What is Financial Inclusion?

Financial inclusion refers to the availability of quality and affordable financial services to all segments of society, particularly low-income individuals, those without property or other collateralizable assets, and those in remote areas. The level of financial inclusion in the Maldives has been steadily increasing, with growth of inclusion especially rapid over the past 10 years. Bank branches are present in every atoll, more and more islands now have ATMs, and cash agents are present in every island. The nation-wide telecommunications network has made internet banking accessible throughout the country, and has enabled the wide usage of mobile phones; as a result of which mobile banking and mobile payment products are becoming more prevalent.

Access to financial services allows individuals to smooth consumption, build household wealth, and manage risk. Availability of credit allows sole proprietorships and small businesses to invest and grow, which creates jobs and boosts the local economy, as well as empowers individuals and reduces inequality.
Challenges to Promoting Financial Inclusion in the Maldives

Geographically Dispersed Population

The population of the Maldives is scattered across 188 islands which are geographically dispersed across 20 atolls. Many of these islands have very small resident populations, with about 25% of all islands having less than 500 people residing on a permanent basis. This makes it physically challenging and expensive to provide financial services to everyone. For example, the high cost of installing and maintaining ATMs means that this would not be a feasible service to provide on scarcely populated islands.

Low Participation in the Financial Sector

The level of participation in the financial sector is low in the outer atolls, particularly among those working in the primary sector industries of fisheries and agriculture and those operating sole proprietorships or small and medium-sized enterprises (SMEs).

Participation in the financial system is low in these industries
While most adults in the Maldives have bank accounts, cash remains the dominant means of carrying out transactions and usage of bank accounts remain low. For example, while social welfare payouts require bank accounts, these accounts are often used as a delivery mechanism: with the equivalent cash amounts soon withdrawn and used in transactions. This means that a lot of services provided by the financial sector and their associated benefits, from consumption smoothing and wealth building through savings products to the convenience of credit cards, are foregone by much of the population.

There are several factors discouraging this participation. The lack of geographical access to banking services means that cash transactions are more convenient and less time-consuming, while the high cost of services, such as the expense of procuring point-of-sale terminals and the fees charged for their use, means that cash usage is often preferred. Since many locals are excluded from access to borrowing due to high requirements for minimum income and collateral, the incentives of participating in the formal financial system in order to be able to access lines of credit is also removed.

In addition to this, a high reliance on cash can have its own problems. In addition to holding cash being less secure than a bank account and transactions being more inconvenient, cash regularly leaves smaller islands as their inhabitants often spend in larger islands. This net outflow requires regular physical transportation of cash to smaller islands, which is inefficient and expensive.
Access to Credit is Expensive

Access to most lines of credit is limited to those with an above-average income, and often requires collateral and equity contribution by the borrower. This, along with high costs of borrowing, denies access to credit for much of the population, disproportionately so in the atolls. As credit is a source of capital to invest in and grow small businesses and other means of livelihood, which then drives local economic development, this can exacerbate the already high degree of inequality between the Greater Male’ area and the rest of the country.

Access to credit is limited and expensive in the atolls

Improved credit history is a key factor in broader access to credit

The Credit Information Bureau established by the MMA compiles and provides information on the credit history of borrowers with financial institutions. Being able to measure the repayment history of borrowers allows lenders to price risk, and to be able to provide easier or less expensive loans to lower-risk individuals.
Inadequate Level of Financial Literacy

Financial literacy and familiarity with financial services and products is low in the Maldives, especially in rural areas and among older individuals. This results in low uptake and usage of financial services.

Financial Inclusion in the Maldives

Financial inclusion is usually measured with respect to three key dimensions. These are access to financial services and products, their usage, and penetration among the population.

Access

This refers to the ability of people to access banking services without much time, effort, or inconvenience. The access dimension uses indicators such as the number of bank branches and ATMs to gauge the ease of access to financial services. Bank branches offer the full range of financial services offered by commercial banks, while ATMs offer a more limited range of services such as withdrawals, deposits, and bill payments. In the Maldives, cash agents, who are now present on all inhabited islands without a bank presence, allow consumers to make small withdrawals of under MVR2000 from their account. These agents allow financial services, however limited, to be accessible by all members of society.
The main barrier to accessing financial services in the Maldives, unlike in most other countries, is not physical distance but the difficulty of travel between small, dispersed islands. As such, the population living on islands with a bank branch, ATM, or cash provides a better indicator to measure access to financial services for the case of the Maldives.

Recent technological developments, such as mobile and internet banking, allow people to access a range of financial services without needing to go to bank branches or ATMs. This reduces barriers to accessing financial services, especially on remotely located islands with no physical banking establishments.

**TOTAL NUMBER OF BANK BRANCHES**
45

**TOTAL NUMBER OF ATMs**
96

**TOTAL NUMBER OF AGENT BANKS**
200

**INTERNET BANKING MOBILE BANKING**

*Cash agents are present in all inhabited islands without a bank branch or ATM*

Total number of mobile banking app downloads
75,000+

Universal coverage of internet access/3G data in all Maldivian islands through which to access mobile banking or mobile money apps
The nation-wide telecommunications network has made internet banking and mobile payments applications accessible throughout the country.

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<th>Access to Bank Branches</th>
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<td>% of population with access</td>
<td>63%</td>
<td>67%</td>
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<td>Total population</td>
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<td>% of population with access</td>
<td>37%</td>
<td>43%</td>
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Penetration measures the extent to which the population is captured within the formal financial system. Having a bank account is necessary to access even the most basic of financial services. This is the first step to securely save, deposit and withdraw money on demand, and in turn utilize the broader range of financial services that are on offer.

The number of bank accounts (across all commercial banks) per adult population is over 100%. While this reflects a high rate of penetration, it does not give a complete picture of the proportion of adults within the banking system, as this value includes multiple accounts within a bank, accounts with multiple banks, and corporate accounts.

As a proxy, we can look at the number of Maldivian individuals with a deposit account at the Bank of Maldives (BML), the country’s largest bank with the most widespread presence. While this won’t capture adults who only maintain accounts outside BML, it excludes depositors with multiple accounts within BML and avoids double-counting those with accounts in other banks in addition to BML. By this measure, the percentage of adults with deposit accounts with BML alone is about 82%.

- Number of bank accounts per 100,000 adults in 2016: 226,137
- There was a 16% growth in bank accounts per 100,000 adults from 2015 to 2016.
Usage

Full financial access means people being able to use and making use of financial services available to them. Compared to the usage of deposit facilities, the usage of credit facilities is low, due to availability of credit being limited by factors such as income, assets owned, and formal documentation.

There was a steady growth of approximately 4% in depositors per 1000 adults from 2015 to 2016 and a 1% growth in insurance policy holders per 1000 adults. Borrowers per 1000 adults grew by 16% from 2015 to 2016, following changes in certain loan products as well as the introduction of new products over late 2015 and 2016, offering less restrictive requirements for borrowers.

As with penetration, these indicators face the problem of counting multiple accounts by individuals as well as corporate accounts, particularly when considering the number of borrowers.

**DEPOSITORS**

per 1000 adults

1482

**BORROWERS**

per 1000 adults

196

**INSURANCE POLICY HOLDERS**

per 1000 adults

149
Financial inclusion has been steadily increasing in the Maldives. The number of bank branches and ATMs has grown over the years, with at least one bank branch in each atoll. Cash agents able to provide rudimentary banking services are present in every inhabited island without a bank presence, and internet and mobile banking apps are available.

Banks have introduced new loan products as well as made changes to certain existing products, offering terms that are less restrictive, thereby enabling increased accessibility of credit by previously underserved segments. There has also been a growth in Islamic financial services, which can service segments of the population who prefer to use Shari’ah-compliant modes of finance. Outside of the commercial banking sector, mobile money services have begun operating in the Maldives, with the m-Faisaa mobile money wallet application launched by Ooredoo Maldives in 2016.

The government has also launched various initiatives to foster financial inclusion. These include the Get-Set loan programme, which provides collateral-free loans to start up SMEs, as well as other conventional and Islamic financing loan schemes for SMEs. The MMA has also operationalized the Credit Guarantee Scheme for SMEs, which was initiated by the government to increase financial inclusion. This is aimed at providing easier access to credit facilities for SMEs doing a viable business, who cannot offer collateral or equity funding for borrowing. Such concessional terms are enabled due to low risk to the lenders because the Credit Guarantee Scheme guarantees 90% of each credit line approved by the participating banks.
In order to further reduce the barriers to accessing credit, the MMA has established a Credit Information Bureau. The bureau compiles a comprehensive registry of credit information that can be used by lenders to assess risk, thereby enabling those with a good credit history easier access to credit. In order to increase the comprehensiveness of the information, future plans include the incorporation of utility bill payment histories into the registry. This seeks to address the hurdles that low-income or low-asset individuals, who are unable to build up a formal credit history due to being excluded from borrowing, can face in access to credit.
The Way Forward

The financially excluded population of the Maldives is mostly scattered across a large number of islands with populations too low for bank branches or ATMs to be economically feasible. However, the Maldives is uniquely suited for widespread financial inclusion through agent banking services and innovative technology-based products.

Banking agents are currently present in every inhabited island and offer basic withdrawal services. These can be expanded to the full range of financial services, from helping locals fill out card, loan, or insurance applications and sending them through to branches, to facilitating telecom loan interviews with bank officials. Bank agents can also familiarize locals with internet and mobile banking facilities, enabling a permanent shift from cash-based to digital transactions.

The Maldives has universal internet access, and large share of the population has a bank account under their name. Promoting the move away from cash towards mobile and internet banking would allow easy access to payments, transfers, and remittances anywhere in the country, and encourage the usage of accounts that may otherwise mostly lie unused. This will increase financial inclusion, increasing the growth of SMEs, strengthen the economy, and reduce inequality.