Financial Access is Not Financial Inclusion:
Current Status and issues of Financial Inclusion in Sri Lanka

Ganga Tilakaratna
Outline

• Financial Institutions: Diversity and Growth

• Financial Inclusion: Where Does Sri Lanka Stand?

• Access to Finance: Insights from a Household Survey

• Issues and Challenges
Financial Institutions in Sri Lanka

**Formal FIs**
- Licensed commercial banks
- Licensed specialized banks
- Licensed finance companies
- Specialised leasing companies

**Semi-Formal FIs**
- Co-operatives
- NGO, CBOs & companies providing MF
- Samurdhi / Divineguma banks

Source: Author’s compilation
## Banking Sector - 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Licensed Banks</strong></td>
<td>32</td>
</tr>
<tr>
<td>(i) Licensed Commercial Banks</td>
<td>25</td>
</tr>
<tr>
<td>(ii) Licensed Specialized Banks</td>
<td>7</td>
</tr>
<tr>
<td><strong>Bank Branches and Other Outlets</strong></td>
<td>6,583</td>
</tr>
<tr>
<td>(i) Bank Branches</td>
<td>3,538</td>
</tr>
<tr>
<td>(ii) Student Saving Units</td>
<td>3,045</td>
</tr>
<tr>
<td><strong>ATMs</strong></td>
<td>3,558</td>
</tr>
<tr>
<td><strong>Electronic Fund Transfer Facilities at Point of Sale Machines (EFTPOS)</strong></td>
<td>33,355</td>
</tr>
<tr>
<td><strong>Bank Density: Bank Branches Per 100,000 Persons</strong></td>
<td>17</td>
</tr>
</tbody>
</table>

Source: CBSL Annual Report 2015
Density of banks has increased from less than 10 branches per 100,000 persons in 2009 to 17 by 2015.

Source: CBSL (2016), Sri Lanka Macroeconomic Developments in Charts
Leasing and Finance Sector

Along with the growth of the banking sector, there has been an expansion in the finance and leasing sector.....

Source: CBSL Annual Reports various issues
Growth of Leasing and Finance Company Branches by Province

Semi-Formal Financial Institutions

Co-operatives

Thrift and Credit Co-operative Societies (TCCSs)
- Established in 1906
- Pioneers of providing MF

Co-operative Rural Banks (CRBs)
- A network of over 2000 banks

NGOs, CBOs & Companies/MFIs

- A large number of NGOs, CBOs and companies providing MF
- Only a handful of them operate at the national level
Samurdhi / Divineguma Banks

- Established in mid 1990s as a part of the government’s main poverty alleviation program
- 1074 Samurdhi banks
- 3 million members and nearly 4 million savers
- Linked to the Samurdhi cash transfer program (with ~1.5 million beneficiaries from low-income groups)
Geographical Coverage of Financial Institutions

- Over 14,000 ‘access points’ – defined as a bank or a co-operative or a society where clients can save and take loans from (CGAP, 2006)

- One access point for each 1,300 people – a high level access to FIs!

- The number of access points and the coverage is expected to have improved further in recent years.

CGAP(2006)
FINANCIAL INCLUSION

Where Does Sri Lanka Stand within The Asian Region?
Share of Adults (15 Years +) with an Account at a Financial Institution

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Adults (15+ years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>96.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>96.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>96.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>82.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>80.7</td>
</tr>
<tr>
<td>China</td>
<td>78.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>78.1</td>
</tr>
<tr>
<td>India</td>
<td>53.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>36.1</td>
</tr>
<tr>
<td>Nepal</td>
<td>33.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>31.3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>31.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>13.0</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Share of Adult Women with an Account at a Financial Institution

Share of Adults Living in Rural Areas with an Account at a Financial Institution

Share of Adults belong to Poorest 40% with an Account at a Financial Institution

Singapore: 96.2
Japan: 95.4
Hong Kong: 94.8
Sri Lanka: 79.8
Malaysia: 75.6
Thailand: 72
China: 72
India: 43.9
Nepal: 23.7
Bangladesh: 23.1
Indonesia: 22.2
Philippines: 17.8
Pakistan: 11.2
Afghanistan: 6.6

Share of Adults who have borrowed from a FI in the Past Year


<table>
<thead>
<tr>
<th>% with an account</th>
<th>Sri Lanka</th>
<th>South Asia</th>
<th>East Asia and Pacific</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>82.7</td>
<td>46.4</td>
<td>69.0</td>
<td>61.5</td>
</tr>
<tr>
<td>Adult women</td>
<td>83.1</td>
<td>37.4</td>
<td>67.0</td>
<td>58.1</td>
</tr>
<tr>
<td>Adults belonging to the poorest 40%</td>
<td>79.8</td>
<td>38.1</td>
<td>60.9</td>
<td>54.0</td>
</tr>
<tr>
<td>Young adults (aged 15-24)</td>
<td>85.2</td>
<td>36.7</td>
<td>60.7</td>
<td>46.3</td>
</tr>
<tr>
<td>Adults living in rural areas</td>
<td>83.4</td>
<td>43.5</td>
<td>64.5</td>
<td>56.7</td>
</tr>
</tbody>
</table>

ACCESS TO FINANCE:
INSIGHTS FROM A HOUSEHOLD SURVEY
97% of HHs had savings accounts; 77% of HHs had savings with multiple FIs

Loans: Number of FIs accessed

Over 75% have borrowed from FIs with 49% borrowing from multiple FIs

Source: Tilakaratna (2012); Panel household survey 2006/07 and 2009/10
A considerable % of HHs have saved with a mix of semi-formal FIs (eg. MFIs) and formal FIs. This has increased notably during the two periods.

Source: Tilakaratna (2012); Panel household survey 2006/07 and 2009/10
Type of FIs accessed by Households for Loans

The findings indicate a considerable level of overlap between clients of formal FIs and semi-formal FIs.

Source: Tilakaratna (2012); Panel household survey 2006/07 and 2009/10
Why Multiple Borrowing and a Mix of FIs?

Demand-side
- Access a range of products (pawning, agri. loans)
- Build up a lump-sum
- Frequent access to credit
  -- Cross-financing

Supply-side
- Growth of FIs and financial products
- Marketing strategies

Why Multiple Saving and Why a Mix of FIs?

- To have access to loans from multiple institutions.
- Savings accounts in formal FIs to access remittance facilities, current account services
- Transfers and payments
- To get ‘additional’ benefits attached to opening an account
- Not all eggs in one basket!

Multiple saving is caused by both households’ choice and the types of product offered by FIs.

Source: Tilakaratna (2012)
ISSUES AND CHALLENGES
Quality of Products

Savings

- Dormant accounts with minimum balances
- Blocked Savings
- Irregular Savings
- Documentation requirements

Source: Author’s compilation
Quality of Products – Loans

- Inappropriate loan terms and conditions
- Loan ceilings
- Collateral / Guarantee requirements
- High costs
- Documentation requirements

Source: Author’s compilation
## Usage of Insurance services remains low....

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance Penetration (% of GDP) -2015</th>
<th>Insurance Density (USD) -2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Business</td>
<td>Long term</td>
</tr>
<tr>
<td>Japan</td>
<td>10.82</td>
<td>8.27</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.25</td>
<td>5.55</td>
</tr>
<tr>
<td>India</td>
<td>3.44</td>
<td>2.72</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.05</td>
<td>3.37</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.49</td>
<td>3.70</td>
</tr>
<tr>
<td>PR China</td>
<td>3.57</td>
<td>1.95</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.90</td>
<td>1.37</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.15</td>
<td>0.49</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.73</td>
<td>1.28</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.82</td>
<td>0.54</td>
</tr>
<tr>
<td>Europe</td>
<td>6.89</td>
<td>4.16</td>
</tr>
<tr>
<td>Asia</td>
<td>5.34</td>
<td>3.59</td>
</tr>
<tr>
<td>Africa</td>
<td>2.90</td>
<td>1.97</td>
</tr>
<tr>
<td>World</td>
<td>6.23</td>
<td>3.47</td>
</tr>
</tbody>
</table>

**Source:** Swiss Re(2016)_World Insurance in 2015

**Note:** Insurance penetration - total insurance premium as % of GDP;
Insurance density - ratio of insurance premium to the total population (premium per capita)
Reasons for Low Usage of Insurance

- Lack of trust /confidence
- Lack of awareness of benefits
- Affordability
- Government interventions
- Availability of informal mechanisms
- Regulatory environment

Source: Based on preliminary findings of a study on ‘Co-operative and Mutual Micro-insurance in Sri Lanka’ (on-going research project)
Remittances

- 30-40% of remittances are transferred through informal channels

- Main reasons:
  - **Formal channels**: high costs, delays, paperwork involved, distance to banks from worksites, lack of awareness
  - **Informal channels**: low cost, ‘door-to-door’ services, little or no paper work

- Technology based solutions to improve efficiency of formal channels.
  - Leading banks have moved towards providing electronic money transfer mechanisms (e- remittance)
  - Money Transfer Businesses (e.g. MoneyGram, Western Union)
  - Foreign remittances directly to mobile phone (e.g. eZ cash)
### Use of Digital Financial Services

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sri Lanka</th>
<th>South Asia</th>
<th>EAP</th>
<th>World</th>
<th>Lower Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has a debit card -2015</td>
<td>24.9</td>
<td>18.0</td>
<td>42.9</td>
<td>40.1</td>
<td>21.2</td>
</tr>
<tr>
<td>Has a debit card -2011</td>
<td>10.0</td>
<td>7.2</td>
<td>34.7</td>
<td>30.5</td>
<td>10.1</td>
</tr>
<tr>
<td>ATM is the main mode of withdrawal (% with an account) -2015</td>
<td>23.3</td>
<td>31.1</td>
<td>53.3</td>
<td>n/a</td>
<td>42.4</td>
</tr>
<tr>
<td>ATM is the main mode of withdrawal -2011</td>
<td>15.4</td>
<td>16.9</td>
<td>37.0</td>
<td>48.3</td>
<td>28.1</td>
</tr>
<tr>
<td>Used a debit card to make a payment past year</td>
<td>10.4</td>
<td>8.5</td>
<td>14.8</td>
<td>23.2</td>
<td>9.6</td>
</tr>
<tr>
<td>Used a credit card to make a payment past year</td>
<td>2.8</td>
<td>2.6</td>
<td>10.8</td>
<td>15.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Used internet to pay bills or make purchases</td>
<td>1.6</td>
<td>1.2</td>
<td>15.6</td>
<td>16.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Mobile account (% aged 15+)</td>
<td>0.1</td>
<td>2.6</td>
<td>0.4</td>
<td>2.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Recent Technological Innovations

- **MNO-led mobile money services**
  - eZ cash
  - M-cash
    - deposit, withdraw, transfer and payment services

- **Mobile banking**

- **Remittances**: e-remittances; via mobile accounts

- **Insurance**: by MNOs (Dialog-BIMA)

- **Electronic payment systems**:
  - Payment cards (Debit and credit cards)
  - ATMs, EFTPOS, Mobile POS
    - (e.g. HNB Mo-Mo)
Conclusions and Way Forward

- A wide network FIs and high level of financial access
- Yet, many issues related to quality of products/services
- Technology is key to improving the quality of financial inclusion

Some challenges:

- Awareness creation
- Building confidence on technology-based products
- Creating a conducive environment (e.g. regulation)
Technology is not a panacea for all issues related to financial inclusion!

Other measures needed to achieve financial inclusion.

- Financial literacy/education
- Ensuring sustainability of financial institutions
- Client protection
Thank you!

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