourage urban MFI focus.

OPPORTUNITIES TO INCREASE ACCESS TO FINANCIAL SERVICES

7 Opportunities to increase access to financial services

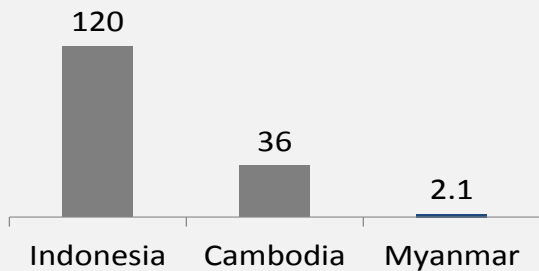
 Payments	1.	Dramatically increase the supply and availability of electronic payments
 Savings	2. 3.	Provide low-cost savings vehicles for short term savings Extend the availability of account-based savings options
 Credit	4. 5.	Improve quantity, terms and risk profile of agricultural input credit Increase availability of unsecured credit
 Insurance	6. 7.	Grow insurance product portfolio to meet risk mitigation needs of households Develop insurance products to provide security for credit extension and protection for consumers, particularly for agriculture



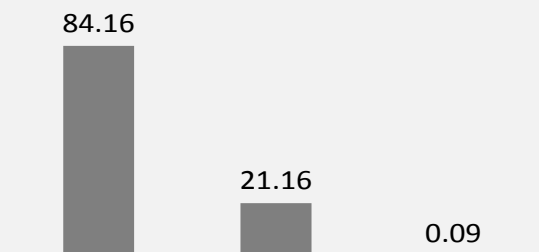
1. Dramatically increase the supply and availability of electronic payments

Payments Infrastructure per 100,000 adults

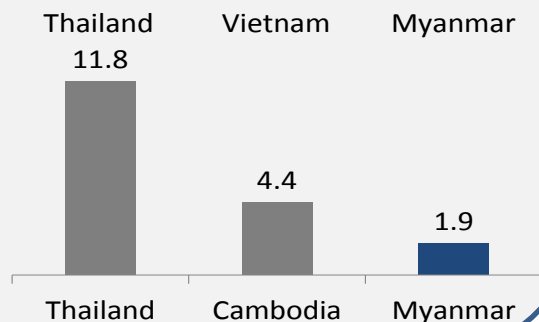
PoS devices



ATMS



Commercial bank branches



Opportunities to increase the supply of electronic payments

- Fast-track introduction of **electronic MIS systems** for commercial banks, SFIs and other providers
- Install **national electronic infrastructure for real time settlement** of interbank payments as well as retail payment networks in coordinated manner
- Consider space for non-bank **third party payment providers**
- **Mobile payments** offer biggest opportunity to deliver electronic payments at scale. Will require **agent networks**.
- Facilitate **MEBs cash management** function through modernisation.



2. Provide low-cost savings vehicles for short term savings

Current state of savings

5:1 Persons who save only in unregulated mechanisms or with family/friends or self **vs** persons who save in regulated mechanisms

More than **10% of adults** save in **gold**

Unregulated money lenders have a loan volume more than **4 x** that of **regulated** retail credit market



Opportunities to increase savings

1. Increase level of **formal financial intermediation**
2. Need **store of value** for consumption smoothing, especially for rainy season
3. Leverage **emerging payments network** and **agents** to enable frequent low-cost deposits and withdrawals close to client
4. Opportunity created by payment of **interest on mobile money** balances



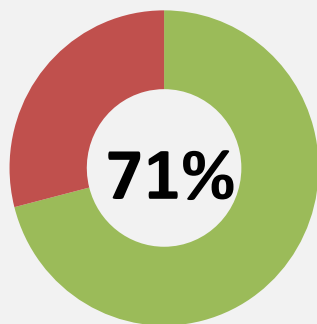
3. Extend the availability of account-based savings options

Limited options for account based savings

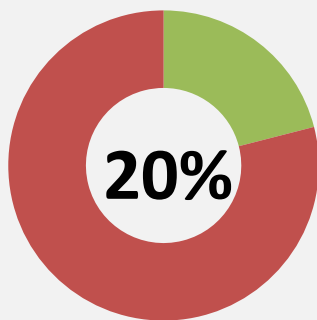
Only **4.8%** of adults have **bank accounts**



% of clients within 30 minutes of a bank branch



Commercial Banks



MADB

Opportunities to extend account based saving options

- Improve **transaction functionality** of bank accounts
- Leverage **urban opportunity** for bank-based deposits
- **Modernise** and strengthen **MEB** to continue its role in deposit mobilisation
- **Branch and mini-branch expansion** by commercial banks
- **Leverage mobile payments** to extend banks interest beyond high income savers
- Reconsider **interest rate floor** for savings

4. Improve quantity, terms and risk profile of agricultural input credit

Not all farmers have access to regulated credit

3.4 million farmers excluded from MADB loans due to inability to prove right to use land

17% of farmers borrow from **money lenders**



Opportunities to improve agri. input credit

- Facilitate **proof of right to use land**
- Extend loans for **multiple crops**
- **Longer term credit** and **timely disbursement**
- **Increase wholesale funding** to MADB

Interest rates not a major burden on debt

Increasing interest from current **8.5%** to **12%** on a 6 month loan increases the payment by only **2%**



Opportunities to improve agri. input credit

- Return to **higher interest rates** for MADB loans
- Utilise subsidy to **modernise systems** and **improve service quality**

4. Improve quantity, terms and risk profile of agricultural input credit (2)

Other agricultural credit providers

- **Input providers** provides input credit to at least 1.5 million farmers
- Loans by **agricultural co-operatives** increased from US\$1.7m to 10 900 members in January 2013 to US\$27.9m to 400 000 farmers in July 2013.
- Export-Import Bank of China to provide **USD 600 million** over next three years
- **PACT** has substantial rural reach



Opportunities to improve agri. input credit

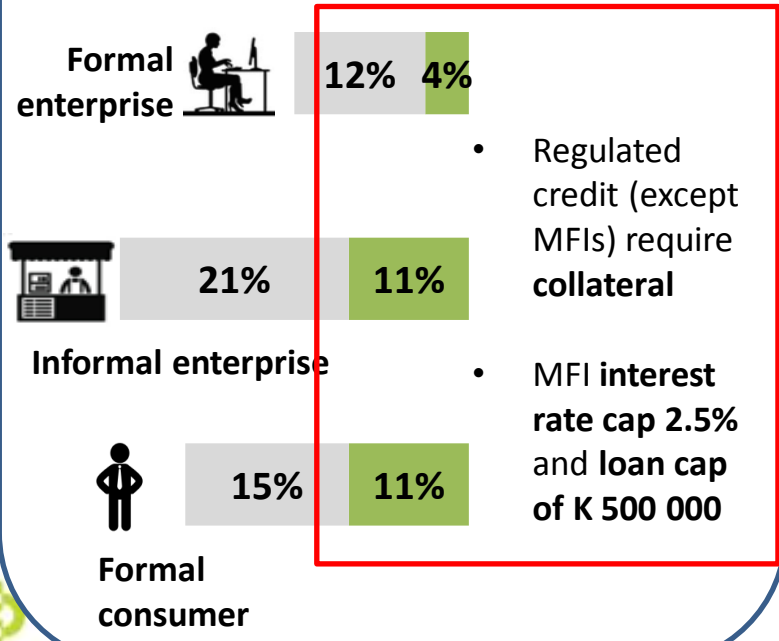
- Better understanding of **agricultural input credit** required
- Ensure effective supervision of credit provided by **agricultural co-operatives**
- **MFIs** can play enhanced role, including asset finance for mechanisation
- Monitor **indebtedness**
- Improve agricultural **productivity** in parallel with expanding credit

5. Increase availability of unsecured credit

Large pent up demand for credit

- **Significant** take-up of **unregulated credit**

■ Regulated ■ Unregulated



- Regulated credit (except MFIs) require collateral
- MFI interest rate cap 2.5% and loan cap of K 500 000



Opportunities to increase unsecured credit

- Bulk of **MSME finance** for productive purposes provided through personal loans
- **Longer term loans** with better repayment conditions
- Enable **MFIs to extend more credit**
 - Reconsider interest rate and loan caps
 - facilitate raising of capital
- Explore **leveraging payroll credit** by banks
- Banks to extend **unsecured loans** once **credit bureau** in place



6. Grow insurance product portfolio to meet risk mitigation needs of households

Need for insurance vs. current provision

Opportunities to improve insurance portfolio



12.4m: Paid for medical costs during past 12 months



Provision

1.3m: Compulsory insurance from MIC

0.6 m: Unregulated insurance from MFIs or Co-operatives

- Permit **health insurance** to be offered
- Insurers to offer **funeral insurance** as **anchor risk** cover
- Facilitate **product** and **distribution innovation** by insurers
- Create a pathway for the **formalisation** of unregulated insurance



7. Develop insurance products to provide security for credit extension and protection for consumers, particularly for agriculture

Cyclone Nargis: **5 million** farmers experienced risk which they mitigated through sale of assets, savings, credit or reduced consumption

Opportunities to improve risk mitigation

- Narrower focus on provision of insurance for agricultural input credit
- Enable credit life insurance with appropriate consumer protection

42% of farmers who have experienced agri-related risks rely on

credit, **10%** on savings and **22%** will sell assets or reduce expenditure.



Thank You!



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