MAP Myanmar Financial Inclusion Roadmap Workshop

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

Nay Pyi Taw, Myanmar, 21 May 2014

With:

#mapFI
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

- New Constitution of Myanmar
- Licensing of new mobile operators: Ooredoo & Telenor
- Ministry of Co-operatives announce new co-op plan (60,000)
- President announces eight development goals
- 12 new domestic insurance licenses issued
- Microfinance Law Passed
- Adoption of floating exchange rate
- New government elected in Myanmar
- Myanmar Payments Union Established
- 21% (2012)

Banking assets as a % of GDP:
- 8% (2008)
Overview of financial sector institutions

Key:
- Regulated
- Unregulated
- Family, friends or self
- Excluded
- Credit
- Insurance
- Payments
- Savings

Excluded
- Family, friends or self

Unregulated
- Money-lenders
- Agri. Input providers
- Banks
- MFIs
- Pawnshops
- Co-operatives
- Community Assistance Groups
- RSCs
- Hundis

Regulated and supervised for the provision of financial services

Not supervised for the provision of financial services
Bulk of population requires increased access to financial services

95% of adults earn less than $10 per day

% of adults in income level

Cumulative % of adults

95%

Cumulative % of adults living below

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Personal income in USD per day

Less than $1... $1 to $2 $2 to $3 $3 to $4 $4 to $5 $5 to $6 $6 to $7 $7 to $8 $8 to $9 $9 to $10 $10 to $11 $11 to $12 $12 to $13 $13 to $14 $14 to $15 More than...

N= 30 486 972 (adults who disclosed income)

39.7 m adults 70% Rural 30% Urban
Five discrete target markets

- Farmers
- Farm workers
- Piece/casual workers
- Remittance dependents
- Formal enterprises
- Informal enterprises
- Government employees
- Employees of formal private companies
- Salaried private individuals
- Target markets:

Source: FinScope 2013
12.1 million adults in Myanmar reported farming as their primary source of income
Target market 1: Farmers

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

- 2.5m adults
- $224 per month
- 75% urban
- 63% own

1. Formal enterprises reported low credit usage for productive purposes
2. Formal enterprises reported comparatively high use of savings, payments and insurance products

Financial Usage Key

<table>
<thead>
<tr>
<th>Regulated</th>
<th>Unregulated</th>
<th>Family, friends and self</th>
<th>Excluded</th>
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Financial services usage

- 74% of formal enterprises use regulated financial services
- 61% use unregulated services
- 67% of users have insurance coverage
- 38% own mobile phones

1. Formal enterprises reported low credit usage for productive purposes
2. Formal enterprises reported comparatively high use of savings, payments and insurance products

1. Family, friends and self
2. Excluded
Target market 3: Informal enterprises

4.7m adults

$133 per month

52% rural

37% own

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

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

7.5m adults

$66 per month

Financial services usage:
- 50% Regulated
- 82% Unregulated
- 5% Family, friends and self
- 14% Excluded

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

<table>
<thead>
<tr>
<th>Regulated</th>
<th>Unregulated</th>
<th>Friends, Family or self</th>
<th>Excluded</th>
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<tbody>
<tr>
<td>Banks</td>
<td>SFIs</td>
<td>MFIs</td>
<td>MIC</td>
</tr>
<tr>
<td>Branches</td>
<td>577</td>
<td>537</td>
<td>418</td>
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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

- ~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

3. Non-account based payments via Banks

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

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

<table>
<thead>
<tr>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
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<tbody>
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<td>27.5 million adults</td>
<td>12.2 million adults</td>
<td>39.7 million adults</td>
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</table>
2. Limited infrastructure constraining business models and product offerings

- 0.9% of the population subscribes to landline service.
- Less than 3% of adults reported to have used internet in the last month (FinScope, 2013).
- 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).

Severe physical infrastructure inadequacies amplify distribution challenges.

Limited infrastructure constraining business models and product offerings.
2. Limited infrastructure constraining business models and product offerings

- MADB uses village-level committee to assess loans
- MFIs (particularly INGOs and NGOs) rely on agents, loan officers or CBOs to disburse and administer loans
- Co-operatives are run by community based “boards” who act as a loan approval committee.

**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

*ActionAid Fellow Eileen Aung*
2. Limited infrastructure constraining business models and product offerings

Distribution points per 100,000 population

- ATMs: 0.6
- Commercial bank branches: 1.7
- POS Devices: 1.9

Mobile phone penetration expected to leapfrog

- 2013: 11%
- 2016: 75%

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:

- Farmers: 81%
- Employees of formal private companies: 78%
- Government employees: 65%

Adult population: 4.80% Banked, 95.20% Unbanked
3. High level of informality throughout economy

Unregulated credit

- Total formal lending (6.3 million loan clients; K4.9 trillion)
- Informal money lenders (5.9 m clients; Approx. K3.7 trillion)

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

Size of bubble = size of loan book

# of clients
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

<table>
<thead>
<tr>
<th></th>
<th># of policyholders</th>
<th>Premiums</th>
<th>Risks covered</th>
</tr>
</thead>
</table>
| **Myanmar Insurance**    |                    |          | • Retail insurance mostly limited to life insurance  
                          | (formal)                  | 800000   | • Compulsory life/endowment policies: approximately 800k government and military personnel with compulsory cover  
                          |                          | K1.7bn   | • Limited number of voluntary policies  |
| **MFIs (Unregulated)**   |                    |          | • Wide variety of cover: life, debt, health, disability, crop, housing  
                          |                          | 530000   | • Compulsory  |
| **Co-ops (Unregulated)** |                    |          | • Wide variety of cover: Life, debt, disability, disaster cover for housing  
                          |                          | 40000    | • 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

Commercial banks provide the majority of credit by volume, but are insignificant in terms of the number of retail clients. The biggest formal provision of credit other than commercial banks is in agriculture. There is a huge gap in the credit market between MFIs and banks, with average loans of K 124 000 vs K 70 million. The structure of loans (size, payment frequency and group-basis) is inappropriate for investment purposes.
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

- Average wage: K739,000 per annum
- Employees: 2871

- Average wage: K2.2 million per annum
- Employees: 1772

- 400,000 new jobs in the financial sector by 2030

- Only 7% of adults reported having a higher education

- Upward pressure on low-cost labour

(Mckinsey Institute (2013))

(Myanmar FinScope (2013))
“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.”

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.

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 cooperatives and the majority of the 690 000 MFI clients are covered by these funds.

- **Regulated insurance**: 3%
- **Unregulated insurance only**: 4%
- **Self mitigation only (saving or borrowing)**: 34%
- **No mitigation**: 59%

Driven by compulsory insurance offered by 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%).

Need for health and agricultural insurance
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

“*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

**Product features**

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

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

**Payments Infrastructure per 100,000 adults**

- **PoS devices**
  - Indonesia: 120
  - Cambodia: 36
  - Myanmar: 2.1

- **ATMS**
  - Thailand: 84.16
  - Cambodia: 21.16
  - Myanmar: 0.09

- **Commercial bank branches**
  - Thailand: 11.8
  - Vietnam: 4.4
  - Myanmar: 1.9

**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 4x 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**

<table>
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<tr>
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<th>Commercial Banks</th>
<th>MA DB</th>
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<tr>
<td>% of clients within 30 minutes of a bank branch</td>
<td>71%</td>
<td>20%</td>
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Only **4.8%** of adults have bank accounts

**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

- **Significant** take-up of unregulated credit
  - Regulated: 12% | Unregulated: 4%
  - Regulated credit (except MFIs) require collateral
  - MFI interest rate cap 2.5% and loan cap of K 500 000

- **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**

- **Need:** 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 Cooperatives

**Opportunities to improve insurance portfolio**

- 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
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.

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

Please contact us at…

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