

Financial Inclusion Overview

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The successful publication of the Financial Inclusion Report 2016 has provided important facts and evidence on financial inclusion in the country. It played a central role in imparting insight and data on the current levels of financial inclusion in Timor-Leste. The data analysis also helped to shape our understanding on what financial inclusion really means and benefits which inclusiveness can bring for the low-income and vulnerable segments of society and Timor-Leste as a whole. This knowledge has facilitated BCTL, in its mandate to drive financial inclusion, to define its vision, missions and strategies which can transform and push financial inclusion to reach greater heights. Since 2016, many outcomes and advances has transcended from the result of the inaugural data collection initiative.

1.1

Key Developments in the Financial Sector from 2016 to 2018

A pivotal development since the publication of the Financial Inclusion Report 2016 was the launch of the National Strategy for Financial Inclusion (NSFI) 2017-2022. This high level blueprint is the most important document which charts the path for the financial sector a five year period to foster a more inclusive financial system for Timor-Leste. The NSFI which was published in 2017 clearly outlines the vision, broad strategies and action plans which will bring financial inclusion to the next level. The four broad strategies which were laid out to cover the areas of access points and payments systems, specialised and affordable financial services, capacity building and supportive infrastructure, as well as financial literacy and consumer protection. These broad strategies act as pillars to support the vision of creating an inclusive financial system which brings the benefits of financial services to all Timorese towards to goals of poverty reduction and shared prosperity.

1.1.1

Access Points and Payments Systems

A number of action plans which are aligned to the NSFI 2017-2022 have been implemented, particularly in the area of increasing financial services access points in the country. The e-wallet initiative contributed to a major growth in financial services access points in the past year with the licencing of Telemor Fintech in August 2018.¹ The number of registered clients is expected to grow consistently over the next few years as this channel is able to reach all Timorese registered with telco lines as more and more Timorese are now connected with mobile phone lines, including unbanked people living in remote areas.

The year 2017 also saw the introduction of a new commercial bank, Bank Rakyat Indonesia (BRI) to the financial sector after receiving a license from BCTL to operate in the country. Since its commencement on 14 March 2017 in Timor-Leste, BRI has opened up bank branches and utilized ATMs as a method to reach out to customers. By the end of 2018, BRI has 4 branches and 11 ATM access points in the country. The introduction of a new banking institution also offers Timorese more choices in terms of financial service providers and the products which they provide.

The country's National Switch project which was developed to facilitate the payments industry also demonstrated meaningful progress. The National Switch has started the integration of ATM and EFTPOS networks in the country and currently two banks, BNU and Mandiri, have been integrated into the platform, while the remaining two banks, BRI and BNCTL, are in the process of upgrading their systems for this purpose. The National Switch project is expected to integrate ATM, EFTPOS and mobile banking functions among all the licenced commercial banks in the country.

1.1.2

New Products and Services

The largest commercial bank in Timor-Leste both in terms of branch network and number of clients, BNCTL, has also upgraded its core systems. This represents an enormous leap in the modernisation of the bank's internal systems and operations, and this progress was necessary to support the introduction of new products and services by commercial banks in Timor-Leste. As a direct consequence of its modernisation, BNCTL was able to offer issuance of debit card services. Seeing that BNCTL has the highest number of clients and accounts in the banking system, this new product feature can potentially be beneficial to large segments of Timorese.

¹ Caixa Geral de Depósitos/Banco Nacional Ultramarino (BNU) first piloted e-wallet services in November 2014 and launched it in 2015. However this initiative did not progress as there were still various compliances issues to be resolved at that time, particularly involving Know Your Customer (KYC) regulations and telco client registration procedures. Hence, there were no agents appointed for e-wallet services under BNU since its pilot.

1.1.3 Capacity Building and Infrastructure

There were also notable advancements in the area of capacity building and infrastructure of financial institutions in the country after 2016. The most eminent change was the transformation of the two microfinance institutions (MFIs) into Other Deposit Taking Institutions (ODTIs) in Timor-Leste. The two MFIs, Tuba Rai Metin and Moris Rasik underwent capacity building to comply with more dynamic and comprehensive regulations to enable these institutions to expand their products and services to clients, specifically enabling these former MFIs to provide regulated deposit accounts to Timorese. After the transformation, Tuba Rai Metin was renamed to Kaebauk Investimentu no Finansas (KIF) in 2016, and Moris Rasik was renamed to Servisu Finanseiru Moris Rasik (SFMRSA) in 2018. Subsequent to their newly enhanced role, ODTIs have also widened their outreach in Timor-Leste, increasing their access points from 671 in 2016 to 1,012 in 2018.

The banking sector also saw some strategic changes in its institutional structure. After 2016, ANZ Bank shifted its focus to corporate clients in Timor-Leste, terminating its retail arm. With this adjustment in ANZ's business model, it has affected the number of its access points as ANZ only maintains one headquarter branch in the capital of Dili to serve corporate clients.

Similarly, the insurance sector also witnessed immense changes, with the National Insurance Timor-Leste (NITL) ceasing its operations in 2018 due to its failure to comply with the Insurance Law and regulations in the country. These laws and regulations are important to ensure the safety of financial service providers in Timor-Leste, and non-compliance to these laws can potentially threaten the stability of the financial sector and adversely affect customers. Thorough supervision on the compliance of financial institutions enables BCTL and other regulators to filter and identify weak institutions, which pose a threat to the financial system.

1.1.4 Financial Literacy and Consumer Protection

Many new ventures were also initiated under the purview of financial literacy and consumer protection since 2016. For instance, BCTL took part in the Global Money Week, for the first time in 2017. This movement is an annual financial awareness campaign, organised by Child and Youth Finance International in partnership with Organisation for Economic Co-operation and Development (OECD), targeted at children and youths to learn about money matters, livelihoods and entrepreneurship. In 2018, BCTL also embarked on a project to conduct a Train-of-trainers programme for teachers, in order to scale up the financial literacy at elementary school programme.

BCTL also remained steadfast in championing the training and promotion of financial literacy for micro, small and medium enterprises (MSMEs) as well. Since the design and development of a module on Basic Record Keeping and Accounting for MSMEs in 2016, BCTL followed up with monitoring and evaluation for continuous improvement of this strategy throughout the following years. In 2018, BCTL also partnered with Institute for Entrepreneurship Development (IADE) and the Chamber of Commerce and Industry of Timor-Leste (CCI-TL) on a memorandum to expand this training.

1.2 The Importance of Measuring Financial Inclusion

A lot has happened in Timor-Leste's financial sector since the last Financial Inclusion Report 2016. In the last few years, the financial sector witnessed advances in technology and financial channels, evolution of financial services providers, introduction of new product features and the intensification of literacy initiatives in the country. BCTL and all financial inclusion stakeholders in the country have also continued to learn, grow and progress throughout this period, taking lessons from domestic policy monitoring as well as global knowledge exchanges and benchmarking.

It is therefore crucial to assess whether all these changes have impacted inclusiveness in the financial sector and this assessment is only possible through the measurement of financial inclusion indicators. For this purpose, BCTL has once again tracked and collected extensive supply-side data from all regulated and non-regulated financial institutions in the country to evaluate access, usage and quality indicators of financial inclusion for the Financial Inclusion Report 2018. To complement this supply-side data, the statistics from the Census 2015 was also used to analyse the indicators from the perspectives of population and administrative units.

1.3 Key Takeaways

The value and significance of measuring financial inclusion cannot be disputed. Financial inclusion data is the focal point for evidence-based policymaking, allowing policymakers to see all the gaps and barriers that still exist. Armed with these information and expertise, policymakers can then make decisions, improve on strategies and formulate action plans for the country based on facts and not assumptions. In this regard, BCTL places this as the top priority in the domestic financial inclusion agenda, because without tangible and solid data, all efforts for financial inclusion may not be reaching the correct target areas. Financial inclusion measurement holds the key in determining whether policies are translated into real impact on the ground.

