

# Financial Inclusion Quality Indicators

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In addition to access and usage, the quality dimension forms the third and final pillar in financial inclusion measurement frameworks. Assessing quality encompasses the efficiency and effectiveness in delivering financial products and services, taking into account whether they are able to meet the needs of society and the options which are available to customers. In the domain of financial inclusion, quality also entails clients' level of awareness and understanding of financial products and this is a priority so they learn to make better choices and use products responsibly.

Quality measurement has always been regarded as a daunting task for it is largely subjective, based on opinions and perceptions of customers. Nevertheless, in the recent years, many strides have been made to overcome this challenge, with the multilateral organisations and standard setting bodies coming to a consensus on all the key elements, components and best practices in designing and developing quality indicators.

## 4.1

### Key Considerations in Measuring Quality of Financial Services in Timor-Leste

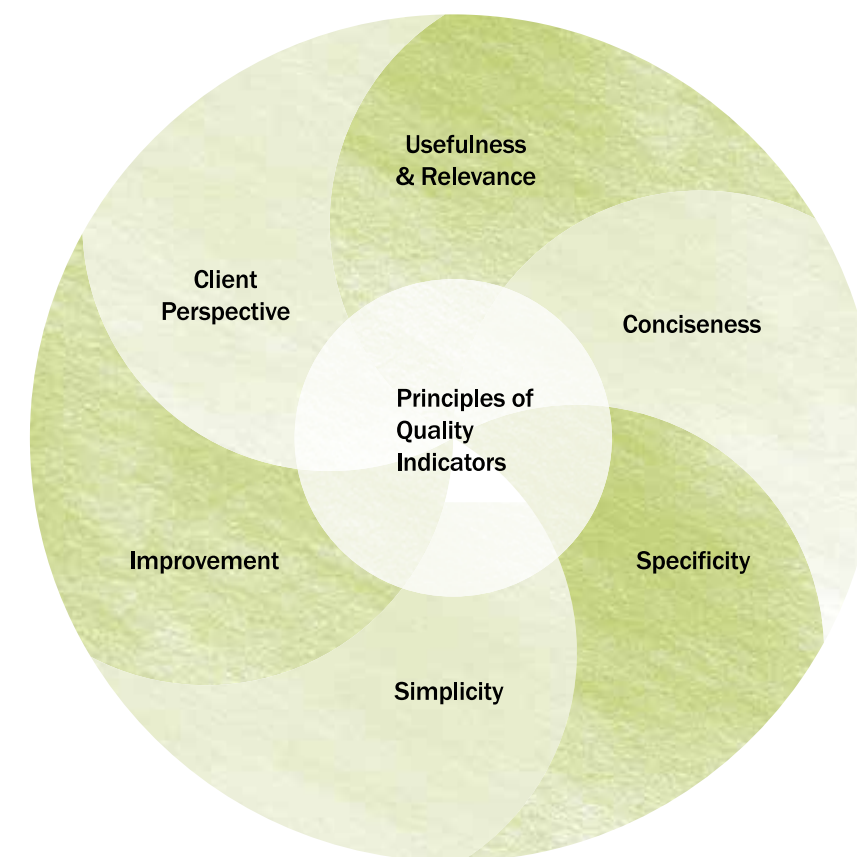
There are many circumstances which can impact and influence quality of financial services. This includes the cost of services, financial literacy, redress platforms and dispute management, transparency, security and trust in the financial system. Furthermore, what complicates the measurement of quality is the quantification of clients' views, judgement and feedback.

Therefore, in many countries, financial inclusion demand-side data surveys have been introduced to collect information about users of financial services and this data is ultimately used to aid in understanding whether their financial needs are met, whether they feel satisfied with the current financial services in the market and all the barriers they encounter in accessing financial services. It is vital that demand-side surveys be designed to encapsulate actual conditions and place importance in customers' experience. As a consequence, the demand-side data collected will be authentic and realistic, supported by specificity for further data analysis.

Timor-Leste has yet to launch a demand-side data survey and for this reason, it remains a challenge to measure quality of financial services in the country. There are on-going plans to collect demand-side data in the near future, where BCTL together with the Government, will join forces to embark on the first nationwide demand-side survey on financial inclusion. The demand-side survey will take into consideration the current best practices in designing quality indicators. According to the Alliance for Financial Inclusion (AFI)'s guideline note<sup>12</sup>, quality indicators should be based on six key principles:

<sup>12</sup> Indicators of the Quality Dimension of Financial Inclusion (AFI Guidance Note No. 22, August 2016).

Diagram: Six Principles in Designing Quality Indicators



- 1 Usefulness and relevance.** It is important to ensure indicators are beneficial and relevant to design domestic policies.
- 2 Conciseness.** A succinct set of indicators should cover all essential dimensions of quality.
- 3 Specificity.** Indicators should be directly correlated to financial inclusion.
- 4 Simplicity.** Simple indicators should be selected over similar, but more complex ones.
- 5 Improvement.** Indicators should be impartial, even if they may shed bad light on the country's situation.
- 6 Client Perspective.** Data should capture the real situation clients face without presumptions by regulators.

The guidance note also divides the indicators into eight categories.

- 1 Affordability** indicators measure how costly it is to open and maintain an account.
- 2 Transparency** indicators assess whether clients have received clear and sufficient information about financial services.
- 3 Convenience** indicators capture perspectives on the ease and comfort of accessing and using financial services.
- 4 Fair treatment** indicators focus on clients' perceptions of fair treatment at financial institutions.
- 5 Consumer protection** indicators delve into the laws and regulations designed to ensure the rights of consumers are protected.
- 6 Financial education** indicators explore level of knowledge on basic financial terms and the ability of users to plan and budget their income.
- 7 Indebtedness** indicators quantify how many borrowers have made a late debt payment within a certain period of time.
- 8 Choice** indicators examine the range of options available for clients in using financial services.

These principles and categories of indicators are also consistent with the endorsed basic set of financial inclusion data by the G20's Global Partnership for Financial Inclusion (GPFI) which encompasses financial knowledge, financial behaviour, disclosure requirements, cost of usage, and credit barriers.

## 4.2

### Financial Inclusion Quality Indicators

In this chapter, BCTL analysed the quality dimension based on supply-side information due to the lack of demand-side information as Timor-Leste has yet to collect demand-side data. The data was studied and evaluated to gauge whether clients face incessant barriers to access and utilise financial inclusion productively and effectively to meet the range of their financial needs.

### 4.2.1

#### Affordability Indicators

In order for all segments of society to be able to obtain and use financial services, it has to be reasonably priced and affordable. If financial services are costly, it automatically excludes the poor communities from using financial services because it is simply too expensive for these vulnerable segments of society.

**Diagram: Monthly Cost of Maintaining a Deposit Account in Timor-Leste**

Details	Banks				
	BNCTL	BNU	BRI	Mandiri	ANZ
Type of Account	Savings	Access Account	Savings	Savings	
Bank Share of Accounts (%)	70%	17%	3%	10%	No Retail Accounts
Maintenance Fee (USD)	0.50	2.92	0.30	0.75	
Debit Card (USD)	0.42	0.35	0.25	0.21	
4 ATM Transactions (USD)	-	1.00	-	-	
Total Monthly Cost (USD)	0.92	4.27	0.55	0.96	

Evaluation of supply-side information from banks found that there are costs involved in maintaining a savings account at banks in the country. The monthly commitment to maintain an account can be rather costly, with charges ranging from maintenance, debit card issuance and usage as well as ATM transactions. Out of all five banks, BNU's rates are the highest, charging USD4.27 for all services. BNCTL, BRI and Mandiri do not charge for ATM withdrawals, and they are able to maintain the monthly rates to below USD1.00 per month for clients to maintain their account. Currently, BRI has the lowest charges with USD0.55 per month. This brings the average monthly costs for using deposit accounts in the country to USD1.49, comparative to the national minimum wage of USD115.00 per month, it represents 1.30%.

A large segment of Timor-Leste's population lives below the national poverty line<sup>13</sup>. High monthly charges for the usage of bank accounts may be deemed too expensive for these groups of society, especially since most of the poor have no consistent earnings and many are subsistence farmers. Consequently, most of the poor and vulnerable groups of society will have no choice but to forgo using financial services due to the shortage of disposable income. This situation ultimately leads to the lack of quality in terms of affordability of financial services to advance financial inclusion.

## 4.2.2

### Transparency Indicators

The transparency dimension outlines the need for clear, simple and sufficient information to enable customers to understand and be aware of the contractual obligations involved in taking up financial services. Without straightforward information that is easily grasped by the people on the ground, they may not comprehend the commitment required to use financial services responsibly. BCTL's analysis on bank documents uncovered the reality that certain documents are lengthy and difficult to understand. This includes price lists which are too complex for the layman, for example the price list from one bank has 29 pages.

In addition to lengthy and complicated documents, banks in Timor-Leste are also unable to deliver monthly or annual statements to clients as there is no postal office delivery service available in the country. To overcome this, some banks may provide the option of sending statements by email and this is only if it is requested by clients. Furthermore, the banks may charge a fee for this service. Hence, clients need to retrieve statements at the bank branches as internet banking is not widely available. In this situation, clients may not even be aware of the monthly charges being charged to their account or the interest payments for their loan accounts.

It is evident that there are still various challenges concerning transparency of financial services in the country. Hence it is important to consider evaluating factors such as the use of plain language, translations into local dialect and standardization of disclosure formats which distinctly states the processes, rights and obligation of customers in monitoring transparency.

<sup>13</sup>41.8% of the population live below the poverty line according to the Timor-Leste Survey of Living Standards 2014.

## 4.2.3

### Convenience Indicators

One of the basic factors which contribute to high customer satisfaction is the ease of using financial services. Members of society should not be subjected to various obstacles to be able to assess and utilise financial services. A clear example is in terms of distance. Financial services should be convenient to reach, where segments of society should not have to travel long distances and incur high travelling costs to reach financial services access points.

The mapping of the bank and ODTI branch network has made it possible to study the percentage of the population with ease and convenience to access financial services.

### Diagram: Population Residing Within Bank Coverage Areas

Bank Branch Coverage Areas					
Radius	Area (km sq.)	% of Total Land Area	Households	Estimated Population	% of Population
5 km	1,081	7%	36,206	209,460	18%
10 km	3,670	25%	62,085	359,177	30%
25 km	12,101	81%	173,740	1,005,128	85%

The data shows that only 18% of the population reside within 5km of a bank branch, indicating that 82% of the population need to travel more than 5km to the nearest bank branch. In comparison, 30% of the population live within 10km of a bank branch, while 85% of the population live within 25km of a bank branch. This means that for the 15% of the population who live the furthest from a bank branch would find it most inconvenient and costly to travel to a bank, often demotivating them from using banking services.



**Diagram: Population Residing Within ODTI Coverage Areas**

ODTI Branch Coverage Areas					
Radius	Area (km sq.)	% of Total Land Area	Households	Estimated Population	% of Population
5 km	1,630	11%	74,928	433,477	37%
10 km	5,357	36%	114,852	664,447	56%
25 km	13,579	91%	180,349	1,043,362	88%

As for the ODTIs, 37% of the population live within 5km, 56% live within 10km and 88% live within 25km of the branch network. The data offers concrete evidence that there are still segments of the population in Timor-Leste, living in rural and remote areas which would find it highly inconvenient to get to a bank or ODTI branch. This affects the level of satisfaction of Timorese in using financial services, and thus impacts the quality of financial inclusion.

Aside from using distance and travelling time to reach access points as a measurement for convenience, other factors which can be used as input to this indicator include client feedback on time spent waiting in line at financial institutions and the level of ease they experience in the process of obtaining financial services.

## 4.2.4

### Fair Treatment Indicators

Fair treatment of consumers is defined by the honest, objective and unbiased actions of financial institutions in handling and managing with their clients. The desired goal of this concept is for clients to feel comfortable and confident in dealing with financial institutions before, during and after clients take up the financial services. Financial institutions have an obligation to ensure there are no acts of prejudice towards clients or unreasonable barriers put in place which hinders financial inclusion. Therefore, customers' feedback on whether they have been unfairly treated by financial institutions will be helpful to identify the strengths and weaknesses in fair treatment practices in Timor-Leste.

## 4.2.5

### Consumer Protection Indicators

The area of consumer protection examines the breadth and depth of the laws and regulations which are implemented to safeguard customers and prevent financial institutions from gaining an unfair advantage over consumers. The elements of a well-designed, dynamic and robust consumer protection framework include ensuring fair trade and accurate information in the marketplace, without deceptive exploitation against customers. Consumer protection indicators can be measured by applying the analysis on the complaints or feedback from customers when contacting a consumer protection authority, taking into account the results of dispute resolution. Another feature which may be used as an input to measure consumer protection is to examine the deposit insurance in place to protect customer from adverse events in the financial sector.

## 4.2.6

### Financial Education Indicators

The role of financial education is to expand financial literacy levels so that all segments of society are equipped with the ability to make sound financial decisions in their daily lives. Financial literacy prepares an individual with the awareness, knowledge and skills to use financial services responsibly and improve their financial health. The measurement of indicators in this area would take into account the level of awareness on financial terms, products and services by customers, as well as their ability to apply simple skills, such as budgeting and saving for an emergency.

## 4.2.7

### Indebtedness Indicators

Indebtedness is another major concern affecting the quality of financial inclusion. While promoting the use of financial services, responsible usage of financial services remains the upmost priority as undesirable situations such as accumulating too much debt can be damaging to society's financial health. The levels of indebtedness can be examined using demand-side information such as the percentage of customers making late payments for their loan accounts and the percentage of customers only paying the minimum of their loan obligations.

As a proxy, consolidated data from the supply-side on late payments for December 2018 shows that 94.4% of loans are paid on time, while the remaining 5.6% are paid after the due date or not paid at all. The percentage is based on the total value of the loans from commercial banks and one ODTI. The other ODTI is currently in the process of automating the data submission.



Diagram: Details on Non-Performing Loans in 2018

Payment Delays	Classification	% of Loans
1 to 30 days overdue	Under Supervision	0.2%
31 to 90 days overdue	Sub-standard	0.5%
91 to 180 days overdue	Doubtful	0.6%
More than 180 days overdue	Loss	4.3%



4.2.8

Choice Indicators

The quality dimension of financial inclusion is further enriched by having a range of choices for customers in taking up financial services. Having a choice gives customers higher levels of satisfaction because they are able to compare and choose financial service providers and products which meet their needs better. Being presented with choices also empowers customers to make decisions for themselves, allowing them to take accountability for their selection. Hence, it would be suitable to assess customer feedback on the range of financial service providers and services available to them in each administrative unit to gauge whether they feel they are offered with the sufficient options for an enhanced user experience of financial services.

4.3

Key Takeaways

Quality indicators are important because it is a measure of excellence and merit for financial inclusion. For the financial system to achieve real financial inclusion, having access to and take-up financial services is insufficient. The quality aspect gives validity to advancements in financial inclusion as it reflects the fulfilment of society’s financial welfare and satisfaction. Society is the heart of financial inclusion goals, which aims are to ensure that all members of society benefit from accessing and using financial services to improve their standards of living.

Currently, the monitoring and evaluation on the levels of financial inclusion has been relying solely on supply-side data. Recognizing the importance of measuring quality indicators for the progress of financial inclusion, BCTL together with the Government commits to embark on a demand-side data collection project as a short-term goal. The aim of this demand-side survey is to obtain genuine, transparent and representative data to enrich Timor-Leste’s financial inclusion measurement framework with quality indicators. The attainment of this unadulterated data will enable regulators to obtain real feedback from the ground to not only monitor progress related to quality, but also deepen the existing understanding of society’s predicaments and translate this to strengthened policymaking which will make a real difference to the people on the ground.