

Financial Inclusion Developments

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Following the publication of the Financial Inclusion Report 2016 other initiatives have been taken to promote financial inclusion. This chapter describes the main initiatives focused on the promotion of financial inclusion, the development of the National Strategy for Financial Inclusion (NSFI) 2017-2022, the pilot of e-wallet services, the implementation of the Credit Guarantee Scheme and the continued effort to modernize the National Payments Systems.

5.1

National Strategy for Financial Inclusion

BCTL has remained committed to bring the financial inclusion agenda forward and in order to do so, BCTL decided to develop the National Strategy for Financial Inclusion (NSFI). The NSFI was designed in consultation with partners and key stakeholders from the Government, private sector, development partners and civil society groups.

The NSFI outlines the roadmap of action plans to be achieved over the period of 2017 to 2022, in order to build a stronger, more innovative and inclusive financial sector for Timor-Leste. The strategy is centred on the importance of clearly defined action plans as an effective and efficient way to bring real, quantifiable changes and improvements in financial inclusion for the country.

The action plans were defined based on evidence on the ground and include targets and objectives, planning and coordination, strategy implementation, as well as monitoring and evaluation processes. The action plans cover the following topics: development of access to financial services, financial products, product pricing, capacity building, institutional arrangements, financial literacy, and consumer protection.

The implementation status of the NSFI actions plans are summarized in the table below. In 2017 and 2018 BCTL focused on implementing the National Card and Mobile Switch, and the approval of the Loan Guarantee Scheme. The developments of other action plans are however, behind the targeted timeframe.

Timeframe	Action Plan	Status
Broad Strategy 1: Enhance Access Points & Payments Systems		
2017	Implement the National Switch platform: all bank connected	●
2018	Establish “light touch agent regulation” for bank and insurance agents	●
	Leverage on the usage of mobile vans to widen outreach to underserved areas	●
	Expand the roles of FI's meeting centres	●
Broad Strategy 2: Specialised & Affordable Financial Services		
2018	Undertake efforts to understand market needs through surveys or leveraging on the national census	●
	Improve pricing strategy to enhance affordability of financial services	●
	Collaborate with interested banks to launch product for the underserved	●
	Focus on developing micro-savings products	●
Broad Strategy 3: Capacity Building & Supportive Infrastructure		
2018	Adopt appropriate and supportive regulatory framework to set up the Credit Guarantee Scheme to boost the MSMEs access to finance	●
	Establish a National MSME council	●
Broad Strategy 4: Financial Literacy & Consumer Protection		
2017-2020	Continue to prioritize the National Strategy for Financial Literacy (NSFL)	●
	Introduce targeted financial education programmes for all sections of society supplemented by road shows, knowledge sharing sessions and visits to money museums	●
2018	Financial services providers to provide training and advisory to customers on their products and services	●
	Continue to enhance regulatory frameworks for consumer protection, by building on the Customer Protection Law	●
2018-2020	Enrich financial education material to include diversified financial product and services	●
	Offer existing financial clients access to customized financial education programmes	●

Implementation Status:

● Postponed

● Partially Completed

● Completed and On-going activities

5.2

The Modernization of Payments Systems

The national payments systems form the foundation for financial payments settlements and this is essential for the delivery of financial services.

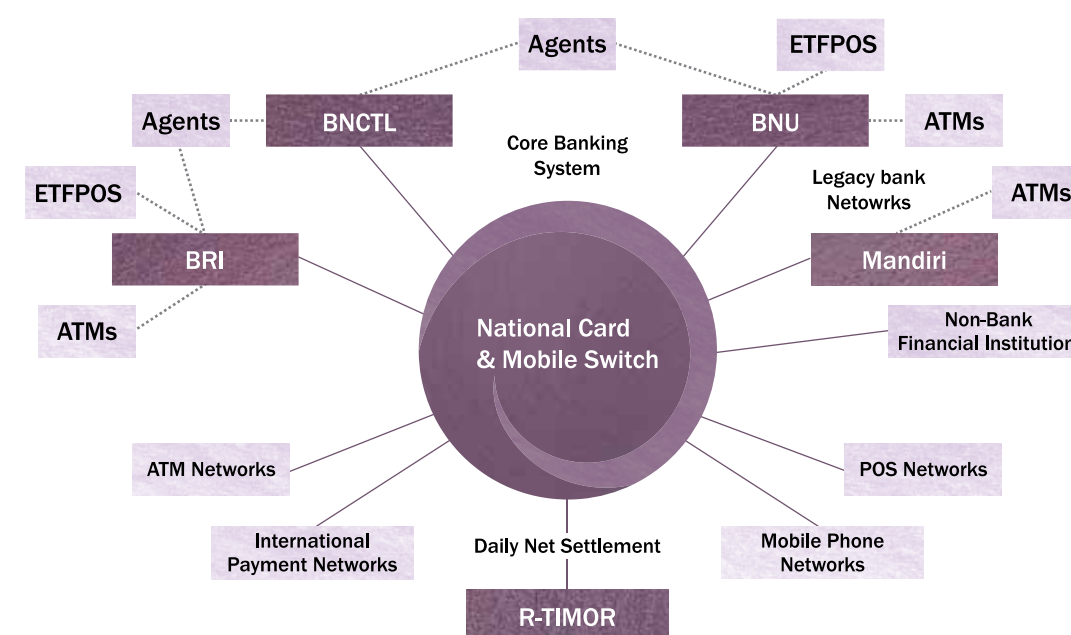
Traditional forms of payments, based on cash, have proven to be inefficient and costly for people living outside of urban areas, as most payments must to be performed using the limited network of cash-in and cash-out access points. Additionally, the costs related to the provision of currency notes are substantial for countries using United States dollars (USD), such as our country.

In order to facilitate the development of electronic forms of payments and enhance the efficiency and safety of interbank transactions, BCTL embarked on the modernization of the national payments systems. In April 2015, BCTL implemented R-TIMOR, which encompasses a Real Time Gross Settlement system for large and urgent interbank transactions, and an Automated Clearing House for less urgent payments where settlements are performed twice a day. The participants of the R-TIMOR are the commercial banks, the Ministry of Finance and BCTL.

The Ministry of Finance has been connected to R-TIMOR since February 2018. The connection enables the Ministry of Finance to perform bulk payments from the Government to people (G2P) or to service providers (G2B) directly through the system, reducing the time required for banks to process the transactions.

The National Card and Mobile Switch platform allows other financial services providers to be connected to the R-TIMOR to access interbank settlement services. The National Card and Mobile Switch integrates a diverse number of players and systems, such as the banks and their core systems, ATMs and ETFPOS devices, telecommunication providers, as well as banking agents. The ability to support diverse systems incentivised the development and promotion of alternative financial services channels, such as e-wallet.

Diagram: R-TIMOR System



In December 2018, the P24¹⁴ project was launched as part of the National Card and Mobile Switch implementation. P24 will connect all banks' ATMs and ETFPOS networks, allowing bank cards to perform transaction at any ATM or POS regardless of the bank which issued the card. Currently the ATM network of two commercial banks, BNU and Bank Mandiri, have already been integrated onto this platform, while the other two commercial banks serving the retail sector will complete the process in the next months. The integration of the ETFPOS network is planned for the first half of 2019.

5.2.1

Next Steps for the Advancements of Payments Systems

The National Card and Mobile Switch will also integrate telecommunication operators offering e-wallet services, which facilitate the day-to-day financial transactions. This will enhance the ease of making payments, enabling individuals and businesses to choose the channels to perform payments, either at branches, ATMs, ETFPOS or e-wallet agents, at their convenience.

After the integration of the financial services providers at the national level, the National Card and Mobile Switch will begin the process for regional integration, connecting to payments systems from other South East Asian countries to facilitate regional financial settlements. The connection to other countries is based on individual negotiations with the payments systems authority from each country.

¹⁴P24 stands for payments available 24 hours a day.

5.3

Piloting E-wallet Services

Digital wallet or e-wallet is a digital way of storing electronic funds to perform financial transactions. E-wallet has great potential to facilitate financial inclusion as it is able to reach wide segments of the population, including unserved clients, with simple mechanisms which are easy to understand and low transaction costs due to the light distribution infrastructure.

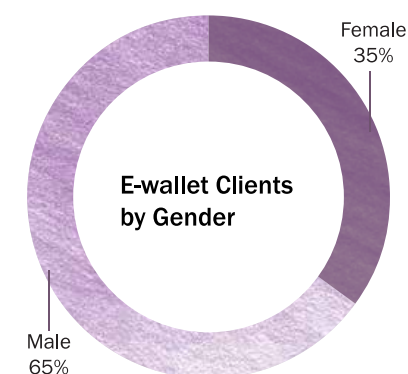
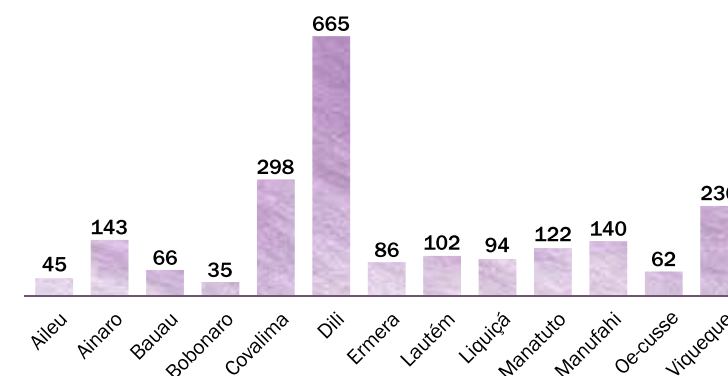
BNU launched the first e-wallet services in Timor-Leste in March 2015. However the project faced a number of barriers which has deterred its expansion and progress. One of the main issues was related to the lack of proper registration of telecommunication clients as the client information available does not meet the Know Your Customer (KYC) requirements.

In August 2018, Telemor Fintech, a company owned by a telecommunication operator, was granted a license to conduct a pilot for e-wallet services. Telemor Fintech's e-wallet services offer national cash-transfers at lower cost to registered clients. In addition to cash transfers, clients can purchase mobile credit or air-time, perform cash-in and cash-out transactions, and in the future, pay utility bills. Telemor Fintech is currently developing an application for smartphones to facilitate the e-wallet usage.

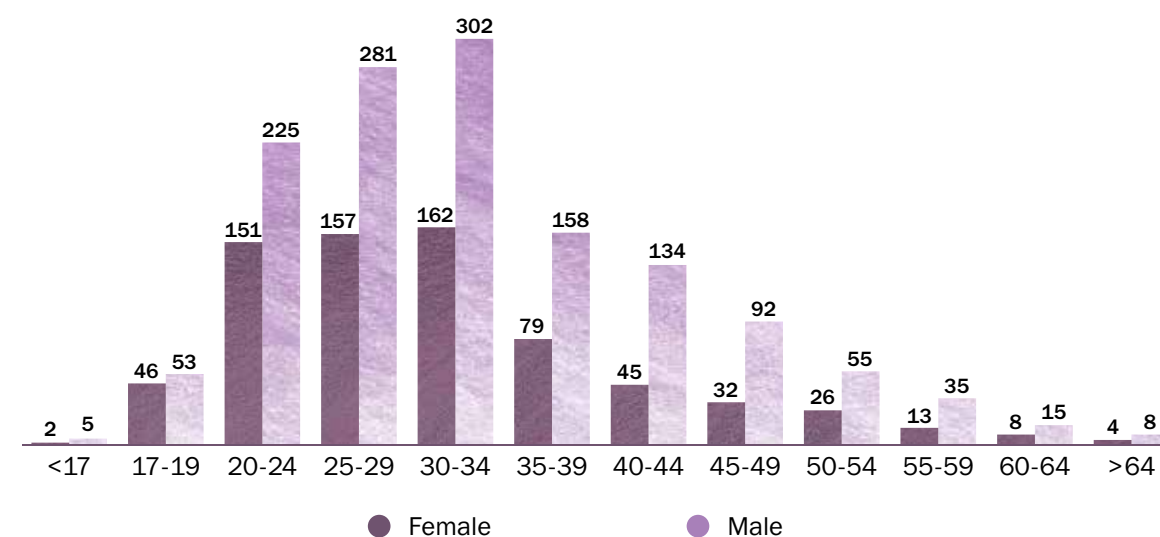
Telemor Fintech requires clients interested in accessing the e-wallet services to undergo a complete registration process, complying with KYC regulation. Telemor Fintech targets clients which are unbanked, and those living in remote, rural areas not served by commercial bank branches. Currently only Telemor telecommunications' clients can register to use the e-wallet service.

BCTL has adopted a regulatory sandbox approach to innovative financial services in Timor-Leste, which is key to develop the fintech sector. The sandbox regulatory approach refers to the mechanism for developing regulation or adapting compliance with strict financial regulations, while new technology is being tested in a closed and monitored environment. This allows the regulation to keep up with the fast pace of technology and innovation, without forgoing customer protection.

The following diagrams show the distribution of the 2,088 clients registered for e-wallet services, since the service was launched. The gender perspective on the uptake of the service shows that male clients are more predominant, representing 65% of users, while female users represent 35% of total users. However it is premature to draw specific conclusions whether it skews towards a particular gender as the service has been available for only 6 months. The geographic distribution is promising, even though the clients are concentrated in Dili (32%), there are clients from all municipalities already using the service.

Diagram: E-wallet Clients by Gender**Diagram: E-wallet Clients by Municipality**

Among the registered clients, there is a higher concentration amongst younger clients between 17 to 35 years of age. This is the exact age segment with lower bank account penetration. The reason for the higher take up by this age group can be attributed to the e-wallet promotion campaigns which were focused on university students. The propensity for younger generations to adopt new technology can also be a determinant for the higher take up, but this theory requires further examination.

Diagram: E-wallet Clients by Age Group

Telemor Fintech also started to develop its own e-wallet agent network which spans across the country. The agents perform cash-in and cash-out transaction, client registration, and give overall support to clients. According to Telemor Fintech, the agent network will have presence in every suco by the end of 2019. The map below shows the distribution of the current 178 e-wallet agents.



As part of the e-wallet promotion campaign, Telemor Fintech has produced a video explaining the service and how to perform the transactions, conducted fairs at main universities sites, participated in local events, and offered an 8% discount for purchases of Telemor credit or air-time when it is paid through its e-wallet service.

The performance of the e-wallet channel in its first six months shows promising results. This financial service shows immense potential to reach younger users which is the segment with the lowest financial account penetration. Furthermore, this preliminary result also denotes the impending prospect to increase the presence of agents to cover all sucos. This will be a ground-breaking opportunity to make financial services available to the whole population, including the segments living in rural and remote areas.

5.4

Enhancing Access to Credit for Small and Medium Enterprises (SMEs)

The SME sector is considered essential to boost economic development, as this sector is responsible for the highest share of job creation and it contributes significantly to Gross Domestic Product (GDP) in most countries. A critical aspect to promote SME development is the access to credit. This is vital for SMEs to have the means to start operations, to manage daily cash flows, to cope with unforeseeable events, and to expand. According to the World Bank¹⁵, Timor-Leste ranks poorly in the set of indicators related to “getting credit”, as revealed in the 2019 Doing Business Report where Timor-Leste scored 20 out of 100 points, and was placed 172 out of 190 economies evaluated.

Commercial banks operating in Timor-Leste are very conservative in evaluating business credit, resulting in a minimal proportion of the business with offered credit lines from banks. The main reasons behind the banks' conservative behaviour towards providing financing for businesses are the drawbacks of the regulatory environment which is curtailed by the absence of credit bureaus, insolvency laws and movable asset registries. Moreover, SMEs often operate in an informal way, with a lack of financial control and financial reports to support their loan application.

BCTL started to evaluate the feasibility and models for a Government sponsored credit guarantee mechanism in 2013. Based on the analysis conducted, BCTL proposed to the Government to establish the Credit Guarantee Scheme (CGS) to facilitate SME access to credit, while also strengthening the relationship between the business community and the commercial banks. The final design of the CGS, including the conditions and criteria to access the guarantee, has been approved by the Government and is currently in the implementation phase.

¹⁵World Bank. 2019. Doing Business Report 2019: Training for Reform.

5.5

Key Takeaways

The development of the NSFI brought key stakeholders together to discuss and coordinate financial inclusion efforts, defining a clear path towards the achievement of the country's financial inclusion goals. Open and clear communication channels between key stakeholders must be nurtured to facilitate the implementation of action plans and partnerships for a more collaborative approach towards the financial inclusion objectives.

A wide range of initiatives have been developed to incentivise the access and usage of financial services to meet the needs of Timorese. The complete implementation of P24 will bring greater convenience to financial services users, while increasing transparency and security of the national payments systems. The e-wallet services have indicated potential to widen outreach of financial services among the younger segment of the population, a segment which banks have not been able to serve fully. The acceptance of the e-wallet channel among the rural population is yet to be tested, and this aspect will be addressed in the near future. The CGS functions to facilitate access to loans for businesses with inadequate collateral while the regulatory environment is further developed to enhance the banks' risk appetite to provide lending products. BCTL will be focused on monitoring, evaluating and fine-tuning these initiatives to ensure they achieve their intended goals for financial inclusion.

