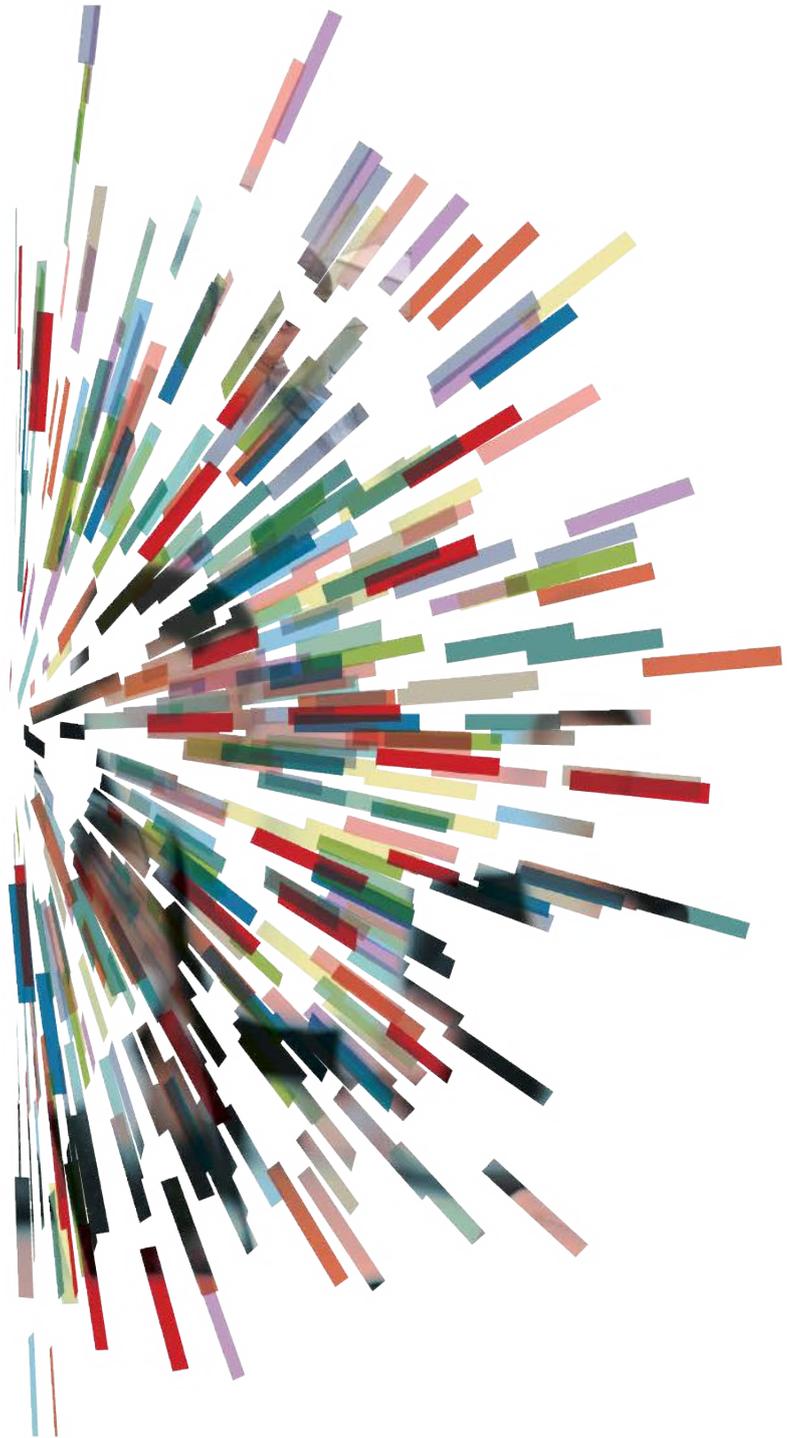




**AIF**  
ASIAN INSTITUTE OF FINANCE

**CASE STUDY**

Bank  
Simpanan  
Nasional:  
Pioneering  
Financial  
Inclusion in  
Malaysia



This case study was developed by the Asian Institute of Finance.

Asian Institute of Finance (AIF) is a think tank jointly established by the Central Bank of Malaysia and the Securities Commission Malaysia, to enhance human capital development and talent management across the financial services industry in Asia.

### **Acknowledgement**

The Asian Institute of Finance would like to express its gratitude to Datuk Adinan Maning, Chief Executive Officer and his team from the Community Business Department of Bank Simpanan Nasional for providing valuable input and comments through the course of writing this case.

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# Bank Simpanan Nasional: Pioneering Financial Inclusion In Malaysia

Bank Simpanan Nasional, better known as BSN was established in 1974 to promote and mobilise savings among the general public, particularly from small savers. One of the BSN's key initiatives under its Corporate Strategic Plan (CSP) apart from automated banking was the Agent Banking model, named Ejen Berdaftar (EB)<sup>1</sup> in Malay, introduced in 2012 to strengthen its community outreach. The EB model by BSN was the first of its kind in Malaysia and worked through a network of agents without the need to set up physical branch infrastructure to serve those living in remote and rural areas. Although the number of appointed agents reached beyond the target set by the government by 2014, there were some challenges faced by BSN in implementing the EB. How could BSN take its EB model to greater heights, in the face of challenges and increased competition? This case examined BSN's EB practices and the external market factors as it embarked on its quest of providing financial services to the rural and financially excluded communities in Malaysia.

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**Keywords:** Financial Inclusion, Malaysia, Saving Bankers, Agent Banking, Financial Services Industry

## The Community Bank

In Malaysia, community banking started at the time of the Federated Malay States back in 1907 when both the Perak and Selangor saving banks were dissolved. Both the banks were brought under the same service provider as the Negeri Sembilan and Pahang states of the Federated Malay States Post Office Banks. The straits settlements of Penang, Malacca and Singapore and the Unfederated States in Malaya had their separate Post Office Savings Banks. However, with the setting up of BSN and the Bank Simpanan Nasional Act in 1974, the history of public savings institution was set to change.

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<sup>1</sup> Ejen Berdaftar is a registered agent with the function to provide limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/ cashier. It is the owner of an outlet who conducts banking transactions on behalf of a bank.

The inception of BSN in 1974 signified a new beginning of community banking in Malaysia. Powers transferred from the Postal Service Department to the Board of Directors of BSN to assume the responsibilities of enforcing the act. At the beginning of the transfer, BSN had gone through significant changes. The bank was restructured and its procedures were simplified to enable better delivery of services. One of its milestone achievements was to decentralise its administration and control.

This effort was accomplished in two folds: by setting up branch offices throughout the country and by continuing to offer saving facilities through post offices and postal vans accessible to locations where branches were not commercially viable. The growth for BSN was exponential throughout the following decade. In 1981, BSN experienced a growth of 78% and 123% of accumulated assets and depositors which consisted of RM1.2 billion<sup>2</sup> and 4.3 million respectively.

BSN's objectives had remained unchanged since its establishment. The five objectives were:

1. To promote and mobilise savings, particularly from small savers;
2. To inculcate the habit of thrift and savings;
3. To provide the means for savings to the general public;
4. To utilise the funds of the bank for investment including financing the economic development of the nation; and
5. To uphold the interest of its depositors and other customers.

BSN's main range of products included GIRO savings account, premium saving certificates, personal financing, home loans, micro-financing, Islamic banking, BSN Matrix Matrix-I, VISA, credit cards and debit cards. In order to remain competitive, BSN had embarked on a transformation plan known as the Corporate Strategic Plan (CSP) to increase its visibility and presence in the banking industry. The Bank reorganised itself into four distinct pillars which are retail banking, business support, corporate support, and strategy & communications. The steps were taken to ensure sustainability and commitment to its mandated roles. Aimed at enhancing its capability to provide better services to its customers, BSN worked on implementing initiatives such as the automated banking channels which witnessed the introduction of Internet Banking (myBSN), SMS Banking (BSN SMS), Cash Deposit Machine (CDMs), off-premise Automated Teller Machines (ATMs) and recently, the Virtual Teller Machine (VTM), which offer branch-based self-service, allowing tellers from any location to remotely serve customers at any time. The VTM concept is the first in Malaysia with the aim to shorten waiting time for customers over the counter and improve their banking experience with BSN. It is also part of BSN's strategic move to embrace technology in further improving its service to customers.

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<sup>2</sup> 1 USD = RM3.50

# Greater Financial Inclusion

Datuk Adinan Maning, was appointed as BSN's CEO in 2007. From day one on the job he had been passionate about making BSN's social objectives a reality. A strong proponent of innovation, he valued good ideas. A statement he made when announcing the Bank's 2011 performance was a testimony to this:

"A lot of ideas have come to fruition for BSN on being sustainable and operationally profitable while ensuring financial inclusion for all in Malaysia, especially those underserved and in rural areas. BSN's role in serving the community, especially in the rural areas, is vital to elevate the standard of living of the people."

At the time BSN had approximately 400 branches located all around the country and more than 6,000 employees. Nonetheless, Datuk Adinan felt that it was still not adequate to provide financial services to everyone in the society. In order to narrow the gap between those with and without access to banking services, BSN needed a banking strategy that would increase their customers outreach in the "un-banked" areas. These were under-served communities, non-urban areas, uneconomical areas and areas with small populations.

On top of that, Datuk Adinan knew that as CEO, he must constantly look for opportunities for BSN to contribute towards the Nine Focus Areas of the Bank Negara Malaysia Financial Sector Blueprint (2011-2020) which had at the time been recently launched by the Central Bank (refer Appendix 1). One such opportunity presented itself when he attended a conference organised by the World Savings Banks Institute (WBSI) in India. A presentation on agent banking by one of the member countries caught his attention. He was intrigued by the simplicity of the model and the low cost needed to set up such a programme. Excited with the idea of agent banking which had been so successfully implemented in Brazil and many other Latin American countries, Datuk Adinan formed a special team of experienced managers from various BSN departments to spearhead the implementation of BSN's agent banking. He was confident that BSN was right on track as agent banking was one of the Central Bank's four initiatives to building an inclusive Financial System (Refer Appendix 2). BSN's journey on agent banking began.

# Spearheading BSN Agent Banking Project: Azaddin's Story

Azaddin still remembered the day when he was asked by Datuk Adinan Maning to spearhead the EB Project. Adinan had just returned from a conference organised by the World Savings Banks Institute (WBSI) in India and was determined to introduce agent banking in Malaysia. While Azaddin was honoured to be one of the chosen ones, along with four other managers, he knew that much was to be done as BSN would be the first to embark on such a programme in Malaysia.

Azaddin recalled the sharing made by Head of Community Banking:

“We only need to leverage upon a POS terminal that links to our services via a GPRS line and this terminal is mobile. It can be taken anywhere as long as it is GPRS covered. We do not need to invest a lot, not much capital is involved unlike opening up a normal branch which could cost us half a million ringgit.”

Intrigued by that fact that anyone could be a bank agent, Azaddin started searching for more information on the concept. He soon discovered that agent banking was increasingly recognised as a viable strategy in many countries for extending formal financial services into the urban poor and rural areas. It was a model which allowed banks to provide financial services through non-bank agents such as grocery stores, retail outlets, pharmacies, petrol stations and post offices.

Brazil was recognised as a global pioneer of agent banking since it was an early adopter of the model and had developed a mature network of agent banking covering more than 99% of the country's municipalities. In recent years, agent banking had been adopted and implemented by many developing countries, particularly in Latin America, India, South Africa, Uganda and the Philippines to expand financial services to their rural communities.

In some countries, agent banking represented the only banking presence in rural areas. This was evident in countries such as Brazil where agents are the only banking present in 38 percent of its municipalities while in Mexico this figure is slightly higher. Hence, agent banking played two important roles: i) to complement bank branches and augment coverage in high potential areas/municipalities and ii) to act as a substitute for bank branches as an outlet for serving the population.

Generally, an agent could be from any type of legal entity or business ranging from small, independent stores to large chain stores. The majority of the banking agents consisted of grocery/convenience stores, pharmacies, telecommunication centres, petrol stations and retail stores.<sup>3</sup> Agents were chosen based on a certain set of criteria and there were regulations that set the minimum requirements that agents must fulfil, such as a number of years in business or a credit record from the agent. For example, in Mexico, in addition to being a qualifying business, the agent must also fulfil the following requirements:

1. Must have a permanent address
2. Possess necessary infrastructure to complete the banking operations
3. Staff are certified to operate the required equipment
4. Have acceptable business and credit record
5. No criminal history

The services offered by the banking agents in these countries were similar and could be categorised into five main types of transactions: payments, deposits, withdrawals, opening of savings account and disbursements and/or repayment of loans. Payments were the most commonly used service and these included payments of utilities, taxes, payments of bills and other public fees. Even in Brazil and Columbia where agent banking had long been implemented, payments still made up more than 75 percent of transactions. In a study of low-income users and non-users of agent banks conducted by the Consultative Group to Assist the Poor (CGAP) in 2006, 99% of respondents who used agent banking reported using agents to make payments.

Azaddin also found out that a direct relationship with the banking agent was one way the financial institution used its own staff to identify, evaluate, contract and manage the agents while the indirect relationship involves contracting out these activities to a third party company. In Brazil, Banco do Brazil contracts centralised management companies to manage its dispersed agents and the Lemon Bank Brazil purchased a network management company to manage its agents on its behalf. Would this work for BSN? And would BSN be able to replicate the agent banking success of these countries?

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<sup>3</sup> In other countries for example, agents could also be schools, mobile vehicles (in Brazil), retired teachers (in India), restaurants (in Mexico), cyber cafes and currency exchange outlets (in Columbia).

# Agent Banking

In January 2012, BSN launched its Agent Banking Programme or *Ejen bank berdaftar* (EB) (Registered Agent). It was the first financial services institution in Malaysia that worked through agents and brought banking to the doorsteps of people who had so far had no or only have limited access to financial products and services. The Agent Banking Programme was also an initiative by BSN to fulfil the financial inclusion agenda identified as one of the nine focus areas of Bank Negara Malaysia's Financial Sector Blueprint (2011-2020).

At the officiating ceremony, the then second Finance Minister Datuk Seri Ahmad Husni Mohamad Hanadzlah commented:

“The introduction of Ejen Berdaftar (EB) is reflective of a creative economy which transforms the rural sector. It is an effort between the government and the private sector for reaching the underprivileged or those living in rural areas. Through the implementation of the EB, BSN also fulfilled its own social mandate to provide banking accessibility to communities from all walks of life. It is an innovative channel to increase reach and easy access to every level of society, especially those with low incomes or living in rural areas to carry our financial transactions.”

The BSN EB model enabled customers to perform banking transactions conducted by authorised agents at retail outlets. The agent could be any individual who owned a locally registered company which had been in operation for at least one year. The agent represented BSN and carried the signage of “Ejen bank berdaftar” (Registered Agent) together with the BSN logo. BSN would also advertise their list of authorised agents in major newspapers. The agents were then equipped with a Point-of-Sale (POS) terminal with a wireless GPRS. The POS system was integrated with BSN's IT system which allows transactions to be processed on-line and in real time. BSN's banking agents processed transactions with point-of-sale (POS) card readers, barcode scanners, and sometimes personal computers that were connected to the Bank's server using a GPRS, 3G or other data connection. Each deposit or withdrawal was limited to RM500 per transaction and customers were limited to three deposit/withdrawal transactions per day. Customers were also required to confirm their Personal Identification Number and provide biometric fingerprint verification before initiating their transaction. A receipt would be generated with each successful transaction.

The bank recruited both structured and individual agents. The structured agents are registered entities with a wide network of their outlets such as gas stations or convenience store chains. The individual agents are owners of retail stores such as grocery shops. BSN’s requirements of a registered agent were as listed in Table 1.

**Table 1: Requirements to be an Ejen Berdaftar, EB (Registered Agent)**

Local registered companies with a minimum of 12 months operational period	
Has GPRS coverage or fixed land line	
Suitable building infrastructure with a permanent mailing address	
Own/register a BSN account under the business entity	
The account must have at least RM1,500	

Source : BSN

A total of 6,227 registered agents had been appointed by BSN since its inception in 2012 until 2015 to facilitate the EB programme. Once an individual had been appointed as an agent, he or she must undergo periodic training sessions organised by BSN. These training sessions covered the POS system, responsibilities and job scope of an agent and the sharing of experiences from successful EB agents. The agent’s performance was monitored at the state as well as at the head office level. At the state level, BSN had 67 designated personnel whom the agents could contact when they faced problems. At the BSN headquarters, the responsibility of managing the agents fell onto the shoulders of just five staff.

# Delivering The Plan

When the EB programme first started, Azaddin remembered how difficult it was to recruit the agents. In 2012, the EB team only managed to recruit 200 agents. However, once word got around that it was lucrative to be a BSN agent banker, the EB team started to receive requests from business owners to be a BSN appointed agent. The successful agents were doing the promotion on BSN's behalf. By December 2013, the EB team had successfully recruited 5,013 agents, far exceeding the targeted figure identified by the Prime Minister of Malaysia in his 2012 budget speech. Azaddin remembered how jubilant and proud he and the EB team felt.

Azaddin knew that the agents helped BSN to attract customers who would otherwise shy away from using a bank branch. These customers were more comfortable banking at their local grocery/convenience store, in part, because many rural customers were unfamiliar with banking transactions and needed help conducting and understanding their transactions. Furthermore, many of these customers had long-standing relationships with the local agents who were also their friendly neighbourhood grocer.

On one of his visits to an agent banker, Azaddin had the opportunity to speak to some of the customers who were transacting. He was informed that they liked the agent banking service because of the easy access. Most of the EB agents operated their businesses in residential areas and as a result, the customers did not need to travel long distances to access banking services. In addition, the operating hours of these registered agents which were from 8.00am-10.00pm extended beyond the normal banking hours and this accorded customers more flexibility in performing their banking transactions.

Then there were also the environmental benefits accruing from agent banking. Agent banking had replaced the need for opening new bank branches which had environmental consequences such as lowering greenhouse gas emissions. These environmental hazards were being avoided because the Agent Banking programme used existing infrastructure and facilities of the 5,000 agents in Malaysia. Azaddin and the EB team were pleasantly surprised when they were awarded the "Best Green Practice" award in the GreenTech's Financial Institution category in 2013. Furthermore, those who become BSN's banking agents also gained skills in information technology and banking and in doing so, enhanced the skills among the rural community.

# Happy Agents

Azaddin and the rest of the EB team were also very proud of the fact that the Bank's EB model had brought about economic development among the rural population. Agent banking had become a source of substantial income for many of the banking agents, who mainly consisted of micro and small entrepreneurs across Malaysia. In addition to the income that they earned through financial transactions, the revenues in their core business activities had also increased because of the increased flow of customers in their retail stores or gas stations. This had resulted in positive response towards EB among the agents.

Take for example, the case of Salasiah Ripin, the 42-year-old owner of a convenience store at Pekan, Pahang. Salasiah or better known as 'Kak La' to her customers, initially worked as a temporary teacher at one of the nearby schools. Although her salary was relatively good and she loved her job, Kak La was determined to open up her own business. By pooling all her savings, Kak La rented a shop, located at the Penyor District in Pekan, Pahang. While other business women would have been contented with a small store selling daily necessities, Kak La decided to add more products to her shop. She added cosmetics and clothes to her product line and as a result, the business prospered. That was 14 years ago.

Today, the mother of three runs a successful convenience store whereby cosmetics and clothes remained her best-selling products. It was her store's success that attracted the attention of the EB team. While on the way back from a site visit, one of the EB team members stopped by Kak La's shop to purchase some snacks. He was surprised by the popularity of the shop. Once back at the BSN HQ, the team member proposed that Kak La be an EB agent. Azaddin visited the shop and was impressed by what he saw. He approached Kak La to be an agent banker.

Being a BSN agent allowed Kak La - a BSN account holder herself - to provide other BSN account holders with banking transactions facilities like cash deposits, withdrawals and bill payments. They could also make purchases of BSN Premium Savings certificate (eSSP) and cashless payments for items or services offered in her shop. Being an agent banker had also been financially beneficial for Kak La's. Villagers and workers from nearby factories who dropped by to pay their bills and to deposit or withdraw money would also do some of their daily or weekly shopping at her store.

Kak La's monthly sales revenue increased by 50 percent from an average of RM30,000 to RM45,000.

"Traffic has certainly increased in my store. I used to have about 200 customers per day. Since becoming an agent banker, I am getting about 300 customers daily. Not only that, I also have additional income from the commission that I earn as an agent," said a beaming Kak La.

To add to her happiness, Kak La won “Malaysia’s Best Agent” in 2013 and won an all-expense paid *Umrah*<sup>4</sup> package from BSN.

**Figure 1: Kak La serving a customer**



BSN’s agent banking programme had also lured more people back to their rural roots. Azaddin remembered visiting a banking agent, Zulkifli, in Sungai Besar, Selangor who used to work as an engineer in Klang, 44 km from the capital Kuala Lumpur.

“My wife, who comes from Sungai Besar, had just given birth to our first child then and she wanted to go back to her hometown and start a mini market business. After discussing the matter, I decided to leave my job and become an entrepreneur too. I set up a convenience store two doors away from her mini-market, selling telco mobile top-ups. About a month ago, BSN approached me to become an agent for their EB project. They provided me with the POS system which was very easy to operate and since then I have been helping customers who are BSN account holders to carry out banking transactions in the shop daily,” said Zulkifli who was very happy with his decision to relocate.

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<sup>4</sup> A visit one makes to the Grand Mosque in Mecca, Saudi Arabia, outside of the designated Haj Pilgrimage dates

# The Challenges

Although the EB model had been hailed as a success for BSN, the bank faced major challenges after rolling out the programmes. These challenges ranged from overcoming technology issues to looking for a fresh new marketing strategy. In the recent department meeting, five major challenges were presented to the EB team.

## Connectivity

As part of the EB programme, BSN provided all its appointed agents with a POS terminal which is connected to BSN's server on GPRS. The POS terminal had a screen and data entry keyboard to capture the user's transaction details, a card reader to capture stored client information (to confirm the customer's identity and to locate his/her account) and to a secure communication link with the Bank.

When a customer came to the EB agent to make a transaction, the agent keyed in the information into the POS terminal, and then accessed a cellular network such as GPRS to send information about the transaction to BSN's server. Although the GPRS network allowed for a faster speed and much higher data transfer rates than the GSM network or a traditional dial-up, there was still connectivity issues associated with the network. There were times when the GPRS signal strength was strong, yet the EB agent complained about slow connectivity. An area could experience slow connectivity because the bandwidth provided by the telecommunication provider could not support the increase of data usage, especially during the weekends. As a result, the area faced network congestion and the EB agents experienced delays or problems in transacting.

Azaddin and the EB team often received complaints from the banking agents regarding delays in connecting to BSN's server/receiving transaction confirmation, and connection breaks. Many of the agents often experienced lost connections in the midst of performing their transactions. These connectivity issues were not just frustrating to the agents, but also to the customers.

"There are times my customer would bring a stack of bills they needed to settle and I have to tell them the terminal is down. My customers will grumble. But what can I do?" said Hassan, an EB agent.

Azaddin was well aware that these connectivity issues affected the customer experience. If the customers were told too often that the POS terminal system was down, they would just give up altogether transacting with the EB agent.

As pointed out by one of the EB managers:

“Part of the problem lies in the fact that we rely on a third party to provide the line coverage. They (the telco providers) are already moving towards 3G or 4G and will spend less time and resources upgrading the GPRS system. So when there is a problem with the GPRS system, they don’t give much priority on fixing the problem.”

Another manager added:

“The total time frame to complete a payment transaction via the telephone is two minutes. Any delay will result in the transaction being void and our agents will have to key-in the whole transaction all over again. This is very frustrating to the agents. We have highlighted this to the top but changing the system will be very costly.”

**Figure 2: An Agent transacting with the POS System**



## Straying from the Main Purpose

The EB team realised that whilst agent banking had succeeded in easing bill payments, this was not the aim of the EB programme. They were constantly reminded of the purpose of the EB programme, which was to provide financial services to the under-banked and poor urban-rural communities. However, based Azaddin and the EB team could see that this objective was far from being achieved.

Getting the poor and rural community to become BSN's true agent banking clients was a challenge. It was not unusual for rural customers to use agent banking only for bill payments or to open an account only because they needed to access their pension or welfare payments. Besides pensioners and welfare receivers, individuals would sometimes open a BSN account to facilitate cash withdrawals. These were individuals who received monthly allowances from their children who worked in the cities and had made deposits through a BSN account. Hence, these rural customers were not depositors, but in fact withdrawers.

Another reason to explain the high percentage of EBs used to pay bills was the ease of using the facility. Anyone can use the paying facilities regardless of whether they were BSN account holders or not. However, this was not the case for depositing. Depositing could only be done by BSN account holders and many of the EB users were not BSN account holders. One of the managers recalled a project in Belaga, Sarawak, East Malaysia where 99 percent of the locals already had existing bank accounts in other banks.

## Trust & Privacy

Customers were also worried about bogus agents handling their deposits. Said a customer:

“Anyone can own a gadget, how do I know it is a real BSN gadget?” and “How secure is the system? What happens if I deposit RM500, but the agent keys in as RM50? Will I be reimbursed for the difference?”

Although trust seemed to be the issue with many of the rural communities, there were contradictory behaviours. It was as if they were practising “selective trust”. The depositors were apprehensive towards the EB technology and bogus agents and did not trust their money to be deposited by agents, but they trusted the agents to settle their utility bills.

The depositors were also concerned about the issue of privacy. As the rural communities seemed to be a close-knit community, the agents were often personal friends. That simply meant the agents could track their every transaction. As a result, the customers were not comfortable having their financial transactions made known to their friends.

## Customers Not Tech-Savvy

Many of the under-served and under-banked, who were the main target group of the EB programme, were usually poor and not early adopters of technology. This was also true for many of the rural BSN account holders who were also of the less techno-savvy generation. Since both groups would have less exposure to technology, they were apprehensive towards electronic gadgets (such as the POS terminals). Most customers were just dipping their toes in the water. When customers were asked if they would transact with their local grocery store, many said they would not. They still preferred the conventional way of saving where they could see their savings booklets being verified by the bank officers at the front counter after each transaction. One customer said:

“How do I even know my hard-earned money is truly deposited into my account?”

## Management of Agents

Managing agents too had its fair share of challenges. One challenge was the problem of communicating with the agents. When Azaddin and the rest of the managers needed to send out announcements to the agents, the channel of communication would usually be through the short message system (SMS), road shows and the agent’s Facebook group. Although e-mails would be faster, many of the agents did not have e-mails or even access to the Internet. Only 10 percent of the agents actually received the announcements through their Facebook group. At that time, social media was not an effective channel of communication. As a result, many agents were likely to miss out on important announcements from the EB team. When Azaddin needed to roll out new services, he and his team would need to communicate through the traditional way which was through letters addressed to each and every one of the agents. This channel of communication was not just costly but also time-consuming and slow.

# Still A Long Journey Ahead

During the early years of implementing agent banking, Azaddin recalled how difficult it was for him and the other EB managers to convince the rural community of the EB model. They had to use a variety of advertising channels such as radio, television, print media as well as advertising on buses to inform the public about the new services. He and the other EB managers visited the fourteen states in Malaysia, going to every *kampung* (village) and to every house in the *kampung* to distribute flyers and promote the EB programme. It was not an easy task. The *kampung* folks were not pleased with being disturbed from their routine. Azaddin had never felt so dejected. Only when they started giving away small gifts such as pens and memo pads had they managed to get people to listen.

Two years after launching the EB programme, BSN still organised roadshows and community programmes such as singing competitions or giving out food during festival seasons at various *kampung* and districts. These programmes not only helped to promote the Bank's agent banking services but also served to educate the people in these communities about agent banking. Although BSN has invested time and resources in promoting and marketing the EB services, Azaddin knew that much still needed to be done to increase the Bank's EB customer base and to push new services to them. After all the hard work creating awareness, BSN saw their competitors leveraging on their efforts. The competitors are now targeting school-going children and pensioners which were once BSN's traditional customer segments.

As of Dec 2015, almost 96% of *mukim* (sub-districts) in Malaysia were enjoying the convenience of banking services right at their doorstep. It would be fair to say that BSN had been able contribute in elevating the standards of living of those in rural and remote areas by providing banking accessibility to the underserved. In line with its brand promise, "No Malaysian Left Behind", BSN had strived hard to strengthen its EB model by up scaling the network and quality of its agent as well as to increase the agents' productivity to deliver its mission. While, Datuk Adinan was pleased with BSN's achievement and outreach so far, he knew that there was still much more to do. Reflecting upon his initial encounter with the idea at the conference in India where agent banking was hailed as the perfect answer to financial outreach for the underbanked and rural community in the country, he was certain that the road ahead would be a long and challenging one.

## APPENDIX 1 The Nine Focus Areas of the Bank Negara Malaysia Financial Sector Blueprint (2011-2020)

**Effective intermediation for a high value-added and high-income economy** - This entails the mobilisation of diverse savings to productive investments in Malaysia and to meet the needs of both businesses and households. A vibrant risk-capital ecosystem to support innovation-driven economic activities and start-up ventures will be developed. The initiatives will also include enhancing the provision of large and long-term project financing for infrastructure development. As Malaysia deepens its trade and investment linkages, the financial sector is envisaged to have a larger role in supporting the internationalisation of Malaysian businesses. To cater to Malaysia's growing affluent segment and maturing population, emphasis will be placed on enhancing the provision of financial services for wealth management, retirement and long-term healthcare. The development of a vibrant private pension industry is also expected to enhance the role of pension funds as a key source of funding for the longer-term and risk-based financing needs of the economy.

**Developing deep and dynamic financial markets** - Efforts will be directed towards improving the liquidity, depth and participation in the money, foreign exchange and government securities markets in Malaysia, in enabling more effective intermediation, transfer of risks and management of liquidity, and meeting the diverse needs of a more developed and internationally integrated economy. The foreign exchange administration rules will be progressively liberalised to further raise efficiency in financial market transactions. The development of vibrant domestic foreign exchange and money markets, and ensuring sound risk management and corporate governance practices by financial market players, will be an important agenda in the development of our financial system.

**Financial inclusion for greater shared prosperity** - The aim is to enable all members of society, including the underserved, to have access to and usage of quality, affordable and essential financial services. Initiatives will focus on developing more innovative delivery channels such as agent banking to enhance the outreach of financial services in a cost-efficient manner and expansion of the range of products and services such as more flexible micro financing products, long-term contractual micro saving products, and microinsurance and microtakaful products to cater to distinct financial needs of all segments of society.

**Strengthening regional and international financial integration** - As the Malaysian financial sector assumes a larger role in mobilising regional and cross-border funds and supporting the needs of both Malaysian corporations expanding abroad and corporations that invest in Malaysia, efforts to strengthen Malaysia's international financial linkages will be pursued. Moving forward, Malaysia's investment policy will be guided by two key considerations: (i) prudential criteria and (ii) the best interest of Malaysia criteria, which includes the effect of the investment on Malaysia's economic activity, particularly in catalysing new high value-added activities, contribution towards enhancing international trade and investment linkages and impact on financial stability, including the level of competition. A further consideration in assessing the best interest of Malaysia is the continued presence of strong and well-managed domestic banking groups that continue to mobilise a significant share of resident deposits, as this is important for the orderly growth and development of the financial sector.

**Internationalisation of Islamic finance** - While Malaysia has made significant inroads in becoming an international Islamic financial centre, efforts will continue to be undertaken to enhance the Islamic financial ecosystem. This will entail developing a more conducive environment for the mobilisation of higher volumes of international Islamic financial flows from a diverse range of players to be channelled through innovative Islamic financial instruments. In strengthening the legal and Shariah frameworks and further advancing Malaysia's thought leadership in Islamic finance, a single legislated body to be the apex authority on Shariah matters in Islamic finance will be established.

**Regulatory and supervisory regime to safeguard the stability of the financial system** - A comprehensive legislative framework will be enacted to reinforce a sound, transparent and accountable system for effective regulation and supervision. Focus will also be accorded towards enhancing capital and liquidity standards of financial institutions in line with international standards as well as raising their governance and risk management standards. As the financial sector grows to be more regionally-and internationally-connected, greater cross-border collaboration will be pursued with other supervisory authorities.

**Electronic payments for greater economic efficiency** - Accelerating the migration to electronic payments (e-payments) will be emphasized. In the next ten years, the Bank targets to increase the number of e-payment transactions per capita from 44 transactions to 200 transactions, and reduce cheques by more than half from 207 million to 100 million per year. Measures to achieve this aim will include providing the right price signals to encourage the switch from paper-based payments to e-payments, and facilitating wider outreach of e-payments infrastructure, such as point-of-sale terminals and mobile phone banking.

**Empowering consumers** - A comprehensive and holistic approach towards consumer protection and education will be pursued in collaboration with various stakeholders. The aim is to promote a culture of mutual responsibility shared between consumers, who are empowered with the knowledge, skills and financial literacy to manage their personal wealth, and financial service providers, who uphold fair and responsible dealings in the conduct of their business. The infrastructure to support greater consumer empowerment will be strengthened through establishing a single consumer credit legislation, integrated dispute resolution system and an enhanced credit information framework. Measures to promote financial capability among consumers through the integration of financial curriculum at schools and targeted financial literacy programmes based on life events will be pursued.

**Talent development to support a more dynamic financial sector** - A Financial Services Talent Council will be established to drive, oversee and coordinate talent development efforts in the financial sector. Other initiatives include developing talent for entry level, promoting continuous learning for the existing workforce, and attracting talent from abroad. Ensuring an adequate supply of skilled talent to meet the challenges in the new financial landscape will require greater collaboration and coordination among various agencies beyond the financial sector.

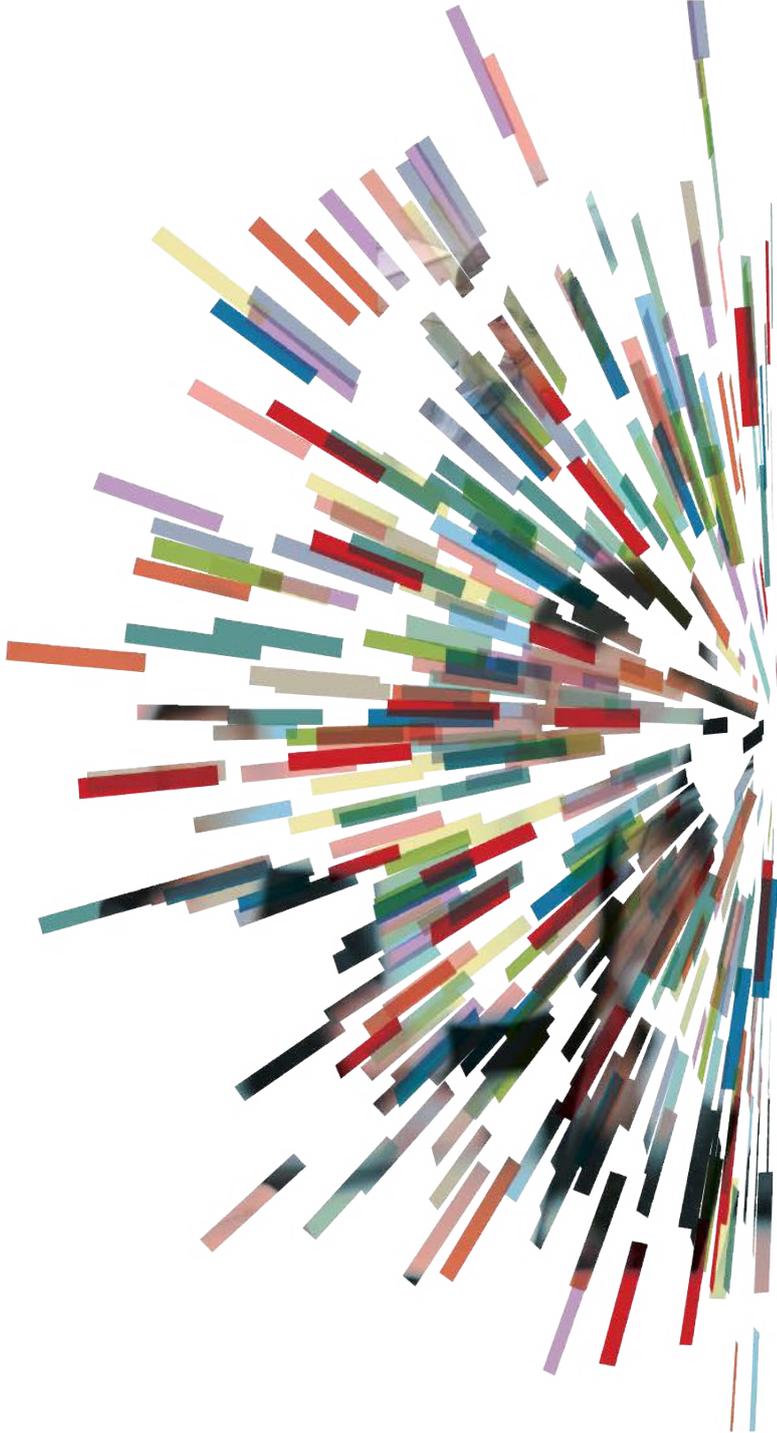
Source: Bank Negara Malaysia Press Release (2012)

## APPENDIX 2 Bank Negara Malaysia's Four Initiatives to Building an Inclusive Financial System

1. Adopt innovative mobile and agent banking channels to enhance the outreach of quality and affordable financial services in a more cost-efficient manner;
2. Expand the range of financial products and services that will meet the financial needs of all citizens, including the underserved. These products include flexible microfinancing, long-term contractual microsavings, microinsurance and microtakaful products;
3. Strengthen institutional arrangements to provide financial services to all citizens, including the underserved and to build capacity of practitioners in an effective and sustainable manner;
4. Enhance the knowledge and capacity of the underserved to utilise financial services responsibly.

Source: Bank Negara Malaysia (2014)





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ISBN 978-967-0822-13-6



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