



Getting Ready for the Next Digital Breakthrough



FINANCIAL INCLUSION REPORT 2022

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***Getting Ready
for the Next Digital
Breakthrough***

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Preface by the Governor



“**I am delighted to present the fourth edition of the Financial Inclusion Report for 2022, published by the Banco Central de Timor-Leste.**”

Since the first edition in 2016, the report has been an essential tool for assessing the level of financial inclusion in Timor-Leste and identifying the challenges and opportunities to promote it further. The report has provided more information and key insights into advancing financial inclusion with each new edition. The editions also show the continued improvement in the access and usage indicators, resulting from the entire financial sector's commitment to achieving greater financial inclusion.

Financial inclusion is a fundamental driver of economic development and poverty reduction, and the Central Bank is fully committed to this cause in Timor-Leste. By providing individuals and businesses with access to financial services and empowering them to make informed financial decisions, we can improve their economic well-being, enable them to achieve their financial goals and contribute to economic growth.

This report shows that the implementation of National Switch has provided a strong foundation for supporting financial services providers' development and technological innovation. Technology plays a pivotal role in fostering financial sector growth and promoting financial inclusion. Therefore, financial services providers, and even the Central Bank, must be prepared to embrace and adopt innovative ways to offer financial services.

To fully capitalize on the potential of technology in advancing financial inclusion, we need to invest in financial and digital literacy to enable Timorese to use digital tools and services confidently. The financial and digital literacy investment will help move beyond promoting simple access to financial services toward efficient usage of financial services and further economic development. Hence, promoting financial and digital literacy will remain a top priority for the Central Bank in the years to come.

I would like to express my gratitude to the Commercial Banks, Other Deposit-Taking Institutions, FinTech companies, other Financial Services Providers, and the team from the Central Bank who contributed to this edition of the report. I would also like to encourage NGOs and Government agencies to acknowledge the significance of financial inclusion as an important component of development projects and initiatives. The Central Bank is enthusiastic about working together to advance financial inclusion in Timor-Leste.

I hope you find this report informative and insightful.


ABRAÃO DE VASCONSELOS
Governor

Executive Summary

The Banco Central de Timor-Leste (BCTL) is fully committed to promoting financial inclusion as a critical tool for fostering economic development. By facilitating access to regulated financial services, financial inclusion enables individuals and households to manage their finances more effectively, save for the future, invest in income-generating opportunities, access credit for education, start a business, purchase a home, and mitigate risks associated with unforeseen events, thereby improving their standard of living. Financial inclusion increases access to capital for businesses, enabling them to grow and create jobs. It can also enhance their ability to manage cash flows, reduce transaction costs, and increase efficiency. Financial inclusion also helps promote the inclusion of marginalized groups, reducing the wealth gap and contributing to more equitable and sustainable economic growth.

Every two years since 2016, the Central Bank collects and analyzes information to measure and monitor financial inclusion's evolution in Timor-Leste. This is the fourth edition of the Financial Inclusion Report produced by BCTL.

The report's theme, "Getting Ready for the Next Digital Breakthrough," highlights the transformative impact of the digital revolution on the financial services industry. From digital currencies to online banking channels and the rise of FinTech, financial service providers and even the Central Bank must reimagine their processes, systems, and ways of working to keep pace with this rapid transformation. Harnessing the power of artificial intelligence and other cutting-edge technologies will boost productivity, enhance customer experiences, and drive innovation. Although Timor-Leste has taken steps toward digitization with e-wallet services, much work still needs to be done to promote digital financial services more broadly. To fully leverage the potential of these technologies, financial and digital literacy will be critical.

This report shows the continuous improvement of the main financial inclusion indicators, despite the persistent barrier of lack of financial and digital literacy. Low financial literacy levels lead to low uptake of financial services, even when available, as many people may not understand the benefits of financial services or how to use them effectively.

The report is divided into six chapters.

- ◇ **Chapter 1** details the most significant developments in the Timorese financial sector since the previous edition of the Financial Inclusion Report, published in 2021. It briefly updates the process to modernize the National Payment System, describes the evolution of the e-wallet services, and the status of commercial banks' digital channels.
- ◇ **Chapter 2** is a deep dive into the first dimension of the financial inclusion indicators, the access to financial services. The chapter describes the different types of financial services, the types of access points available, their geographic distribution, and how they evolved over the years. The updated maps of financial services access points are the main feature of this chapter.
- ◇ **Chapter 3** analyzes the second dimension of financial inclusion indicators, the usage of financial services. In this chapter, usage indicators are measured and evaluated. It includes the number of clients and accounts of financial services, their evolution over the years, and how representative these numbers are when compared to the adult population. The information is further detailed by gender and age group to offer information about the population segments that need more attention.
- ◇ **Chapter 4** evaluates the last dimension of the financial inclusion indicators: the services' quality. The report uses a framework of eight categories for assessing financial services; however, only supply-side data indicators were measured for this report.
- ◇ **Chapter 5** focuses on financial literacy. It summarizes the primary initiatives to promote financial literacy and how financial and digital literacy are the foundation to encourage more effective financial inclusion.
- ◇ **Chapter 6** concludes with the report's important messages and what to expect for the following years.

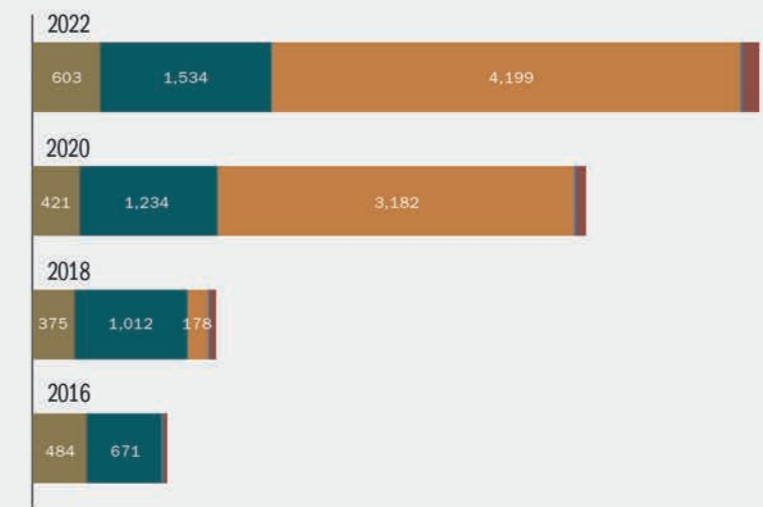
The data in this report are primarily supply-side data collected from the financial services providers and referent to the period ending in December 2022 unless otherwise stated. The population data used is from the Census 2022¹.

¹ National Institute of Statistics Timor-Leste, 2023. "Timor-Leste Population and Housing Census 2022"

FINANCIAL SERVICES ACCESS POINTS

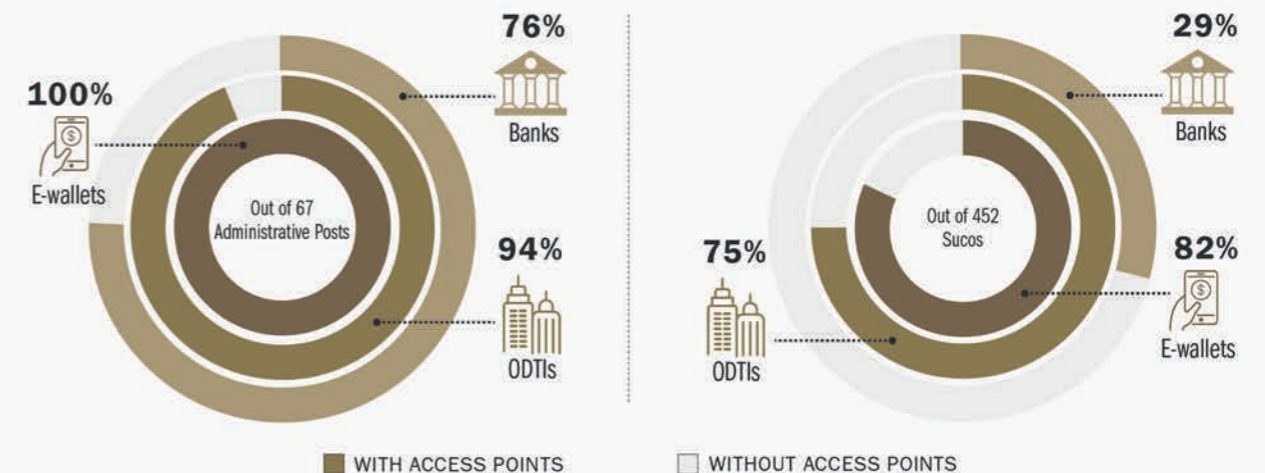
Financial Services access points continue to expand.

All types of financial services have increased the number of access points since 2020, except for the Currency Exchange Bureaus (CEBs). The e-wallet services and Other Deposit-Taking Institutions (ODTIs) had the most significant progress.



ADMINISTRATIVE POSTS ACCESS POINTS

The 603 Commercial Banks' access points are primarily concentrated in populated areas. ODTIs' access points are more widespread than the bank's. The 4,199 e-wallet access points cover all Administrative Posts and most of the Sucos.



TYPES OF INSURANCE

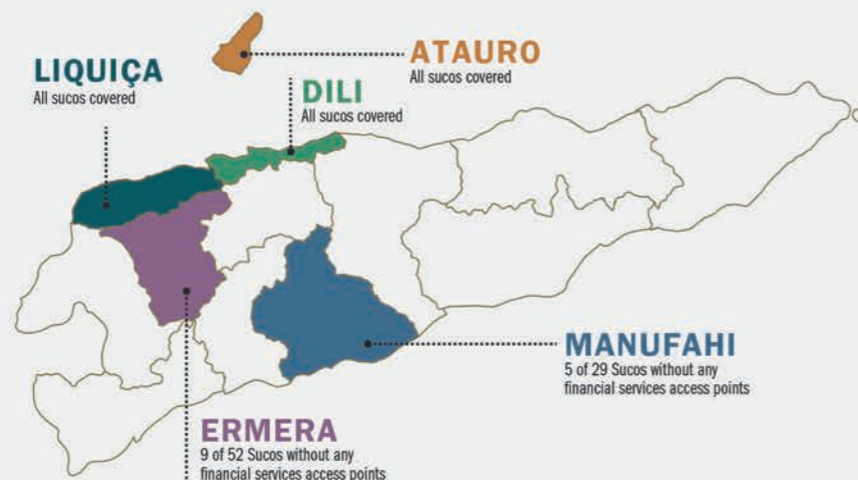
Sinar Mas Life Insurance, SA was licensed in 2022 to complement the insurance sector in Timor-Leste, composed of two general insurance companies and one life insurance company. The most popular classes of general insurance are personal accident, followed by vehicles in 2022.



NUMBER OF SUCOS COVERED BY FINANCIAL SERVICES ACCESS POINTS

Dili, Atauro and Liquiça have 100% coverage of financial services access points.

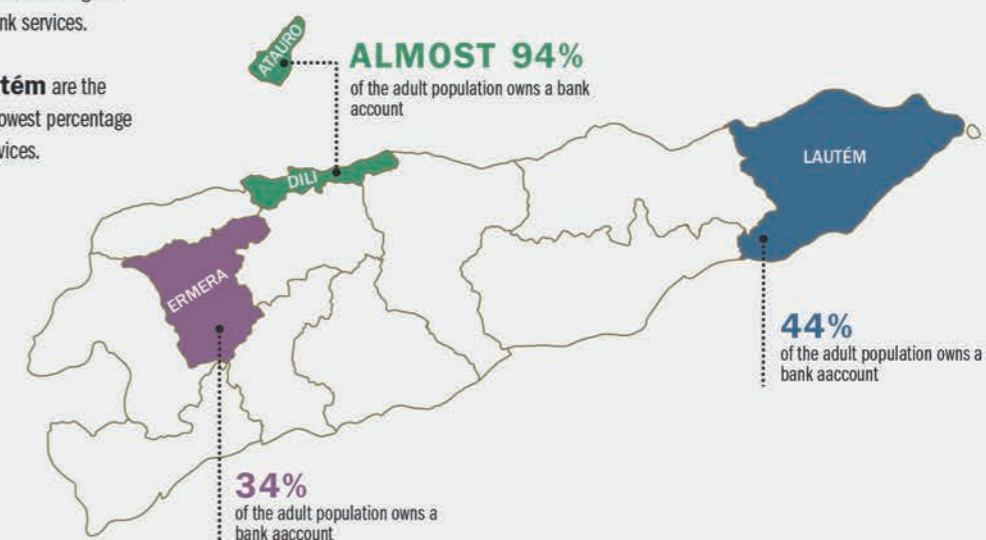
Ermera and Manufahi have the highest number of sucos without any financial services access points.



SHARE OF ADULTS USING BANK SERVICES

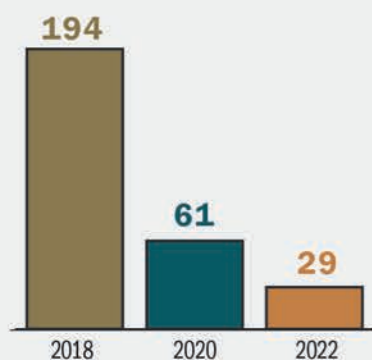
Dili and Atauro have the highest share of adults using bank services.

Ermera and Lautém are the municipalities with the lowest percentage of adults using bank services.



UNSERVED SUCOS

Since 2018, the number of unserved sucos has declined due to increased financial services access points and their geographic distribution.



ADULT POPULATION USING FINANCIAL SERVICES IN 2022

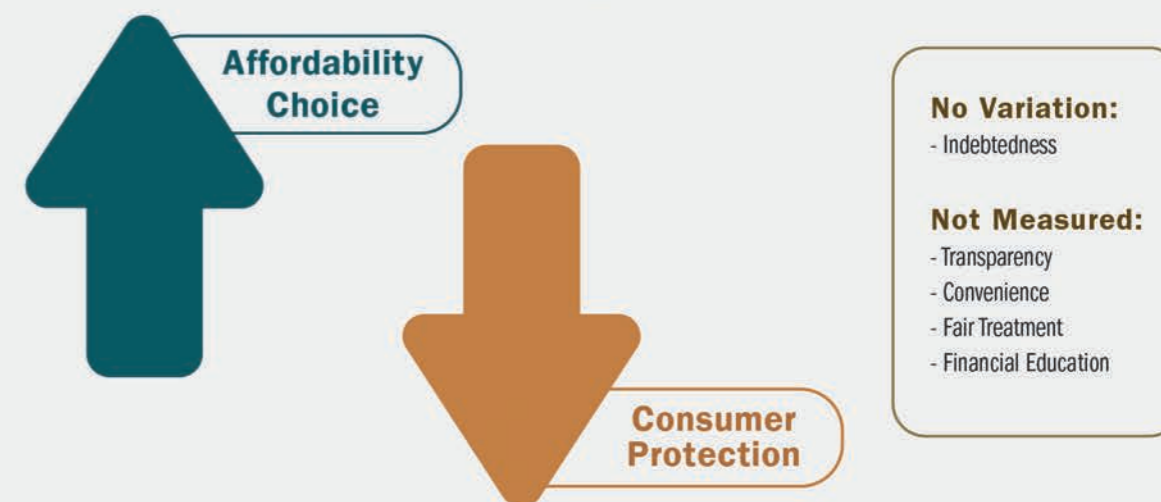
Timorese adults are using more financial services compared to 2020.

From the gender perspective, women use more financial services than men, except for e-wallet services.

	Banks	ODTIs	E-wallets
Total Adult Population	64%	6%	22%
Female	65%	10%	18%
Male	62%	2%	27%

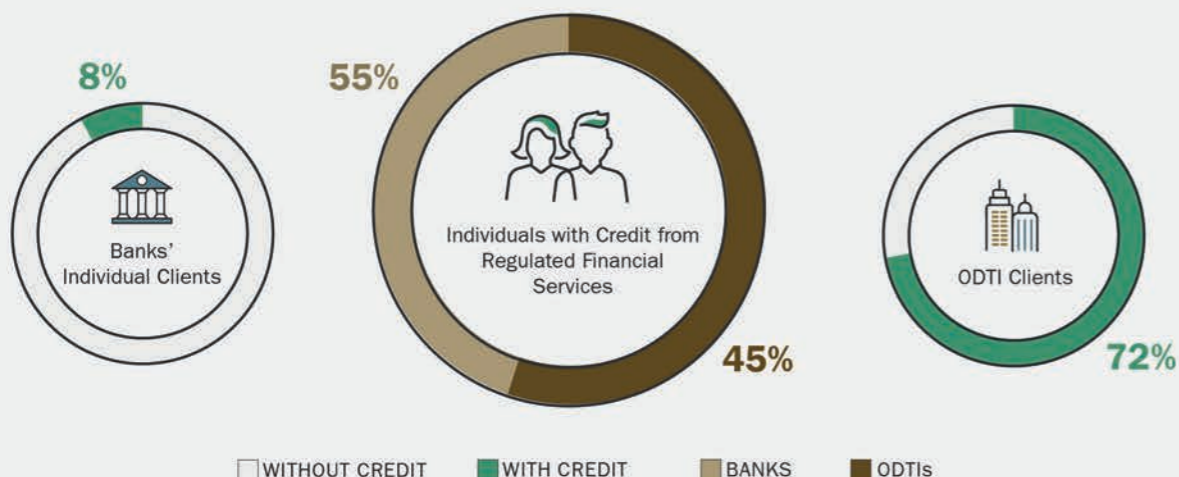
QUALITY INDICATORS

Among the quality indicators measured, two improved compared to 2020, **Affordability and Choice**.



CREDIT MARKET FOR INDIVIDUALS

The two ODTIs are very competitive in the credit market, serving 45% of individuals with credit from regulated financial institutions, and the five banks serve the remaining 55%. As 72% of ODTIs clients have an active loan, while only 8% of bank clients have a bank loan.



This Financial Inclusion Report is dedicated to Mr. Abraão Vasconcelos, the Governor of the Banco Central de Timor-Leste, for his visionary leadership and commitment to promoting financial inclusion. Under his stewardship, financial inclusion has been elevated as a Central Bank priority, leading to the implementation of numerous impactful programs and attaining significant results. Governor Abraão played a pivotal role as the initiator of the first Financial Inclusion Report published in 2016.

The BCTL team would like to express our deepest gratitude and appreciation to Mr. Abraão Vasconcelos for his dedication, foresight, and profound impact on advancing financial inclusion in our country.



CHAPTER 1

Financial Inclusion Recent Developments

Significant developments in the Timorese financial sector have occurred since the last Financial Inclusion Report, published in early 2021, referring to 2020.



Among the critical developments, the three with the most significant impact on financial inclusion are the ongoing modernization of the National Payment System, the expansion of the e-wallet services, and the promotion of internet banking as an alternative and convenient channel for bank clients.

Technology plays a significant role in promoting financial inclusion. Digital financial services, such as e-wallets, internet banking platforms, mobile applications, agent networks, and automated teller machines (ATMs), enable people to access financial services without visiting a bank branch. This has been particularly important in Timor-Leste, where many people live in rural areas far from traditional banking services.

MODERNIZATION OF THE NATIONAL PAYMENT SYSTEM

The modernization of the National Payment System has been a critical focus for the BCTL; it includes the implementation of the National Switch, known as P24. The system provides the infrastructure to connect major financial service providers, the Ministry of Finance, and indirect participants, offering a secure platform for different financial services to exchange information and perform transactions.

For the complete implementation of the P24 system, commercial banks have been replacing their clients' debit cards with the P24 debit card, allowing debit cardholders to use any ATM and EFTPOS (Electronic Funds Transfer Point of Sales) with the P24 logo,

regardless of the bank that issued the card or the ATM and EFTPOS equipment ownership. In the current phase, the EFTPOS from BNU and BNCTL already accept P24 cards as ATMs with the P24 logo.

E-wallet providers Telemor FinTech Unipessoal, Lda with brand product Mosan and Tellin Digital Solution, Lda with brand product TPAY, have also completed their connection to the National Switch, allowing customers to transfer money between their bank accounts and e-wallet account from their mobile applications. Other financial services like ODTIs are expected to connect to the National Switch soon.

Regarding international connectivity, BNCTL has completed the setup process to be the acquirer (an intermediary between merchants and card payment network) for Union Pay International cards. Union



Pay International cards are accepted in the BNCTL equipment, ATMs, and EFTPOS with the P24 logo. A similar process for international Mastercard cards is almost completed, led by BNU Timor.

BNU Timor's ATMs and EFTPOS also accept International Visa cards. Recently BNU Timor, in collaboration with the BCTL and other service providers, implemented the "contactless" payment for its Visa card, issuing and operating security protocols "Visa 3D Secure", fully compliant with Visa's operational requirements.



Implementing the P24 is an ongoing process; the current phase is focused on permitting international card transactions in Timor-Leste and preparing to implement a mobile banking solution. These efforts towards modernizing the National Payment System in Timor-Leste are expected to positively impact the country's financial sector while facilitating access to evolving payment technologies.

E-WALLET EVOLUTION

In recent years, e-wallet services have become increasingly popular as a convenient and secure way to do financial transactions. Timor-Leste joined the trend in 2019 after a successful pilot period that began in August 2018. Since then, e-wallet services have grown steadily in the country, with two e-wallet services, Mosan and T-PAY, leading the process.



One of the key factors behind the success of e-wallet services in Timor-Leste has been the ability to implement an aggressive expansion strategy. The e-wallet services have the largest distribution network in Timor-Leste among the different financial services, with e-wallet agents and merchants representing 65% of the country's 6,508 financial services access points. E-wallet users can also transfer money between their bank and e-wallet accounts from their mobile applications; 920 users have already linked their e-wallet and bank accounts. The extensive distribution network has also helped promote financial inclusion in the country, making it easier for people in remote areas to access financial services.

There are many challenges to increasing the service uptake further and promoting a more regular usage of the services. The challenges are raising awareness, low financial literacy, limited internet access for agents in rural areas, and for the mobile clients' application, agents' liquidity, and addressing consumer resistance to change.



EXPANSION OF BANK'S DIGITAL PLATFORMS

In Timor-Leste, three of the five commercial banks already offer internet banking as a convenient channel for clients to manage their bank accounts. ANZ (only serving corporate clients), BNU Timor, and the only local bank, BNCTL, offer the channel. The remaining two banks, Bank Mandiri and BRI, are developing and testing their internet banking channels, with plans to launch them before the end of 2023.

Commercial banks have been promoting the internet channel among their clients; however, the uptake is still low; currently, only 1.2% of bank clients have registered to use internet banking. Barriers to increasing channel usage are the low financial and digital literacy levels and limited internet access among the population.

Digital banking platforms allow banks to attract digitally savvy individuals and younger population segments to regulated financial services. These segments are mainly educated people who often prefer to manage their financial transactions online and value the convenience and accessibility that digital banking platforms offer.

Moreover, digital banking platforms allow banks to establish a closer relationship with their customers by offering faster response time, customized services, and recommendations based on customers' transaction history and preferences, enhancing the customer experience.



CHAPTER 2

Access to Financial Services

Easy access to financial services is an essential element of financial inclusion. Hence, access to financial services is the first dimension to evaluate financial inclusion. Access indicators aim to assess the quantity and distribution of financial services access points and evaluate to what extent they represent a financial inclusion barrier.

Despite the increasing availability of financial services through digital channels, brick-and-mortar access points still play an essential role in facilitating client acquisition and retention in Timor-Leste due to the low level of digital literacy.

This chapter describes the evolution of different types of financial services access points over the years and how they are geographically distributed.

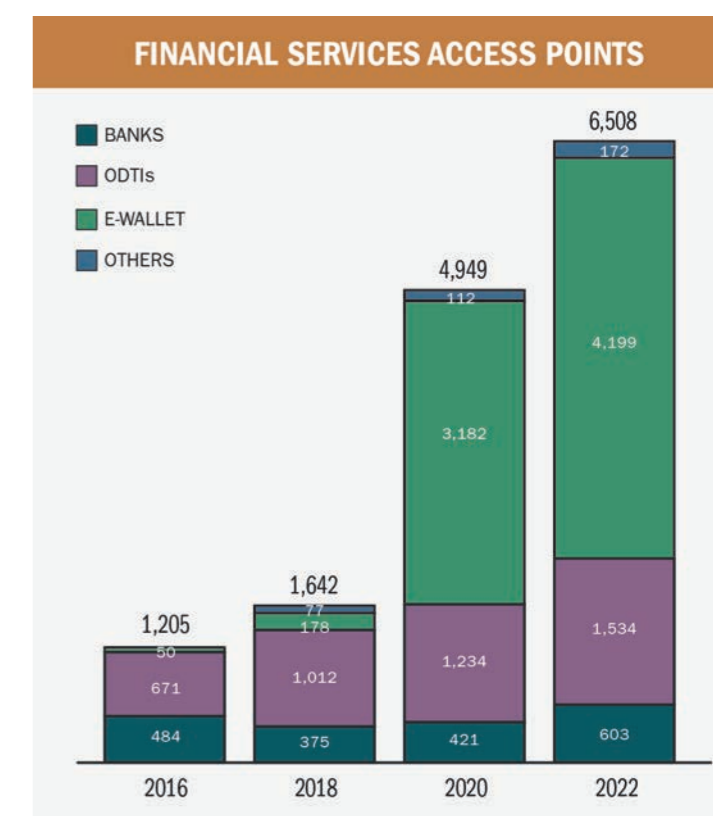
FINANCIAL SERVICES ACCESS POINTS

The number of access points in 2022 increased by 32% compared to 2020, totaling 6,508. All types of financial services showed strong growth, except for Currency Exchange Bureaus (CEBs). E-wallet services and ODTIs had the most significant increase in the period.

Table 2.1 shows the detailed evolution of access points over the years.

The chart shows the continued growth rates since 2016, with e-wallet services with the most aggressive growth, mainly from 2018 to 2020, when the service started to be offered.

The number of access points has increased over the years, and the geographical distribution has also improved significantly, as shown in the maps in the following pages. Figure 2.1 shows the distribution of financial services access points consolidated at the Administrative Post level. Figure 2.2 shows the number of different types of financial services available per suco, based on the access points; the financial services considered for this map are the commercial banks, ODTIs, e-wallets, insurance, CEBs, MTOs, and unregulated micro-credit providers (credit unions, pawn shops, and other micro-credit providers).



Note: Others include Insurance Companies, Currency Exchange Bureaus (CEBs), Money Transfer Operators (MTOs), Other Credit Providers, Credit Unions, and Multi-Sectorial Cooperatives that offer credit.

Table 2.1. Financial Services Access Points Evolution

TYPE OF FINANCIAL SERVICES	2016	2018	2020	2022	GROWTH OF 2022 OVER 2020
Bank Services: branches, sub-branches, ATM, ETFPOS, meeting centers, and banking vehicles*	484	375	421	603	43%
Other Deposit Taking Institutions (ODTI): field offices, meeting centers	671	1,012	1,234	1,534	24%
E-wallet Services: agents and merchants	-	178	3,182	4,199	32%
Insurance Companies	2	2	2	3	50%
Currency Exchange Bureaus (CEB)	2	3	5	4	-20%
Money Transfer Operators (MTO)	14	20	22	23	5%
Other Credit Providers: pawnshops and microcredit services	N/A	9	15	18	20%
Credit Cooperatives: Credit Union and Multi-sectorial Cooperatives that offers credit	32	43	68	124	82%
TOTAL	1,205	1,642	4,949	6,508	32%

N/A = data not available

*24 banking vehicles were added in 2020

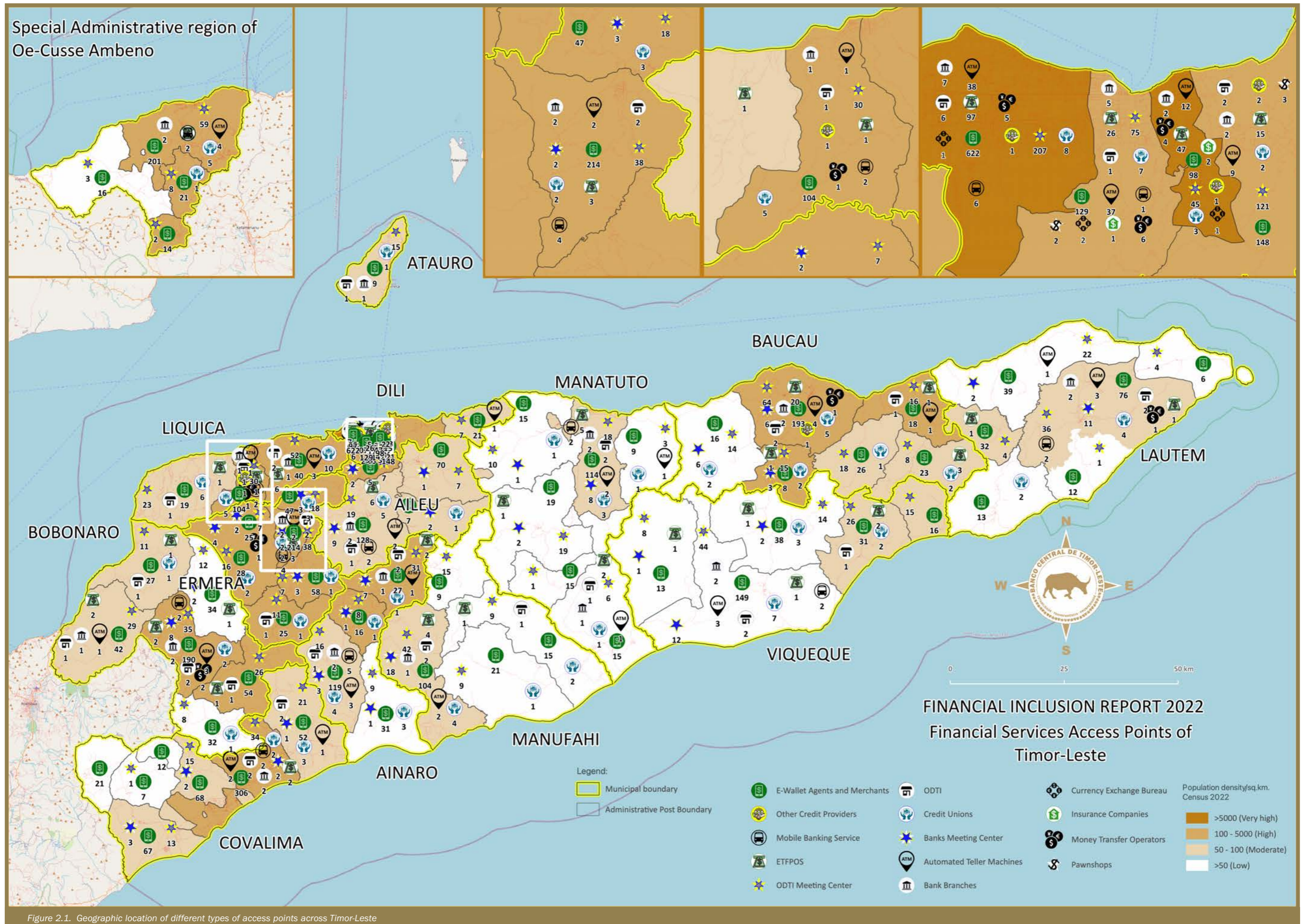


Figure 2.1. Geographic location of different types of access points across Timor-Leste

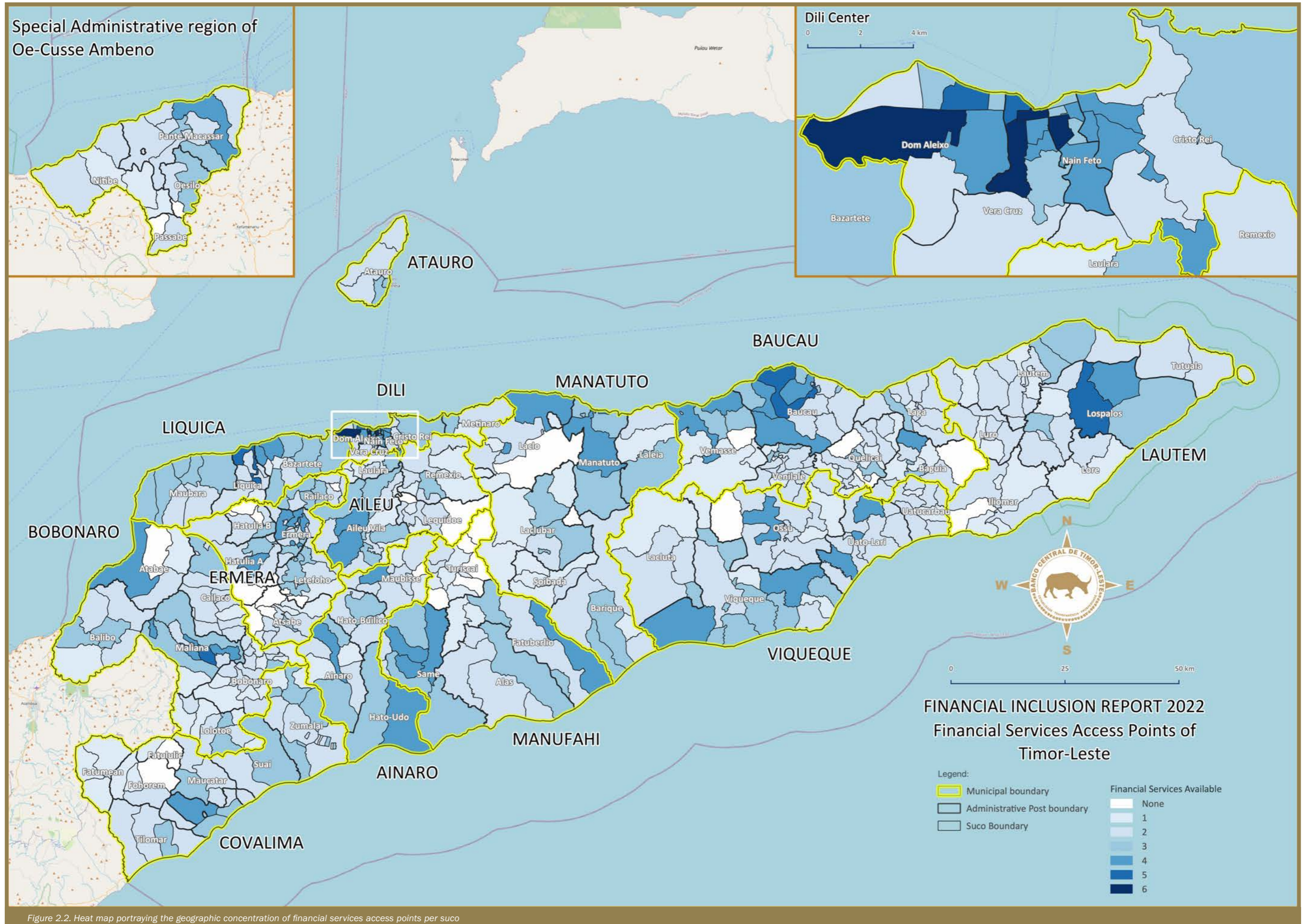
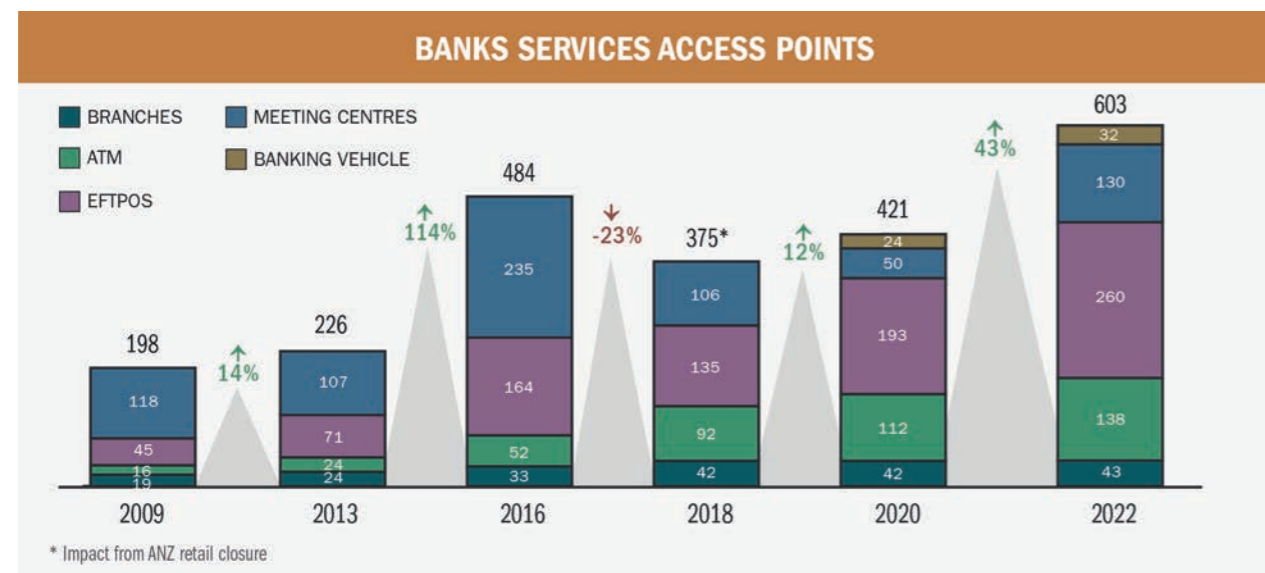


Figure 2.2. Heat map portraying the geographic concentration of financial services access points per suco



Commercial Banks

There are five commercial banks in Timor-Leste.

- ◊ Banco Nacional Ultramarino (BNU) Timor, from the Grupo Caixa Geral de Depósitos
- ◊ Australia and New Zealand Banking Group, Limited (ANZ) Timor-Leste Branch
- ◊ Banco Nacional de Comércio de Timor-Leste,SA (BNCTL)
- ◊ PT. Bank Mandiri (Persero), Tbk (Bank Mandiri) Timor-Leste Branch
- ◊ PT. Bank Rakyat Indonesia (Persero), Tbk (BRI) Timor-Leste Branch

These banks have 603 access points spread over the country, a 43% increase from the 421 access points in 2020. While the number of branches has not changed significantly since 2018, from 42 to 43 branches in 2022, other access points have consistently increased, with EFTPOS and meeting centers having the most significant growth compared to 2020.

The interoperability of ATMs and EFTPOS contributed to optimizing the equipment distribution across the country, making the whole system more efficient as banks can decide to invest in areas without similar access points. There is no need to have different bank ATMs, or EFTPOS, in the same location, as it used to be before the P24 interoperability. Clients with P24 debit cards can use any equipment from the P24 system.

The BNCTL is the commercial bank with the most diverse access points network, from bank units to meeting centers and banking service vehicles. In 2022, the BNCTL had two bank units, small branches offering

specific services. For example, the BNCTL unit at the National University of Timor-Leste (UNTL) primarily receives university fee payments and operates according to the university calendar. Another unit at Akanuno in the National Directorate of Land Transport was set up to receive driving and vehicle license fee payments. The BNCTL is the only bank to use meeting centers as access points. Meeting centers are usually set up in rural areas to offer group loans, a legacy of the period the bank was a microfinance institution.

Increasingly, commercial banks have adopted the “Banking Service Vehicles” as an alternative access point. The BNCTL started the trend to facilitate social benefit payments to individuals living in rural areas, distant from any bank branch. The BNCTL has a few banking service vehicles per branch, and these vehicles have a pre-defined schedule to cover specific areas and offer specific services. The Bank Mandiri also has banking service vehicles, but mostly to cover particular locations around the capital, Dili.

Regarding digital channels, three banks (ANZ, BNCTL, and BNU) offer clients the option to use digital channels to perform financial transactions. The remaining two banks (Bank Mandiri and BRI) are developing and testing their digital channels, aiming to launch them in 2023.

On the geographic distribution, bank branches, ATMs, and EFTPOS are concentrated in urban areas, as expected. Bank access points cover all 14 municipalities. At a more granular level, 51 of the 67 Administrative Posts², or 76%, are covered by bank access points. On the suco level, 131 sucos are covered by bank access points; the remaining 321 have no bank access point, 71% of sucos are unserved.

The overall bank coverage improved compared to 2020, when only 66 sucos had bank access points, as detailed in Table 2.2. Alternatively, the banking service vehicles provide occasional coverage in places without bank access points.

Table 2.2. Bank Access Point Coverage

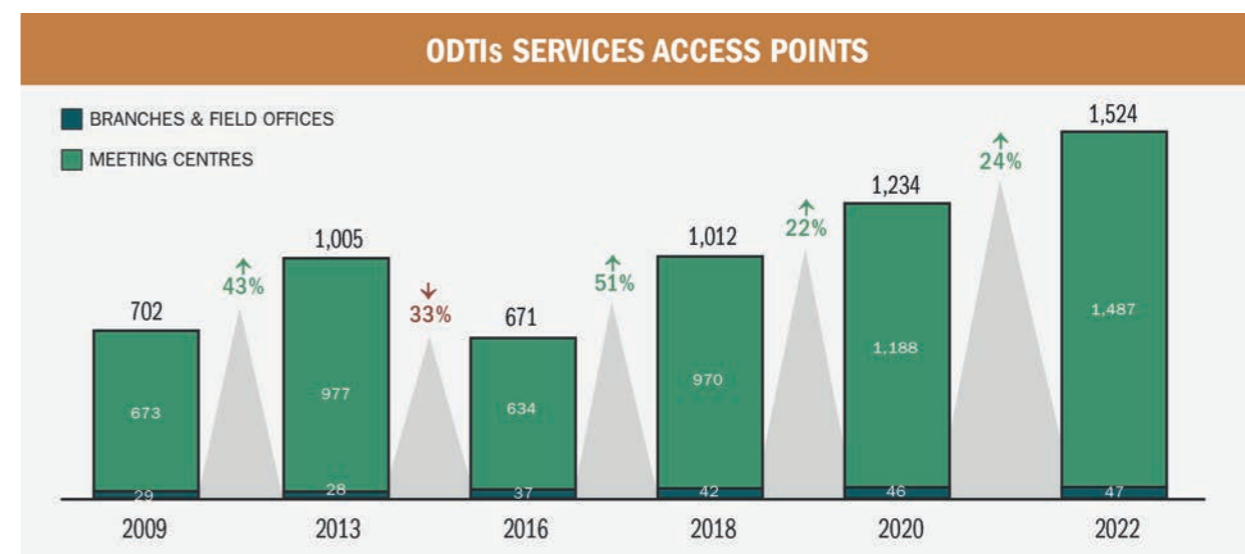
	MUNICIPALITIES	ADMINISTRATIVE POSTS	SUCOS
Total Number of Administrative Unit	13	65	452
Bank Service in 2020	13	25	66
% of Bank Access Points Coverage	100%	38%	15%
Total Number of Administrative Unit	14	67	452
Bank Service in 2022	14	51	131
% of Bank Access Points Coverage	100%	76%	29%

Figure 2.3 on the next page shows the distribution of branches. An estimated 33% of the population lives within a 5 km distance in a straight line from a bank branch, and an estimated 47% lives within a 10 km³. Hence 53% of the population must commute more than 10 km to access any bank branch service.

Other Deposit-Taking Institutions

There are two Other Deposit-Taking Institutions (ODTIs) in Timor-Leste, Keabau Investimentu no Finansas,SA (KIF) and Servisu Finanseiru Moris Rasik,SA (SFMR). Together they maintain 1,534 access points, an 24% increase from 1,234 in 2020. Most access points are meeting centers where group loan meetings take place.

The ODTIs access points cover an extensive area compared to commercial banks. 63 of the 67 Administrative Posts were covered by ODTIs access points, and 75% of sucos, 338 of the 452 sucos were covered, a significant improvement compared to 284 sucos in 2020.



² Two Post Administrative were created, Lore in Lautém, and Hatulia in Ermera was separated in Hatulia A and Hatulia B - according to the Law N.º 14/2021 from 7th July (second change in Law N.º 11/2009)

³ Calculated using the Census 2015 dwellings location. Up to 5km from branches, there are 67,526 dwellings, and up to 10 km, 95,806 dwellings.

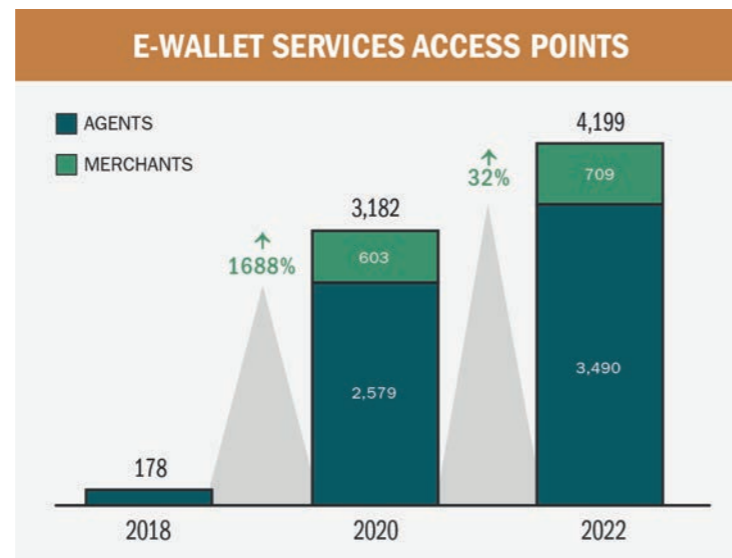


Figure 2.3. Commercial bank branches network and their circular coverage area

E-wallet

Two FinTechs offer e-wallet services in Timor-Leste, Telemor FinTech, Unipessoal, Lda (MOSAN), and Tellin Digital Solution, Lda (TPAY linked to Telkomcel). Telemor also holds an MTO license. There are two types of e-wallet access points, agents and merchants, and some merchants are also registered as agents. Agents operationalize transfers, cash-in, and cash-out transactions, while merchants accept payments through e-wallets.

Both operators have mobile applications, allowing customers to do many transactions independently, without an agent, including transfers from bank accounts to e-wallet accounts and transfers between users of the same operator.



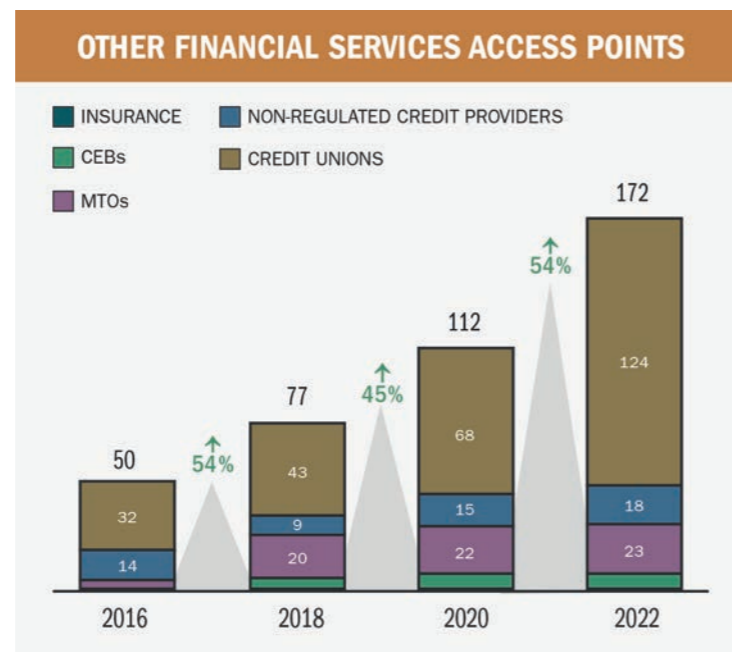
The e-wallet services have the most extensive access point network among financial services. E-wallet agents are in all 67 Administrative Posts and 371 of the 452 sucos, covering 82% of the sucos. Figure 2.4 on the following page shows the number of agents and merchants per suco.

Other Financial Services

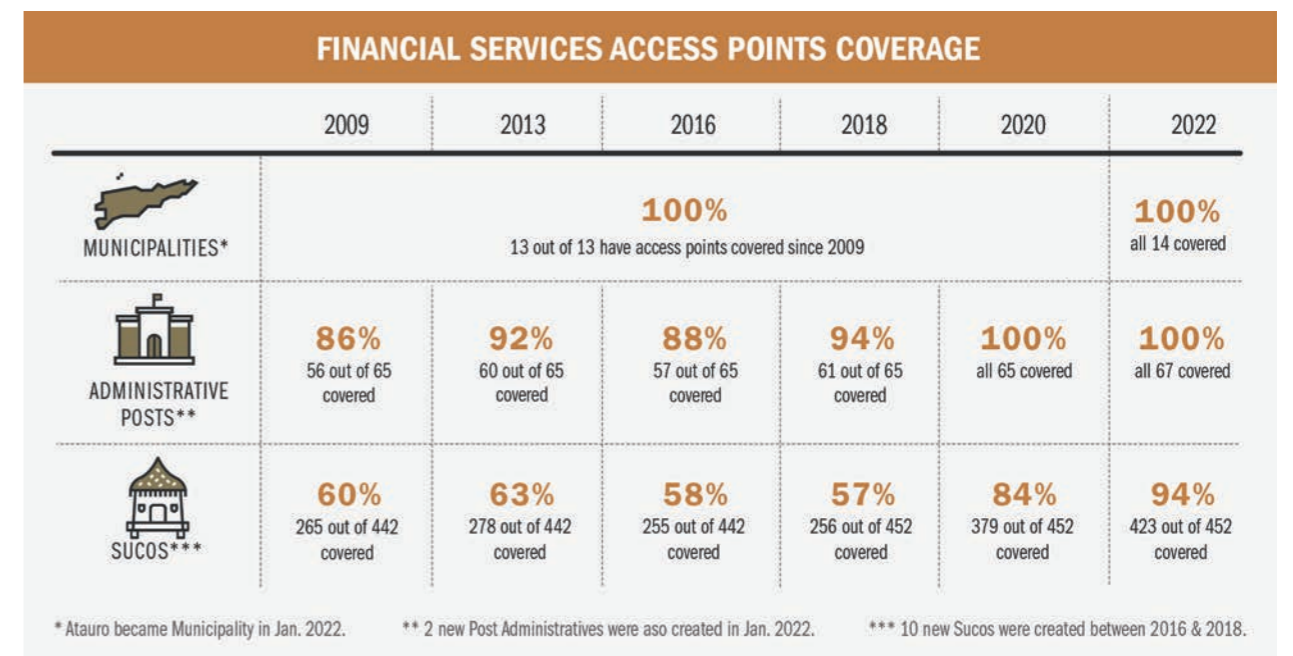
Furthermore, the Timorese financial sector includes insurance companies, currency exchange bureaus (CEBs), money transfer operators (MTOs), and micro-credit providers.

There are three providers of insurance services, Federal Insurance Timor, SA (FIT), Sinar Mas Insurance, SA (SMLI), general insurance companies; and Sinar Mas Life Insurance, SA (SMLI). Sinar Mas Life Insurance, SA is a separate entity licensed in 2022 to offer only life insurance. Each company maintains an office in the capital, Dili, totaling three access points.

The country has four currency exchange bureaus, all with offices in Dili. The 23 MTOs offices are in Dili and the main urban areas of Ermera, Bobonaro, Liquiçá, Baucau, and Lautém.



The micro-credit providers such as credit unions, pawn shops, and stores that provide credit are not regulated. These micro-credit providers account for 142 access points across the country. There are currently 124 credit unions and multi-sectoral cooperatives offering credit to members, according to the data from the Secretary of State for Cooperatives (SECOOP, acronym from the Portuguese Secretaria de Estado de Cooperativas).



FINANCIAL INCLUSION ACCESS INDICATORS

The increase of financial services access points improved the distribution of services across the administrative divisions. At the end of 2022, all 14 municipalities and 67 administrative posts had financial services access points and 94% of the 452 sucos. The remaining 29 sucos, 6% of the total, had no financial service access points.

The infographic above details the increase in access points and how it impacts the sucos coverage.

The evolution of the access indicators relative to the adult population and area is described in Table 2.3 below.

Table 2.3. Access Indicators Relative to the Adult Population and Geographic Area

ACCESS INDICATORS	PER 10,000 ADULT POPULATION			PER 1,000SQ KM		
	2020	2022	VARIATION	2020	2022	VARIATION
Bank Branches	0.63	0.53	↓	2.82	2.89	↑
ATM	1.69	1.70	↑	7.53	9.28	↑
ETFPOS	2.91	3.21	↑	12.98	17.48	↑
ODTI Access Point	18.63	18.93	↑	82.99	103.16	↑
E-wallet Access Point	48.05	51.81	↑	173.44	282.38	↑
Cash-in and Cash-out Access Point*	41.96	46.27	↑	186.89	252.19	↑

* This includes banks and ODTI branches, ATMs, bank services car, and e-wallet agents
 Note: Adult population Census (17 years old and above): 2015 = 662,285; 2022 = 810,421

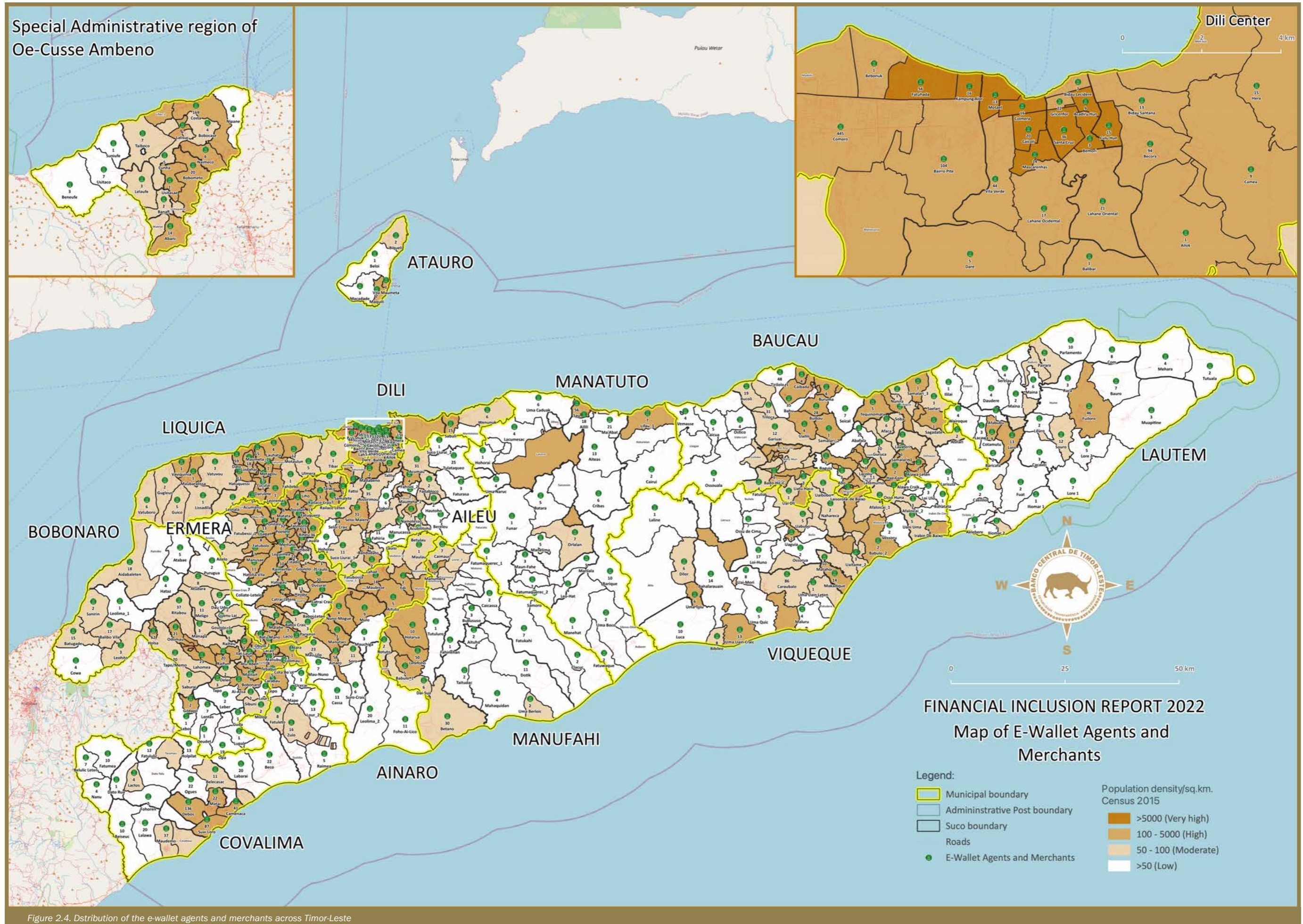
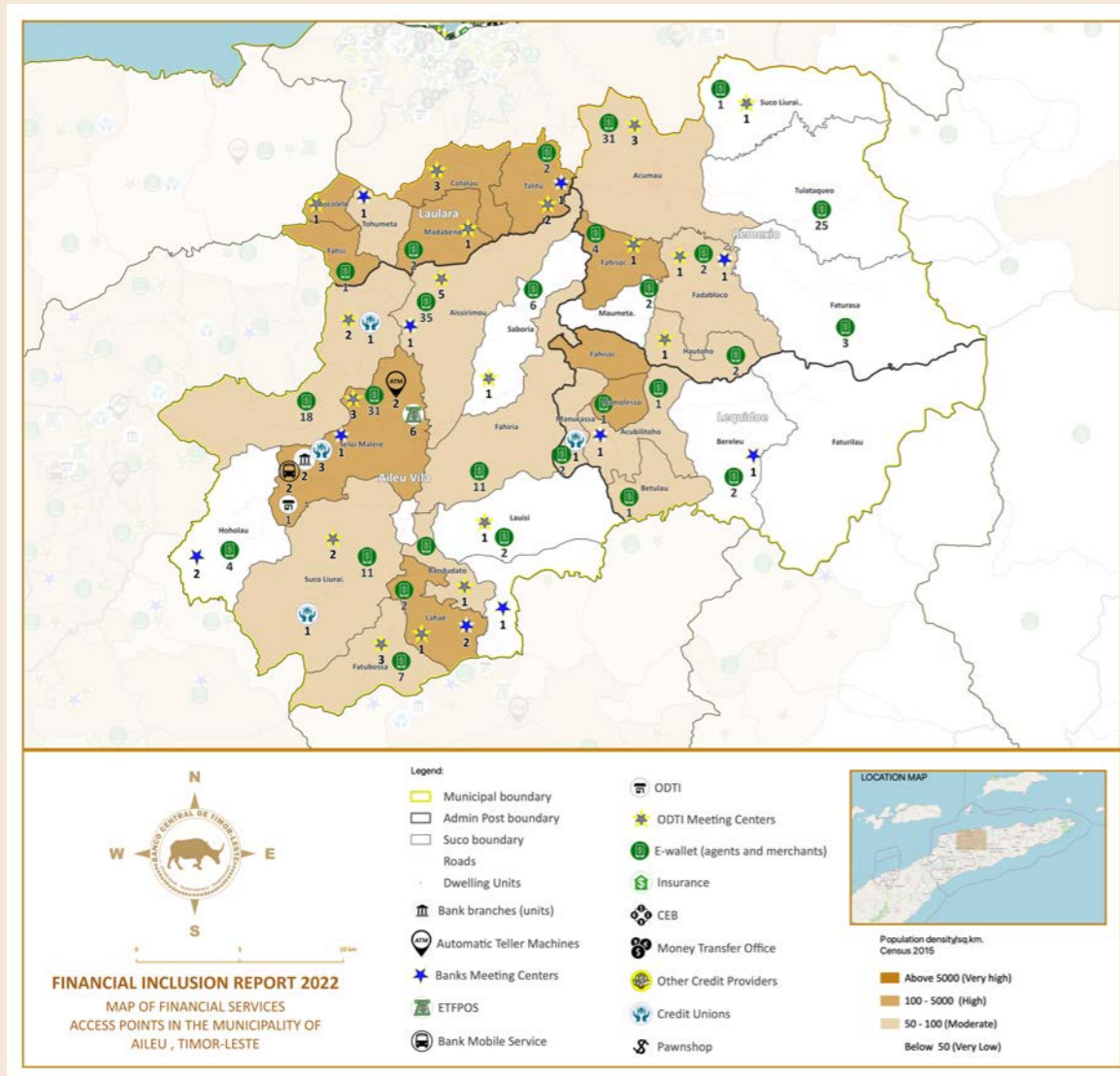


Figure 2.4. Distribution of the e-wallet agents and merchants across Timor-Leste

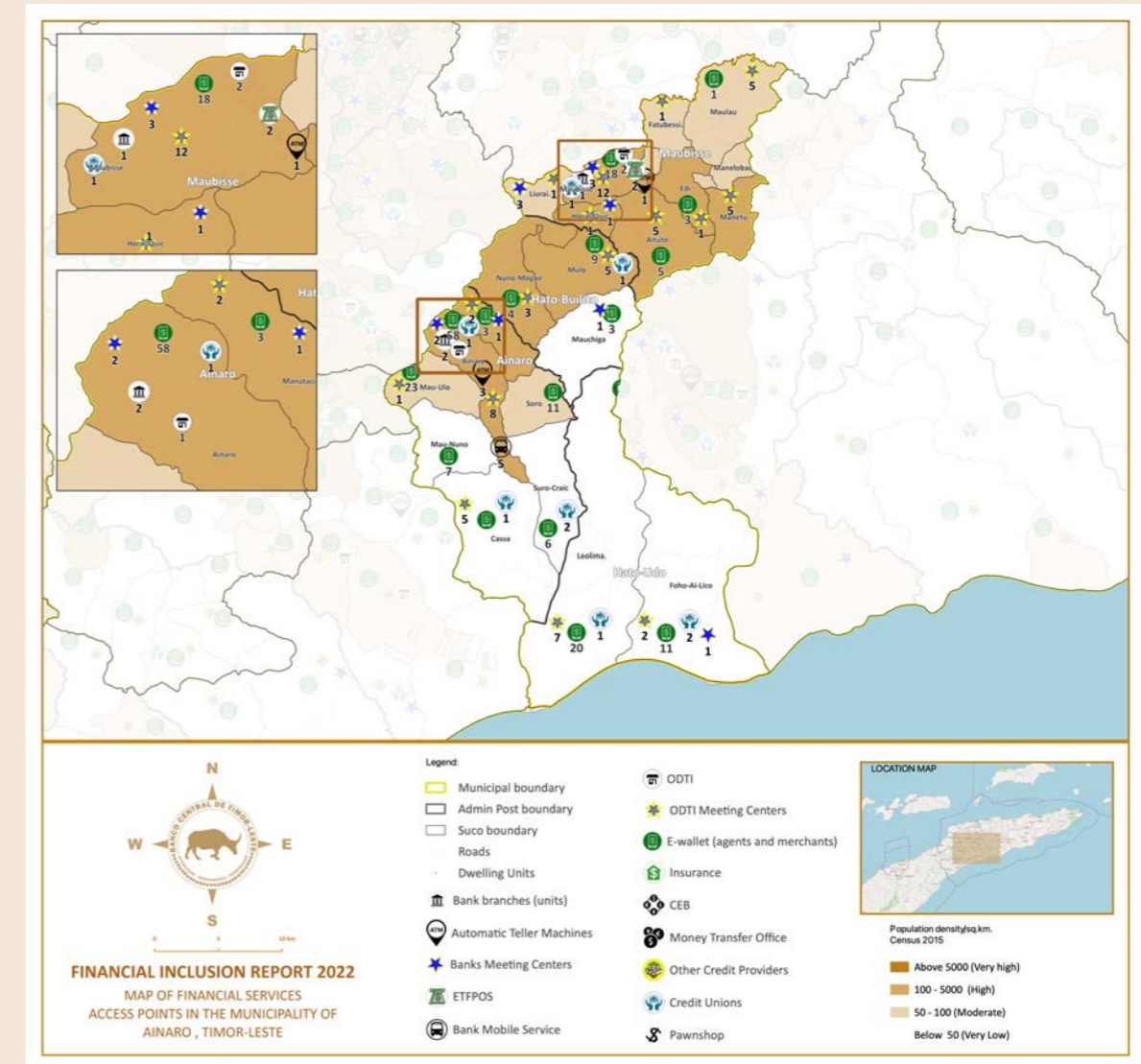
Fact Sheet

ON FINANCIAL ACCESS POINTS IN MUNICIPALITIES



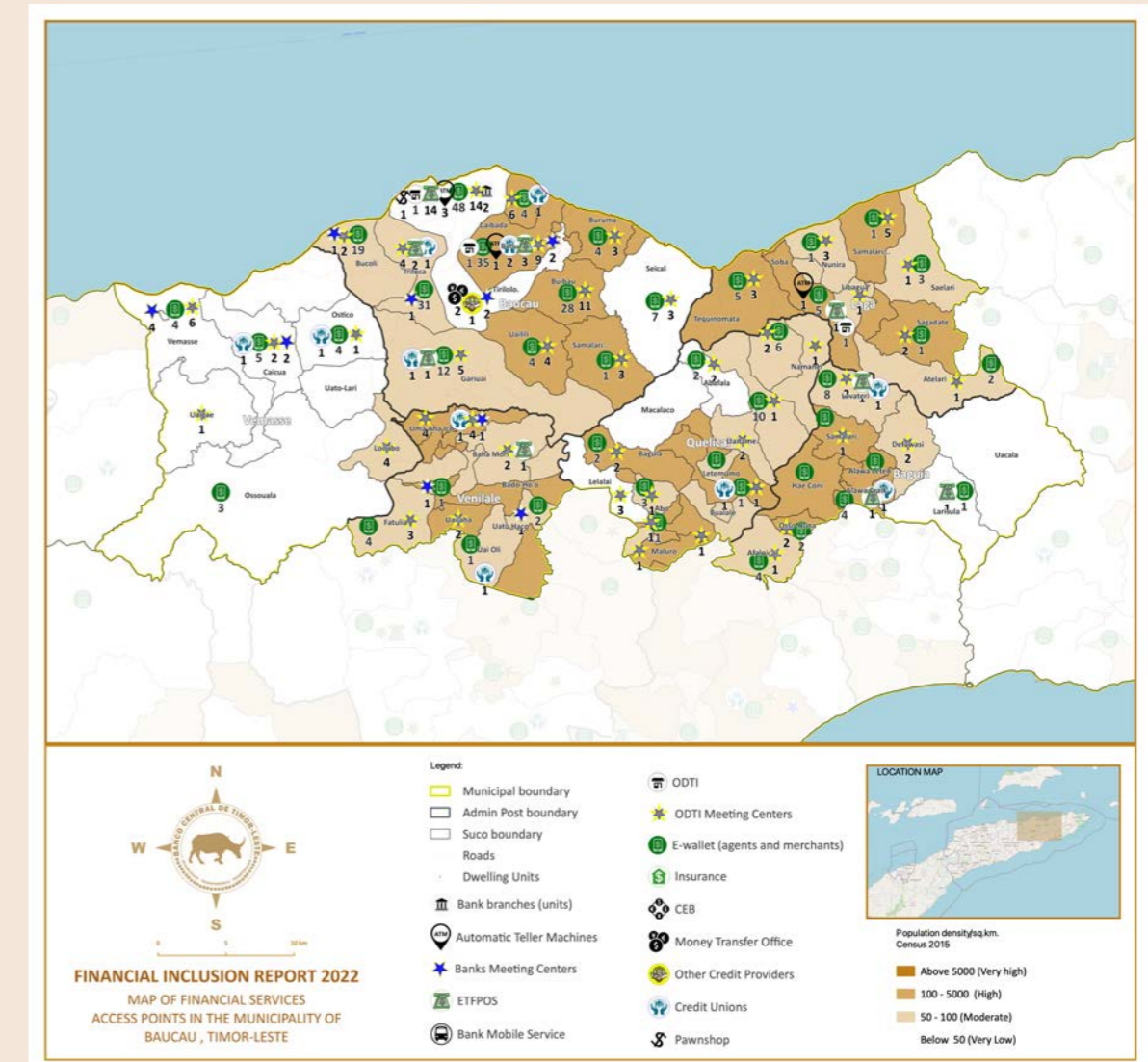
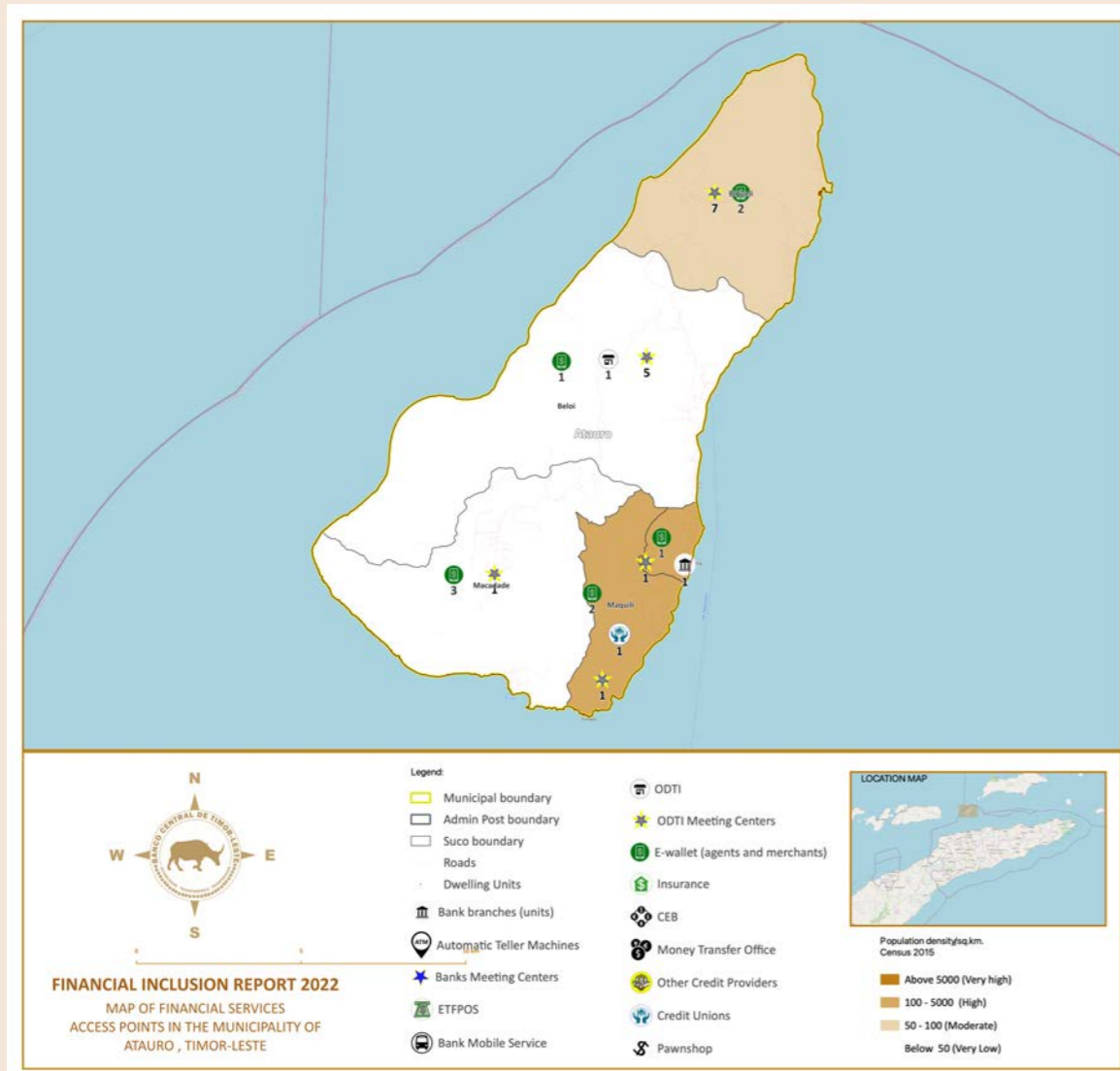
Aileu Municipality

- » **Population:** 54,324
- » **Total land area:** 736 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 33
- » **Unservd Sucos:** 2 (*Fahisoi and Faturilau*)



Ainaro Municipality

- » **Population:** 73,115
- » **Total land area:** 803 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 21
- » **Unservd Sucos:** 1 (*Manelobas*)



Atauro Municipality*

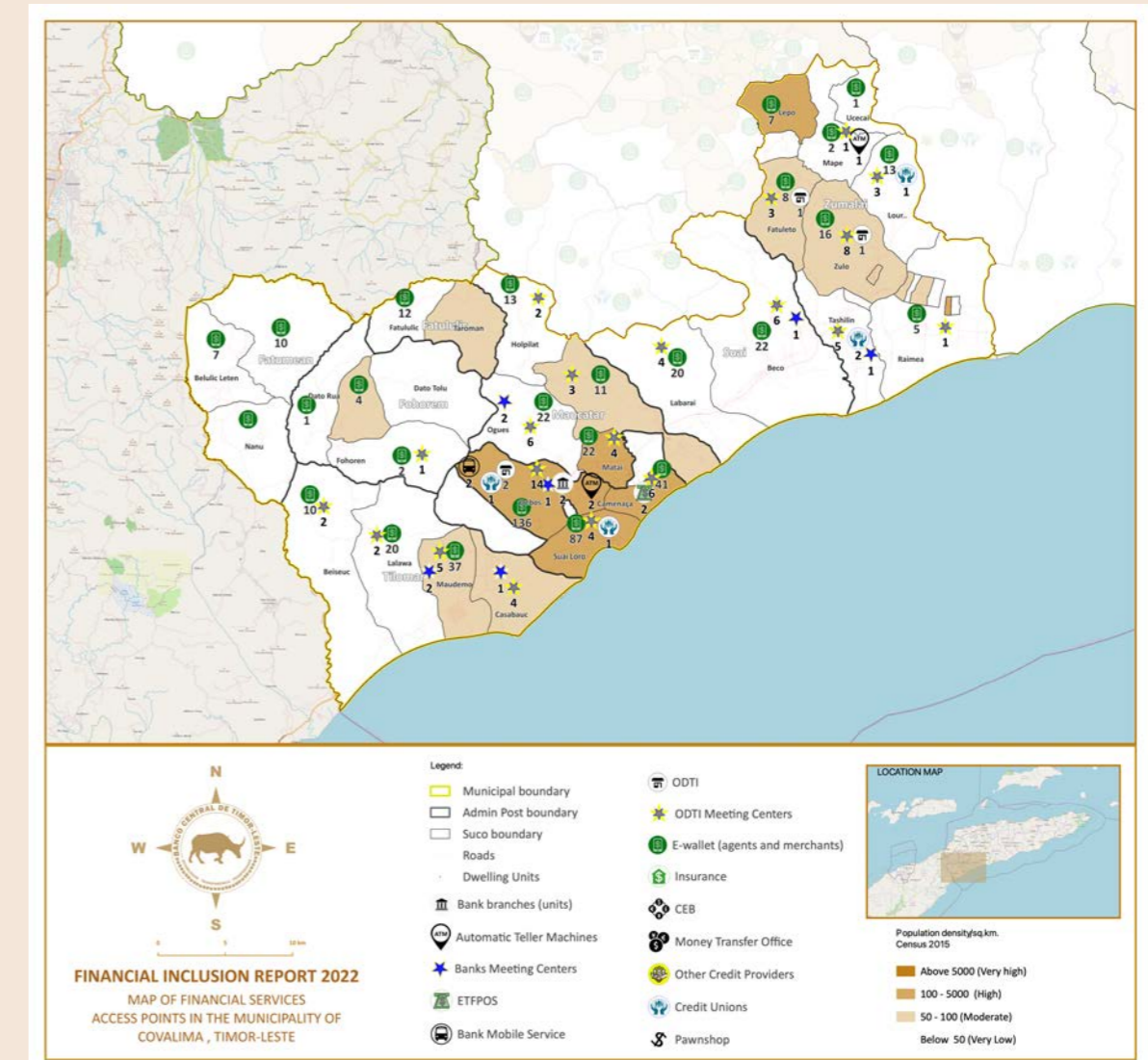
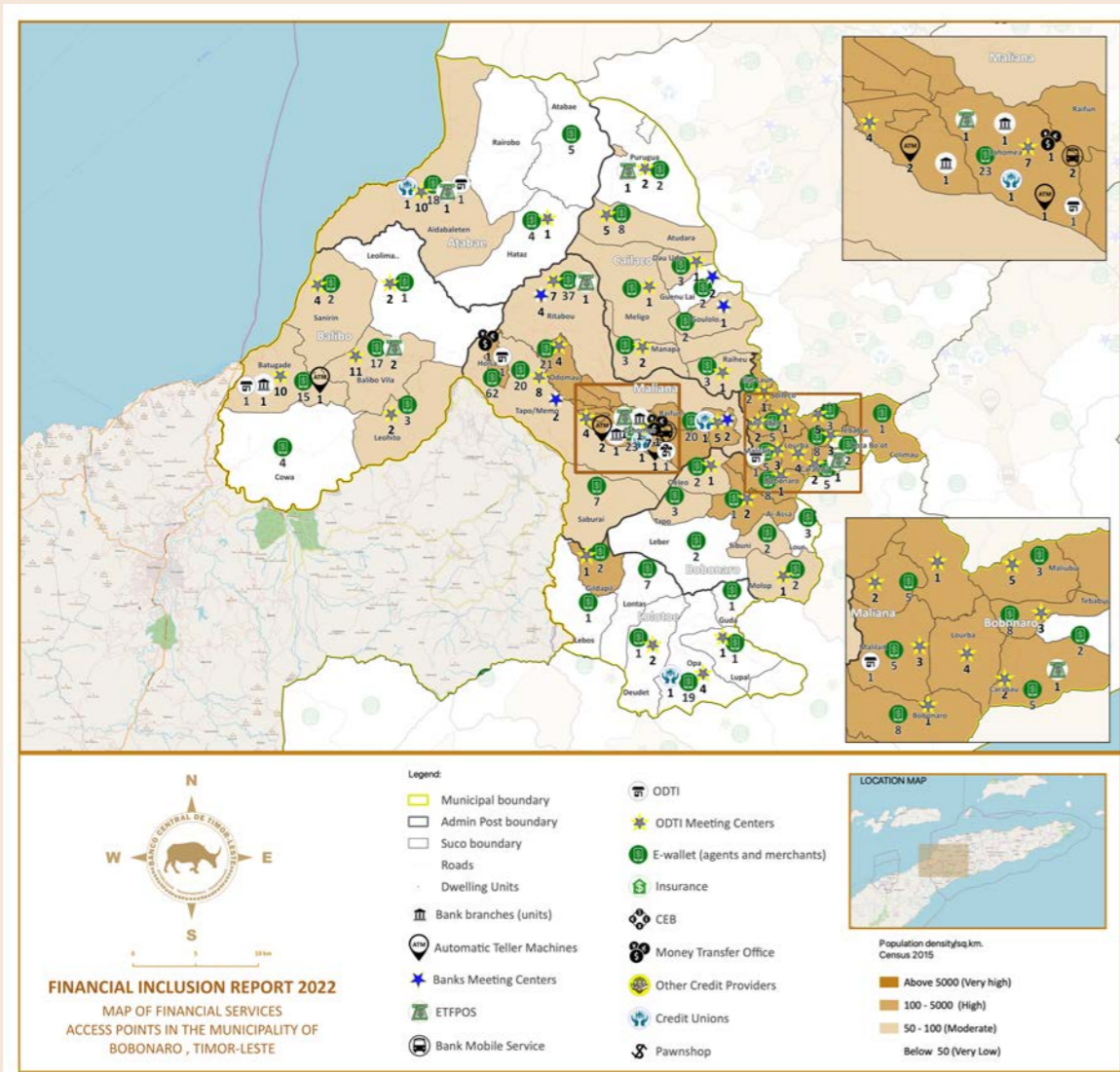
- » **Population:** 10,295
- » **Total land area:** 140 sq km
- » **Number of Administrative Posts:** 1
- » **Number of Sucos:** 5
- » All sucos are served by financial services access points

Baucau Municipality*

- » **Population:** 134,878
- » **Total land area:** 1,504 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 59
- » **Unservd Sucos:** 4 (*Uacala, Bualale, Macalaco, and Uato-Lari*)

* New municipality since 2022.

* The municipality with the largest number of sucos.

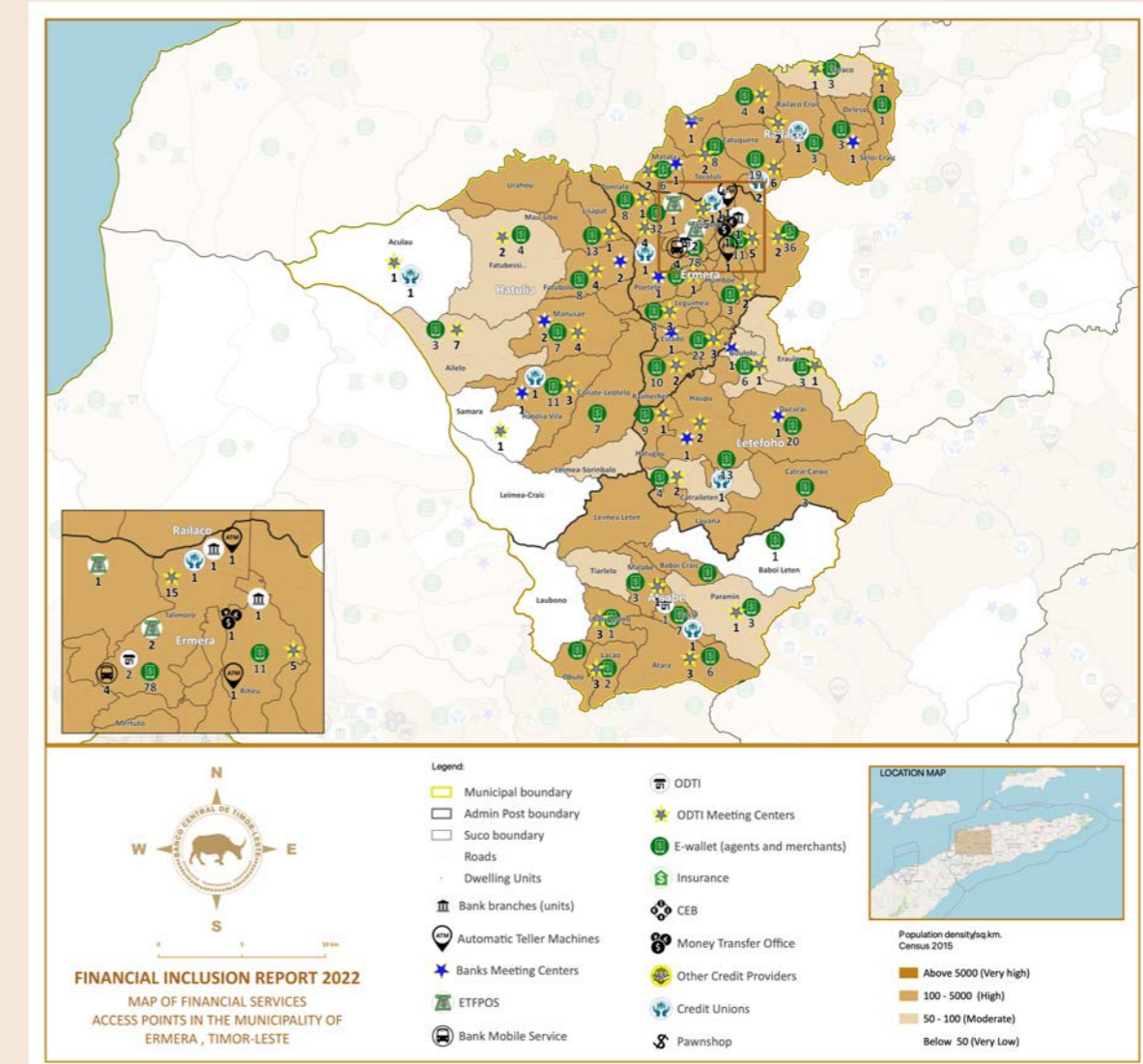


Bobonaro Municipality

- » **Population:** 106,639
- » **Total land area:** 1,378 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 50
- » **Unserved Sucos:** 1 (*Rairobo*)

Covalima Municipality

- » **Population:** 73,933
- » **Total land area:** 1,199 sq km
- » **Number of Administrative Posts:** 7
- » **Number of Sucos:** 30
- » **Unserved Sucos:** 2 (*Taroman and Dato Tolu*)



Dili Municipality*

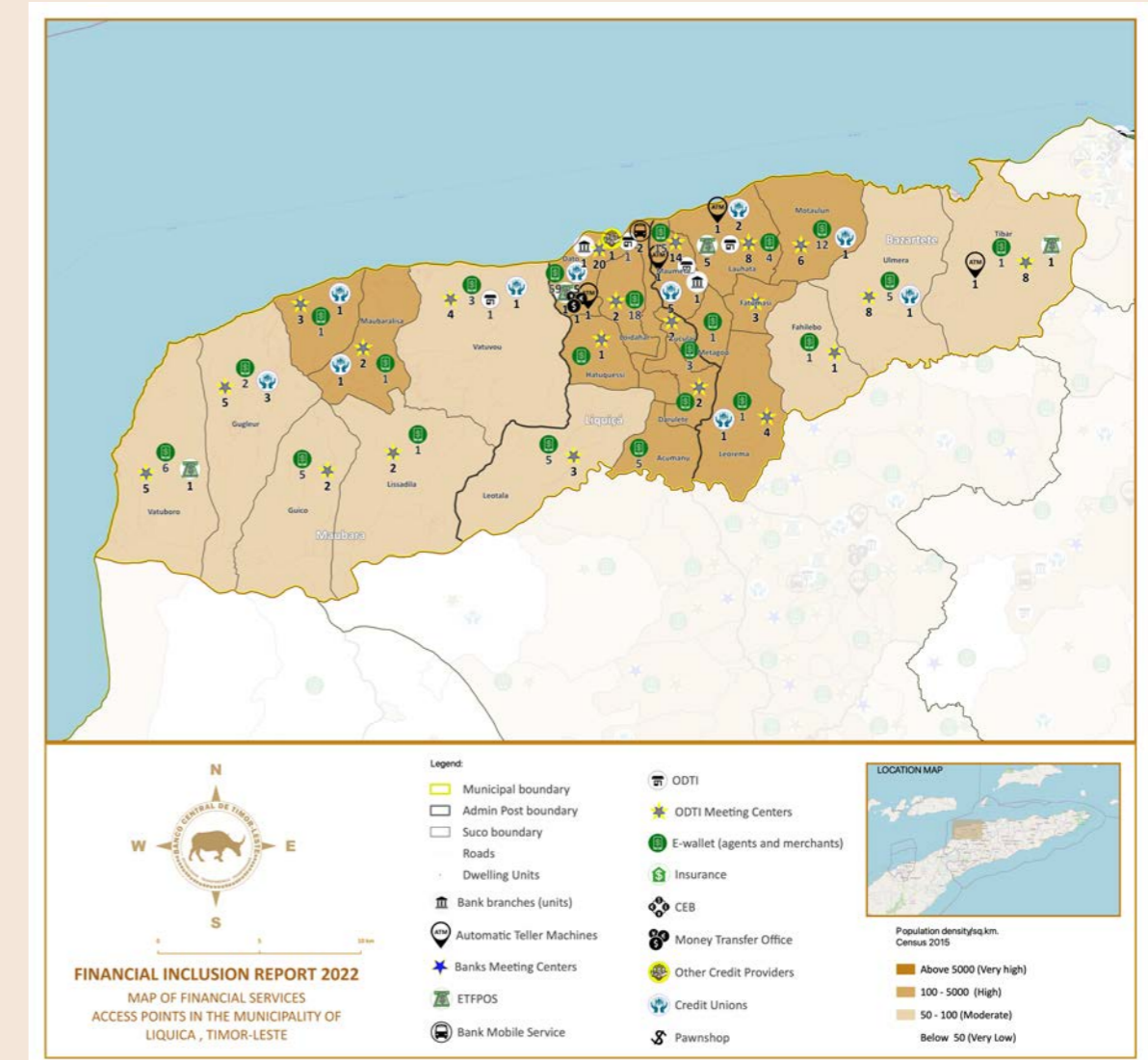
- » **Population:** 324,738
- » **Total land area:** 224 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 31
- » All sucos are served by financial services access points

Ermera Municipality*

- » **Population:** 137,750
- » **Total land area:** 756 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 52
- » **Unservd Sucos:** 9 (Laubono, Leimea Leten, Tiarlelo, Leimea-Craic, Leimea-Sorinbalo, Mau-Ubo, Urahou, Lauana, and Deleso)

*The administrative and economic capital of Timor-Leste.

*The municipality with the largest number of unserved sucos.

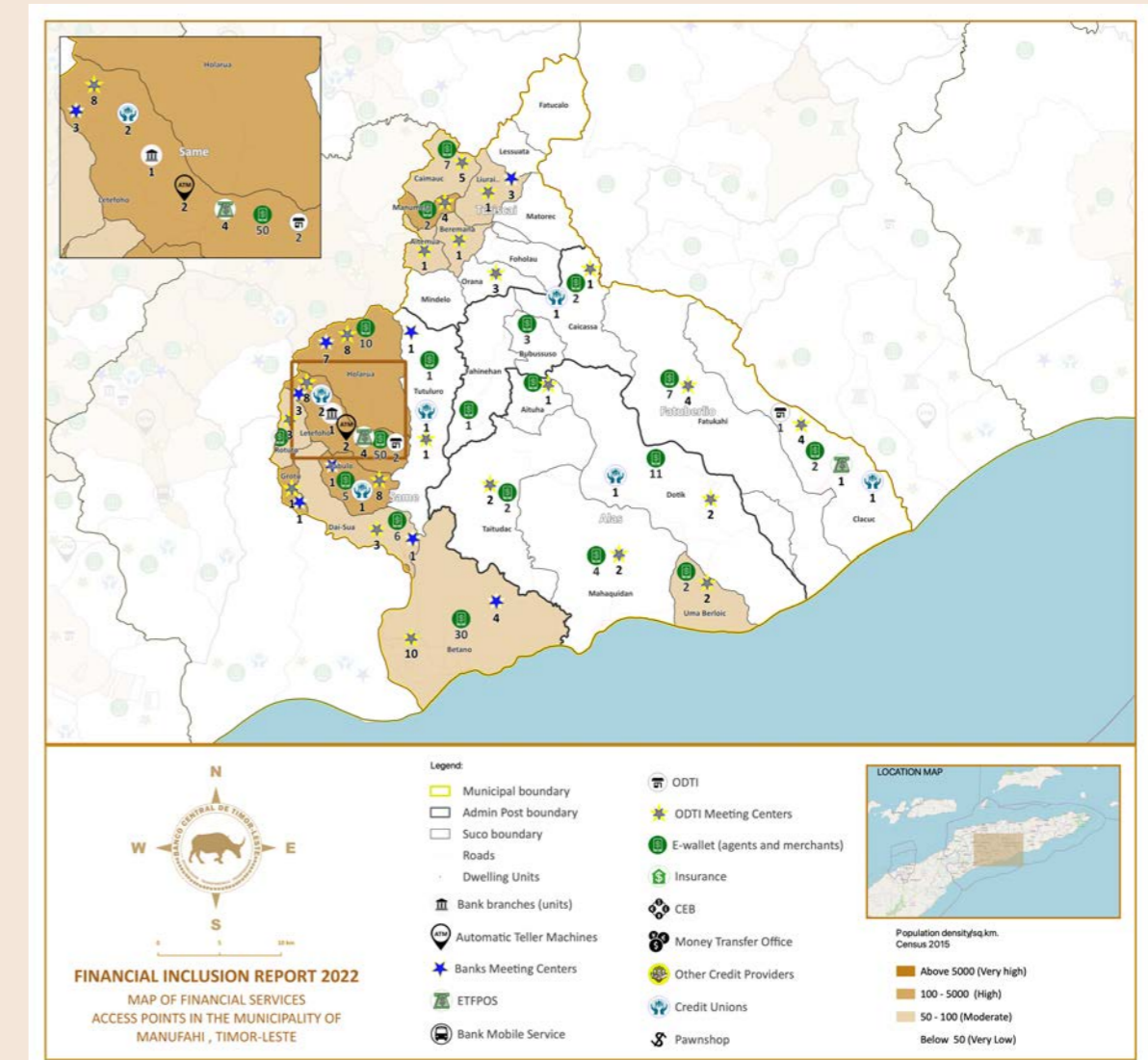
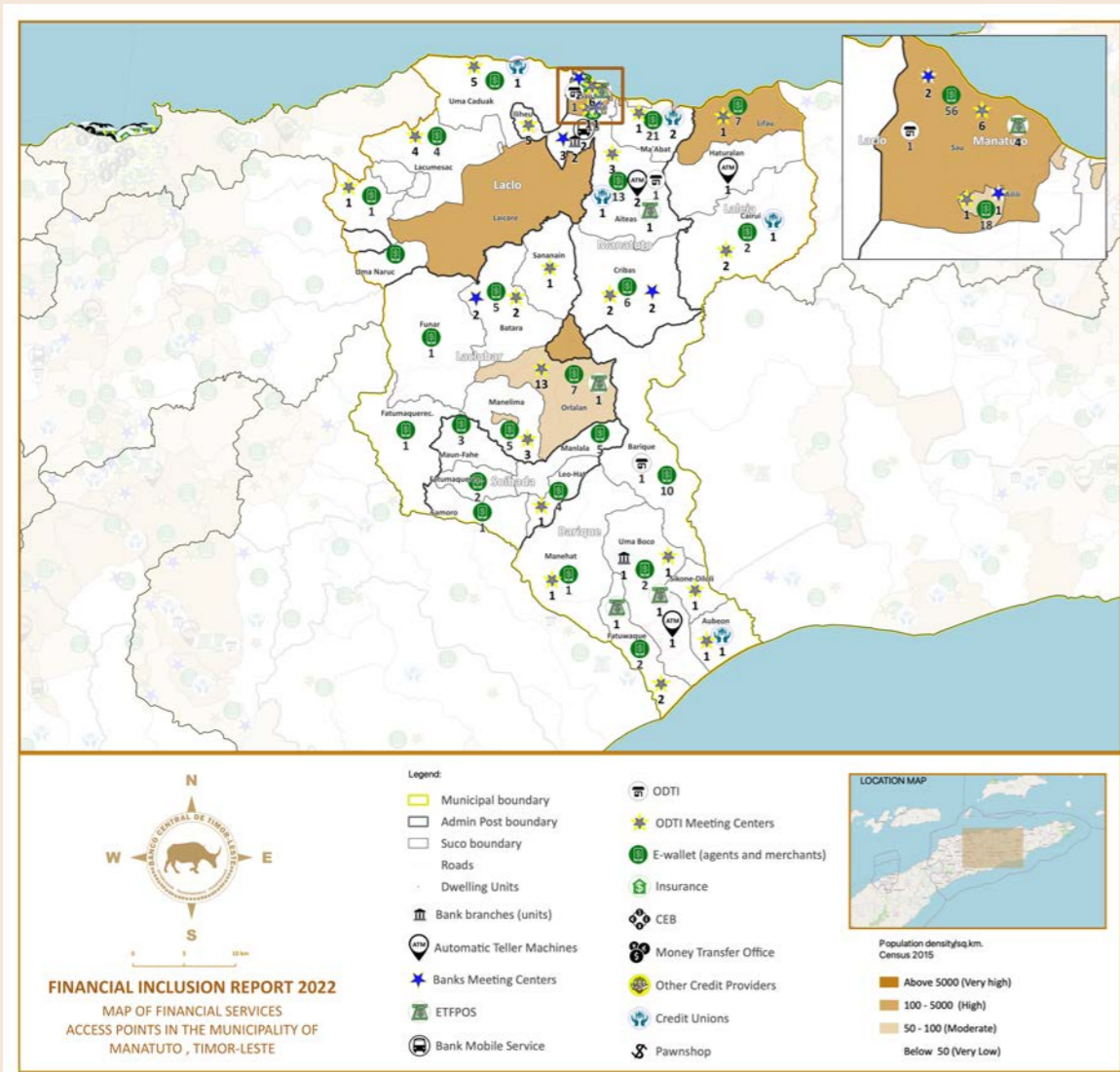


Lautém Municipality

- » **Population:** 70,022
- » **Total land area:** 1,817 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 34
- » **Unservd Sucos:** 1 (*Tirilolo*)

Liquiçá Municipality

- » **Population:** 83,658
- » **Total land area:** 560 sq km
- » **Number of Administrative Posts:** 3
- » **Number of Sucos:** 23
- » All sucos are served by financial services access points

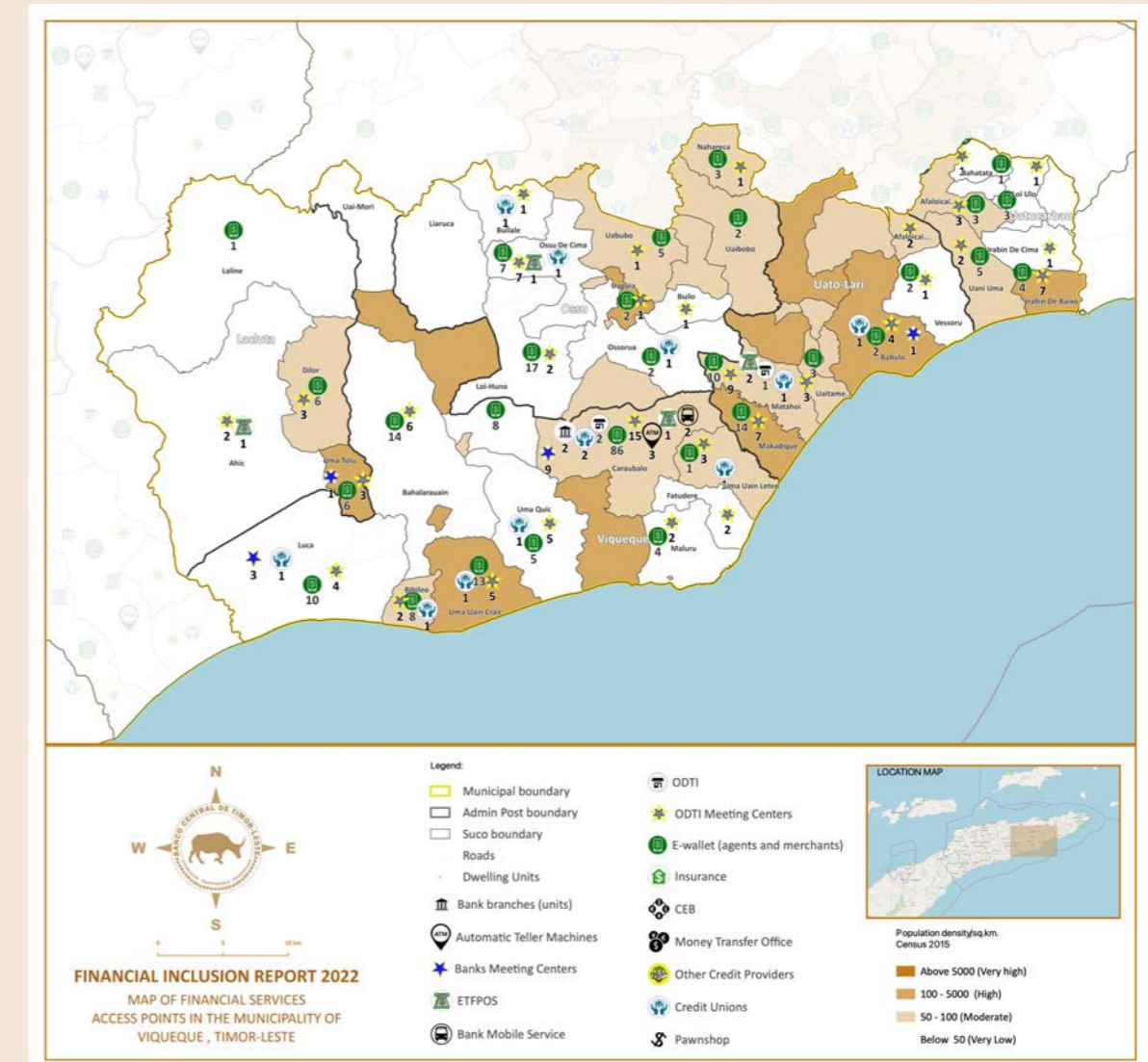


Manatuto Municipality

- » **Population:** 50,859
- » **Total land area:** 1,783 sq km
- » **Number of Administrative Posts:** 6
- » **Number of Sucos:** 31
- » **Unservd Sucos:** 1 (*Laicore*)

Manufahi Municipality

- » **Population:** 60,665
- » **Total land area:** 1,333 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 29
- » **Unservd Sucos:** 5 (*Fatucalo, Foholau, Lessuata, Matorec, and Mindelo*)



Região Administrativa Especial de Oé-Cusse Ambeno

- » **Population:** 80,685
- » **Total land area:** 814 sq km
- » **Number of Administrative Posts:** 4
- » **Number of Sucos:** 19
- » **Unservd Sucos:** 2 (*Usitaqueno and Malelat*)

Viqueque Municipality*

- » **Population:** 80,176
- » **Total land area:** 1,873 sq km
- » **Number of Administrative Posts:** 5
- » **Number of Sucos:** 36
- » **Unservd Sucos:** 1 (*Liaruca*)

*The largest municipality.

KEY TAKEAWAY

Easy access to financial services is the first step to encouraging the usage of financial services and promoting financial inclusion. Financial services access points have increased over the years, improving the coverage of administrative posts and sucos. The progress is evident when comparing 2020 and 2022 data, despite the 29 sucos without financial services access points. However, Timorese's awareness of access points is still very low, even for bank branches, as shown in the previous survey⁴.

In terms of unserved sucos, Ermera Municipality has the highest number of unserved sucos, nine, a minor improvement from the eleven sucos unserved verified in 2020. The sucos without any financial services are listed in Table 2.4 below.

Table 2.4. List of Sucos Without Any Financial Services

MUNICIPALITY	ADMINISTRATIVE POSTS	SUCOS
Aileu	Liquidoe	Fahisoi
		Faturilau
Ainaro	Maubisse	Manelobas
	Baguia	Uacala
Baucau	Quelicaí	Bualale
		Macalaco
		Uato-Lari
Bobonaro	Atabae	Rairobo
Covalima	Fatulúlic	Taroman
	Fohorém	Dato Tolu
Ermera	Atsabe	Laubono
		Leimea Leten
		Tiarlelo
	Hatulia A	Leimea Kraik
		Leimea Sorin Balo
	Hatulia B	Mau-Ubo
		Urahou
	Letefoho	Lauana
	Railaco	Deleso
Lautém	Iliomar	Tirilolo
Manatuto	Lacló	Laicore
		Fatucalo
Manufahi	Turiscaí	Foholau
		Lessuata
		Matorec
		Mindelo
		Usitaqueno
Oecusse	Oessilo	Usitaqueno
	Pássabe	Malelat
Viqueque	Ossu	Liaruca

Considering the importance of access to financial services to drive financial inclusion, the BCTL is committed to collaborating with financial sector providers to design policies that improve and streamline access and utilization. This includes promoting digital channels and integrating other financial services into the National Switch. This will facilitate more efficient access to financial services for individuals and businesses, leading to greater financial inclusion in Timor-Leste.

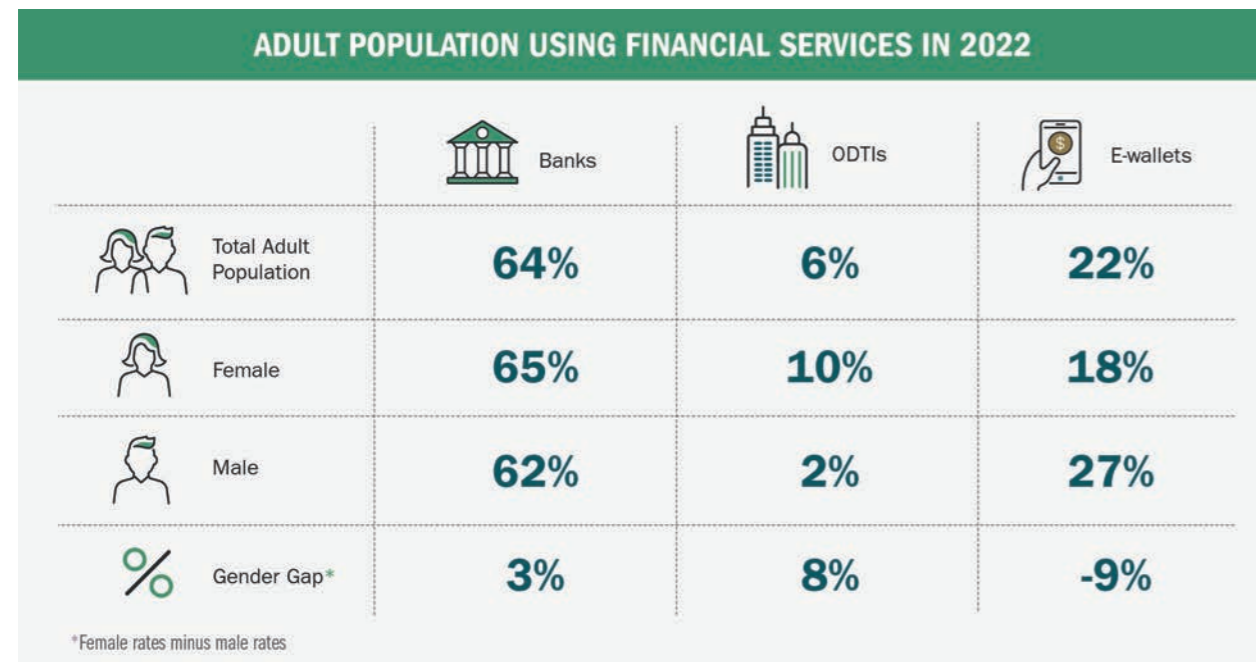
⁴ Insight from the Demand-Side Survey 2020. More detailed information is available in the Financial Inclusion Report 2020.



CHAPTER 3

Usage of Financial Services

A well-established and accessible financial services network is fundamental to ensure financial inclusion. Nevertheless, the ultimate goal of such convenient access is to encourage people to utilize these services regularly. This chapter looks at the second dimension of financial inclusion, the usage. It evaluates the usage indicators for the leading financial services and how these indicators evolved over the years.



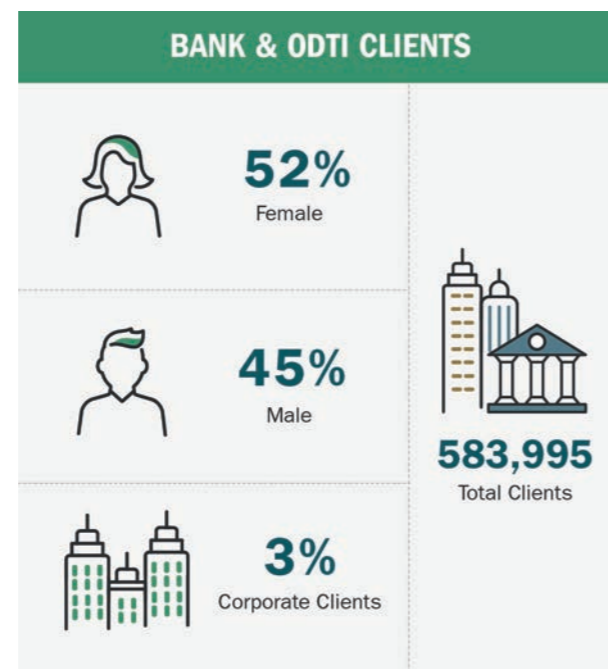
KEY FINANCIAL INCLUSION USAGE INDICATORS

The usage indicators assess the extent to which financial services are used by individuals and businesses, as measured by the number of clients and accounts, and how representative these numbers are compared to the adult population.

The number of financial services clients has increased significantly since 2020, a strong growth even when compared to Timor-Leste's growing population. The 2022 Census reports that the population increased by 13% compared to the 2015 Census, reaching 1,341,737. Currently, around 64% of the adult population is served by banks, and 6% by ODTIs; if the proportions are added (disregarding the overlap of clients that use both services), it will result in up to 70% of the adult population having access to savings and credit products from regulated financial institutions. But this also means that at least 30% of the adult population still does not have access to these essential services. It's worth noting that e-wallet services are also gaining popularity, with 22% of the adult population currently using them.

By the end of 2022, banks and ODTIs had 583,995 clients, 19,149 businesses, and 564,846 adults. A 27% increase from 2020, when there were 459,604 clients. Together these clients had around 681,802 deposit accounts (which includes savings and time deposits) and 79,770 credit accounts. Ha'u-Nia Futuru savings accounts are not included in these numbers, as it is a specific savings product only for children⁵.

⁵ More detail about Ha'u-Nia Futuru accounts can be found in chapter five.



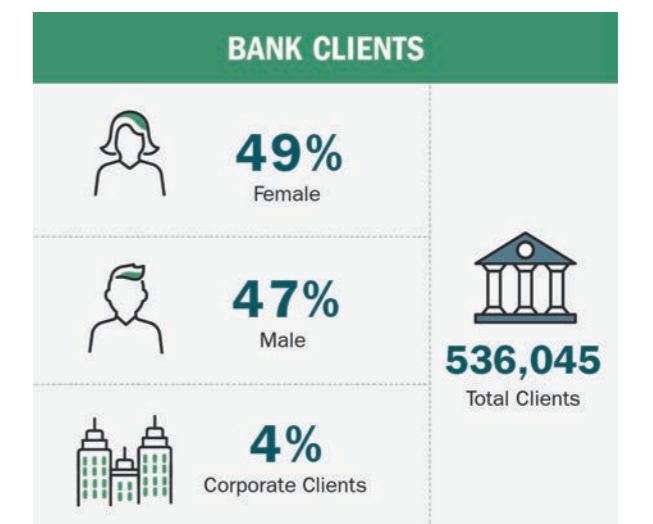
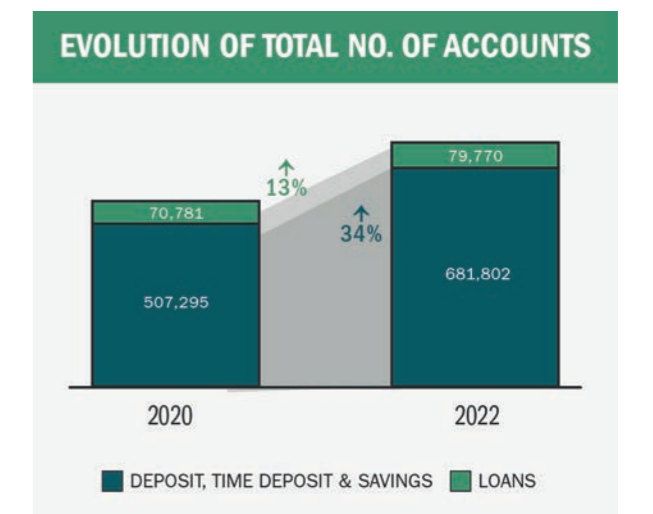
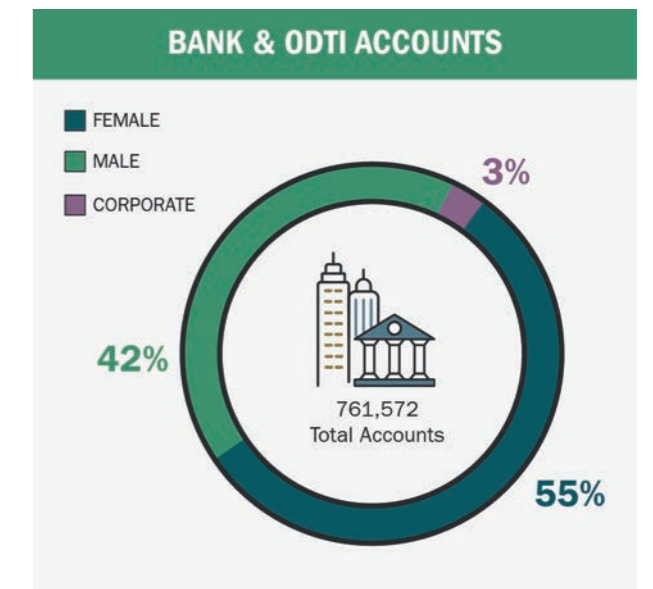
When analyzing financial inclusion from a gender perspective, women continue to have higher financial inclusion levels than men. Women are most banks and ODTIs clients, while more men than women use e-wallet services. Although women account for 51% of banks' clients, only 31% of bank loans are granted to them. In contrast, ODTIs have historically focused on providing group loans to women, resulting in most of their clients still being women. Based on this data and assuming that loans from ODTIs are more expensive than those from banks, women may end up paying higher interest rates for credit than men.

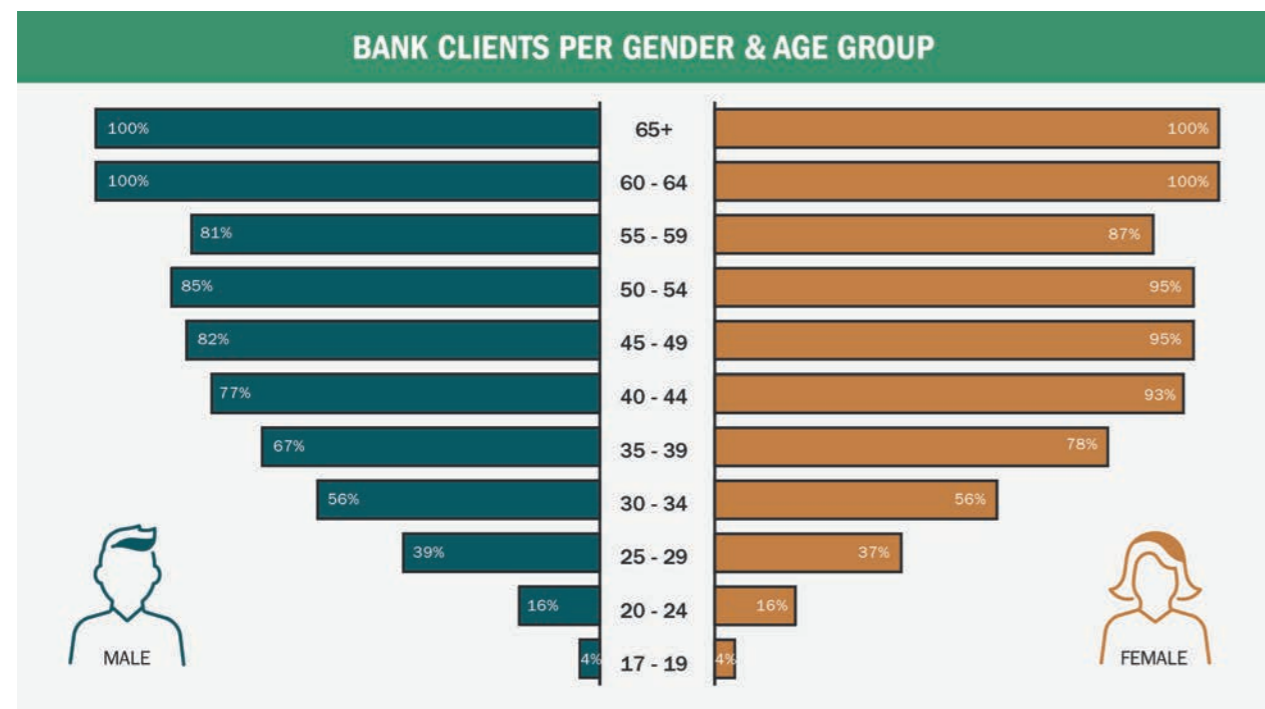
It is important to note that the usage indicators presented in this report are calculated using supply-side data, which banks, ODTIs, and FinTech provide. Due to the nature of this data and the consolidation method, the indicators and ratios may be overestimated. This happened because each financial service provider extracted the information at the client level; the data is later consolidated by type of service; for example, data from all five banks are added to calculate bank users. This means an individual using multiple financial service providers will be counted multiple times.

While a demand-side survey could provide more accurate usage data, BCTL's experience indicates that individuals may feel uncomfortable sharing their financial information with enumerators, which can result in underestimating usage indicators. Additionally, some bank clients may not even realize they own a bank account, as the account opening process may have been a requirement to receive payments from the government or an employer. These clients may use their bank accounts minimally, only to receive payments and withdraw the total amount as soon as it becomes available. As a result, in a survey, these clients may incorrectly report that they do not have a bank account. It is questionable whether such individuals are truly financially included, as they are unaware and do not fully benefit from the available financial services.

BANKS CLIENTS

Banks remain the primary choice for financial services in Timor-Leste. As of the end of 2022, the number of bank clients had reached 536,045, of which 19,149 were business clients and 516,896 individuals. The number of clients increased by a substantial 29% from 2020.



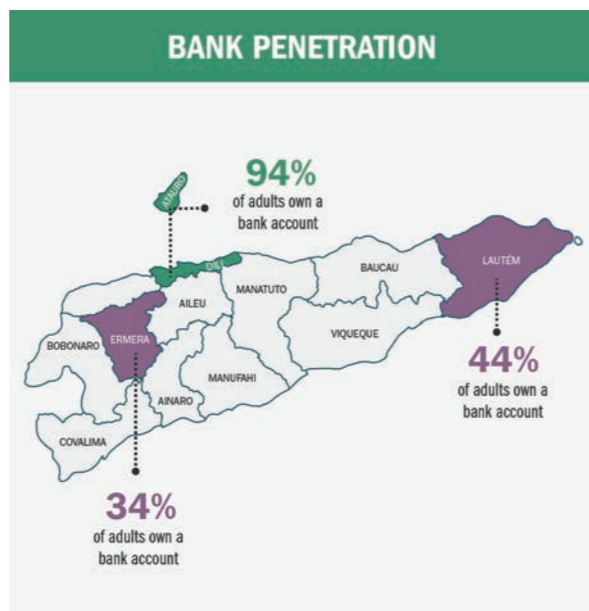


Banks hold 663,782 client accounts; the majority are deposit accounts (93%). The number of accounts increased by 40% from 2020, highlighting the population's reliance on banks as the primary financial service to address their needs. However, approximately 8% of deposit accounts are inactive, meaning they had no transactions in the last few months. Only 8% of clients also have credit from banks, as bank credit is restricted to clients that can provide guarantees and have good credit scoring.

account, such as providing an initial deposit and maintaining a minimum account balance.

Dili, including Atauro for this analysis, is the region with the highest level of bank account penetration, where almost 94% of the adult population owns a bank account, followed by Manufahi (62%) and Covalima (62%). Ermera (34%) and Lautém (44%) are the municipalities with lower bank account ownership.

Around one-fifth of deposit accounts have a debit card associated, with BRI and Bank Mandiri being the banks with the highest proportion of debit cards per deposit account. Debit cards are usually offered with basic accounts, but clients can refuse the card.



Three of the five commercial banks in Timor-Leste have internet banking as an alternative channel for customers. However, only 1.2% of bank clients have registered to access internet banking, indicating the need to raise awareness of digital channels and invest in digital literacy.

Bank penetration is higher among older age segments, especially those above 30, reaching nearly 100% in older segments above 59. Younger generations are less interested in banking services or find it more challenging to fulfill the requirements to open a bank

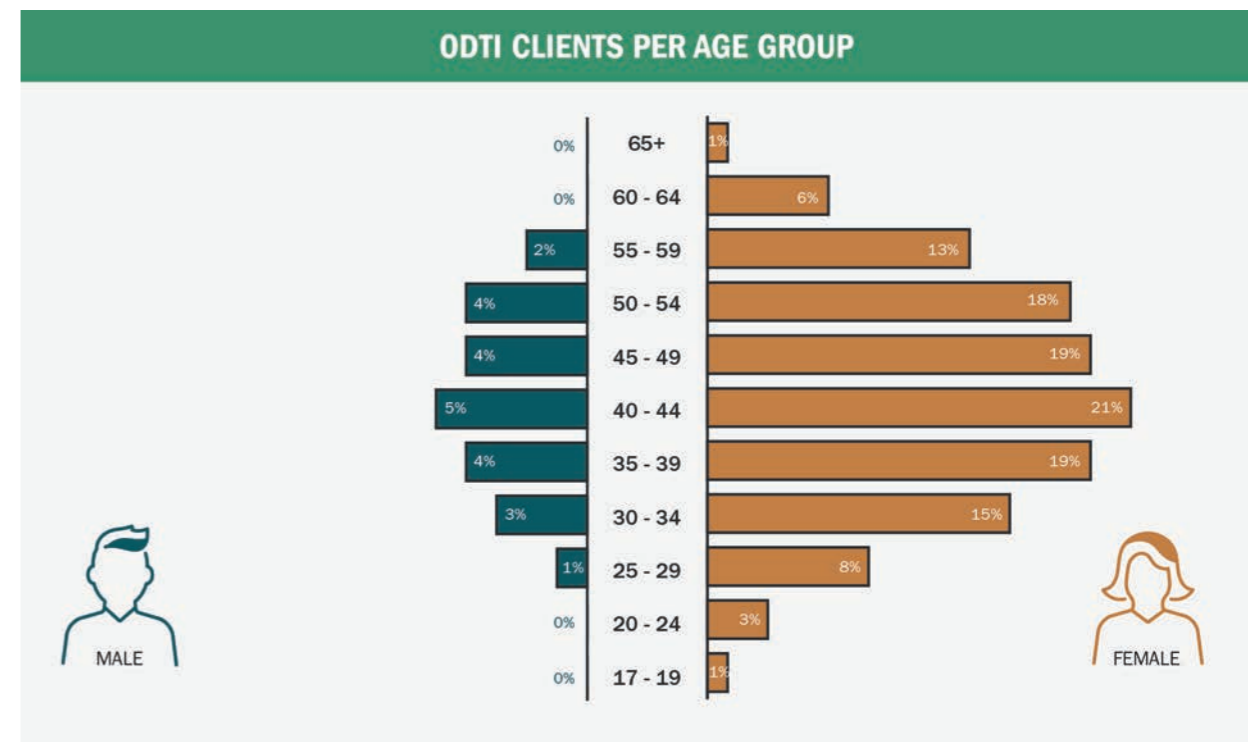
OTHER DEPOSIT-TAKING INSTITUTION SERVICES

In Timor-Leste, there are two Other Deposit-Taking Institutions (ODTIs), Kaebauk Investimentu no Finansas,SA (KIF) and Servisu Finanseiru Moris Rasik,SA (SFMR), which were initially micro-finance institutions that evolved into ODTIs. ODTIs' activities are still focused on credit products. These institutions also offer savings and collateral savings accounts to minimize credit risk.

The SFMR mainly focuses on offering credit to women, while KIF has expanded its offers to both male and female clients. It is noteworthy that 83% of ODTIs clients are women.

The number of ODTIs' clients increased by 6% compared to 2020, to almost 48,000. However, ODTIs credit accounts increased by 14% in the same period. ODTIs are very competitive in the credit market; the two ODTIs hold 45% of individuals with credit from regulated financial institutions in Timor-Leste. The five banks have the remaining 55% of the market share.

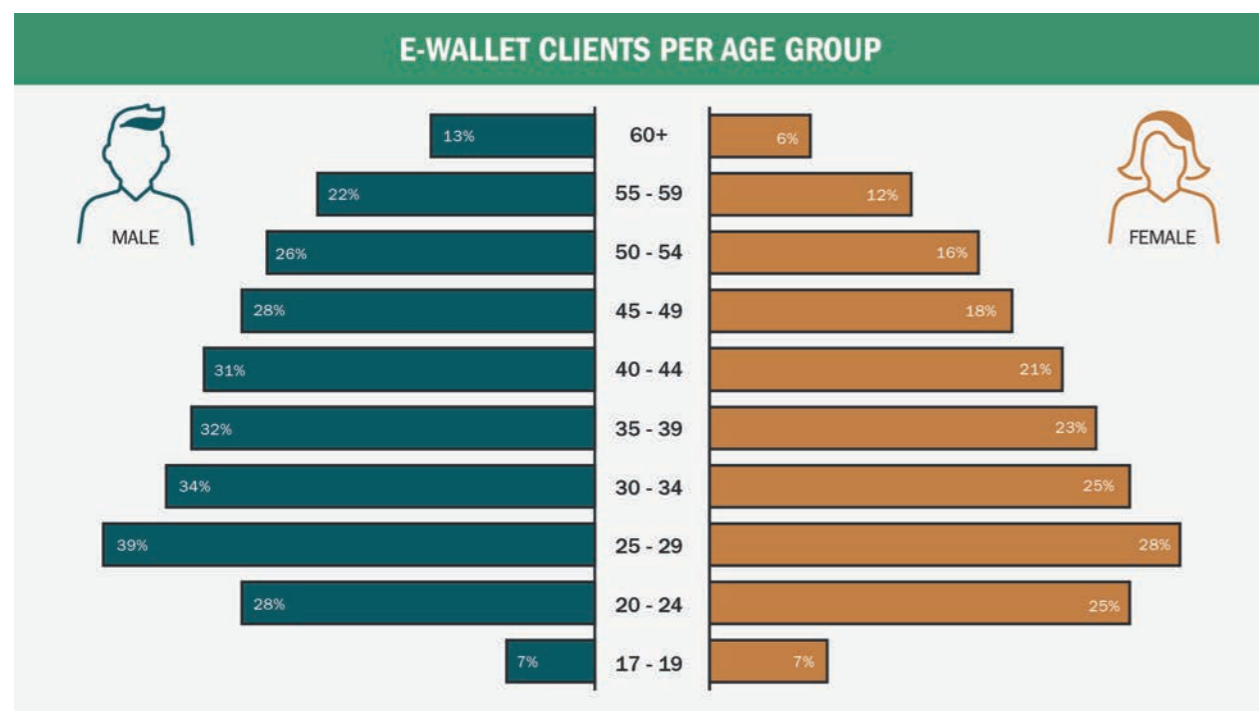
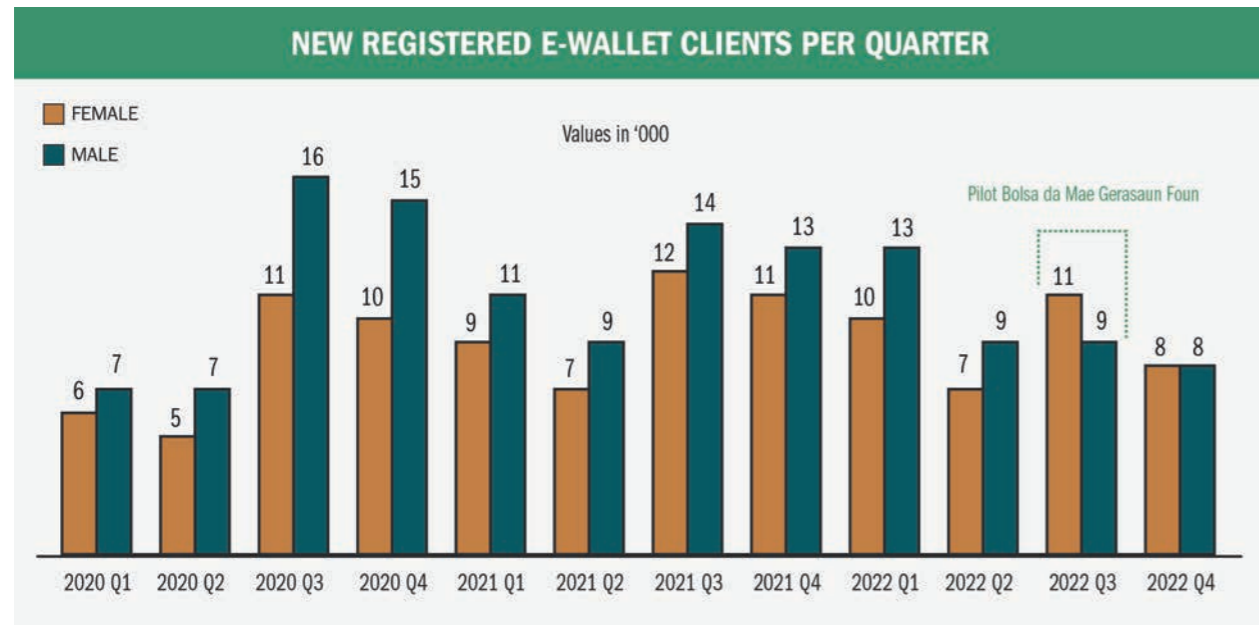
ODTIs offer services to individuals aged 17 years and above, with the highest concentration of clients in the 35 to 50 years old segment.



E-WALLET SERVICES

The growth of e-wallet services in the country has been remarkable since the service was launched in 2018; the number of clients doubled in 2020, a strong 111% growth, reaching over 180,000 clients and representing 22% of the adult population. Among all financial services, e-wallets had the most significant change, partially due to the largest distribution network in the country.

Interestingly, e-wallet services are the only financial service with more male clients than female, as 60% of e-wallet clients are men. Despite this, the chart below shows the results of a consistent client acquisition strategy, with a clear push for women clients in the third quarter of 2022. During this quarter, the e-wallet service started a pilot project to pay the social benefit for low-income pregnant women and parents of young children through e-wallets instead of bank accounts. As a result, it was the only quarter when more women than men registered for the service.

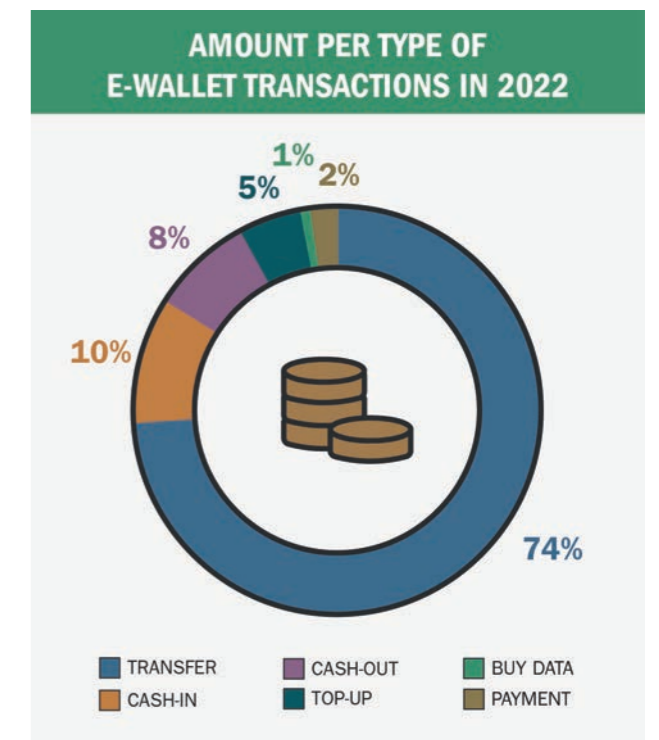
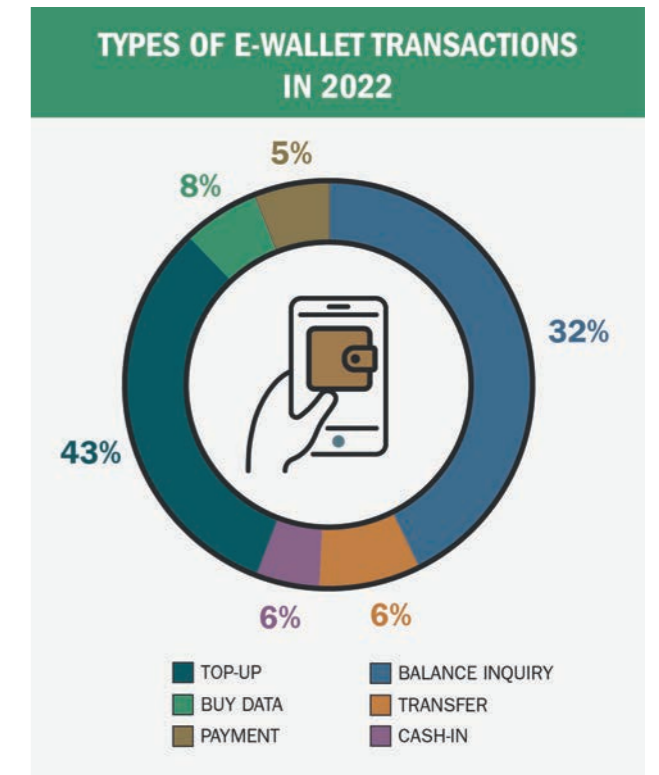


The age distribution of e-wallet clients also differs from those of banks and ODTs. The uptake of young clients is higher, especially those below 30 years old. This suggests that e-wallets are an attractive financial service for younger generations who prefer digital transactions and value convenience and accessibility. The growth of e-wallet services has been a significant driver of financial inclusion. It provides access to payment services to a larger population segment, including those underbanked or unbanked.

Although there are many registered clients for the service, only a small percentage of them, around 10 to 15%, are active during each quarter. An account is considered active if it has conducted at least one financial transaction within that period. The relatively low rate of client activation suggests that individuals are using the service for less frequent transactions or as a backup option for emergencies rather than integrating it into their daily financial routine.

While e-wallet services have become popular for specific transactions, such as buying mobile credit, balance inquiries, and purchasing internet data, they have yet to become the preferred payment method for daily transactions. Operators must address this issue by promoting the benefits of using the service for day-to-day payments (such as buying electricity tokens and making payments) and incentivizing more frequent and regular usage.

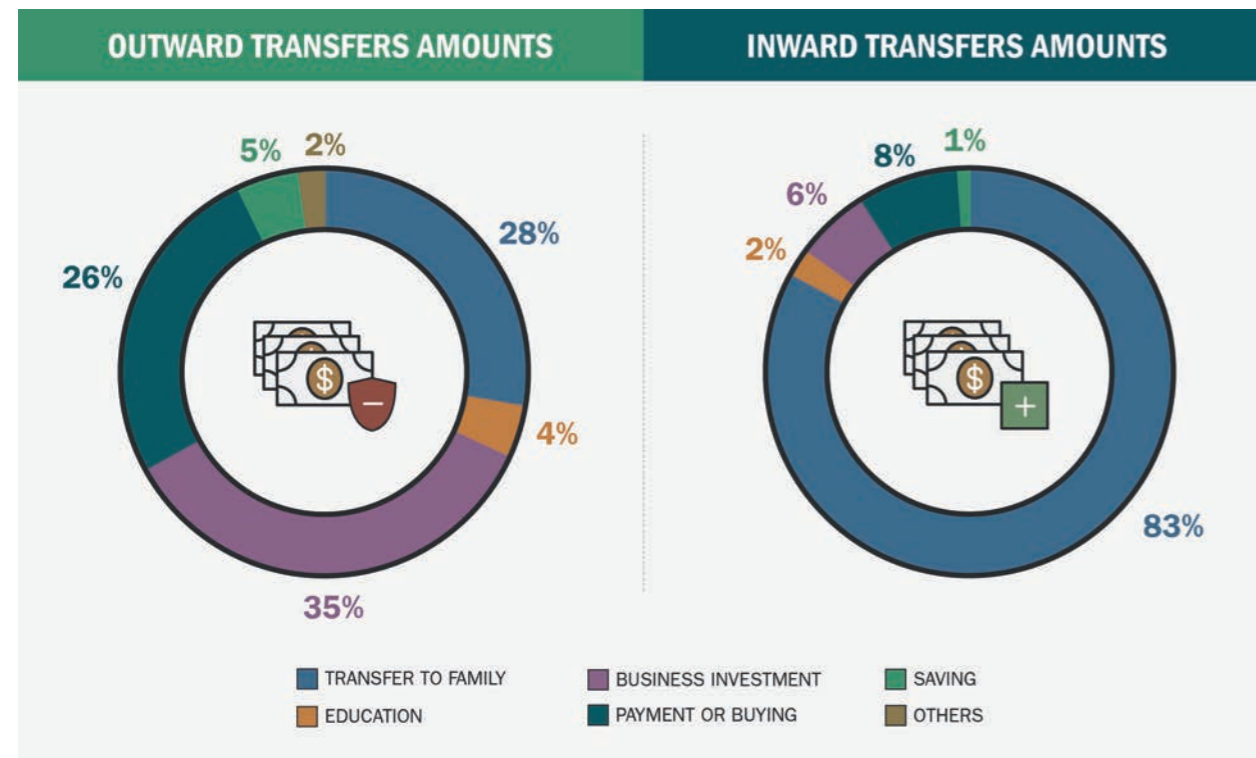
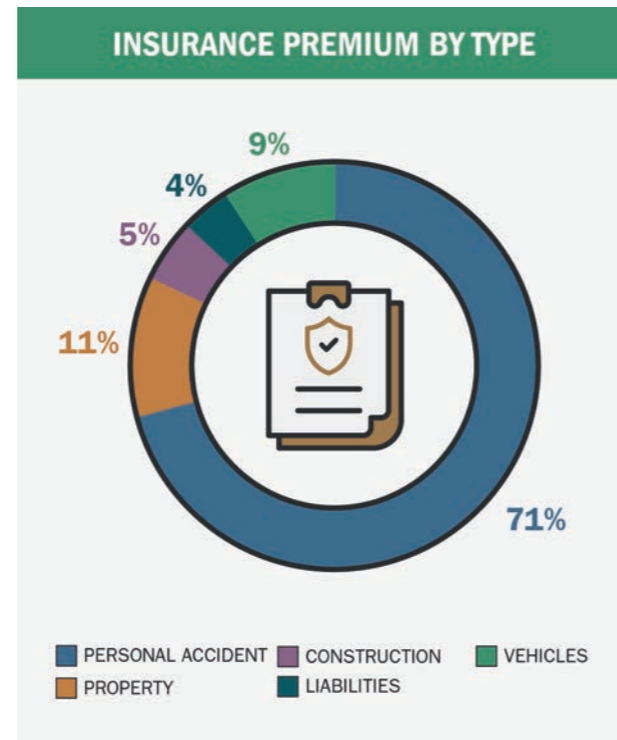
Although buying mobile credit and internet data are the most common transactions in e-wallet services, they represent a relatively small portion of the total transaction value. The transactions with the highest total amounts in 2022 are transfers, adding balance to the e-wallet account, and withdrawals from the e-wallet account. Transfers are the most significant type of transaction, accounting for 74% of the total transaction value, indicating that e-wallet services are used primarily for peer-to-peer transfers. E-wallet customers can also make transfers between their e-wallet accounts and their bank accounts; around 920 customers have already linked their bank accounts to e-wallet accounts, and 481 customers have already used this feature. Operators should consider expanding the range of services available on their platforms, including other bill payments (school fees, for example), expanding the merchants that accept e-wallet payments, and offering other financial services to encourage greater adoption and usage of e-wallets.



OTHER FINANCIAL SERVICES

In 2022, the number of general insurance policies increased by 28% compared to the previous year, reaching almost 12,000. The most popular types of general insurance are personal accident (89% of total policies), followed by vehicles (7% of total policies). The total insurance premiums grew by 57% in 2022 compared to 2021, with personal accidents, property, and vehicles being the main drivers of growth. Additionally, a newly licensed life insurance company introduced credit life insurance to manage credit risk, primarily offered to banks as part of their loan products.

In 2022, remittance volumes from Money Transfer Operators (MTOs) licensed by BCTL exhibited a robust increase, with outward transfers growing by 59% and inward volumes by 20% compared to the previous year. Indonesia accounted for most outward transfers, representing 76% of the total, followed by China with 6%. On the other hand, the United Kingdom and South Korea were the primary sources of inward transfers, accounting for 51% and 21%, respectively. The objective of the transfers is detailed in the chart.



KEY TAKEAWAY

The financial sector in Timor-Leste has experienced growth in the usage of all types of financial services. Banks continue to be the primary financial service provider, offering clients a complete portfolio of services. On the other hand, ODTIs have seen modest growth in their number of clients but maintain a strong position as credit providers.

The e-wallet services have shown impressive growth in the number of clients, transactions, and access points. However, the challenge remains in incentivizing clients to use the service for regular and day-to-day payments, as only a small percentage of clients are active during the quarter. Moreover, the push for women clients in the third quarter of 2022 shows the potential to expand the client base through targeted initiatives.

The uptake of insurance services is still relatively low. Further education on insurance benefits and tailored products, such as micro-insurance, is necessary to encourage product uptake and protect individuals and businesses against unforeseen risks.

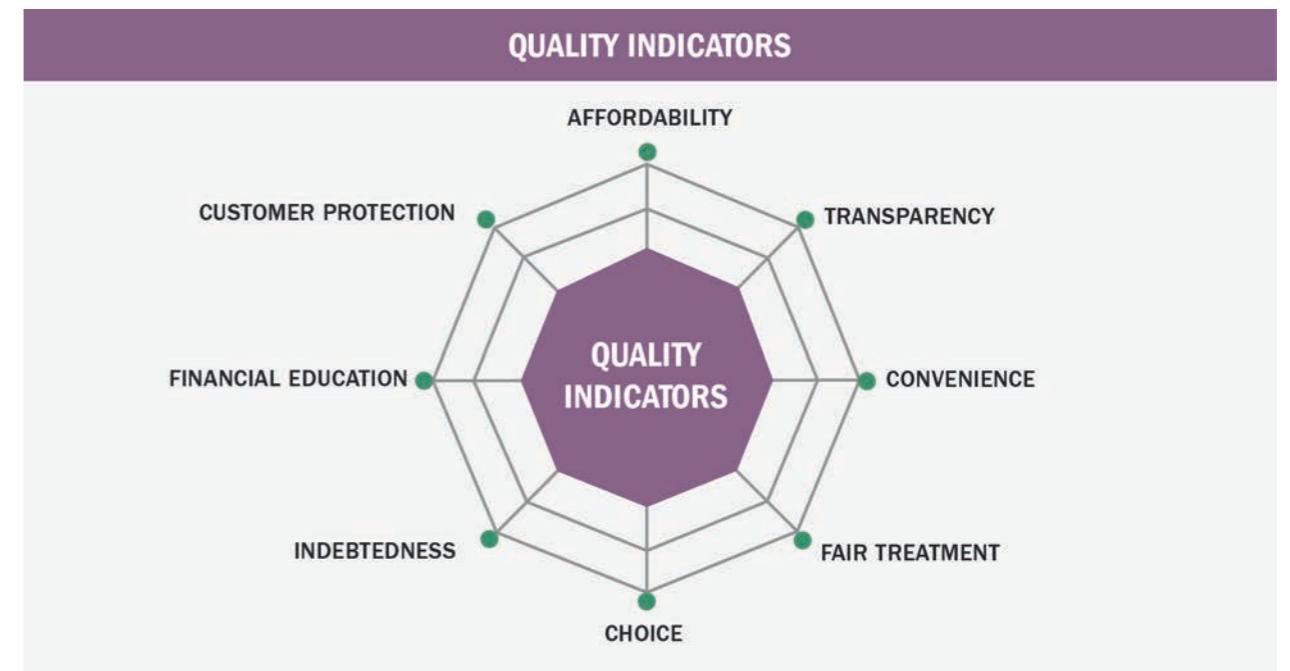
While the uptake of financial services has improved, increasing regular usage remains a common challenge for most financial service providers. Financial institutions must better inform their customers about their products and promote targeted financial literacy events to help customers to evaluate products that better meet their needs.



CHAPTER 4

Quality of Financial Services

The complete financial inclusion assessment includes quality indicators, which aim to evaluate how appropriate the financial services are to individuals and businesses. Quality is critical for ensuring that financial services meet the needs and expectations of users and are accessible to all. Poor-quality financial services lead to financial exclusion, even if access and usage are high. Therefore, ensuring that financial services offer a good overall experience to customers is necessary for achieving sustainable financial inclusion.



To evaluate the quality of the financial services in Timor-Leste, the Central Bank uses the Alliance for Financial Inclusion's Guide Note on Quality Indicators⁶ as reference. The guide note suggests a framework of eight categories for assessing financial services: affordability, transparency, convenience, fair treatment, consumer protection, financial education, indebtedness, and choice.

Half of the quality indicators are based on the customers' perceptions. This report was developed using supply-side data, focusing on specific categories that do not require demand-side data. The indicators for transparency, convenience, fair treatment, and financial education are based exclusively on customer perception. Hence these indicators were not measured for this FIR; the latest measurements are available in the previous report, the FIR 2020.




AFFORDABILITY

The affordability of financial services is an important component of financial inclusion because it ensures that people, even the most financially vulnerable, can access and use formal financial services without incurring high costs. Affordability reduces the financial barriers to accessing financial services, making it easier for people to use them. Some banks require proof of income to open a new bank, a request that informal workers, for example, cannot comply with; similarly, low-income individuals cannot afford to maintain a minimum balance in a bank account.

Affordability encourages people to use financial services more regularly. It relies on formal and regulated financial services instead of resorting to informal financial services, such as borrowing from friends and family, which can be unreliable and expensive.

The affordability category evaluates how costly the financial services are compared to the local minimum wage. The two indicators to measure affordability are the monthly cost to maintain a bank account and the customers' perception of service costs. The customer perspective was not calculated for this report; the last available information was published in the FIR 2020.

⁶ From the Guideline Note 22: Indicators of the Quality Dimension of Financial Inclusion developed by Alliance for Financial Inclusion (AFI) in 2016

WEIGHTED AVERAGE COST TO MAINTAIN A BASIC ACCOUNT		
	2020	2022
 The weighted average cost to maintain a basic account	US\$ 1.76	US\$ 1.51
 Official monthly minimum wage	US\$ 115	US\$ 115
 Minimum wage committed to maintaining a basic bank account in %	1.5%	1.3%

Cost to Have a Basic Account

The indicator is calculated by the average monthly cost to have a basic account in relation to the official minimum wage. The cost of a basic bank account considers the account maintenance fee, debit card cost per month (monthly cost or issuance fee divided by 12), and five ATM transactions in each of the four commercial retail banks.

The weighted average cost to maintain a basic account is US\$1.51, representing 1.3% of the minimum official monthly wage of US\$ 115.00. A slight improvement compared to 1.5% in 2020.

TRANSPARENCY

Transparency between financial service providers and customers helps build trust and confidence in regulated financial services. When customers can access clear and understandable information about the terms and conditions of financial products and services, they can make informed decisions about which products to use and how to use them.

Transparency in the contracts, terms, and conditions of financial products and services promotes competition among financial sector players. Customers with easy access to clear information can compare products and providers and make informed decisions that best meet their needs. The competition among financial service providers can lead to improved product offerings, lower fees, and better customer service, ultimately benefiting customers. Also, transparency can facilitate financial education, as customers would learn about products and how to use them more effectively.

Ensuring that financial product terms and contracts are clear, complete, and easy to understand is a significant challenge. This challenge is even accentuated in Timor-Leste due to the low literacy rates, making it difficult for clients to fully understand products and feel confident in contracting services from financial institutions. Timor-Leste has two official languages, Tetum (the native local language) and Portuguese, and two additional working languages, English and Bahasa Indonesian. Commercial banks in Timor-Leste typically provide contracts and forms in at least two of the four languages. However, this approach does not guarantee that clients fully understand warranties and conditions; it is a common bank practice to help clients to complete forms and further explain financial products and contracts.

The transparency indicator is based on the percentage of clients who believe they have received clear and sufficient information about financial services at the start of the loan contract.

CONVENIENCE

The convenience category highlights the importance of easy access to financial services to remove barriers preventing individuals and households from accessing financial services and products. Reducing the costs and time associated with accessing financial services and products leads to increased adoption and usage, particularly among underserved and excluded populations.

In Timor-Leste, financial services institutions have increased financial services access points (branches, ATMs, EFTPOS, meeting centers) and promoted alternative channels (such as internet banking, mobiles applications, and banking services vehicles) for accessing financial services and products to ensure that individuals and households have the flexibility to choose the channels that best meet their preferences.

The convenience indicators focus on clients' perspectives on the waiting time for financial services. One indicator is the average time waiting in line at the branch of a financial institution or agent. The second indicator is the percentage of people that do not feel comfortable with the experienced waiting time in lines to use financial services at financial institution branches (bank and non-bank agents).

FAIR TREATMENT

This category of quality indicators evaluates if all individuals and households have access to financial services and products on equal terms and without discrimination. Fair treatment of customers can include a range of policies and practices, including non-discriminatory lending policies, transparent pricing and fee structures, and respectful and responsive customer service. Financial institutions and service providers should create an environment that is welcoming and accessible to all customers, regardless of their income level or socioeconomic status.

The indicator is the percentage of users who have felt mistreated by the staff of a financial institution.

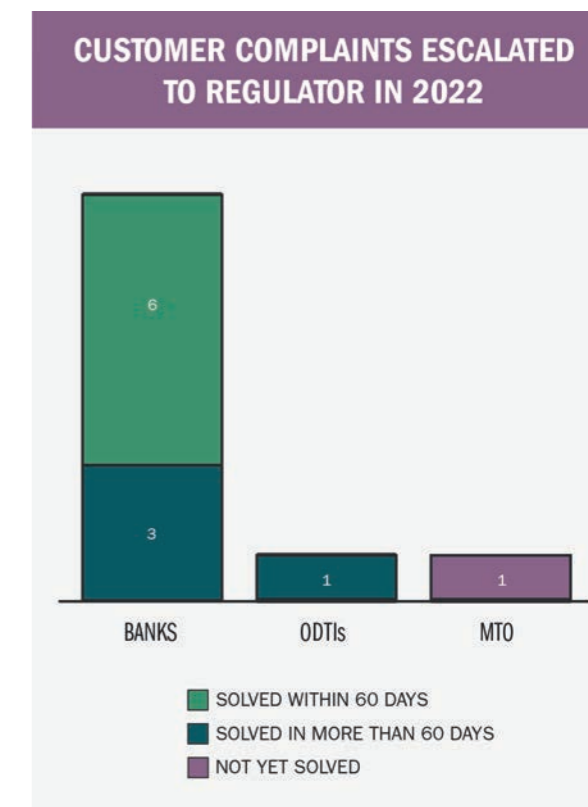
CONSUMER PROTECTION

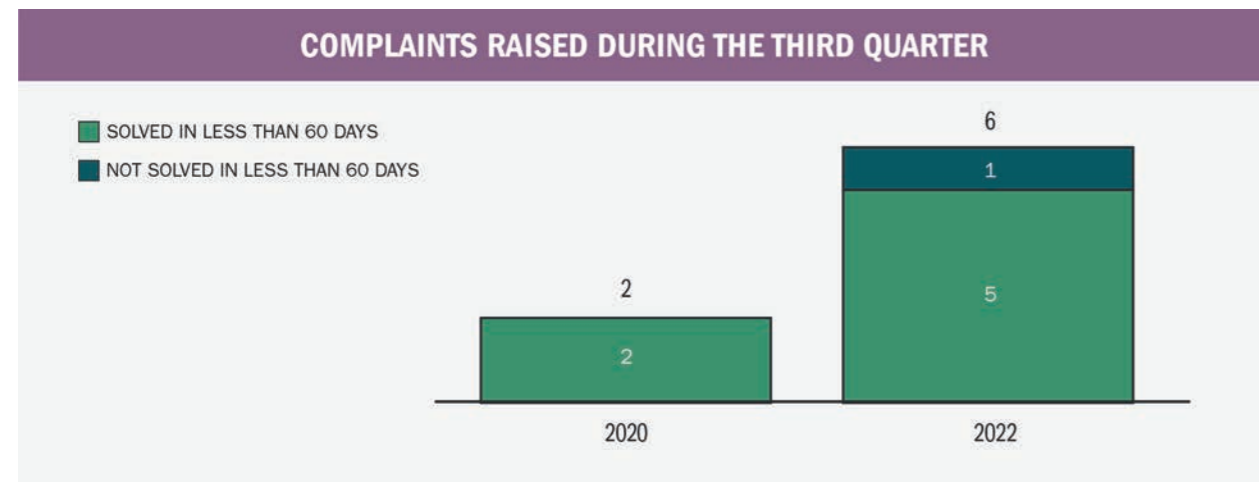
Effective consumer protection mechanisms are central to reducing power imbalances between customers and financial service providers, promoting responsible business conduct, and raising customer awareness of the expected quality standards of services. These mechanisms involve passing and enforcing regulations ensuring fair market practices, establishing consumer protection agencies, and redressing mechanisms to address consumer grievances.

The framework to evaluate customer protection indicates two indicators.

The first indicator is based on the number of customers that contacted a consumer protection authority to intervene and help solve problems with a financial service provider in the last three to six months and solved the issue within two months. In Timor-Leste, the Central Bank is the consumer protection authority for financial services.

In 2022, 11 customer complaints escalated to the Central Bank (detailed in the chart below). An additional three complaints were not included in this analysis because customers could not provide detailed information and have yet to respond to BCTL contacts; these cases are considered on hold until further information is available.





Only complaints raised during the third quarter of 2022 are considered to calculate the indicator. During this period, there were a total of six complaints. Five of these complaints were resolved within 60 days, which is the reference time for the indicator. However, one complaint took longer to resolve, precisely 72 days. This case involved an early loan repayment, which entitled the client to receive a refund of the proportion of the loan insurance corresponding to the reduced loan period. Unfortunately, the resolution process took longer as the client was unavailable⁷ to settle the case earlier.

The second indicator is related to the deposit insurance funds. In Timor-Leste, there is no deposit insurance fund in place. Hence no deposit accounts are covered by a deposit insurance fund.

The BCTL has created a unit to focus on Customer Protection. This unit works closely with financial services providers to address customer complaints escalated to Central Bank, implement procedure changes to avoid similar complaints, and improve overall services provided.

FINANCIAL EDUCATION

In Timor-Leste, financial literacy is considered a significant barrier to financial inclusion, as it limits the understanding and uptake of financial services and products. Customers' financial education helps individuals understand how to manage their finances effectively, navigate the financial system, make informed decisions about financial products and services, and avoid falling into unsustainable debt levels.

The financial education indicators explore the individuals' knowledge of basic financial terms (interest rate, risk, inflation, and diversification) and the ability of users to plan and budget their income.



⁷ Often customer contact details are incorrect or incomplete in the complaints cases. This can make it challenging for the Central Bank to reach out to them to better understand their complaints and settle their cases promptly.

INDEBTEDNESS

In financial inclusion, customer indebtedness levels are a critical consideration. While access to credit is essential, protecting consumers from excessive debt and promoting responsible financial practices are equally important. The indebtedness indicator tracks the percentage of customers struggling to repay their loans.

The indebtedness indicator shows how many borrowers have made late loan payments within a certain period. The BCTL monitors the non-performing loans based on the loan amounts. The table on the right indicates no variation compared to 2020.

PERCENTAGE OF LOANS WITH MORE THAN 30 DAYS LATE PAYMENT

POSITION AT THE END OF THE YEAR		
	2020	2022
Banks	NA	1.81%
ODTIs	NA	4.06%
TOTAL	2%	2%

CHOICE

The final category of quality indicators is about the benefit of having multiple options for financial services; hence individuals can select financial institutions and products that are better aligned with their financial goals, budget, and preferences, leading to better economic outcomes.

There are two indicators to monitor this category. For these indicators, only Commercial Banks and ODTIs were considered.




The first indicator focuses on administrative units in urban areas with at least three different branches of formal financial institutions.

ADMINISTRATIVE UNITS IN URBAN AREAS WITH AT LEAST THREE DIFFERENT BRANCHES OF FORMAL FINANCIAL INSTITUTIONS

	2020	2022
Number of Municipalities* (main urban areas in each municipality)	13	14
With at least three different branches of formal financial institutions	13	14
With at least three different financial institutions in %	100%	100%

*Atauro became Municipality in January 2022

The second indicator focuses on administrative units with at least three different branches of formal financial institutions.

ADMINISTRATIVE POSTS IN URBAN AREAS WITH AT LEAST THREE DIFFERENT BRANCHES OF FORMAL FINANCIAL INSTITUTIONS		
	2020	2022
 Number of Administrative Posts*	65	67
 With at least three different branches of formal financial institutions	20	22
 With at least three different financial institutions in %	31%	33%

*There are two additional Administrative posts (Hatulia in Ermera was separated into Hatulia A and Hatulia B, and Lore area in Lautém)

KEY TAKEAWAY

Quality indicators offer a comprehensive framework for tracking key factors influencing financial inclusion beyond the more common access and usage indicators. The eight quality categories impact individuals' willingness to use financial services more effectively and efficiently. The access, usage, and quality metrics provide a holistic approach to financial inclusion evaluation that fosters an inclusive environment and empowers individuals to participate in the economy.

The full range of quality indicators is difficult to measure as it requires supply and demand-side data; the BCTL is committed to collecting, analyzing, and publishing supply-side data every two years. However, collecting demand-side data requires more investment and effort. Regularly evaluating the indicators based on demand-side data presents a challenge that requires innovative and alternative ways of collecting information more frequently and effortlessly.

The latest data shows minor variation compared to 2020, with affordability and choice indicators improvements. The Consumer Protection indicator shows a minor decline, as one of six customer complaints took over 60 days to be solved, as the customer was not available to settle the case earlier. Despite the decline of the indicator to measure Consumer Protection, the overall increase in customer complaints indicates that financial services clients are becoming more aware of their rights and the instruments they can use to make their claims – a generally positive aspect.



CHAPTER 5

Financial Literacy Initiatives

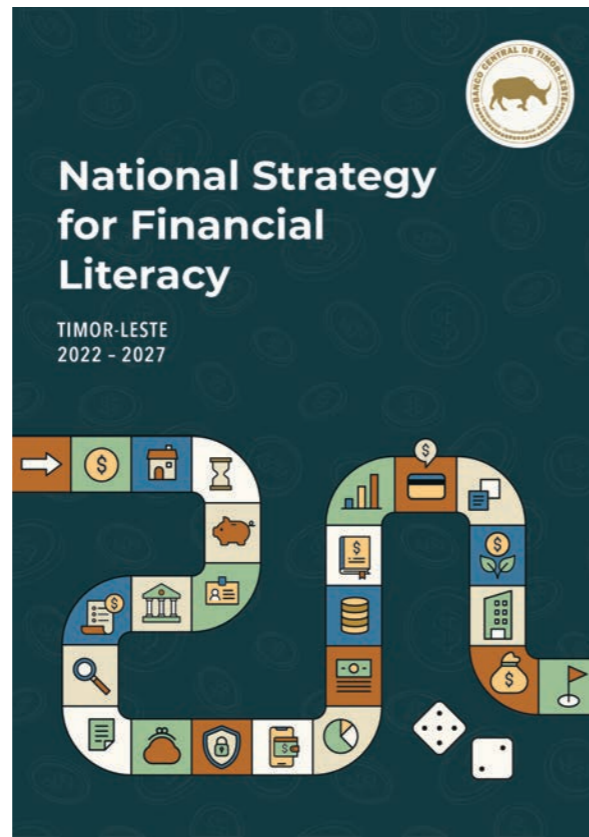
Financial literacy is the backbone of financial inclusion. It refers to the knowledge and skills that empower individuals to make informed and effective decisions about managing their financial resources. Financial literacy has become a critical aspect of everyday life with the increasing complexity of financial products and services. It helps individuals understand the potential risks and benefits of various financial decisions, including saving, investing, borrowing, protecting, and managing debt. With financial literacy, individuals can improve their financial well-being, achieve their financial goals, and contribute to the overall economic development of their communities.

NATIONAL STRATEGY FOR FINANCIAL LITERACY 2022-2027

In 2022, the BCTL launched the second National Strategy for Financial Literacy for 2022 to 2027. The strategy aims to foster collaboration among various stakeholders, expand the target audience, align program content, and ultimately achieve a more significant impact in promoting financial literacy. The new strategy recognizes the importance of digital literacy, given the increasing offer of digital financial services.

In developing the new strategy, the BCTL sought input from various stakeholders. It also evaluated the status, impact, and challenges faced in implementing the action plans from the first National Strategy for Financial Literacy. The findings of the first demand-side survey conducted in 2020 were also taken into account, providing evidence of financial literacy levels, awareness of key financial concepts, use of financial services, and common financial behaviors among the population.

The new strategy underscores the need for a more holistic approach to promoting financial literacy in Timor-Leste. By integrating digital literacy into its financial literacy programs and fostering collaboration among stakeholders, the BCTL is taking a step forward in advancing financial education and helping citizens to make informed financial decisions.



FINANCIAL LITERACY PROGRAM IN ELEMENTARY SCHOOLS

The Financial Literacy Program for elementary schools was initiated in 2016 through the first Memorandum of Understanding (MOU) between the BCTL and the Ministry of Education, Youth and Sports (MEJD, acronym from the Portuguese Ministério da Educação, Juventude e Desporto). This MOU focused on introducing a Financial Literacy module for elementary education's first and second cycles. In 2020, the BCTL and MEJD signed the second MOU to strengthen their coordination and cooperation to continue implementing the Financial Literacy module.

The COVID-19 restrictions limited the program's activities and training of trainers in 2020 and 2021. The BCTL and MEJD used this time to revise and improve the Financial Literacy module materials based on teachers' feedback and adapt it to the Timorese context. The BCTL distributed the revised material during a meeting held early in 2022 to resume the program, bringing together key program players, including the BCTL and MEJD



directors and school directors from Aileu, Ainaro, Baucau, Bobonaro, Ermera, Lautem, Liquiçá, Manatuto, and Manufahi. The BCTL and the MEJD organized a similar meeting for the Região Administrativa Especial de Oé-Cusse Ambeno (RAEOA) players. In August 2022, another training of trainers (TOT) session was held for school directors from Dili, Viqueque, Atauro, and Covalima.

The BCTL also formed a monitoring and evaluation (M&E) group, consisting of BCTL team members, MEJD, and teachers, to ensure effective communication. This group aims to monitor, evaluate, and support the program's implementation more effectively. Despite the challenges, the BCTL and MEJD remain committed to promoting financial literacy in schools to equip Timorese students with the necessary knowledge and skills to manage their finances and achieve their financial goals.

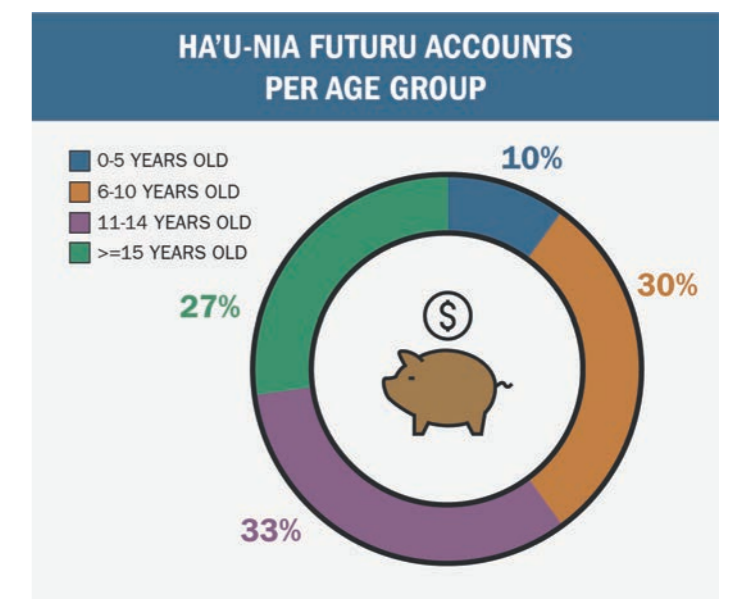
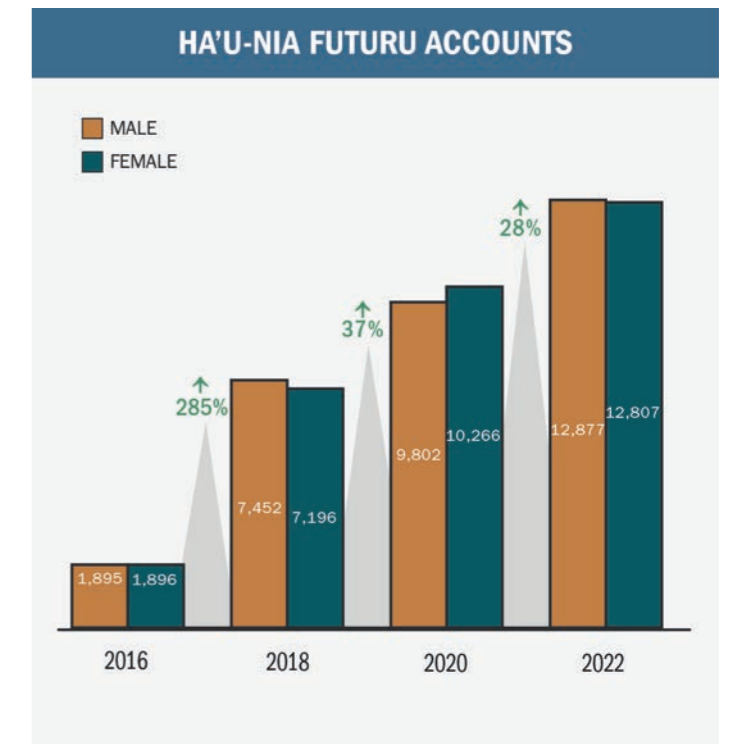
CHILDREN SAVINGS ACCOUNTS: HA'U-NIA FUTURU

Ha'u-nia Futuru (HNF), "my future" in Tetum, is a children's savings account designed to encourage saving from an early age. It is a formal bank account that pays higher interest rates to children between 0 to 17 years old, with no cost to the customer. The account also helps parents save for their children's higher education.

Since its launch on August 28, 2015, the HNF savings account has become increasingly popular among Timorese families, as the chart indicates the growth in the number of accounts. As of the end of 2022, there were 25,684 HNF accounts in the four commercial banks that participated in the program. The ownership of the accounts is almost evenly split between male and female children, with girls owning 49.9% of the accounts and boys owning 50.1%.

While the HNF account continues growing, the growth rate has slowed. During the initial years when the awareness campaign was launched, the uptake of the HNF account was higher. Currently, the HNF account is promoted by commercial banks directly to their customers and in occasional financial literacy events, but no dedicated campaign is in place.

The number of accounts owned by adolescents aged 15 or older shows that 27% of the accounts will soon have their funds available, giving the adolescents and parents the option to cash the funds or transfer them to a standard bank account. Some banks even offer accounts similar to the HNF, tailored to adolescents who want to continue building their savings. Overall, the HNF account remains a valuable tool for parents who wish to teach their children the importance of saving money.





NATIONAL SAVING DAY AND “KAMPU DJITÁL”

In 2014, the BCTL launched an awareness campaign to improve financial literacy across the country. The campaign focused on three key pillars: Plan, Save, and Protect. By emphasizing the importance of careful planning, saving, and protecting one's financial resources, the campaign aimed to help Timorese citizens make more informed financial decisions. To mark this initiative, the country celebrates the National Savings Day every year on November 29.

In 2021, the seventh anniversary of the National Savings Day was celebrated in Maubisse, Ainaro. Over 1,000 people participated in the event, including representatives from the local administration and financial sector stakeholders. As a tradition, the BCTL conducted competitions among school students on financial literacy-related activities. The BCTL distributed prizes for the competition winners and certificates during the event. At the event, BCTL also signed an MOU with the Secretary of State for Cooperatives (SECOOP) to provide financial literacy training to cooperative members.

The event also launched the “Kampu Dijital” (meaning digital village), an initiative to promote digital financial services using e-wallet features to facilitate day-to-day payments. Local market sellers were introduced to e-wallet services, received training, and registered for the service. All purchases during the event had to be made through e-wallet accounts, and the FinTech personnel were on hand to help with any questions or concerns.

In 2022, the eighth anniversary of National Savings Day was celebrated in Baguia, Baucau. Many local authorities, local school directors, representatives of financial services providers, SECOOP representatives, and BCTL board members attended the celebration. The event included the second edition of the “Kampu Dijital”.

The event's pre-activities involved students from seven local schools. The activities aimed to inform about money and counterfeit money, basic financial planning, saving money, and using digital payments.

In 2022, the BCTL also organized an awareness program on digital payment, explaining how daily transactions, withdrawals, transfers, and payments can be performed through digital channels. The event involved local communities from the Administrative Posts of Baguia, Uatu-Carbau, Uatulari, and Iliomar.



OTHER FINANCIAL LITERACY ACTIVITIES

Financial Literacy for Cooperative Members

The BCTL and SECOOP collaborate on a financial literacy training program to promote financial literacy among cooperative members. The initiative aimed to enhance the financial knowledge and skills of cooperative members.

In 2022, the BCTL conducted a training of trainers (TOT) program for SECOOP trainers in Dili. The training covered various topics, including basic financial planning, saving money, insurance products, and digital payments. Eighteen participants, including SECOOP directors, heads of departments, staff, and trainers, attended the training.

The TOT program aimed to equip SECOOP trainers with the necessary skills and knowledge to conduct financial literacy sessions independently. The SECOOP trainers will train trainers from other municipalities and administrative posts. This cascade approach ensures the program's sustainability and allows more cooperative members to benefit from financial literacy training.

Financial Literacy Activities from Commercial Bank

Among commercial banks, ANZ is the most active in organizing financial literacy activities. ANZ has its branded MoneyMinded educational module, which includes a program for individuals and another for small businesses. The program aims to build knowledge and confidence to help participants make informed decisions about managing money. The ANZ's events are open to interested groups and focus on general financial literacy topics. ANZ product is not promoted during the events, as ANZ only offers banking services to corporate clients in Timor-Leste.

In 2021, ANZ organized 17 financial literacy events with more than 400 participants. In 2022, they conducted 48 events with over 1,000 participants. The events covered budgeting, saving, investing, and managing debt, providing participants with practical knowledge that can be applied to their daily lives.

Besides ANZ, BNCTL conducts regular seminars in the Municipalities for customers about financial literacy, giving information about their products, and promoting internet banking. BNCTL also conducts informational sessions for staff of their larger corporate clients.



KEY TAKEAWAY

Financial literacy is essential in promoting financial inclusion; it empowers individuals to evaluate, access, and use financial services that suit their needs while making informed financial decisions. With the rise of digital financial services, individuals must also feel confident about their digital skills to take full advantage of these services, which offer greater convenience.

The Banco Central de Timor-Leste has been a driving force in promoting financial literacy in the country through various initiatives, including National Savings Day, “Kampu Dijital,” and partnerships with MEJD, SECOOP and financial service providers. The Central Bank also plans to launch an online Financial Literacy platform to expand the program coverage, targeting individuals and businesses in remote areas. By collaborating with key stakeholders, BCTL has reached more people with its financial literacy programs and empowered them to make sound financial decisions.

In the future, BCTL will continue to invest in financial literacy and implement the national strategic plan to promote financial inclusion in Timor-Leste further. By raising awareness about financial literacy and working with stakeholders to provide more accessible and user-friendly financial services, BCTL aims to create a more financially inclusive society where everyone can participate and benefit from the country's economic growth.



CHAPTER 6

Looking Forward

This report demonstrates that Timor-Leste has made significant progress in achieving higher levels of financial inclusion over the years, with regulated financial services becoming more accessible and widely used.



Financial services access points are in all 67 Post Administrative and in 423 of 452 sucos. The number of clients and accounts increased significantly too. The development of the sector is reflected in the access and usage indicators.

The P24 National Switch implemented by the BCTL provides the platform to connect and support financial services expansion and innovation. Digital financial services enable people to access various financial services without visiting a branch, making interactions simpler and more convenient. E-wallet services, in particular, have shown remarkable growth potential and indicate that digital financial services will become more relevant.

Financial inclusion initiatives should move beyond promoting access and focus on ensuring the quality of services, especially in promoting financial literacy. Merely having access to financial services does not guarantee financial inclusion. Financial literacy is the key to unlocking the potential benefits of financial inclusion; it empowers individuals with skills and knowledge to understand the different financial services, compare and use them regularly and appropriately to benefit from them.

Promoting financial inclusion requires collaboration among various stakeholders, including the government, financial institutions, civil society, and the private sector. The financial literacy program in elementary schools and “Kampu Dijital” initiatives exemplify how cooperation helps achieve a more significant impact.

The digital revolution’s impact on the financial services industry and, consequently, on financial inclusion cannot be overstated. As financial institutions and regulators work to keep pace with rapidly changing customer expectations and the evolving technological landscape, they must prioritize innovation, flexibility, and collaboration. By embracing cutting-edge technologies such as artificial intelligence, digital channels, and the Internet of Things, financial institutions can enhance their operations, improve risk management, and create new business models. However, to fully unlock the potential of these technologies and promote financial inclusion, policymakers and financial institutions must also prioritize financial and digital literacy, as well as customer education and awareness. Only by working together can we create a more inclusive and sustainable financial system that benefits everyone.



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