

Financial Inclusion Usage Indicators

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Since the establishment of Timor-Leste's banking and financial system, many policies have been put in place to encourage the evolvement of financial inclusion to do more than just connect Timorese to a bank or financial service provider. The point of financial inclusion is not just for people to be able to reach financial services, but to use it to enhance their financial health and build better lives for themselves by escaping poverty, recovering from adverse situations and reaching their life goals.

Usage of financial services is therefore, an underpinning element of a truly inclusive financial system. Studying usage looks beyond what financial infrastructures are in place, and goes into human factors of financial participation. Therefore tracking usage of financial services becomes a central dimension of financial inclusion measurement frameworks. The data from this report will be able to enrich the awareness and comprehension of how Timorese use financial services as well as shed light on the segments of the demographics which remain unserved by financial services.

3.1 Financial Inclusion Usage Indicators

The degree of financial account ownership in the country offers valuable insights into the patterns of take up and utilization of financial services by Timorese. Data collection from the banking institutions, ODTIs and other financial service providers has made it possible to measure penetration of financial accounts in the country.

Combining the banks and ODTIs individual client base, as at end-2018, the total clients who maintain accounts with these institutions stands at 427,883 clients, an accumulation of 413,235 adults and 14,648 HNF Account holders. A total of 519,176 accounts are taken-up, comprising of 446,176 deposit accounts⁶, 58,352 loan accounts and 14,648 HNF Accounts. For the corporate sector, a total of 11,905 corporate clients were recorded.

⁶ Deposit Accounts include Access Accounts, Time Deposits and Savings.

Diagram: Total Individual Account Holders at Banks and ODTIs

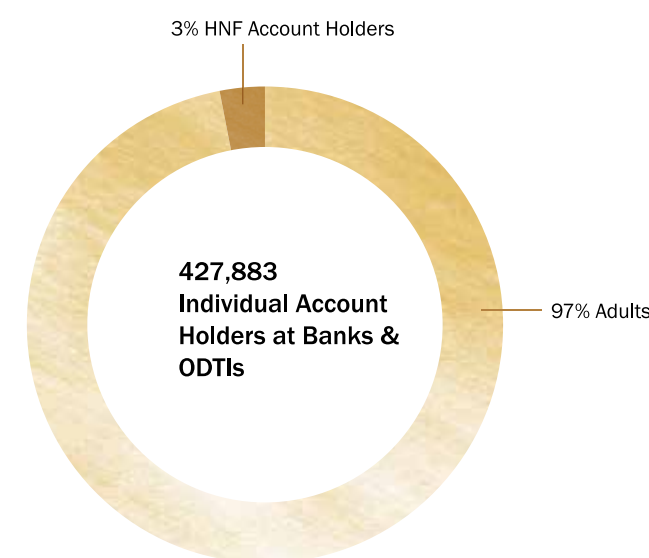
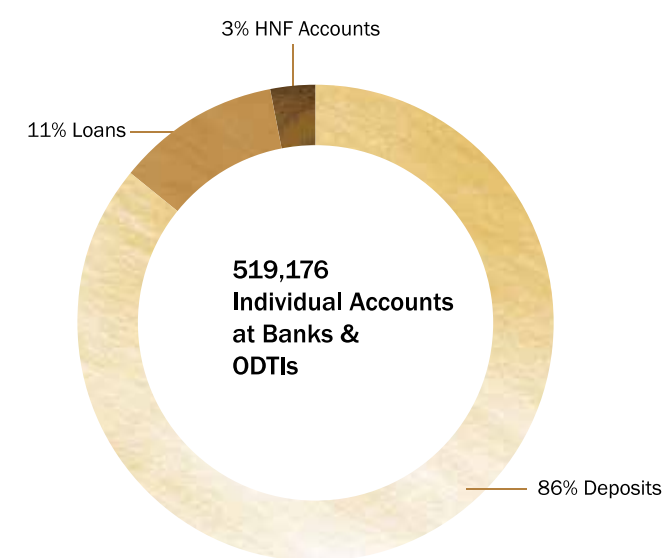


Diagram: Total Individual Accounts Held by Banks and ODTIs



In terms of percentages, 413,235⁷ of adults in Timor-Leste with ownership of at least a deposit account is equivalent to 62% of the adult population. From the credit perspective, 58,352⁸ adults or 9% of the adult population, currently hold a loan account.

Diagram: Take Up of Deposit and Loan Accounts in Timor-Leste



⁷This figure is not adjusted for clients with accounts in more than one Bank or ODTI.

⁸This figure is not adjusted for clients with accounts in more than one Bank or ODTI.

3.1.1

Usage of Financial Services Offered by Banking Institutions

Banking institutions have the largest share of clients and accounts in the country. As detailed in the previous chapter, while banks only have access points in only 87 out of 452 sucos in the country, they continue to be the main financial service provider for Timorese.

As at end-2018, there are a total of 401,228 clients with account ownership in the five banks in Timor-Leste. The clients come from two categories, corporate clients and individual clients. Of the 401,228 clients, 11,905 are corporate clients and 389,323 are individual clients. The individual client category is made up of 374,675 adults and 14,648 children aged 16 and below who are holders of the HNF Accounts. From this breakdown, it can be concluded that 374,675 out of 662,285 adults in Timor-Leste, corresponding to 62% of the adult population, have bank account ownerships.

From the analysis on the number of bank accounts, the data shows that the number of accounts exceed the number of clients, concluding that some clients have more than one account at a banking institution. There are currently 13,790 corporate accounts in the banking sector, which are held by the 11,905 corporate clients. This is a 1 to 1.16 ratio of client to account. The ratio is a bit lower for individual clients, with a ratio of 1 to 1.10, or 389,323 clients to 428,176 accounts.

The examination of account types established that the types of accounts maintained in the banking system are heavily skewed towards deposit accounts. For the individual clients, the total accounts comprise of 383,820 deposit accounts, 29,708 credit accounts and 14,648 HNF Accounts. Deposit accounts take the greatest share, at 89% of the total individual accounts in the banking system.

Diagram: Clients of Banking Institutions

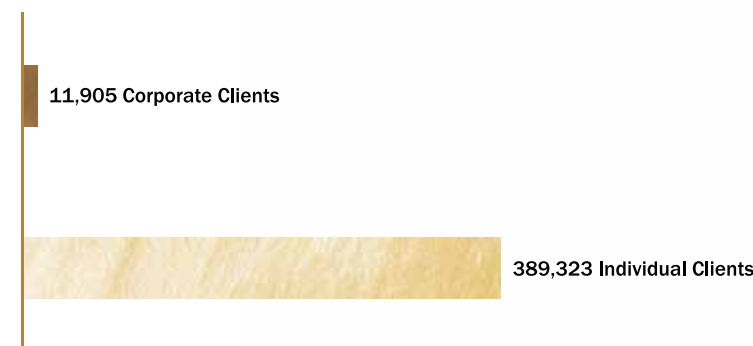


Diagram: Breakdown of Banks' Individual Clients

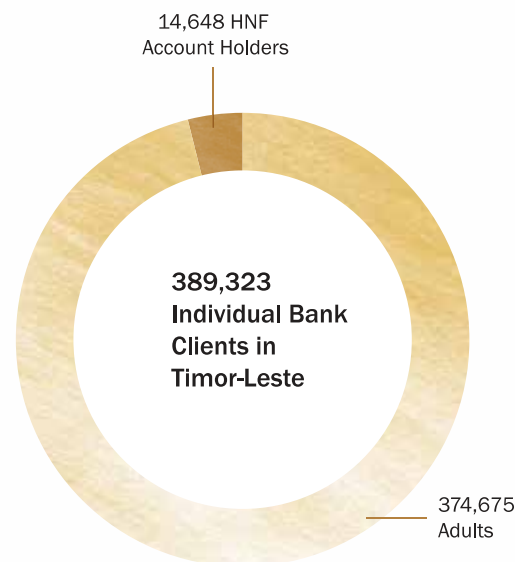


Diagram: Breakdown of Individual Type Bank Accounts

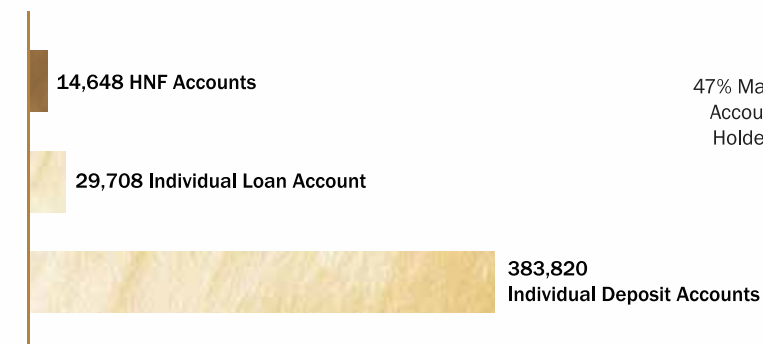
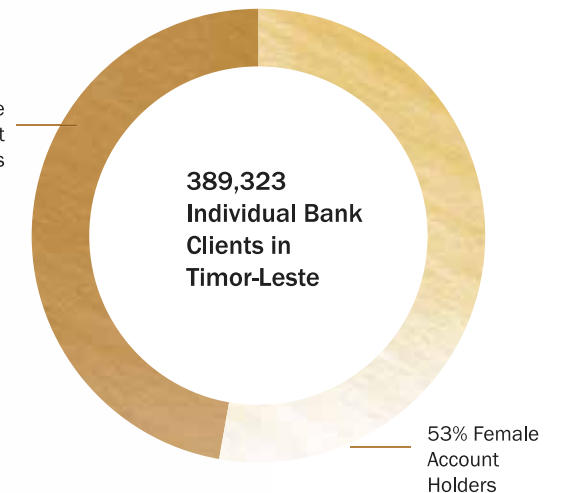


Diagram: Gender Distribution of Bank Account Holders



The breakdown of gender distribution of total individual bank account penetration, including HNF Accounts, shows that females have higher account ownership than males in Timor-Leste. There are 205,056 female clients who own 218,746 accounts, in contrast to 183,348 male clients who own 208,390 accounts.⁹ The ratio of female to male clients in the banking system differs from the population of Timor-Leste, where there are more men compared to women in the country.¹⁰

⁹There are 921 Individuals equivalent to 0.2% of total account holders which did not provide information on their gender. These 921 individuals have a take up of 1,042 accounts in the banking system.

¹⁰Source: Population Census 2015 reports that there are 582,531 females and 601,112 males of the 1,183,643 population in Timor-Leste.



Five Commercial Banks Operating in Timor-Leste



Banco Nacional de Comércio de Timor-Leste

The only national bank and main bank for Government payments to the people, including salaries and social transfers
Formerly a microfinance institution, it became a bank in 2011
Bank's client market share: 69%



Caixa Geral de Depósitos, Timor-Leste Branch (BNU)

Longest operating bank in the country, since 1912
Bank's client market share: 17%



PT. Bank Mandiri, Timor-Leste Branch

Started to operate in Timor-Leste in 2003
Bank's client market share: 10%



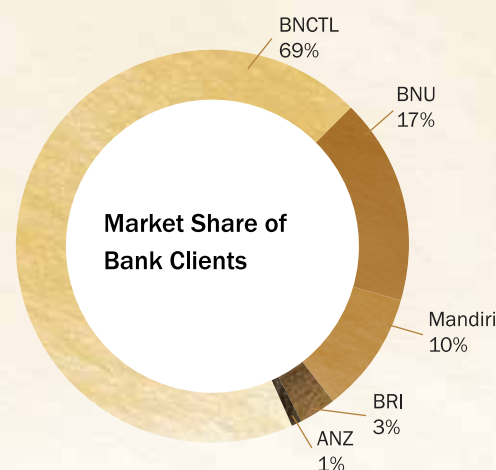
PT. Bank Rakyat Indonesia, Timor-Leste Branch

Started to operate in Timor-Leste in 2017
It is the bank with highest proportion of credit account to deposit accounts
Bank's client market share: 3%



Australia and New Zealand Bank, Timor-Leste Branch

Focused on corporate clients, in 2018 started the process to terminate the individual accounts
Bank's client market share: 1%



3.1.2

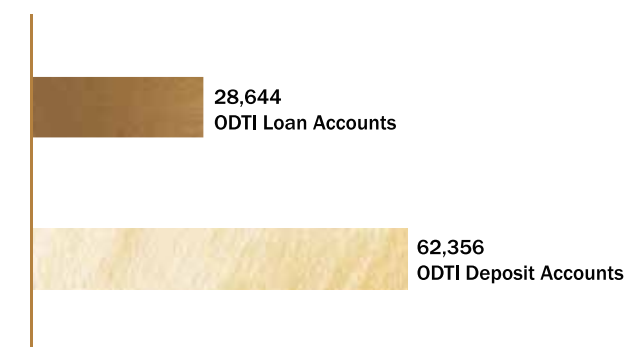
Usage of Financial Services Offered by ODTIs

Contrary to banking institutions, ODTIs have a wider network of access points in the country, covering 233 out of 452 sucos. However, ODTIs client base is very much lower than the banks. The data collected shows that ODTIs have a total of 38,560 clients across Timor-Leste.

The 38,560 ODTI clients currently own 91,000 accounts, denoting a high ratio of accounts to clients. The reason for this is due to the ODTIs' requirement for all clients using credit facilities to also maintain a collateral savings account which is classified as a deposit account. This justifies the high ratio of 1 to 2.36 of clients to accounts serviced by ODTIs.

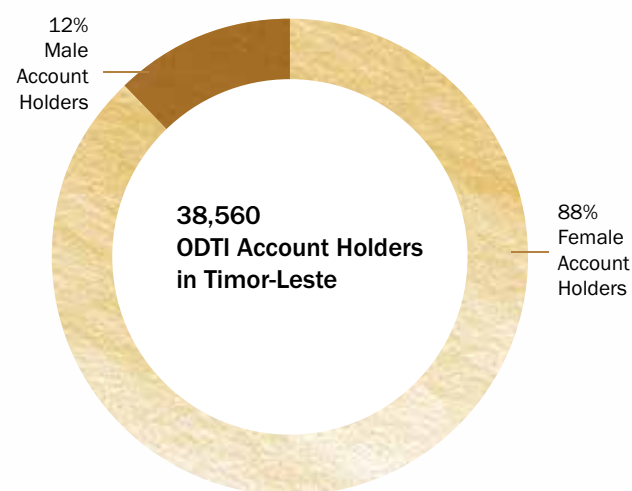
While ODTIs are strong in the area of microfinancing, the total accounts maintained by ODTIs include 62,356 deposit accounts and 28,644 credit accounts. The mandatory collateral savings account for all the clients with credit facilities, coupled with additional deposit by other clients have resulted in higher number of deposit accounts maintained with ODTIs. Although deposits take a higher share of accounts at 69%, these numbers are more evenly distributed compared the banks which are very heavily skewed towards deposit accounts.

Diagram: Breakdown of ODTI Account Types



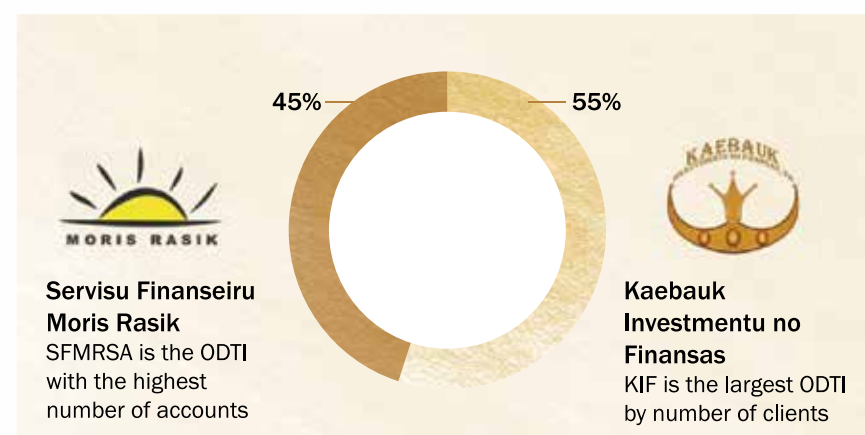
Another aspect where ODTIs differ from banks is the demographics of the client base. It was found that 88% of ODTI clients are female, and they take up 90% of the total accounts maintained with ODTIs. The male segment of ODTI clients only take up 9,506 accounts in total.

Diagram: Breakdown of ODTI Clients by Gender



ODTIs which are made up of MFIs which have been transformed under a more robust regulatory structure, have historically been successful in reaching the female population with its products and services.

Diagram: ODTIs Market Share by Number of Clients



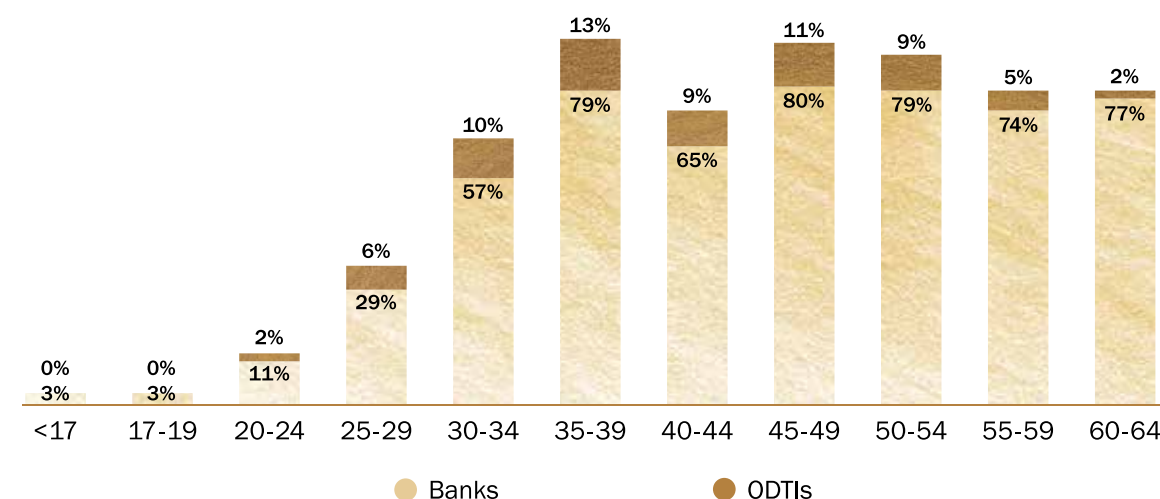
3.2

Account Ownership by Age Demographics

Delving into the penetration of financial accounts by age demographics, reveal that usage of financial services is higher for females as opposed to males for all age groups. This is true for both bank and ODTI clients. Overall, there are 205,056 female versus 183,348 male clients recorded in the banking sector, arriving at a total of 389,323 clients or 34% of the total population. The ODTI sector recorded 33,810 female and 4,750 male clients, reaching 3% of the total population.

In the banking sector, the data shows that the highest penetration of bank accounts are amongst clients aged above 65¹¹, as the citizens in this age group receive Government elderly social benefits paid through their bank accounts. The 45-49 age group come in second, with a bank penetration rate of 80% for that age group.

Diagram: Bank and ODTI Client Penetration by Age Groups



In summary, the usage of bank accounts is more prominent for adults and older age groups, demonstrating higher bank penetration rates compared to the youths. For instance, only 3% of Timorese between 17-19 years of age have bank accounts. Likewise, 11% between 20-24 years of age and 29% between 25-29 years of age have bank accounts. Timorese within all age categories of 30 and above show penetration rates of at least 50%.

The ODTI sector diverges from the banking sector in terms of age demographics of their clientele. While the banking sector displayed higher penetration rates amongst the adults and older age groups, the ODTI account penetration are highest for the 35-39 age group reaching 13% of Timorese within that age group. This is followed by the 45-49 age group which hit 11%. ODTIs products and services have very low take-up amongst those in the youngest bands and oldest bands of age groups in the country.

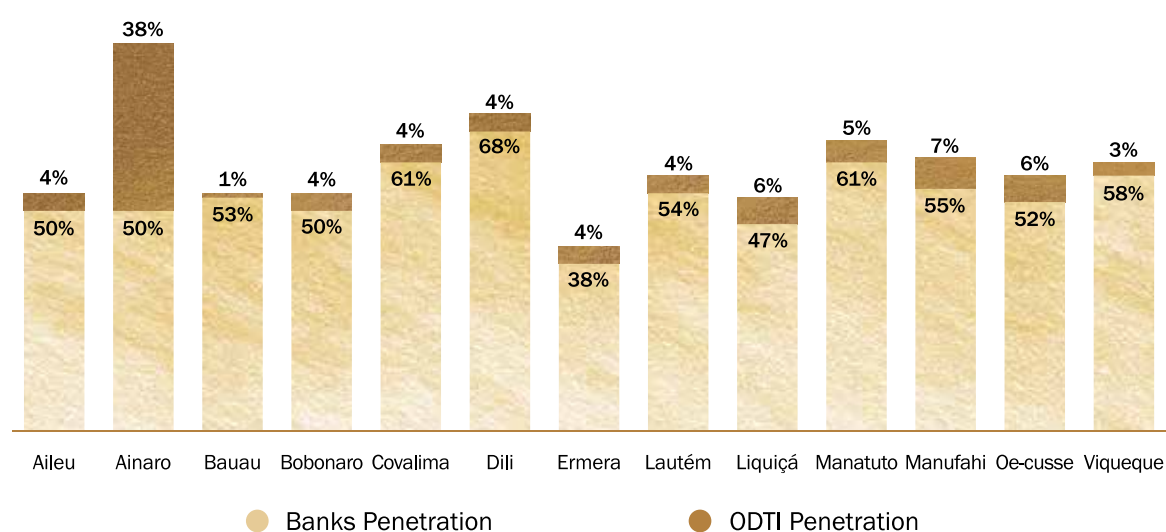
¹¹Elderly benefits are paid through bank accounts, increasing the bank account penetration of the age segment to around 100%

3.3

Account Ownership by Municipalities

Assessments on the usage of financial services must also include evaluations by location to determine areas where usage is still lacking. A few remarkable discoveries were unearthed from this analysis.

Diagram: Bank and ODTI Client Penetration by Municipalities



Firstly, the municipality with the highest account penetration is not the Municipality of Dili. In fact, it is the Municipality of Ainaro that hit 88% of account penetration for its adult population, the highest amongst all municipalities. The high penetration rate was supported by the high take up of ODTI products in the municipality, reaching 38%, suggesting that majority of Timor-Leste's ODTI clientele reside in this municipality.

The Municipality of Dili has the highest bank account penetration in country, reaching 68% of the adult population. In total, 123,287 adults in Dili accounting for 72% of Dili's adult population, hold at least a financial account with the banks or ODTI.

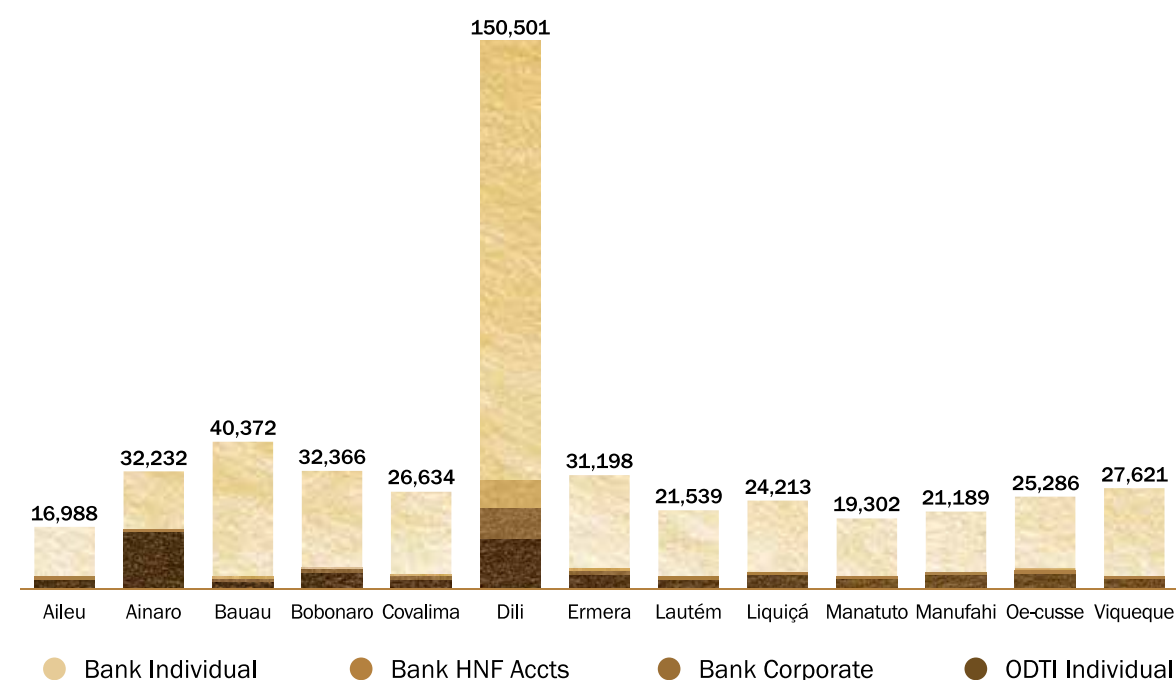
In terms of low usage, the data shows that the municipality which should be accorded attention is Ermera, with total account penetration only reaching 42%. The bank account penetration for this municipality stands at 38%. This municipality was one of the municipalities identified in the earlier chapter which had a high number of unserved sucos. These challenges have indeed impacted the take up of financial services by the residents in this municipality. It is also interesting to note that the Municipality of Baucau, which has the highest percentage of unserved sucos in the country, had a higher take up of financial services compared to Ermera with a total account penetration of 54%.

All other municipalities have a total account penetration of 50% and above, signifying that at least half the residents in each municipality own a form of account offered by banks or ODTIs.

The breakdown of account take-up across municipalities correlates to the account penetration rates. As projected, Dili showed the highest deposit account take up, largely contributed by bank account penetration and to a lesser degree the ODTIs account penetration.

The Municipality of Dili accounts for 32% of the market share of deposits in the country, while the other municipalities share range from 2% to 8%. In contrast, Dili's total population accounts for 23% of national population, while its adult population is 26% of the national adult population. This shows that deposit take up in the country is skewed towards this municipality.

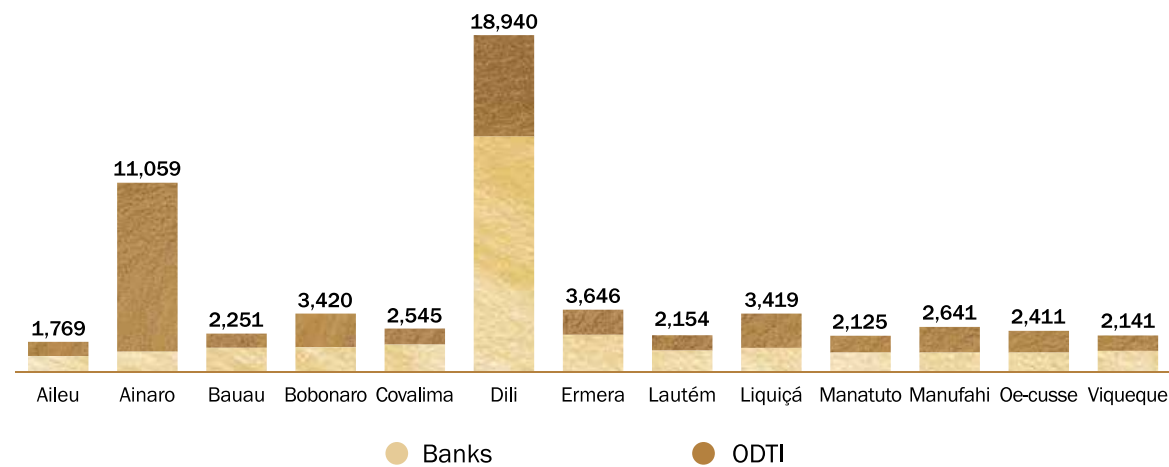
Diagram: Distribution of Deposit Accounts Across Municipalities



A majority of the municipalities exhibit higher take up for bank deposits in contrast to ODTI deposit accounts. This scenario only differs in the case of the Municipality of Ainaro, where the take up of bank deposit and ODTI deposits are more equitable. In Ainaro, bank deposits and ODTI deposits stand at 16,308 individual accounts to 15,200 individual accounts respectively. This finding is consistent with the earlier discussion regarding the strong presence of ODTIs in Ainaro where ODTIs require loan customers to maintain a mandatory collateral savings account.

From the credit standpoint, Dili also has the largest share of the total loan accounts in the country with 18,940 accounts or 32% of the market share. The Municipality of Anairo, which only accounts for 5% of Timor-Leste's population, follows close behind with 11,059 accounts arriving at 19% of the market share which is principally impacted by the ODTI loan accounts in that municipality. The remaining municipalities have much lower take up of loan accounts, with market shares ranging from 3% to 6% of total loan accounts.

Diagram: Distribution of Loan Accounts Across Municipalities



3.4

Usage of Other Financial Services

Playing a complementary role to the banks and ODTIs, the other financial services providers offer alternative or supplementary financial services for Timorese. For instance, Timorese currently also benefit from insurance products and services. Insurance products and services still have relatively low penetration in the country, with a total of 4,840 policies comprising of 2,136 individual policies and 2,704 group policies. The data shows that the main policies taken up by Timorese fall under the category of Accident, Health and Travel, which account for 3,658 policies or 76% of policy take up. There was a total of 113 claims reported in 2018, and 100% of the claims were paid out. Insurance companies are currently only operating in the administrative and economic capital of Dili as it is presently most feasible for the insurance companies. Nevertheless, forward looking policies will be put in place to explore the viability of expanding the take up of insurance services beyond the capital.

Credit unions in Timor-Leste on the other hand currently have 12,733 members, of which comprise of 6,222 female and 6,511 male members. As at end-2018, there are 43 credit union access points in 24 sucros across the country. Seeing that the scope of the services offered and clientele is quite narrow, the penetration of services for credit unions are still considered low, compared to larger institutions such as the banks and OTDIs.

Diagram: Total Take Up of Insurance Policies at End-2018

Full Year 2018 Data		Number of Policies		
Type of Insurance	Individual	Group	Total	
Accident, Health & Travel	1,813	1,845	3,658	
Construction	-	6	6	
Financial	1	-	1	
Liability	6	62	68	
Marine & Aviation	-	4	4	
Motor Vehicles	303	669	972	
Property	13	101	114	
Miscellaneous	-	17	17	
Total	2,136	2,704	4,840	

Diagram: Factsheet on E-wallet in Timor-Leste

Fact Sheet on E-wallet in Timor-Leste			
Telemor, one of the three telecommunication operators in Timor-Leste has been given a license to launch e-Wallet services			
	Number of Clients		
		Total	Female Male
	Total Clients at Dec / 2018	660	199 461
	Total Clients at Feb / 2019	2,088	725 1,363
Telemor Profile <ul style="list-style-type: none"> Brand name: Telemor Company name: Viettel Timor-Leste Unipessoal Lda Headquarters in Timor-Leste: Dili Established: 2012 Service launching: 2013 Main services: mobile, internet, fixed broadband License to launch e-wallet: August 2018 	Total Transactions (Q4 2018)		
		Total	Female Male
	Total Transactions	10,480	3,052 7,428
	Cash-in Transactions	464	168 296
Agents	Areas Served With Agents		
	Geographic Presence of Agents		Areas with e-wallet agents
	Municipalities		13
	Administrative Posts		42
No. of Registered Agents	Sucos		79
	178		

There was a surge in e-wallet agent access points in the recent years, with 178 registered agents under Telemor Fintech which was awarded a license in August 2018 to conduct a pilot for an e-wallet product. Under this product the transactions which clients can make include balance inquiry, mini statement, transfers, cash-in, cash-out and telephone air time purchase. Since its launch until December 2018, there were 660 registered clients in the system and at the time this report was written, the number of registered clients grew to 2,088 by end February 2019.

3.5

Key Takeaways

The observations on the ownership of financial accounts, backed with statistical evidence on its penetration levels, indicate the level of acceptance and usage of financial services by Timorese. This in turn, enables the identification of areas where further attention is required on both the demand and supply side.

On the demand side, it is vital to ensure Timorese have the awareness that usage of financial services can enhance their livelihoods by helping them to build savings, easing their cash flows in times of need, and aiding them to realise their goals. This data which uncovers the areas and segments with low usage is a pivotal component to inform the future design of targeted assistance, advisory and literacy programmes to promote the take up and usage of financial services.

At the same time, on-going studies on the supply side are important to understand whether the institutions are offering suitable products which can help Timorese build better financial health, and whether these institutions are able to reach areas and segments of society where usage of financial services is low. By identifying these opportunities for improvements, financial institutions can be further bolstered to encourage enhanced take up and usage of financial services and this ultimately supports the financial inclusion agenda.

