

FINANCIAL INCLUSION IN MALAYSIA: PROGRESS, CHALLENGES, AND FUTURE DIRECTIONS

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Abstract: Financial inclusion has emerged as a global concern in order to foster equitable economic growth and provide equal access to financial services. This article explores the situation of financial inclusion in Malaysia, analyzing its progress and problems, and offering potential future courses. This article gives insights into Malaysia's attempts to improve financial inclusion by examining actions conducted by the Malaysian government, regulatory authorities, financial institutions, and other stakeholders. Furthermore, the paper identifies the obstacles to attaining broad financial inclusion and suggests solutions. The findings imply that, while Malaysia has made tremendous advances in increasing financial access, further efforts are needed to promote inclusion for marginalized groups and distant places. To achieve greater financial inclusion in Malaysia, it is imperative to implement legislative solutions, leverage innovative technologies, and engage all stakeholders.

Keywords: Financial inclusion, Malaysia, progress, challenges, strategies.

INTRODUCTION

Financial inclusion, defined as universal access to a broad range of appropriate, quality financial services (World Bank, 2022), is a priority agenda for both developing and developed nations worldwide. While progress has been made, financial exclusion remains a challenge in certain segments of Malaysian society. Data from the Global Findex Database (2017) indicated that only 67% of Malaysian adults had a bank account

in 2014, with significant gaps between urban and rural populations. Individuals from lower-income groups as well as ethnic minorities tended to be underserved.

Hence, this article aims to provide a holistic review of Malaysia's financial inclusion journey thus far with a focus on key initiatives, ongoing challenges and discusses priorities for the path ahead. In doing so, it seeks to offer useful insights for policymakers, practitioners, and researchers with an interest in promoting universal and responsible access to finance.

FINANCIAL INCLUSION LANDSCAPE IN MALAYSIA

Malaysia has a well-developed Islamic and conventional banking system that largely intermediates funds in the economy (Bank Negara Malaysia, 2023a). Alongside banks, the non-bank financial sector which includes insurers, takaful operators, development financial institutions and capital market institutions forms an integral part of the financial system architecture (BNM, 2023c).

Despite the growth, significant portions of the population remained excluded prior to concerted inclusion efforts. According to Global Findex (2017) data, only 67% of Malaysian adults had a bank account. Rural-urban and income disparities in access persisted. This highlighted the need for a strategic, collaborative approach to promote universal access.

Evolution of Financial Inclusion Policies and Initiatives

Financial inclusion has been an important priority for Malaysia's balanced and sustainable economic growth and development. In 2009, as part of the vision to transform Malaysia into a high-income economy supported by sustainable growth, the Malaysian government introduced the New Economic Model (NEM). Inclusiveness, along with high income and sustainability, was a key intended outcome of this vision (Bank Negara Malaysia, 2016a).

To fulfill its mandate around financial inclusion, Bank Negara Malaysia established a holistic financial inclusion framework within its 2011-2020 Financial Sector Blueprint (FSBP). In June 2023, BNM released its second Financial Inclusion Framework (2023–2026) to tackle several remaining barriers and challenges (Bank Negara Malaysia, 2023a). The four-year strategic roadmap shows a shift in the focus towards achieving broader development outcomes as well as financial resilience and well-being, from previously aimed at accessibility and usage.

PROGRESS IN FINANCIAL INCLUSION IN MALAYSIA

Physical access points have traditionally been the first avenue for customers to interact with the banking system (Demirguc-Kunt et al., 2018). Malaysia has expanded its footprint extensively. The average number of branches per 100,000 adults rose from 12.7 in 2011 to 19.8 in 2021, surpassing many nations (World Bank, 2021). The ATM network has doubled from around 9,000 to over 18,000 machines during this period (Bank Negara Malaysia, 2011). On top of that, this progress could be supplemented by agent banking partnerships between financial institutions and retail chains, and post offices numbering over 8,000 agents nationally (Bank Negara Malaysia, 2023c).

BNM also has introduced microfinance and micro insurance products. through Perlindungan Tenang (“Perlindungan Tenang”, 2017) dan Pembiayaan Mikro (“Pembiayaan Mikro”, 2023) to promote greater financial inclusion.

Financial literacy is a key enabler for driving effective usage of inclusive financial services

(OECD/INFE, 2013). BNM launched the National Strategy for Financial Literacy (NSFL) in 2019 which helped design learning modules suited to local needs through various mediums including community engagements and digital platforms (“Malaysia’s PM launches National Strategy for Financial Literacy”, 2019).

CHALLENGES IN ACHIEVING COMPREHENSIVE FINANCIAL INCLUSION IN MALAYSIA

Limited Access in Rural and Remote Areas

Remote communities, especially in the centers of East Malaysia remain underserved due to their low population density making traditional branch-based services unviable (Bank Negara Malaysia, 2023c). Reaching underserved communities located far from urban centers poses persistent difficulties in achieving universal financial inclusion, especially in developing nations (Sarkar & Thapa, 2021).

Within rural Malaysia, a population of 7.3 million persists, dwelling in 26,400 villages spanning the nation. Approximately 3.1 million individuals inhabit 46 distant districts across the peninsula, Sabah, and Sarawak. The enhancement of accessibility, economic prospects, and sustainability in these secluded regions continues to present a formidable policy undertaking (Adnan, 2019).

Low Financial Literacy and Awareness

Despite programs, financial concepts remain unfamiliar for vulnerable groups for instance seniors, housewives and the less educated who struggle to navigate complex products and services (OECD, 2020a). According to World Bank research, just 36% of Malaysian citizens are financially literate (Klapper, 2016). A startling 28% of Malaysian working adults report having to borrow money to buy necessities (Agensi Kaunseling dan Pengurusan Kredit, 2018).

Digital and Technological Barriers

Internet and smartphone penetration rates, while growing, are nearly 30% lower in rural B40

households versus urban areas, restricting the uptake of digital financial services (Malaysian Communications and Multimedia Commission, 2020). Device affordability and skills pose challenges. The latest Household Survey by the Department of Statistics (2021) found only 69% of rural households owned smartphones, compared to 94% in cities. Limited digital skills, especially elderly cohorts remain challenged operating online platforms (Mubarak & Suomi, 2022).

Regulatory Constraints and Consumer Protection

Regulating new types of non-bank entities to promote innovation while ensuring standards of conduct, privacy and consumer recourse require careful balancing (Global Partnership for Financial Inclusion, 2016b). Moreover, prudential standards developed for conventional institutions do not always accommodate emerging fintech business models well (Skog et al., 2018). At the same time, without proportionate protections, rapid expansion could expose unsavvy customers to risks disproportionate to benefits (OECD, 2018). Areas like digital credit scoring need refining (Bukonya, 2021).

STRATEGIES FOR ENHANCING FINANCIAL INCLUSION IN MALAYSIA

Strengthening Financial Education and Literacy Programs

Enhancing financial literacy is crucial to empowering effective participation in the formal financial system (OECD, 2020b). Leveraging technology, using local languages for interactive learning and demonstrating real-life impact of concepts through interactive community workshops, could impart demand-side skills (Ahmad, Green & Jiang, 2020; Kaur et al., 2022). Digital and mobile learning tools also present opportunities (OECD, 2018).

Long-term effectiveness relies on coordination between regulators, educators and fintech firms to develop suitably targeted solutions evaluated

through rigorous metrics (Lusardi & Mitchell, 2014).

Expanding Agent Banking and Mobile Financial Services

Lack of physical access remains a key barrier in remote communities (Nisha & Buhsra, 2020). Agent networks effectively scale last-mile reach through regular intermediaries. While Malaysian efforts have established a footprint, coverage gaps persist. The World Bank's 2021 Financial Inclusion Index highlighted room for expanding agent presence given geography and density (Demirgüç-Kunt et al., 2018). Another strategy to strengthen outlets in underserved regions is by leveraging reliable local entities as agents (Ozili, 2021).

Encouraging Collaboration Between Financial Institutions and Fintech Startups

Partnerships may enable established providers to tap innovative solutions by combining regulatory compliance and new customer segments which could foster the co-creation of inclusive products (Demirguc-Kunt et al., 2018). Fintechs' expertise in digital channels and non-traditional data combined with established players' scale, trust and infrastructure could hold synergy to drive financial inclusion (Parvez et al., 2023).

Tailoring Financial Products and Services to the Needs of Underserved Segments

Customized solutions to cater to the specific needs of low-income populations, women, farmers and small enterprises through flexible structures, community-based models and alternative data could enhance product relevancy and uptake (Ahmed & Ahmed, 2021; Ogeya et al., 2021; Gokhale et al., Vikas & Hari, 2023). One-size-fits-all approaches often fail to engage marginalized groups amid complex realities (Demirgüç-Kunt et al., 2008).

Addressing Regulatory Challenges and Promoting Consumer Protection

Striking the appropriate regulatory balance that encourages innovation while safeguarding consumer welfare is crucial for an inclusive ecosystem (AFI, 2022a). Testing novel products in contained environments allows examining risks and benefits before scaling, giving stakeholders clarity on the regulations (Ibrahim et al., 2016). Furthermore, the collaboration between authorities, civil society and industry bodies could develop inclusive yet innovative supervisory perspectives (AFI, 2022b).

CONCLUSION AND FUTURE DIRECTIONS

This article evaluates Malaysia's financial inclusion landscape, identifies the developments and discusses the bottlenecks and strategic priorities to drive financial inclusion. Access to formal financial services has expanded significantly due to coordinated policy efforts. However, barriers persist especially among vulnerable groups and remote populations. Systemic challenges include gaps in literacy, uneven technology penetration in rural areas, and balancing regulatory pragmatism with consumer protection. Ongoing assessment ensures the realization of an equitable and sustainable financial inclusion vision for all Malaysians.

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