



Financial Inclusion Report 2018

MEASURE, STRATEGIZE
AND INNOVATE



Contents

4 Preface by the Governor

6 Executive Summary

Chapter 1	10 Financial Inclusion Overview
	12 1.1 Key Developments in the Financial Sector from 2016 to 2018
	13 1.1.1 Access Points and Payments Systems
	13 1.1.2 New Products and Services
	14 1.1.3 Capacity Building and Infrastructure
	15 1.1.4 Financial Literacy and Consumer Protection
	16 1.2 The Importance of Measuring Financial Inclusion
	16 1.3 Key Takeaways

Chapter 2	18 Financial Inclusion Access Indicators
	20 2.1 Financial Inclusion Access Points
	21 2.1.1 Access Points by Banks
	25 2.1.2 Access Points by Other Deposit Taking Institutions (ODTIs)
	26 2.1.3 Access Points by Other Financial Service Providers
	27 2.1.4 Total Access Points in the Financial System
	30 2.2 Financial Inclusion Access Indicators
	31 2.2.1 Coverage of Access Points by Municipalities, Administrative Posts and Sucos
	32 2.2.2 A Breakdown of the Type of Financial Services Access Points by Area
	38 2.2.3 Summary of Access Indicators
	42 2.2.4 An Analysis on Unserved Areas
	45 Fact Sheets on Financial Inclusion in Municipalities in Timor-Leste
	58 2.3 Key Takeaways

Chapter 3	60 Financial Inclusion Usage Indicators
	62 3.1 Financial Inclusion Usage Indicators
	64 3.1.1 Usage of Financial Services Offered by Banking Institutions
	67 3.1.2 Usage of Financial Services Offered by ODTIs
	69 3.2 Account Ownership by Age Demographics
	70 3.3 Account Ownership by Municipalities
	72 3.4 Usage of Other Financial Services
	74 3.5 Key Takeaways

Chapter 4	76 Financial Inclusion Quality Indicators
	78 4.1 Key Considerations in Measuring Quality of Financial Services in Timor-Leste
	81 4.2 Financial Inclusion Quality Indicators
	81 4.2.1 Affordability Indicators
	82 4.2.2 Transparency Indicators
	83 4.2.3 Convenience Indicators
	84 4.2.4 Fair Treatment Indicators
	85 4.2.5 Consumer Protection Indicators
	85 4.2.6 Financial Education Indicators
	85 4.2.7 Indebtedness Indicators
	86 4.2.8 Choice Indicators
	86 4.3 Key Takeaways

Chapter 5	88 Financial Inclusion Developments
	90 5.1 National Strategy for Financial Inclusion
	92 5.2 The Modernization of Payments Systems
	93 5.2.1 Next Steps for the Advancements of Payments Systems
	94 5.3 Piloting E-wallet Services
	99 5.4 Enhancing Access to Credit for Small and Medium Enterprises (SMEs)
	100 5.5 Key Takeaways

Chapter 6	102 Financial Literacy
	106 6.1 Financial Literacy Programmes in Elementary Schools
	108 6.2 Financial Literacy Awareness Events
	109 6.3 Children Savings Accounts: Ha'u-Nia Futuru
	111 6.4 Basic Record-Keeping and Accounting Training for MSMEs
	112 6.5 Key Takeaways

Chapter 7	114 Financial Inclusion For The Future Of Timor-Leste
	116 7.1 Identifying Financial Inclusion Barriers and Opportunities for Further Financial Inclusion
	116 7.1.1 Disparities in Access to Financial Services
	117 7.1.2 Low Usage of Financial Services
	117 7.1.3 Absence of Demand-side Data to Measure Quality Indicators
	118 7.2 Aligning the Next Steps towards the National Strategy for Financial Inclusion (NSFI) 2017-2022
	118 7.2.1 Expand Access Points in Unserved Administrative Posts
	119 7.2.2 Boost the Usage of Financial Services through New Product Features
	120 7.2.3 Intensify Financial Literacy Programmes for Consumers
	120 7.2.4 Empower Financial Service Providers to Educate Customers
	121 7.2.5 Collect Demand-Side Data to Measure Quality Indicators
	122 7.3 Conclusion



Preface

Banco Central de Timor-Leste (BCTL) holds firmly to the principle that financial inclusion has to be nurtured through the active role of the regulators and policymakers in creating an enabling regulatory environment with robust financial infrastructure, balanced by the safety, stability and integrity of the financial system. Working hand in hand with the Government, public and private sector stakeholders, BCTL continues to champion and strengthen the advocacy for inclusive finance in Timor-Leste through innovative approaches to increase access points, modernize payments systems, enhance usage of financial services and intensify financial literacy programmes in the country.

To be able to accelerate financial inclusion sustainably, data and measurement mechanisms are important, they serve as a performance framework to evaluate and review the country's achievements, set targets and track progress over time. In the recent years, our country's key accomplishments include the pioneering data collection initiative for the Financial Inclusion Report published in 2016, a momentous first Financial Inclusion Report for Timor-Leste. For the first time in history, we were able to measure financial inclusion with clear indicators along core financial inclusion dimensions of access, usage and quality.

The Financial Inclusion Report 2016 has been indispensable to BCTL's efforts in measuring and documenting the levels of financial inclusion in the country, providing quintessential insights into the disparities and challenges which needed to be addressed to advance financial inclusion. As a direct outcome of the report and its findings, BCTL was able to design a forward looking, comprehensive blueprint under the National Strategy for Financial Inclusion (NSFI) 2017-2022. The national strategy serves as a guiding light to steer financial inclusion policies and action plans for the period 2017-2022, anchored by the vision of creating an inclusive financial system that brings the benefits of financial services to all Timorese towards reducing poverty and enhancing shared prosperity.

By leveraging on our past achievements, experiences and lessons learnt, BCTL forged ahead with the commencement of a follow-up data collection project in 2018. This report outlines the findings on the current state of financial inclusion as at 2018, and the degree of progress the country has attained since 2016. The theme of this report is "Measure, Strategize and Innovate" and it is intended to update the understanding of factors which influence financial inclusion to form recommendations for future policy direction and cultivate innovation, in line with the ever evolving and modernizing financial sector.

One of the key discoveries from this report is the fact that the take up of bank accounts in Timor-Leste is increasing at a lower rate than expected, recording a growth rate of 3.4%. At end-2018, the total clients with account ownership in the five banks in Timor-Leste stood at 401,228 compared to 388,018 in 2016. This is one of the pressing issues which BCTL will prioritize as a next step in order to identify the impediments which are preventing higher account usage. Concurrently, BCTL will also dedicate similar precedence and urgency to overcome barriers in central areas of financial inclusion in Timor-Leste. This includes factors affecting financial access points, innovation of financial product features as well as financial literacy and awareness.

BCTL also affirms the need for continuous improvements and fine-tuning of the financial inclusion measurement framework in the country. The existing measurement framework used to measure financial inclusion in Timor-Leste is still lacking in terms of solid demand-side data to assess the quality aspects of financial inclusion. Demand-side data collection in Timor-Leste will be elevated in the near future, with BCTL's proposal to conduct a demand-side survey in 2019-2020, in addition to working with the Government to insert financial inclusion related questions in the nationwide Census 2020. BCTL also seeks to enhance the process of collecting supply-side data to ensure the accuracy and precision, and reduce duplications and inconsistencies. It is hoped that the next financial inclusion report will be further enriched with these initiatives in place.

With the vision of inclusiveness for all Timorese in mind, our country has reached another milestone with the successful publication of this second Financial Inclusion Report. This initiative marks BCTL's enduring commitment to propel financial inclusion to greater heights for Timor-Leste. BCTL wishes to express our appreciation to all our collaborative partners from the public and private sector, including Government Agencies and financial service providers, without whom this report would not be a success. BCTL believes that the availability of real, tangible financial inclusion data provides the knowledge and awareness to develop practical, achievable and evidence-based policies which will bring positive changes to all Timorese in the years to come.

Abraão de Vasconcelos
Governor

Executive Summary

Joining the ranks of leading policymakers globally, BCTL has not only embraced the mandate to spearhead financial inclusion policy direction as a domestic agenda, but also pledged support for this movement on a larger, more global scale. Timor-Leste has fostered strong partnerships with various multilateral organisations and standard setting bodies in advocating for inclusive finance. The global push towards this collective goal has placed inclusiveness at the forefront of financial sector development, enriched by coordinated efforts to track progress of financial inclusion in countries across the world.

United in the fight for inclusiveness, policymakers across all continents have taken higher accountability to measure, quantify and monitor financial inclusion progress. Comprehensive data and measurement frameworks are therefore vital in ensuring that financial inclusion goals and objectives can be attained, because they function to enable policymakers to diagnose conditions, identify obstacles, set targets, plan policies and assess impact.

Recognizing the importance of the continuity of data collection, monitoring and evaluation, BCTL embarked on this Financial Inclusion 2018 report. This is the second financial inclusion report undertaken by BCTL, which uses extensive and updated supply-side data to assess the dimensions of the measurement framework. As iterated in the first Financial Inclusion Report 2016, three dimensions form the building blocks to achieve inclusiveness, which are access, usage and quality. These are the foundations which enable all citizens to access and utilize a range of financial services which are safe, suitable and affordable.

This Financial Inclusion Report 2018 is structured into seven chapters.

Chapter 1 provides the general overview of the changes and advances in the financial sector which has impacted financial inclusion since 2016.

Chapter 2 explores the level of access to financial services in Timor-Leste, covering data by all banks, deposit taking institutions, regulated and non-regulated financial service providers.

Chapter 3 examines the usage dimension, where utilization of financial services is analyzed by account type and client demographics including their gender, age and location.

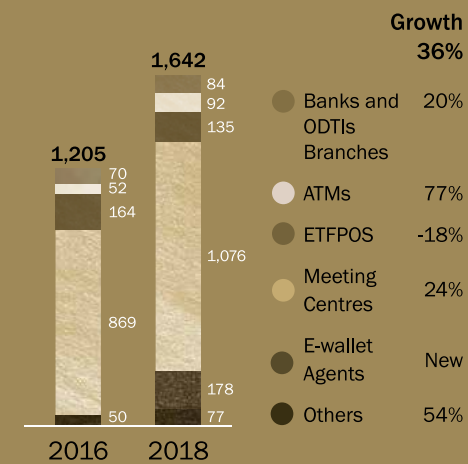
Chapter 4 discusses the quality indicators, which is correlated closely to customer experience in using financial services with linkages factors such as affordability, convenience and fair treatment of clients.

Chapter 5 highlights all the new and current developments and strategies which have contributed to financial inclusion, including the status of the implementation of the action plans under the National Strategy for Financial Inclusion (NSFI) 2017-2022.

Chapter 6 details the wide-ranging financial literacy programmes in Timor-Leste which are essential to support the financial inclusion agenda.

Chapter 7 delves into the current barriers and obstacles which still exist in the country, and concludes the report by emphasizing the key focus areas for the road ahead in line with the NSFI 2017-2022.

Financial services access points increased 36% in 2018 compared to 2016



ODTI access points increased by 51% in 2018, mostly due to the growth of meeting centres

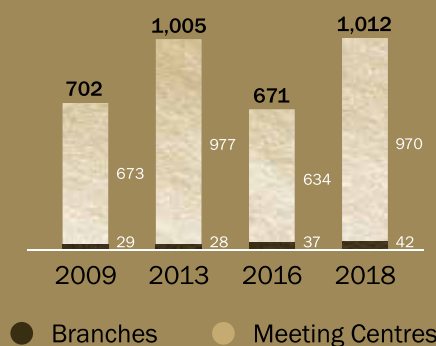
ODTI Access Points

Growth from 2016

Total: 51%

Meeting Centres: 53%

Branches: 14%



35% of Timorese adults do not use any of the financial services evaluated*

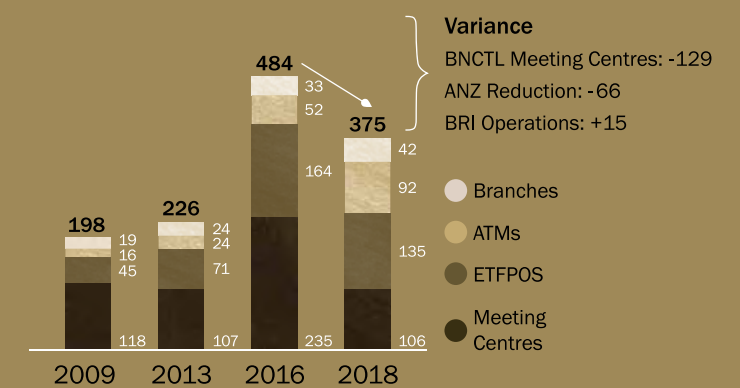
Regulated Account Penetration:

Adults with deposit account at banks or ODTs: 62%

Adults with credit account at banks or ODTs: 9%

*Information on clients was reported by financial service providers and it does not exclude potential overlaps or duplication of clients who are using multiple services or providers.

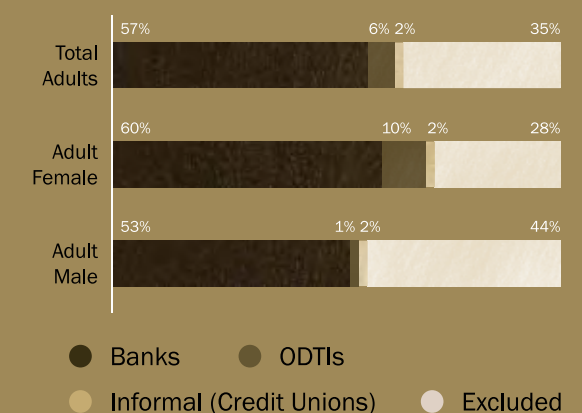
Bank access points dropped 23% in 2018 compared to 2016, due to the reduced number of meeting centres and the termination of ANZ's retail operations



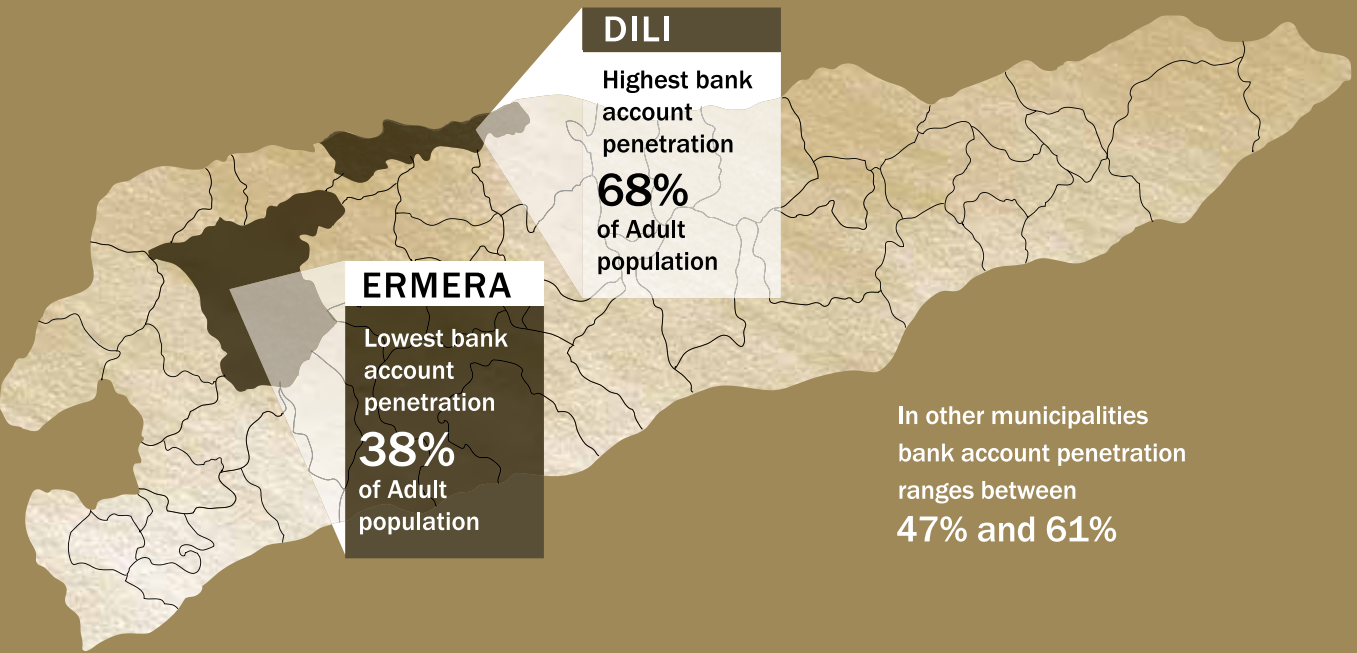
Policies related to access indicators

- The National Switch system will connect banks' ATM and ETFPOS networks, as well as other financial services channels to optimize the distribution of access points across the country.
- An agent banking license has been issued to a financial institution that plans to develop an agent banking network in the country.
- Telemor Fintech is implementing e-wallet services in Timor-Leste and plans to spread e-wallet agents across all sucos. Other proposals for the outreach of similar services are currently being analyzed.

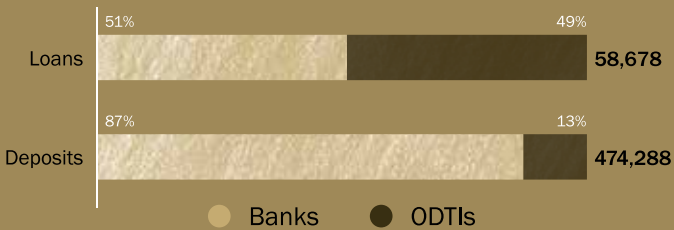
Financial Services Used by Adult Population



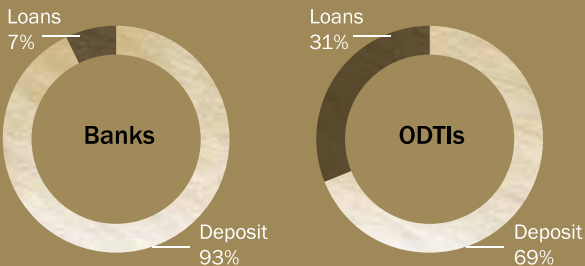
Penetration of financial services by municipality



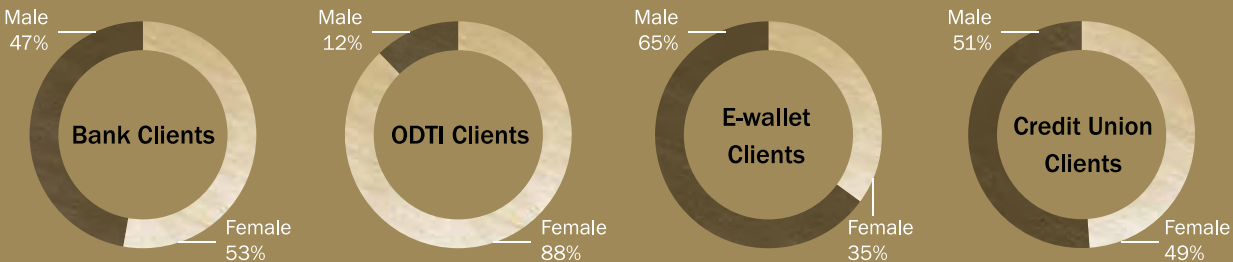
Banks dominate the deposit market with 87% of all deposit accounts (corporate and individuals), however the credit market is equally divided between banks and ODTIs



ODTIs' services are more evenly distributed between deposit and loan accounts compared to banks

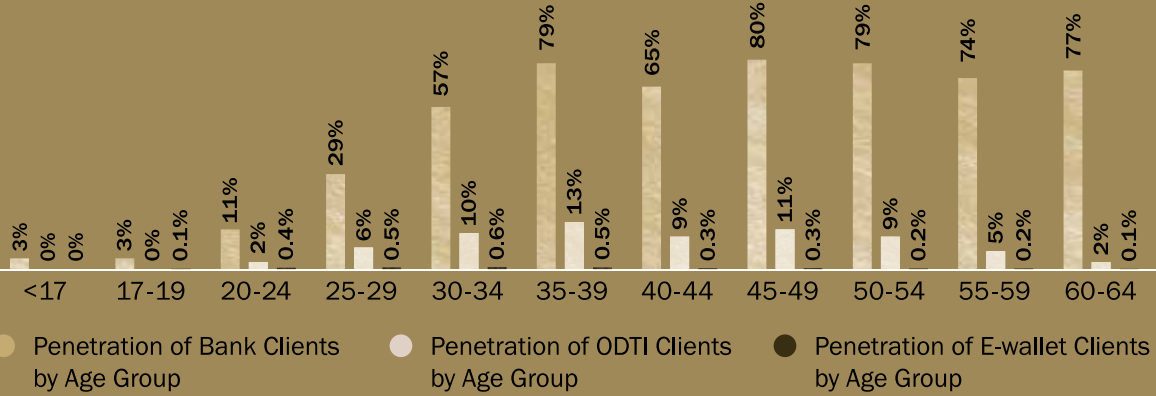


The gender breakdown of clients in the financial sector shows that ODTIs' clients are mostly women, while clients of other financial services providers are more balanced between women and men



Financial services take-up by age:

- Banks have a higher account penetration amongst adults above 35 years old,
- ODTIs' clients are more evenly spread out across age groups
- The initial data for e-wallet show that registered users are concentrated amongst younger client



Policies related to usage indicators

- Government payments to people (G2P) and to businesses (G2B) are done exclusively through bank accounts to improve transparency and efficiency. Social beneficiaries, public employees and services providers or vendors are required to maintain a bank account to receive their payments.
- ODTI regulation allows larger microfinance institutions to apply for an ODTI license to be able to accept deposits above the limits set on microfinance institutions.
- The implementation of the Government Credit Guarantee Scheme (CGS) for SMEs will facilitate their access to commercial bank loans.

Quality indicators are divided in 8 categories:

- Affordability
- Transparency
- Convenience
- Fair Treatment
- Consumer Protection
- Financial Education
- Indebtedness
- Choice

Policies related to quality indicators

- Financial literacy allows Timorese to better understand the services available to them, their rights and obligations, and the benefits financial services can bring to their lives. The financial literacy module developed for elementary school students is already available in public schools around the country. Programmes for youths and adults will be developed in the coming years.
- The Basic Record Keeping and Accounting Training for MSMEs aims to improve overall knowledge of business financial planning and reporting, and consequently, increase MSMEs usage of financial services and access to finance.
- Consumer protection law for the financial sector has been drafted and it will be discussed among key stakeholders for future implementation.
- A demand-side survey will be conducted in the next few years to find out the needs and perceptions of the population in relation to financial services.

Financial Inclusion Overview

1.1 Key Developments in the Financial Sector from 2016 to 2018	12
1.2 The Importance of Measuring Financial Inclusion	16
1.3 Key Takeaways	16



The successful publication of the Financial Inclusion Report 2016 has provided important facts and evidence on financial inclusion in the country. It played a central role in imparting insight and data on the current levels of financial inclusion in Timor-Leste. The data analysis also helped to shape our understanding on what financial inclusion really means and benefits which inclusiveness can bring for the low-income and vulnerable segments of society and Timor-Leste as a whole. This knowledge has facilitated BCTL, in its mandate to drive financial inclusion, to define its vision, missions and strategies which can transform and push financial inclusion to reach greater heights. Since 2016, many outcomes and advances has transcended from the result of the inaugural data collection initiative.

1.1

Key Developments in the Financial Sector from 2016 to 2018

A pivotal development since the publication of the Financial Inclusion Report 2016 was the launch of the National Strategy for Financial Inclusion (NSFI) 2017-2022. This high level blueprint is the most important document which charts the path for the financial sector a five year period to foster a more inclusive financial system for Timor-Leste. The NSFI which was published in 2017 clearly outlines the vision, broad strategies and action plans which will bring financial inclusion to the next level. The four broad strategies which were laid out to cover the areas of access points and payments systems, specialised and affordable financial services, capacity building and supportive infrastructure, as well as financial literacy and consumer protection. These broad strategies act as pillars to support the vision of creating an inclusive financial system which brings the benefits of financial services to all Timorese towards to goals of poverty reduction and shared prosperity.

1.1.1

Access Points and Payments Systems

A number of action plans which are aligned to the NSFI 2017-2022 have been implemented, particularly in the area of increasing financial services access points in the country. The e-wallet initiative contributed to a major growth in financial services access points in the past year with the licencing of Telemor Fintech in August 2018.¹ The number of registered clients is expected to grow consistently over the next few years as this channel is able to reach all Timorese registered with telco lines as more and more Timorese are now connected with mobile phone lines, including unbanked people living in remote areas.

The year 2017 also saw the introduction of a new commercial bank, Bank Rakyat Indonesia (BRI) to the financial sector after receiving a license from BCTL to operate in the country. Since its commencement on 14 March 2017 in Timor-Leste, BRI has opened up bank branches and utilized ATMs as a method to reach out to customers. By the end of 2018, BRI has 4 branches and 11 ATM access points in the country. The introduction of a new banking institution also offers Timorese more choices in terms of financial service providers and the products which they provide.

The country's National Switch project which was developed to facilitate the payments industry also demonstrated meaningful progress. The National Switch has started the integration of ATM and EFTPOS networks in the country and currently two banks, BNU and Mandiri, have been integrated into the platform, while the remaining two banks, BRI and BNCTL, are in the process of upgrading their systems for this purpose. The National Switch project is expected to integrate ATM, EFTPOS and mobile banking functions among all the licenced commercial banks in the country.

1.1.2

New Products and Services

The largest commercial bank in Timor-Leste both in terms of branch network and number of clients, BNCTL, has also upgraded its core systems. This represents an enormous leap in the modernisation of the bank's internal systems and operations, and this progress was necessary to support the introduction of new products and services by commercial banks in Timor-Leste. As a direct consequence of its modernisation, BNCTL was able to offer issuance of debit card services. Seeing that BNCTL has the highest number of clients and accounts in the banking system, this new product feature can potentially be beneficial to large segments of Timorese.

¹ Caixa Geral de Depósitos/Banco Nacional Ultramarino (BNU) first piloted e-wallet services in November 2014 and launched it in 2015. However this initiative did not progress as there were still various compliances issues to be resolved at that time, particularly involving Know Your Customer (KYC) regulations and telco client registration procedures. Hence, there were no agents appointed for e-wallet services under BNU since its pilot.

1.1.3 Capacity Building and Infrastructure

There were also notable advancements in the area of capacity building and infrastructure of financial institutions in the country after 2016. The most eminent change was the transformation of the two microfinance institutions (MFIs) into Other Deposit Taking Institutions (ODTIs) in Timor-Leste. The two MFIs, Tuba Rai Metin and Moris Rasik underwent capacity building to comply with more dynamic and comprehensive regulations to enable these institutions to expand their products and services to clients, specifically enabling these former MFIs to provide regulated deposit accounts to Timorese. After the transformation, Tuba Rai Metin was renamed to Kaebauk Investimentu no Finansas (KIF) in 2016, and Moris Rasik was renamed to Servisu Finanseiru Moris Rasik (SFMRSA) in 2018. Subsequent to their newly enhanced role, ODTIs have also widened their outreach in Timor-Leste, increasing their access points from 671 in 2016 to 1,012 in 2018.

The banking sector also saw some strategic changes in its institutional structure. After 2016, ANZ Bank shifted its focus to corporate clients in Timor-Leste, terminating its retail arm. With this adjustment in ANZ's business model, it has affected the number of its access points as ANZ only maintains one headquarter branch in the capital of Dili to serve corporate clients.

Similarly, the insurance sector also witnessed immense changes, with the National Insurance Timor-Leste (NITL) ceasing its operations in 2018 due to its failure to comply with the Insurance Law and regulations in the country. These laws and regulations are important to ensure the safety of financial service providers in Timor-Leste, and non-compliance to these laws can potentially threaten the stability of the financial sector and adversely affect customers. Thorough supervision on the compliance of financial institutions enables BCTL and other regulators to filter and identify weak institutions, which pose a threat to the financial system.

1.1.4 Financial Literacy and Consumer Protection

Many new ventures were also initiated under the purview of financial literacy and consumer protection since 2016. For instance, BCTL took part in the Global Money Week, for the first time in 2017. This movement is an annual financial awareness campaign, organised by Child and Youth Finance International in partnership with Organisation for Economic Co-operation and Development (OECD), targeted at children and youths to learn about money matters, livelihoods and entrepreneurship. In 2018, BCTL also embarked on a project to conduct a Train-of-trainers programme for teachers, in order to scale up the financial literacy at elementary school programme.

BCTL also remained steadfast in championing the training and promotion of financial literacy for micro, small and medium enterprises (MSMEs) as well. Since the design and development of a module on Basic Record Keeping and Accounting for MSMEs in 2016, BCTL followed up with monitoring and evaluation for continuous improvement of this strategy throughout the following years. In 2018, BCTL also partnered with Institute for Entrepreneurship Development (IADE) and the Chamber of Commerce and Industry of Timor-Leste (CCI-TL) on a memorandum to expand this training.

1.2 The Importance of Measuring Financial Inclusion

A lot has happened in Timor-Leste's financial sector since the last Financial Inclusion Report 2016. In the last few years, the financial sector witnessed advances in technology and financial channels, evolution of financial services providers, introduction of new product features and the intensification of literacy initiatives in the country. BCTL and all financial inclusion stakeholders in the country have also continued to learn, grow and progress throughout this period, taking lessons from domestic policy monitoring as well as global knowledge exchanges and benchmarking.

It is therefore crucial to assess whether all these changes have impacted inclusiveness in the financial sector and this assessment is only possible through the measurement of financial inclusion indicators. For this purpose, BCTL has once again tracked and collected extensive supply-side data from all regulated and non-regulated financial institutions in the country to evaluate access, usage and quality indicators of financial inclusion for the Financial Inclusion Report 2018. To complement this supply-side data, the statistics from the Census 2015 was also used to analyse the indicators from the perspectives of population and administrative units.

1.3 Key Takeaways

The value and significance of measuring financial inclusion cannot be disputed. Financial inclusion data is the focal point for evidence-based policymaking, allowing policymakers to see all the gaps and barriers that still exist. Armed with these information and expertise, policymakers can then make decisions, improve on strategies and formulate action plans for the country based on facts and not assumptions. In this regard, BCTL places this as the top priority in the domestic financial inclusion agenda, because without tangible and solid data, all efforts for financial inclusion may not be reaching the correct target areas. Financial inclusion measurement holds the key in determining whether policies are translated into real impact on the ground.



Financial Inclusion Access Indicators

2.1 Financial Inclusion Access Points	20
2.2 Financial Inclusion Access Indicators	30
2.3 Key Takeaways	58



Access to financial services, particularly geographical access, is a primary requirement for inclusiveness in the financial system. The foundation of financial access is supported by the availability of safe, reliable and affordable financial products and services which can be delivered to Timorese via a diverse range of financial services access points by banks, regulated deposit taking institutions and non-banks. Thus, access indicators reflect the depth of outreach of financial services through the penetration of access points across the country.

This chapter will analyse financial inclusion access indicators by providing an in-depth view of the growth of access points across the country. This chapter also discusses the notable developments in innovative channels used to deploy financial services, such as the e-wallet initiative and growth of non-bank access points.

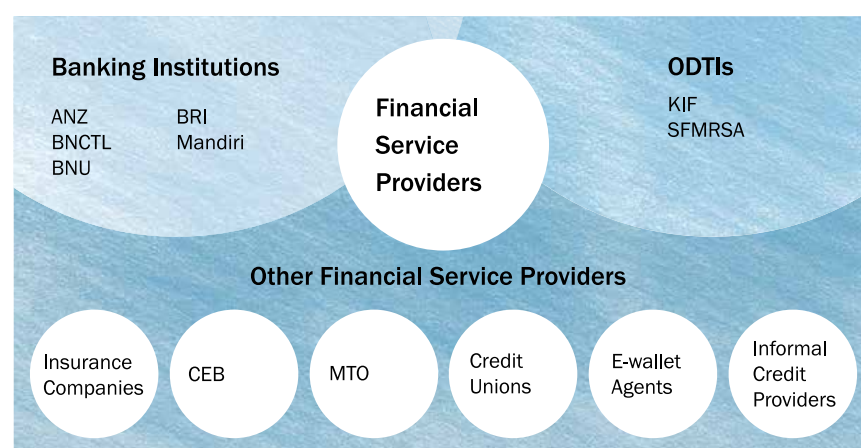
2.1

Financial Inclusion Access Points

The financial landscape in Timor-Leste is characterized by the diversity of financial service providers which comprise of banks, other deposit taking institutions (ODTIs), and other providers such as insurance companies, currency exchange bureaus (CEB), money transfer operators (MTO), e-wallet agents, credit unions, as well as other informal credit providers.

The data collected for this report has enabled BCTL to track progress and update the national map of access points in the country. It is essential to keep knowledge and information up to date to be able to identify specific gaps and challenges faced by our country in advancing financial inclusion, particularly on access to financial services.

Diagram: Financial Service Providers in Timor-Leste



2.1.1

Access Points by Banks

There are currently five banking institutions in Timor-Leste. Banking institutions are some of the most recognisable and trusted financial service providers by Timorese, and thus, they perform a critical role in boosting the outreach of financial services across the country. Banks in Timor-Leste have continued to adopt the usage of branches, automated teller machines (ATMs), electronic funds transfer at point of sales (EFTPOS) terminals and meeting centres as channels to offer financial products and services.

The year 2018 saw significant movements in the number of access points² by banking institutions compared to 2016. The total number of bank access points has been steadily increasing since 2009 reached 484 access points in 2016, however, this number dropped to 375 by end-2018.

² There is a slight variance in the number of access points reported by financial institutions for regulatory purposes compared to the numbers in this report. The variance is due to the status of equipment which are yet to be installed or under maintenance.

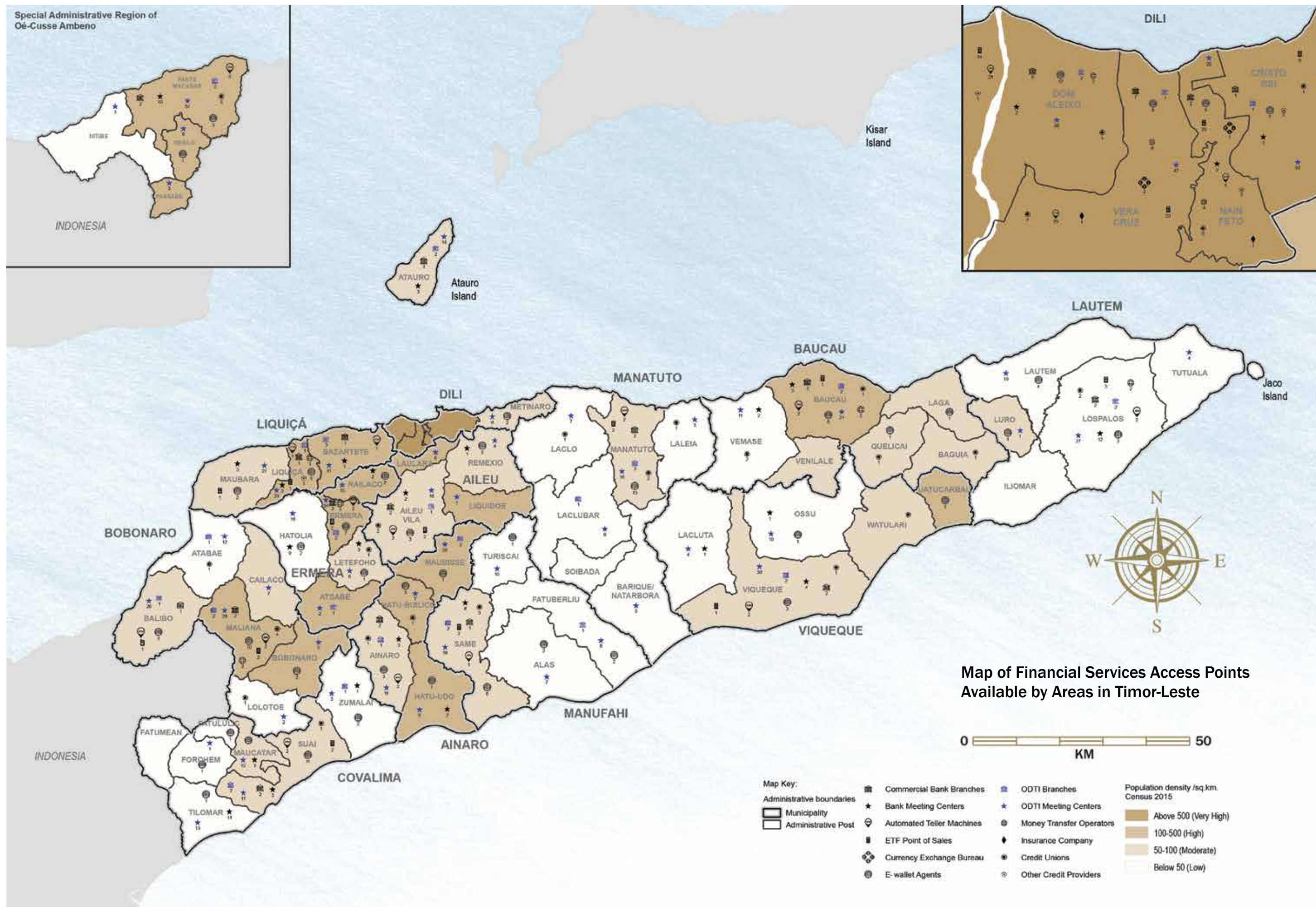
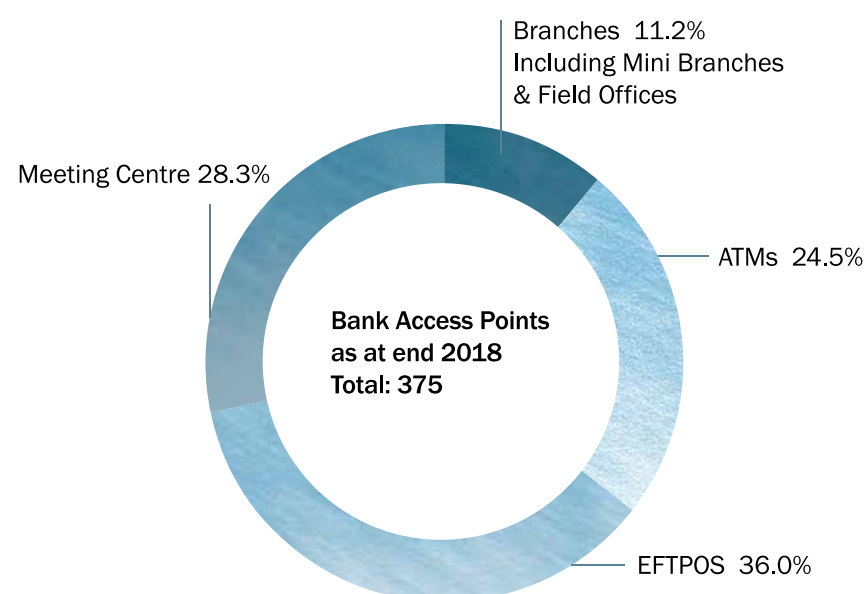


Diagram: A Comparison of Bank Access Points from 2009 to 2018

Type of Bank Access Points	2009	2013	2016	2018
Branches (Mini Branch / Field Offices)	19	24	33	42
ATMs	16	24	52	92
EFTPOS	45	71	164	135
Meeting Centres	118	107	235	106
Total	198	226	484	375

The reason for this reduction in numbers is due to the withdrawal of ANZ Bank from the retail banking market, and they now maintain only a single branch to provide greater focus on corporate banking in the country. While ANZ Bank's departure from the retail banking sector has negatively impacted the quantity of access points, the drop in access points was to some extent moderated by the introduction of a new bank, Bank Rakyat Indonesia (BRI) in 2017. BRI contributed to 15 access points, in the form of 4 bank branches and 11 ATMs, as at end-2018.

Diagram: Types of Bank Access Points as at end-2018



The types of banking access points most commonly found in the country are EFTPOS, making up 36.0% of the total 375 access points, followed by meeting centres which make up 28.3% of the total access points. Banking institutions continue to use these more cost saving and practical branchless banking platforms, instead of traditional branches, as a means to extend financial services beyond the city centres to offer banking services across all municipalities in the country.

2.1.2

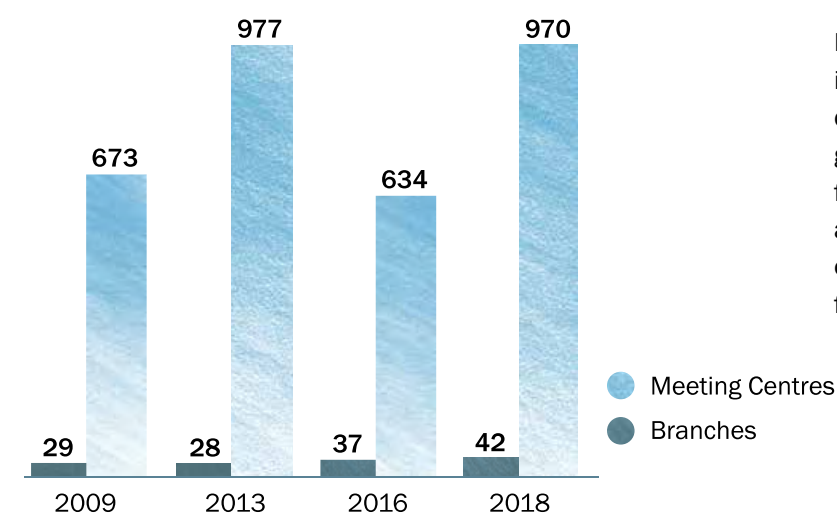
Access Points by Other Deposit Taking Institutions (ODTIs)

ODTIs also play an essential part in advancing financial inclusion by narrowing the disparities and meeting the needs of Timorese in areas which banks are unable to reach out. Microfinance institutions (MFIs) have historically played a central role in providing financial services, particularly in providing credit products and services to micro enterprises and small businesses in the country and this is evidenced by their strong performance in the advancement of access points from 2009 to 2013. However, the numbers dropped in 2016 as one of the MFIs, Tuba Rai Metin, later renamed as Kaebauk Investimentu No Finansas (KIF), changed its strategy from group loans and meeting centres to individual clients, thus reducing the use of meeting centres.

After 2016, MFIs were transformed into ODTIs to assume a greater role in the financial sector through appropriate regulations to enable these institutions to expand deposit-taking services, in addition to lending facilities.

Currently, ODTIs have 1,012 access points across Timor-Leste, providing outreach of financial services through 42 branches and 970 meeting centres.

Diagram: Changes in ODTIs Access Points from 2009 to 2018



Proving to be indispensable players in financial inclusion, ODTIs have demonstrated the most impressive growth in enhancing access to financial services, increasing access points by 341 access points, equivalent to an increase of 51% from 671 access points in 2016.

2.1.3

Access Points by Other Financial Service Providers

The financial landscape also encompasses other non-bank financial service providers, namely insurance companies, currency exchange bureaus (CEB), money transfer operators (MTO), e-wallet agents, credit unions and other informal credit providers.

Diagram: Comparison of Access Points by Other Financial Service Providers between 2016 and 2018

Other Financial Services Providers	2016	2018
Insurance	2	2
CEB	2	3
MTO	14	20
E-wallet Agent	-	178
Credit Unions	32	43
Informal Credit Providers	NA	9
Total	50	255

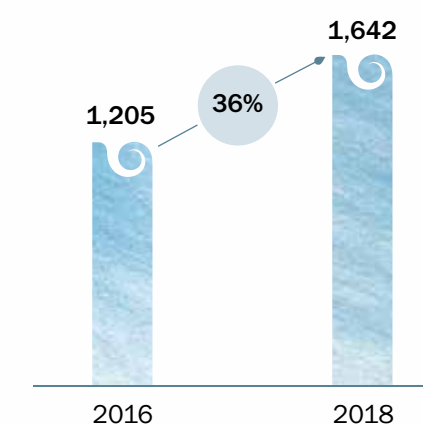
The outreach of CEB, MTO and credit unions all demonstrated positive increments since 2016, while the number of insurance companies remained the same. As for other informal credit providers which access points were unrecorded in 2016, this data collection exercise has managed to track and monitor its numbers. As at end-2018, the number of access points by other informal credit providers stood at 9.

In 2018 Telemor Fintech was licensed and started to offer the e-wallet services, including the development of e-wallet agent access points. After the formalization of the National Strategy for Financial Inclusion (NSFI) in 2017, and the licensing of Telemor Fintech in 2018, the e-wallet channel continued to expand its coverage and at end-2018, there are a total of 178 e-wallet agent access points servicing Timorese in the whole country. The e-wallet initiative has been very successful in its launch and implementation nationwide, allowing clients of all ages and locations to be able transact, make payments and transfer money, leading to enhanced inclusion and participation in the digital economy.

2.1.4

Total Access Points in the Financial System

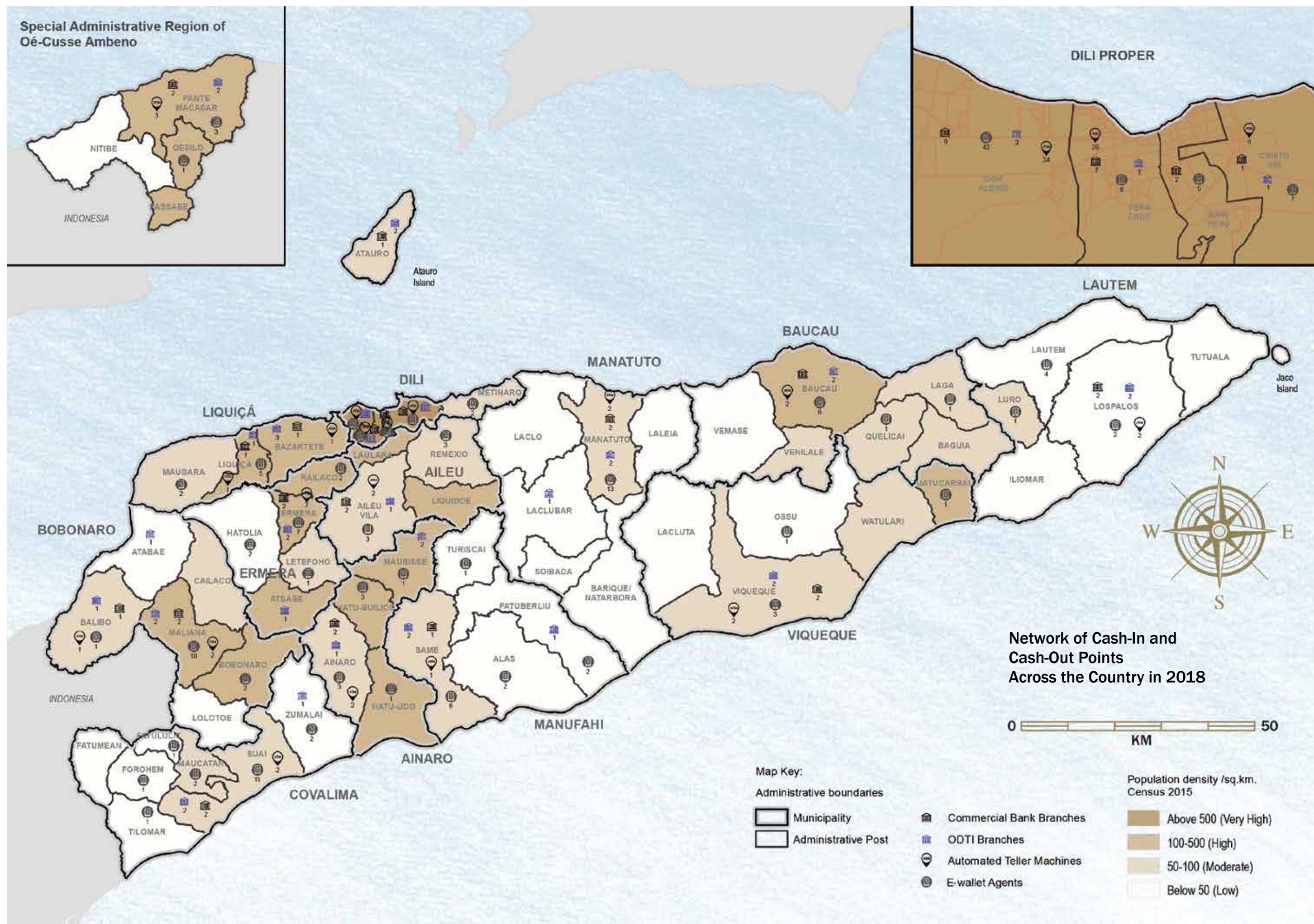
Diagram: Growth of Financial Services Access Points from 2016 to 2018



The changes, growth and evolution of the financial sector players in the last two years have resulted in an expansion of financial services access points in Timor-Leste. The number of access points has now reached 1,642 in contrast to 1,205 in 2016.

Of the total 1,642 financial services access points, 354 access points or 21.6% are cash-in and cash-out access points, where clients can perform both cash-in and cash-out transactions.³

³ Alliance for Financial Inclusion (AFI) defines "Access Points" as regulated access points where cash-in (including deposits) and cash-out transactions can be performed. This would include traditional bank branches and other offices of regulated entities (such as MFIs) that perform these functions. Depending on the type of transactions permitted, this will also include agents of regulated entities and automated teller machines (ATMs). In Timor-Leste, cash-in and cash-out access points include banks and ODTI branches, ATMs and e-wallet agents.



This 36% surge in total access points were largely contributed by the modernization of the financial sector which saw deployment of e-wallet agents and the strengthening of the role of ODTIs. ODTIs have maintained the largest presence of access points of any financial services provider, with 1,012 access points out of the total 1,642 access points in the country.

2.2

Financial Inclusion Access Indicators

An important element of financial inclusion is the distribution of the access points, as a high number of access points does not matter if it is concentrated only where certain segments of the population are able to reach it. Access points should be dispersed across all locations, regardless of urban or rural, to attain wide access to financial services. Hence, it is important to examine the coverage of access points by municipalities, administrative posts and sucos in the country.

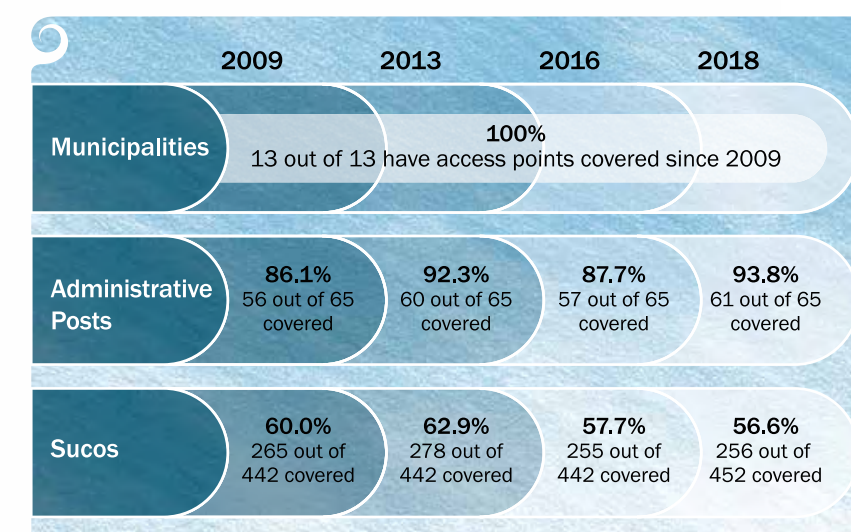
2.2.1

Coverage of Access Points by Municipalities, Administrative Posts and Sucos

Timor-Leste already achieved 100% of municipalities covered by access points since 2009. While it can be concluded that the level of financial inclusion in the country is high, it is still vital to study financial inclusion with more granularities, by examining the coverage of access points in administrative posts and sucos.

As at end-2018, a total of 61 out of 65, equivalent to 93.8% of administrative posts in the country are covered by financial access points. This number has improved from year 2016, which recorded 57 administrative posts covered with access points. From this finding, targeted approaches can be adopted to focus on the 4 administrative points which are yet to be served with access points.

Diagram: Coverage of Access Points by Municipalities, Administrative Posts and Sucos



The total sucos in Timor-Leste covered by financial services access points have reached 256 by end-2018. In terms of improvements observed from 2016 to 2018, the records show that one additional suco has been added to the list of sucos which are served by financial services access points.

However, due to border alteration exercises by the Government which transpired in 2016, new sucos were created, resulting in an additional 10 sucos, bringing the total number to sucos to 452 in 2018 compared to 442 in 2016. Due to this additional number of sucos, the percentage of sucos covered by financial services has dipped to 56.6% compared to 57.7% in 2016.

Currently, 61 out of 65 administrative posts are covered by at least one type of financial services access points. However, only 31 of 65 or 48% of administrative posts have bank access points. ODTIs fare a bit better, covering 55 out 65 administrative posts, while other non-bank financial services cover 49 administrative posts.

Diagram: Distribution of Administrative Posts with Bank and ODTI Access Points



The following maps show the circular radius of outreach for bank and ODTI access points. It is estimated that 18% of the population, equivalent to 209,460 individuals or 36,206 households are residing within 5km of a bank branch, while 37% of the population are residing within 5km from an ODTI branch as a result of ODTIs' wider branch network.

An analysis of the sucos level found that of 452 sucos, 256 benefit from at least one type of financial services access point. Bank access points show the least coverage of sucos, with banking services only accessible in 87 out of 452 sucos, while ODTIs have a presence in 233 sucos, the highest amongst all financial services providers. As a group, other non-bank financial services providers offer access points in 103 sucos. In terms of cash-in and cash-out points, 103 sucos are covered, while the remaining 349 sucos do not have access to these financial services.

From this data collection, it is evident that inequalities still exist in the outreach of financial services in the country, with clear evidence of a high percentage of sucos still unserved by financial services access points.

2.2.2

A Breakdown of Type of Financial Services Access Points by Area

A detailed look into the types of financial services which are available by administrative units provides a more in-depth view on the disposition and structure of distribution of financial services in the country. For instance, while all 13 municipalities are covered by financial services access points by providers, a deeper look into the administrative posts and sucos suggest that a lot of financial inclusion gaps and challenges still exist.

Diagram: Types of Financial Services Available by Administrative Unit

Type of Financial Service	Municipalities	Administrative Posts	Sucos
Total number of administrative unit	13	65	452
Administrative unit with any type of financial service	13	61	256
Administrative unit with Bank Service	13	31	87
Administrative unit with ODTI Service	13	55	233
Administrative unit with other financial service	13	49	103
Administrative unit with cash-in & cash-out access points	13	47	103





2.2.3

Summary of Access Indicators

The supply side data on access points collected was analysed together with the population data from the 2015 census. The use of supply and demand-side data is crucial to determine the percentage of population which are able to gain access to financial services and conversely, how many people in the country are actually affected by the lack of financial services in the administrative post and sucos which they are residing in.

As at end-2018, there are 47 administrative posts with at least 2 types of financial services. From the data, it was found that 85% of the population⁴ reside in the 47 administrative posts. On the other hand, when narrowed down to examine the sucos level; it is found that 128 sucos, with a total population of 610,689 or 52%, have access points for at least 2 types of financial services.

As for banking institutions, it was found that 70% of the population are residing in the 31 administrative posts covered by bank access points. At the sucos level, the data showed that 42% of the population live in the 87 sucos which have bank access points. This indicates that a substantial 58% of Timorese still do not have easy access to banking services in their respective sucos of residence.

Diagram: Summary of Access Indicators as at End-2018

Access Indicators	Municipalities	Administrative Posts	Sucos
Population living in areas served by the banks	1,183,643	832,951	499,617
Administrative areas served by the banks	13	31	87
% of the population living in areas served by the banks	100%	70%	42%
Administrative units served by at least 2 types of financial services	13	47	128
% of population living in areas served by at least 2 types of financial services	100%	85%	52%

⁴ Source: Population Data, Census 2015. The total population was reported to be 1,183,643 people as at 2015.

Diagram: Summary of Access Indicators Per 10,000 Adult Population⁵ as at End-2018

Access Points per 10,000 Adult Population	
Bank Branches per 10,000 adult population	0.63
ATMs per 10,000 adult population	1.39
EFTPOS per 10,000 adult population	2.04
Bank meeting centers per 10,000 adult population	1.60
ODTI access points per 10,000 adult population	15.28
Cash -in and Cash-out access points per 10,000 adult population	5.35

Diagram: Summary of Access Indicators Per 1,000 Square Kilometres as at End-2018

Access Points per 1,000 Sq KM	
Bank branches per 1,000 sq km	2.82
ATMs per 1,000 sq km	6.17
EFTPOS per 1,000 sq km	9.05
Bank meeting center per 1,000 sq km	7.11
Cash -in and Cash-out access points per 1,000 sq km	23.73

⁵ Source: Population Data, Census 2015. The census documented a total of 662,285 adults, aged 17 and above in Timor-Leste. In Timor-Leste, individuals have to be older than 16 to open a bank account, except for the Hau-Nia Futuru (HNF) Account which is a savings programme for children 17 years and below.

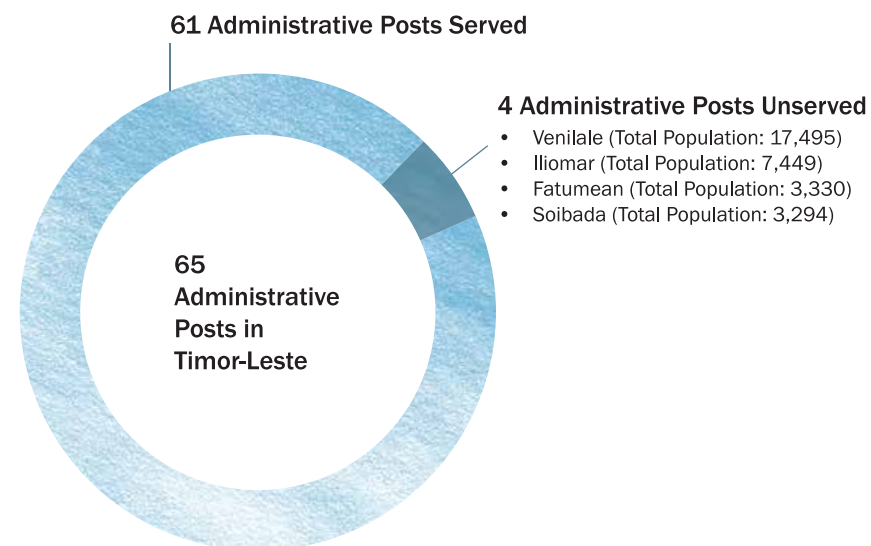


2.2.4

An Analysis on Unserved Areas

This data collection has enabled BCTL to generate a heat map of the areas which are served by different types of financial services. The seven types financial services considered for this map are: bank services, ODTI, e-wallet agents, unregulated credit providers (credit unions and other credit providers), insurance, MTOs, and CEBs. From the map, the uncoloured areas still do not have access to financial services, while darker coloured areas are sucos with higher levels of coverage. A detailed look into the unserved areas reveal that there are 4 administrative posts in Timor-Leste which are yet to be covered by any financial service providers.

Diagram: Unserved Administrative Posts in Timor-Leste



Of these unserved administrative posts, the Venilale of the Municipality of Baucau have the highest population, a total of 17,495. The rest of the unserved administrative posts have populations below 10,000. In total, 31,568 or 2.7% of Timorese reside in these administrative posts which do not have a single financial services access points within its borders. To be able to access financial services, this segment of the population have to travel to the next administrative post which have access points, making it inconvenient and costly for them to use financial services.

From the viewpoint of bank access points, the data uncovered that there are still 34 out of 65 administrative posts which are yet to be served by any banking access point, affecting 350,692 or 30% of the population.

Diagram: Administrative Posts Unserved by Bank Access Points and Their Populations

Administrative Posts Without Bank Access Points			
With Population Exceeding 10,000		With Population Below 10,000	
Bobonaro	24,719	Alas	7,884
Maubisse	23,750	Passabe	7,879
Atsabe	18,563	Laclo	7,756
Laga	18,359	Turiscail	7,718
Venilale	17,495	Iliomar	7,449
Quelical	17,450	Fatuberlio	7,416
Uato-Lari	16,277	Luro	7,124
Lautém	15,989	Laulara	7,090
Hato-Builico	12,966	Lolotoe	6,845
Baguia	12,962	Liquidoe	6,765
Nitibe	12,273	Metinaro	5,654
Laclubar	12,050	Barique	5,438
Oesilo	11,481	Fohorem	4,086
Atabae	10,963	Laleia	3,689
Cailaco	10,405	Tutuala	3,514
Uato-Carbau	10,032	Fatumean	3,330
		Soibada	3,294
		Fatululic	2,027

Of these 34 administrative points, 16 administrative posts have populations above 10,000 people. In fact, there are 2 administrative posts with populations above 20,000 people, Bobonaro with a population of 24,719 and Maubisse with a population of 23,750. There is a rather wide disparity between the populations of administrative posts without banking access points, as evidenced by the number of people living in Fatululic, also an administrative post unserved by banks, which has 2,027 residents.

At the sucos level, it was found that the Municipality of Dili is the only municipality with 100% of their 35 sucos covered by financial services access points. The remaining 12 municipalities still face financial inclusion challenges, with the uneven distribution of financial services access points, particularly at the sucos level.

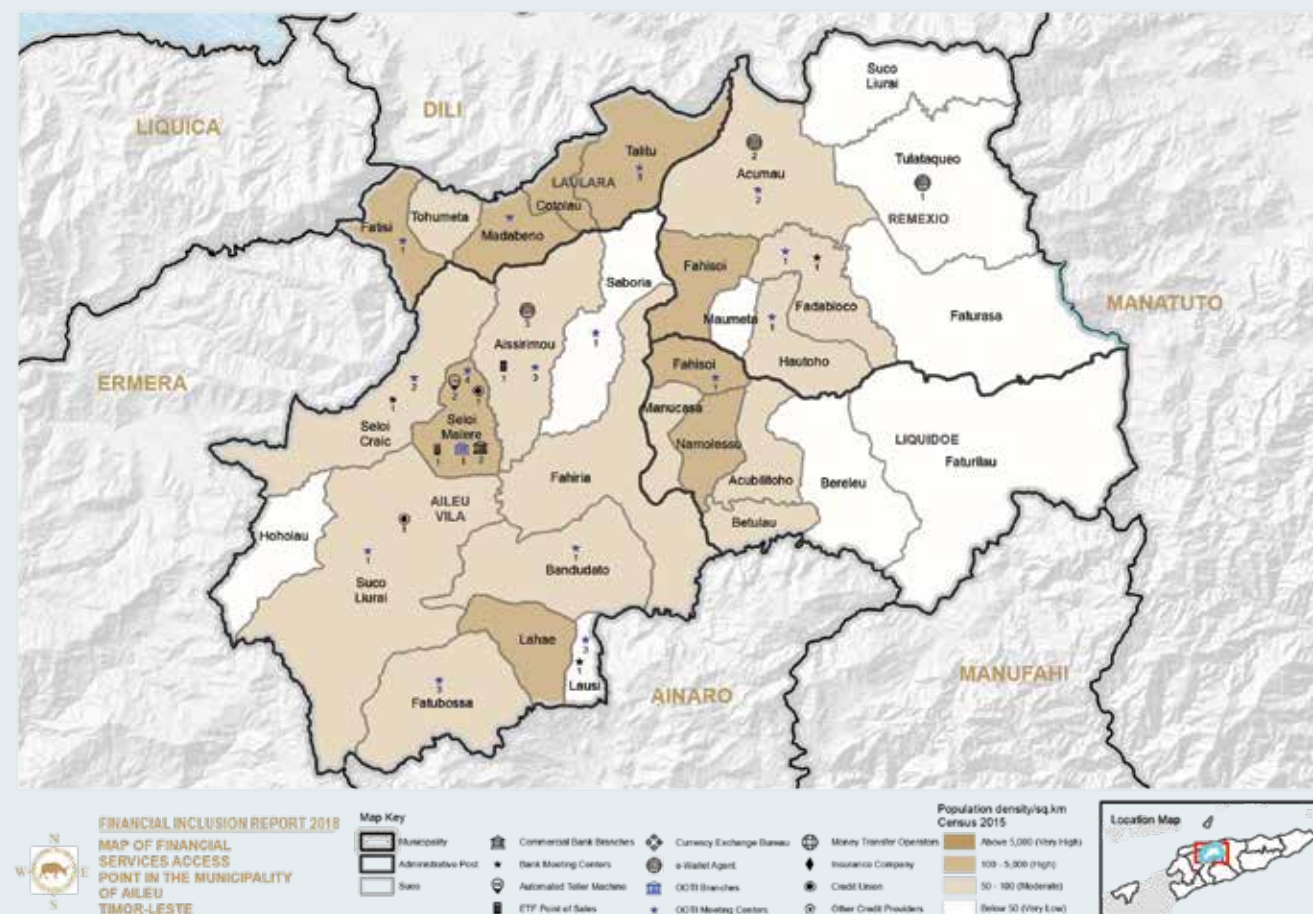
A deeper look into the unserved sucos revealed that the Municipality of Baucau has the highest number of unserved sucos. A total of 41 sucos, including 8 sucos from the unserved administrative post of Venilale, do not have any form of financial service access points in the area. Baucau has the most sucos within its borders, with 59 sucos, and the data shows that this municipality still struggles with the lack of financial inclusion which affects 69% of the sucos within its borders.

The Municipality of Viqueque is another area of concern, with financial exclusion occurring in 61% of the 36 sucos. The Municipality of Bobonaro on the other hand, has 25 unserved sucos out of the 50 sucos within its borders, and the Municipality of Ermera has 20 unserved sucos. The four municipalities discussed have a total of 108 unserved sucos out of the total 196 unserved sucos in the whole country, indicating a higher concentration of financial exclusion in these areas.

Fact Sheets

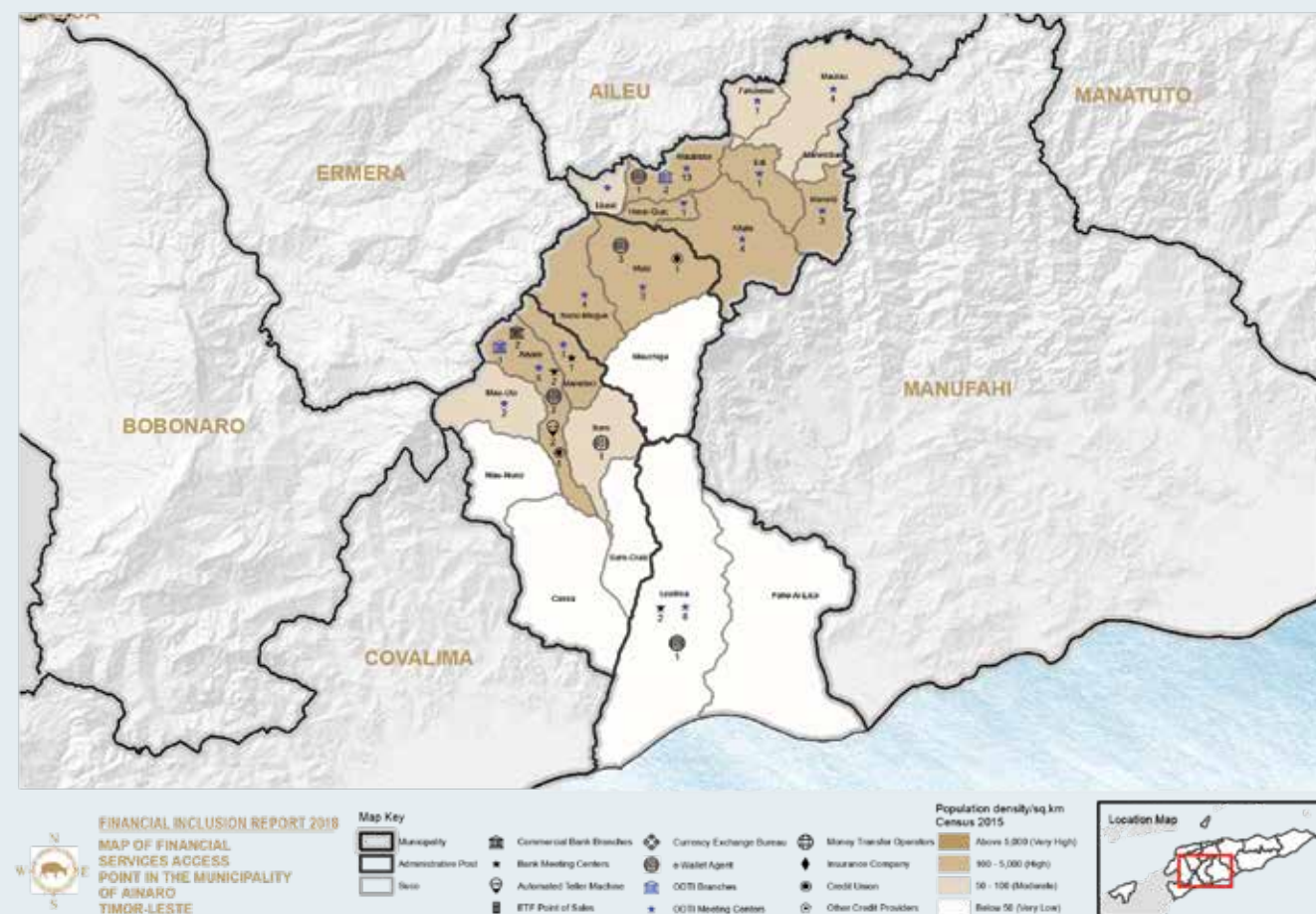
on Financial Inclusion in Municipalities in Timor-Leste

Aileu Municipality



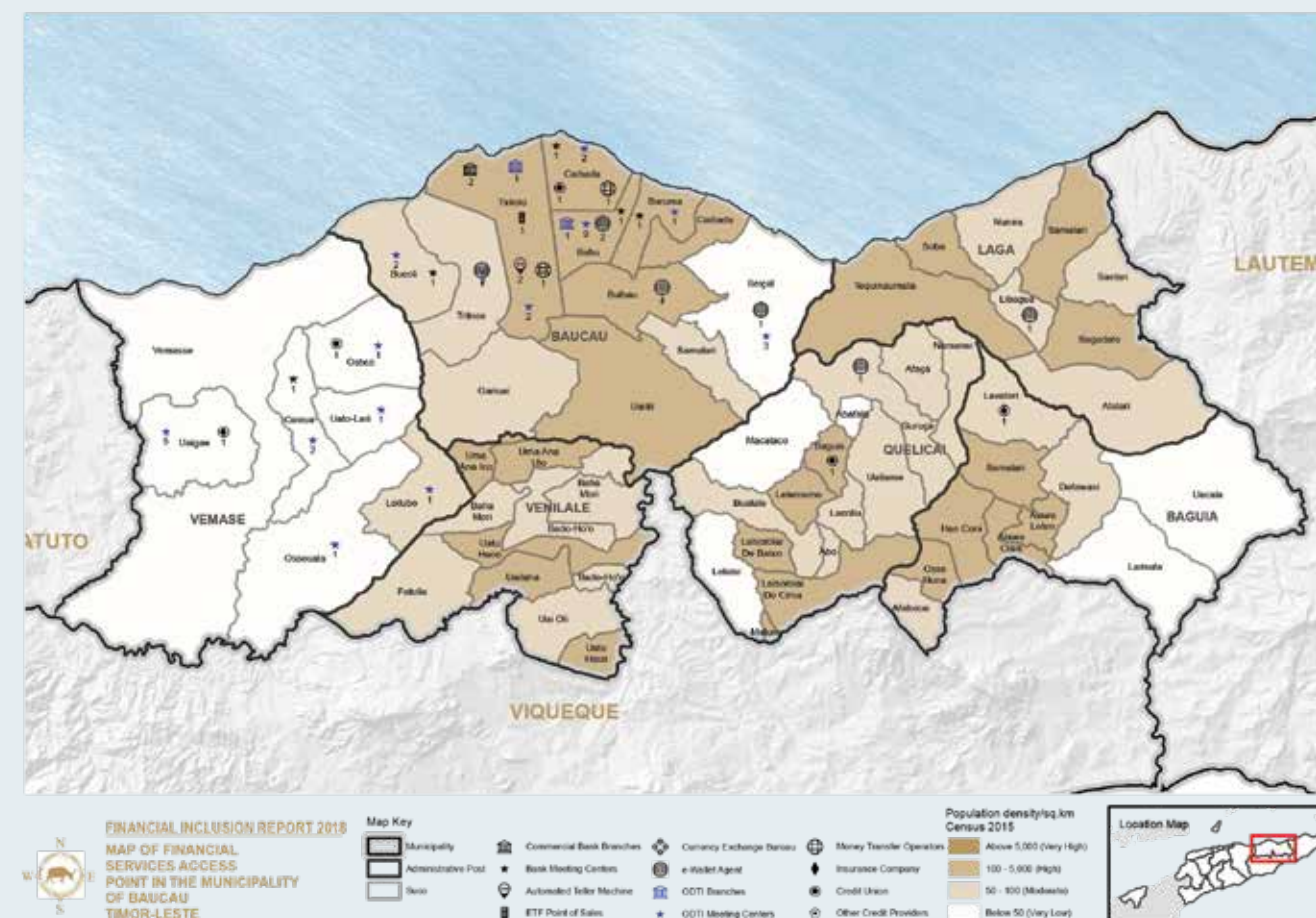
- Population: 48,837
- Total land area: 736 sq km
- Number of Administrative Posts: 4
- Unserved Administrative Posts: 1 (Liquidoe)
- Number of Sucos: 33
- Unserved Sucos: 16, representing 48% (Suco Liurai in Remexio, Fahiria, Hoholau, Lahae, Bocololo, Cotelau, Tohumeta, Acubilitoho, Berleu, Betulau, Faturilau, Manucassa, Namolesso, Fahisoi, Faturasa, Maumeta)

Ainaro Municipality



- Population: 63,136
- Total land area: 803 sq km
- Number of Administrative Posts: 4
- Number of Sucos: 21
- Unserved Sucos: 6, representing 29% (Cassa, Mau-Nuno, Suro-Craic, Mauchiga, Foho-Ai-Lico, Manelobas)

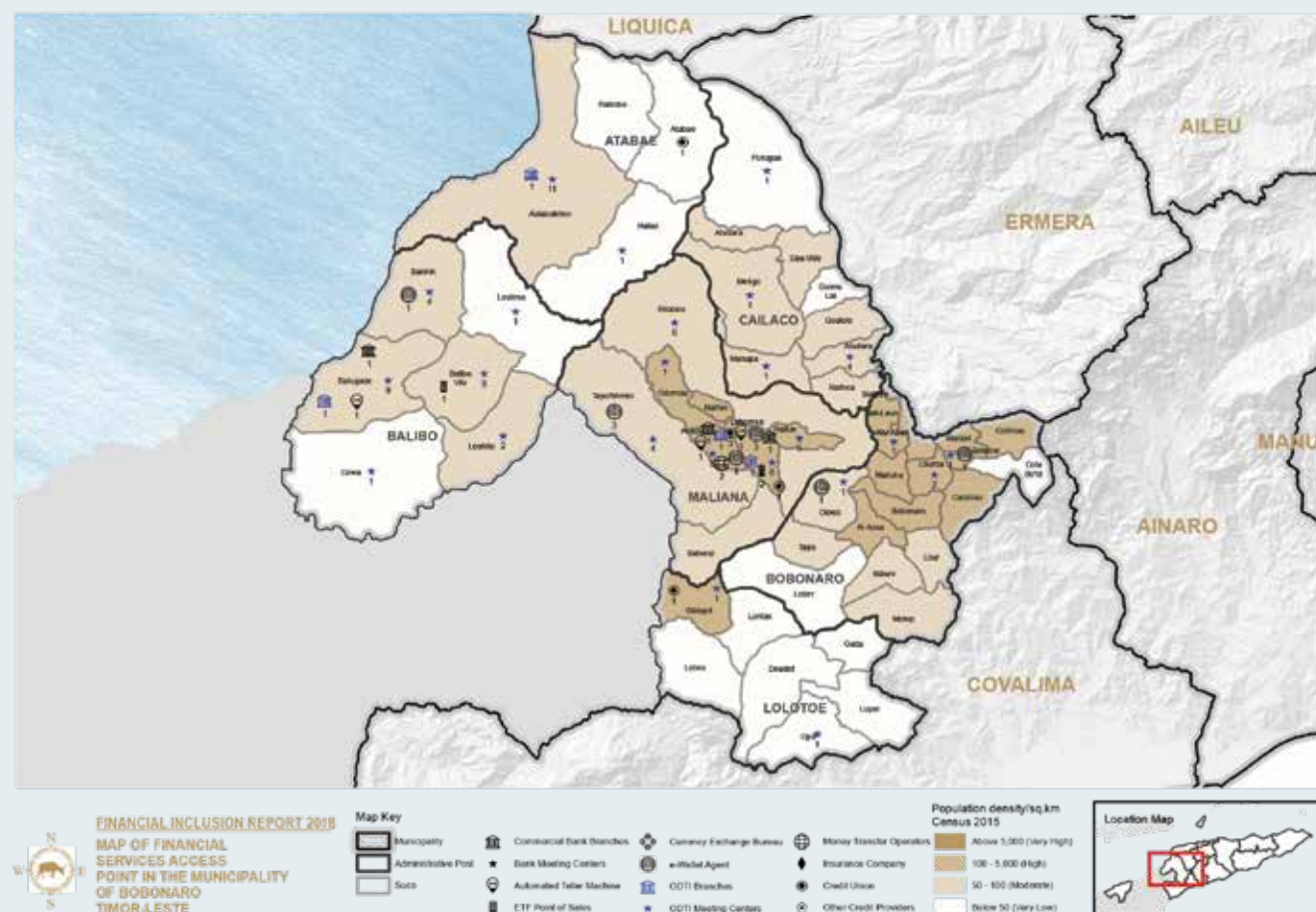
Baucau Municipality



Baucau is the municipality with largest number of unserved sucos.

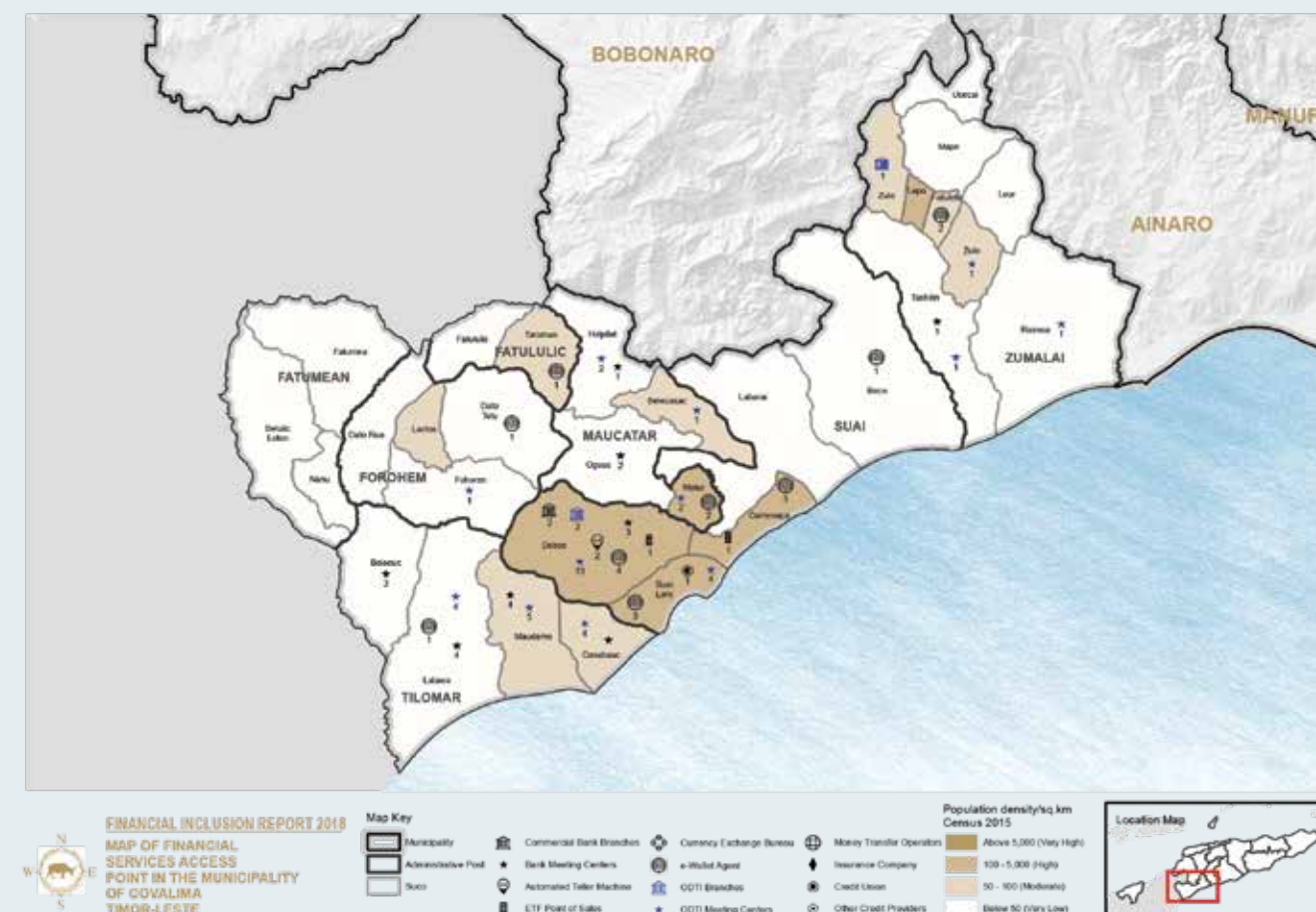
- Population: 123,203
- Total land area: 1,504 sq km
- Number of Administrative Posts: 6
- Unserved Administrative Posts: 1 (Venilale)
- Number of Sucos: 59
- Unserved Sucos: 41, representing 69% (Afaloicai, Alaua Craic, Alaua Leten, Defauasi, Hae Coni, Larisula, Osso Huna, Samalari, Uacala, Gariuai, Samalari, Uailili, Atelari, Nunira, Saelari, Sagadate, Samalari, Soba, Tequinaumata, Abafala, Abo, Afaça, Bualale, Lacoliu, Laisorolai De Baixo, Laisorolai De Cima, Lelalai, Letemumo, Macalaco, Maluro, Namanei, Uaitame, Uaigae, Bado-Ho'O, Baha Mori, Fatulia, Uai Oli, Uailaha, Uatu Haco, Uma Ana Ico, Uma Ana Ulo)

Bobonaro Municipality



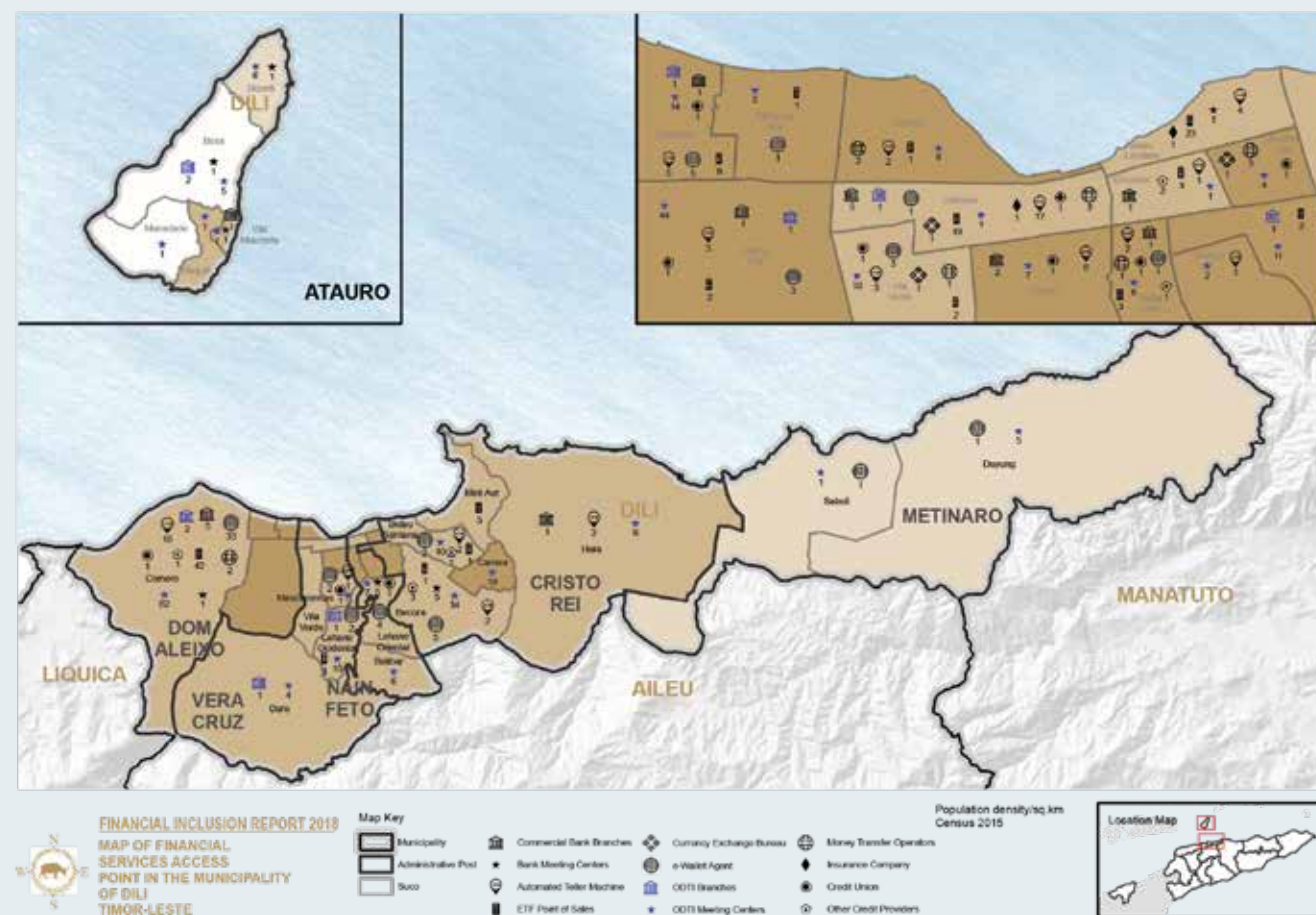
- Population: 97,762
- Total land area: 1,378 sq km
- Number of Administrative Posts: 6
- Number of Sucos: 50
- Unserved Sucos: 25, representing 50% (Rairobo, Ai-Assa, Bobonaro, Carabau, Colimau, Cota Bo'Ot, Ilat-Laun, Leber, Lour, Maliubu, Malilait, Molop, Sibuni, Soileco, Tapo, Dau Udo, Goulolo, Guenu Lai, Raiheu, Deudet, Guda, Lebos, Lontas, Lupal, Saburai)

Covalima Municipality



- Population: 65,301
- Total land area: 1,199 sq km
- Number of Administrative Posts: 7
- Unserved Administrative Posts: 1 (Fatumean)
- Number of Sucos: 30
- Unserved Sucos: 11, representing 37% (Fatululic, Belulic Leten, Fatumea, Nanu, Dato Rua, Lactos, Labarai, Lepo, Lour, Mape, Ucecai)

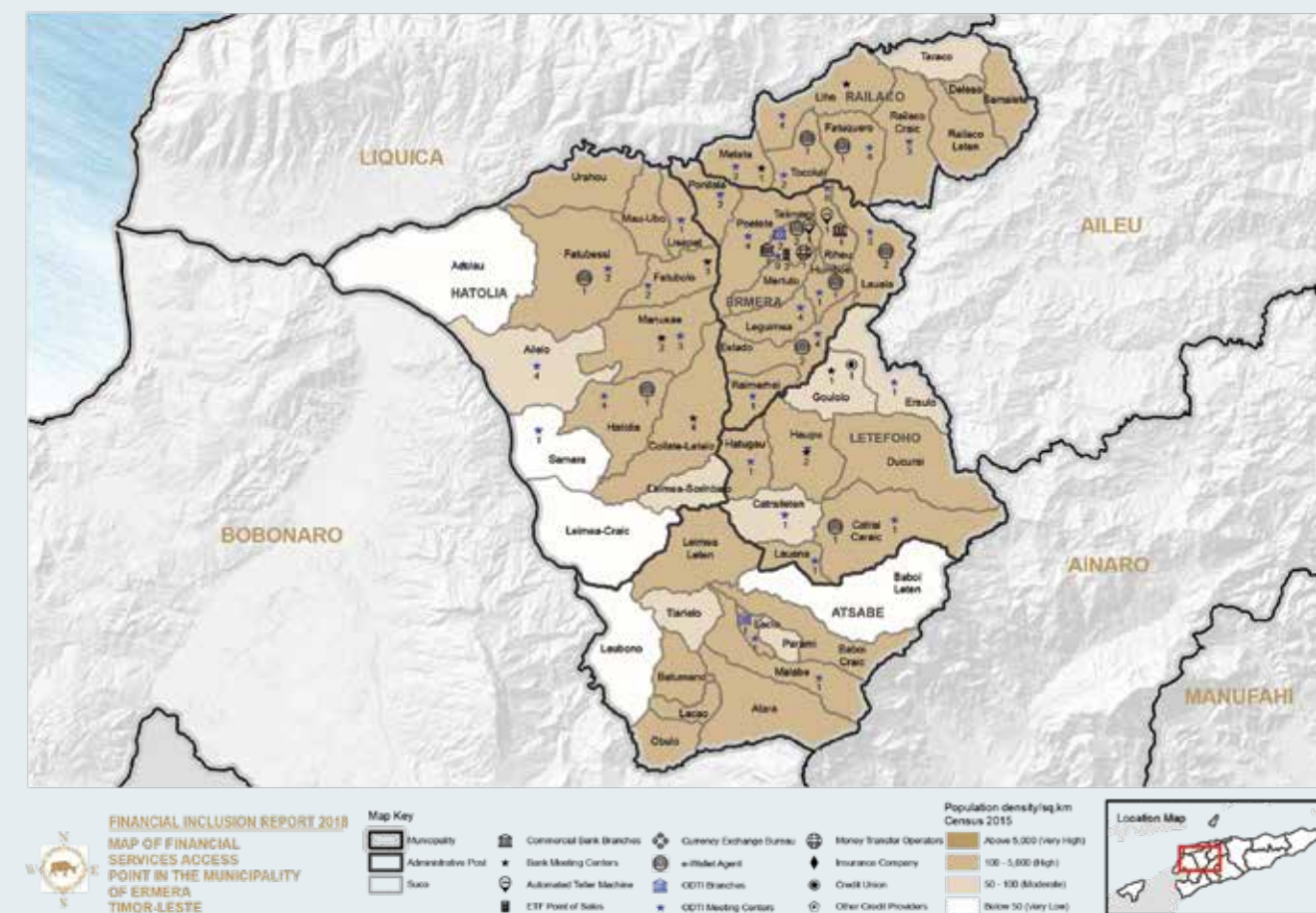
Dili Municipality



Dili is the only municipality where all sucos are served by financial access points.

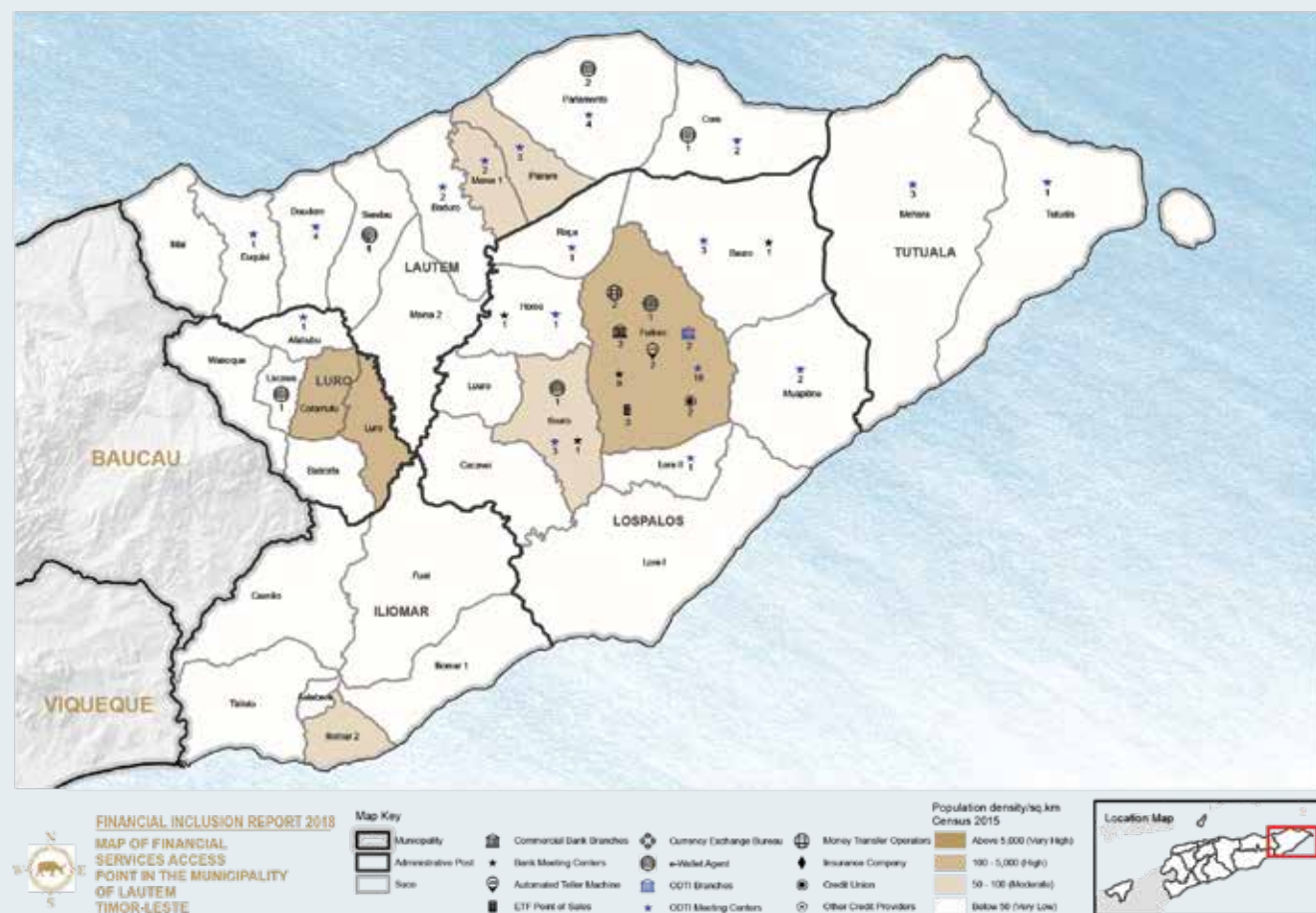
- Population: 277,279
- Total land area: 364 sq km
- Number of Administrative Posts: 6
- 100% of Sucos covered by Financial Services Access Points
- Administrative and Economic Capital of Timor-Leste

Ermera Municipality



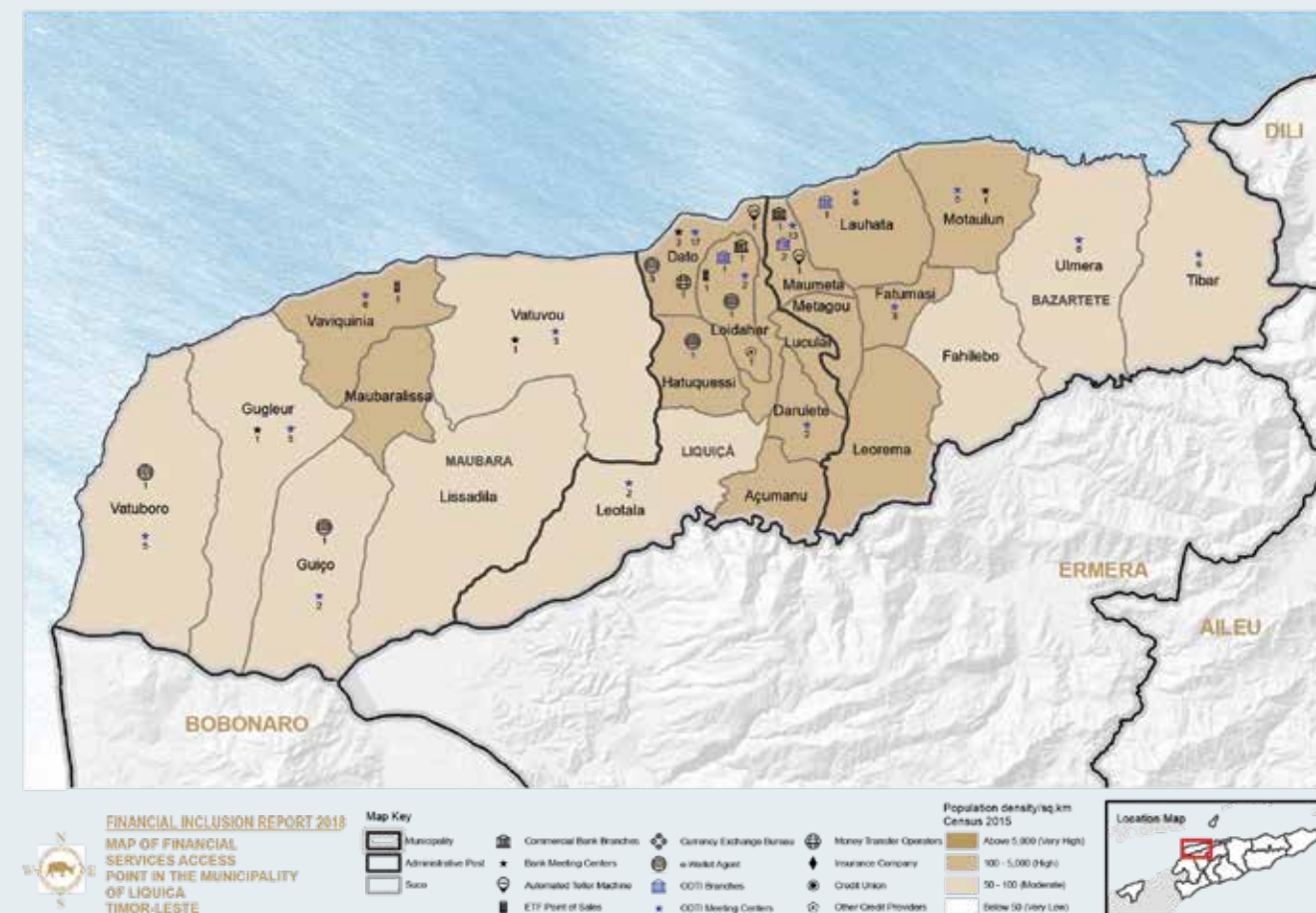
- Population: 125,702
- Total land area: 756 sq km
- Number of Administrative Posts: 5
- Number of Sucos: 52
- Unserved Sucos: 20, representing 38% (Atara, Baboi Craic, Baboi Leten, Batu Mano, Lacao, Laubono, Leimea Leten, Obulo, Parami, Tiarlelo, Mertuto, Leimea-Craic, Leimea-Sorinbalo, Mau-Ubo, Urahou, Ducurai, Deleso, Railaco Leten, Samalete, Taraco)

Lautém Municipality



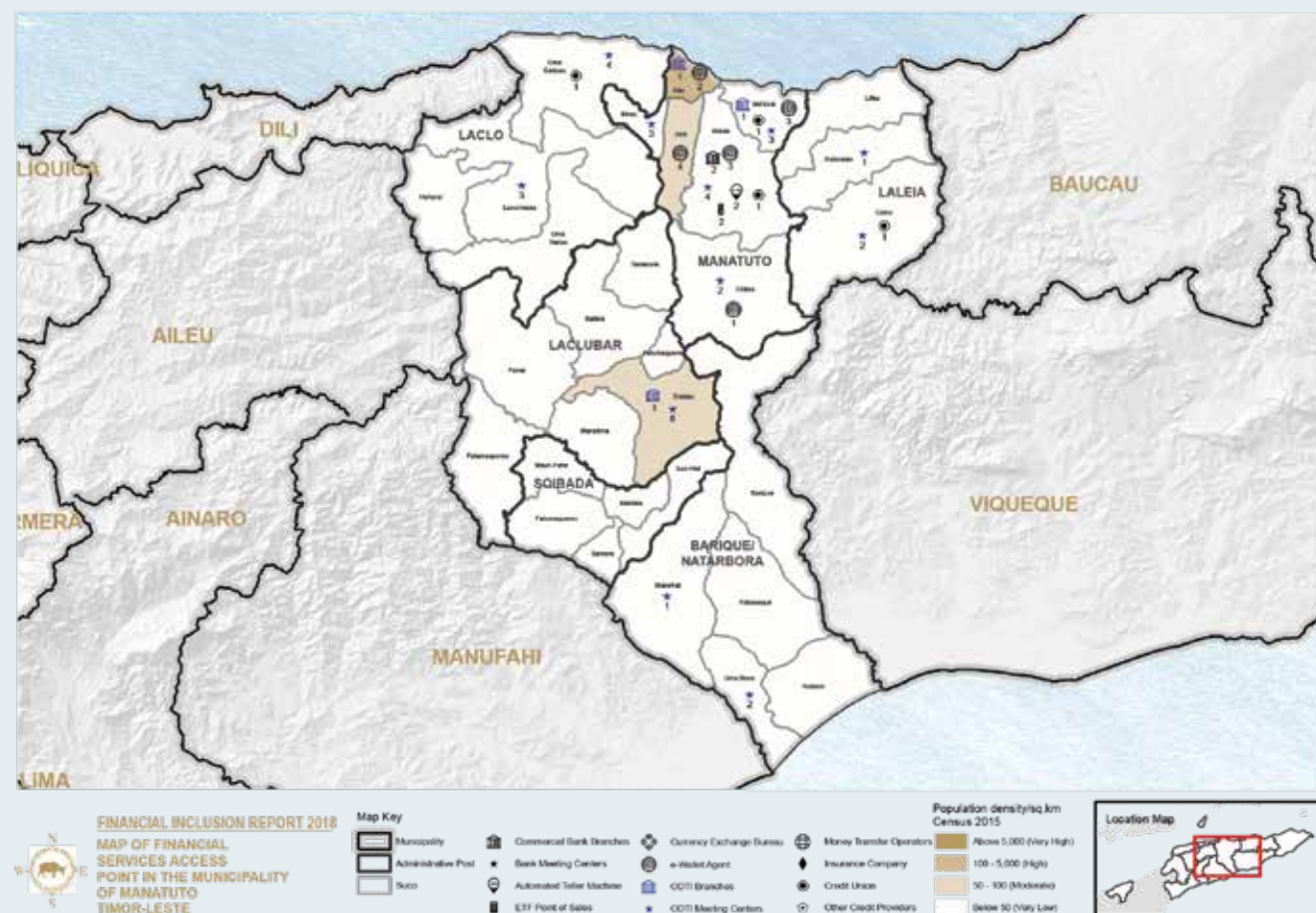
- Population: 65,240
- Total land area: 1,817 sq km
- Number of Administrative Posts: 5
- Unserved Administrative Posts: 1 (Iliomar)
- Number of Sucos: 34
- Unserved Sucos: 15, representing 44% (Aelebere, Caenlio, Fuat, Iliomar 1, Iliomar 2, Tirilolo, Ililai, Maina 2, Cacavei, Leuro, Lore 1, Baricafa, Cotamutu, Luro, Uairoque)

Liquiça Municipality



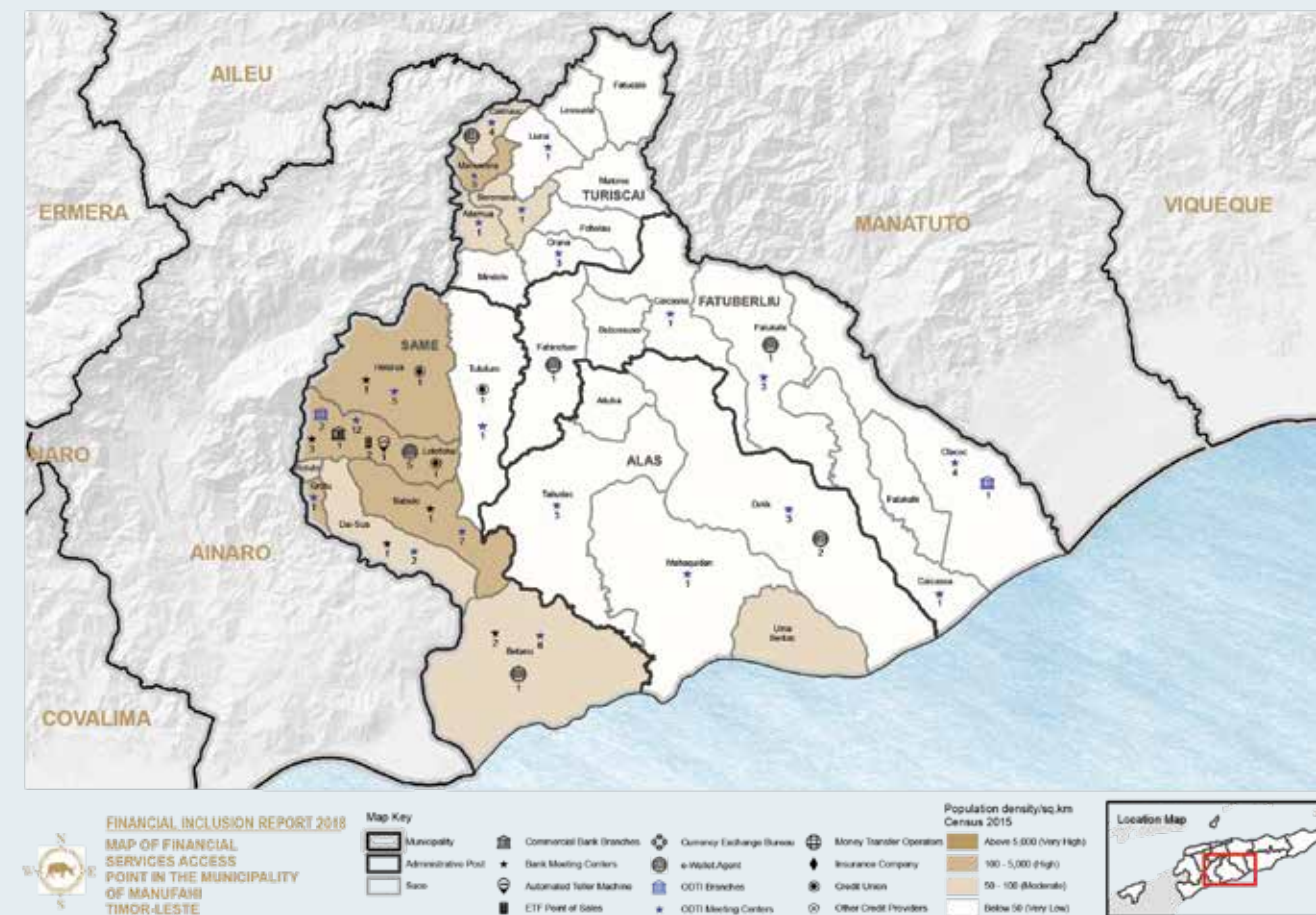
- Population: 71,927
- Total land area: 560 sq km
- Number of Administrative Posts: 3
- Number of Sucos: 23
- Unserved Sucos: 7, representing 30% (Fahilebo, Leorema, Metagou, Açumanu, Luculai, Lissadila, Maubalarissa)

Manatuto Municipality



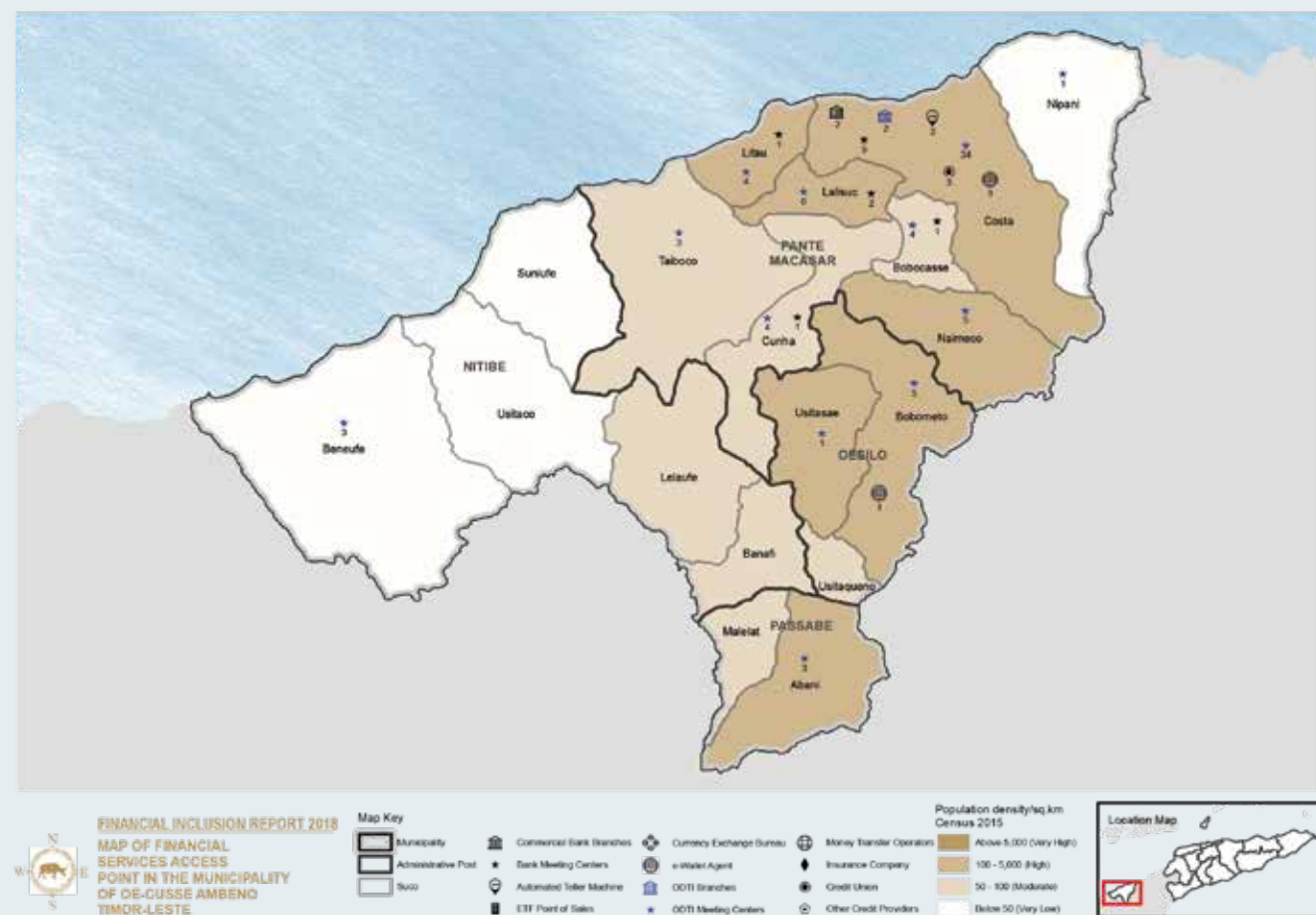
- Population: 46,619
- Total land area: 1,783 sq km
- Number of Administrative Posts: 6
- Unserved Administrative Posts: 1 (Soibada)
- Number of Sucos: 31
- Unserved Sucos: 18, representing 58% (Fatuwaque, Aubeon, Barique, Sikone-Diloli, Hohorai, Laicore, Uma Naruc, Batara, Fatumaquerec, Funar, Manelima, Sananain, Lifau, Fatumaquerec, Leo-Hat, Manlala, Maun-Fahe, Samoro)

Manufahi Municipality



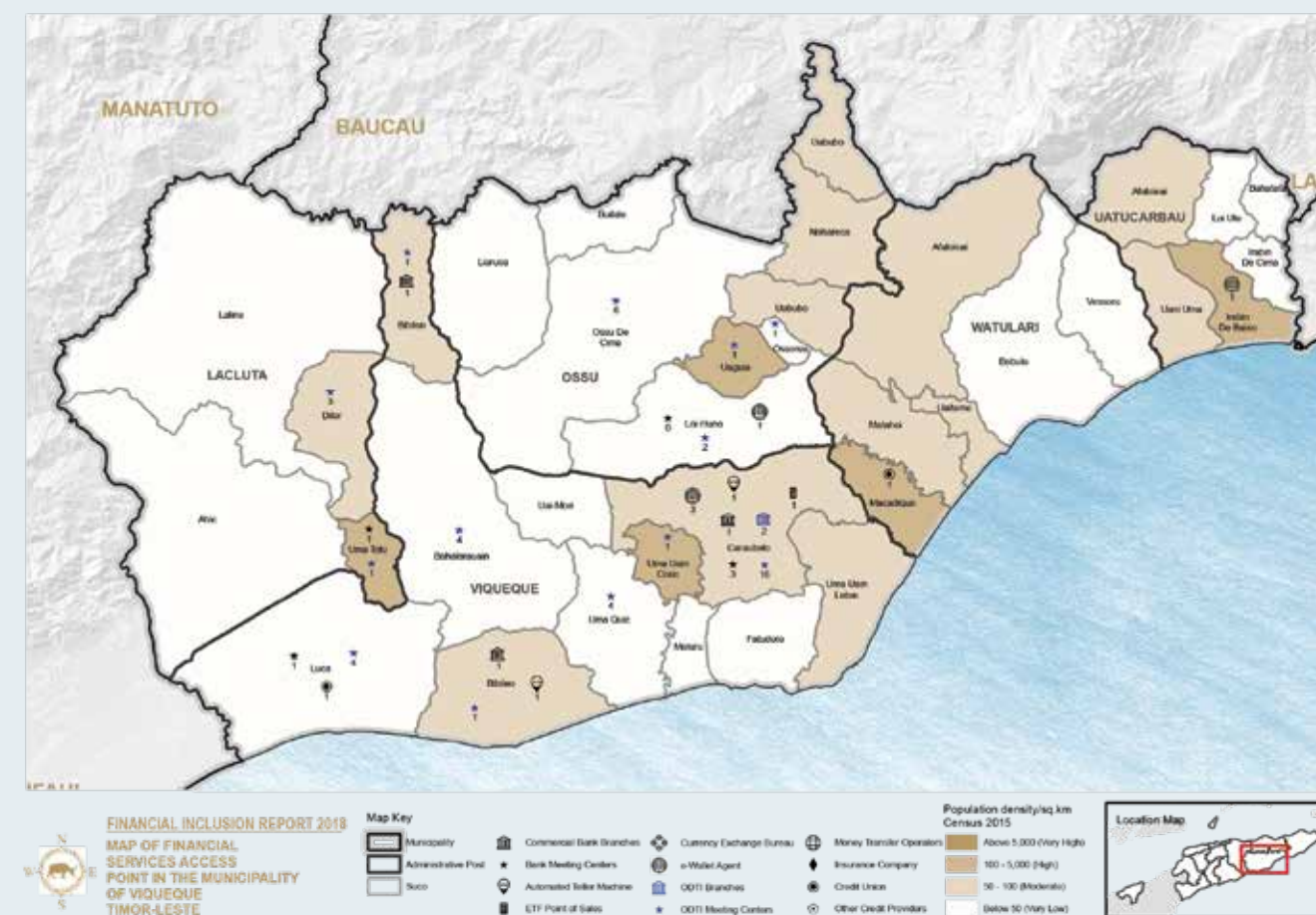
- Population: 53,691
- Total land area: 1,333 sq km
- Number of Administrative Posts: 4
- Number of Sucos: 29
- Unserved Sucos: 9, representing 31% (Aituha, Uma Berloic, Bubususo, Rotuto, Fatucalo, Foholau, Lessuata, Matorec, Mindelo)

Special Administrative Region of Oe-cusse Ambeno



- Population: 68,913
- Total land area: 814 sq km
- Number of Administrative Posts: 4
- Number of Sucos: 19
- Unserved Sucos: 7, representing 37% (Banafi, Lelaufe, Suniufe, Usitaco, Bobometo, Usitaqueno, Malelat)

Viqueque Municipality



- Population: 76,033
- Total land area: 1,873 sq km – the largest municipality
- Number of Administrative Posts: 5
- Number of Sucos: 36
- Unserved Sucos: 22, representing 61% (Ahic, Laline, Builale, Builo, Liaruca, Nahareca, Uabubo, Uaibobo, Afaloicai, Bahatata, Irabin De Cima, Loi Ulo, Uani Uma, Afaloicai, Babulo, Matahoi, Uaitame, Vessoru, Fatudere, Maluru, Uai-Mori, Uma Uain Leten)

2.3

Key Takeaways

Access to financial services is a necessity, a prerequisite for financial inclusion. Without access points, members of society will not even have the exposure and the opportunities to use financial services to participate in the financial system and the economy to enhance their standards of living.

This data collection exercise has revealed that the levels of financial inclusion in the country have not reached the envisioned goals yet. While financial inclusion access has improved from some aspects, there are large percentage of administrative posts and sucos which remain underserved by financial service providers. This signifies that future financial inclusion policies and strategies to widen access of financial services need to take into account the granularity of the administrative units. These policies have to be targeted towards the underserved and unserved administrative posts and sucos which require additional focus and attention.

With this knowledge, BCTL together with Government policy makers and financial services providers will be able to emphasize greater efforts which are directed at areas and sucos which need it the most. Consequently, it is important to note the significance of continuous monitoring of the outreach of access points, to accomplish the short to medium term target of increasing the number of sucos covered by financial access points.



Financial Inclusion Usage Indicators

3.1 Financial Inclusion Usage Indicators	62
3.2 Account Ownership by Age Demographics	69
3.3 Account Ownership by Municipalities	70
3.4 Usage of Other Financial Services	72
3.5 Key Takeaways	74



Since the establishment of Timor-Leste's banking and financial system, many policies have been put in place to encourage the evolvement of financial inclusion to do more than just connect Timorese to a bank or financial service provider. The point of financial inclusion is not just for people to be able to reach financial services, but to use it to enhance their financial health and build better lives for themselves by escaping poverty, recovering from adverse situations and reaching their life goals.

Usage of financial services is therefore, an underpinning element of a truly inclusive financial system. Studying usage looks beyond what financial infrastructures are in place, and goes into human factors of financial participation. Therefore tracking usage of financial services becomes a central dimension of financial inclusion measurement frameworks. The data from this report will be able to enrich the awareness and comprehension of how Timorese use financial services as well as shed light on the segments of the demographics which remain unserved by financial services.

3.1 Financial Inclusion Usage Indicators

The degree of financial account ownership in the country offers valuable insights into the patterns of take up and utilization of financial services by Timorese. Data collection from the banking institutions, ODTIs and other financial service providers has made it possible to measure penetration of financial accounts in the country.

Combining the banks and ODTIs individual client base, as at end-2018, the total clients who maintain accounts with these institutions stands at 427,883 clients, an accumulation of 413,235 adults and 14,648 HNF Account holders. A total of 519,176 accounts are taken-up, comprising of 446,176 deposit accounts⁶, 58,352 loan accounts and 14,648 HNF Accounts. For the corporate sector, a total of 11,905 corporate clients were recorded.

⁶ Deposit Accounts include Access Accounts, Time Deposits and Savings.

Diagram: Total Individual Account Holders at Banks and ODTIs

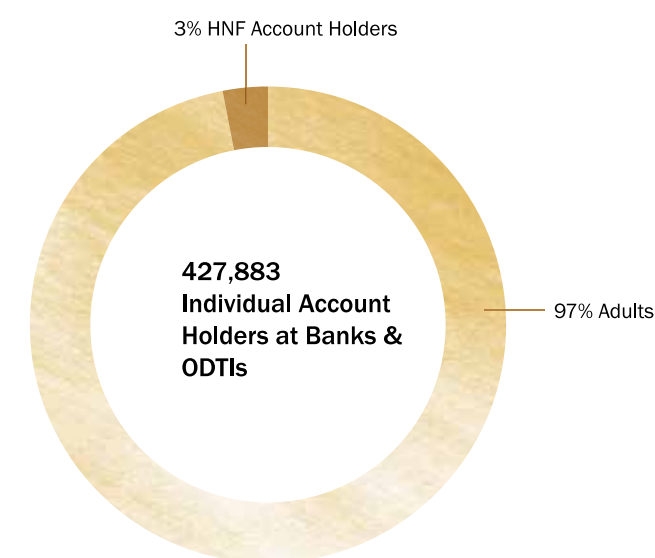
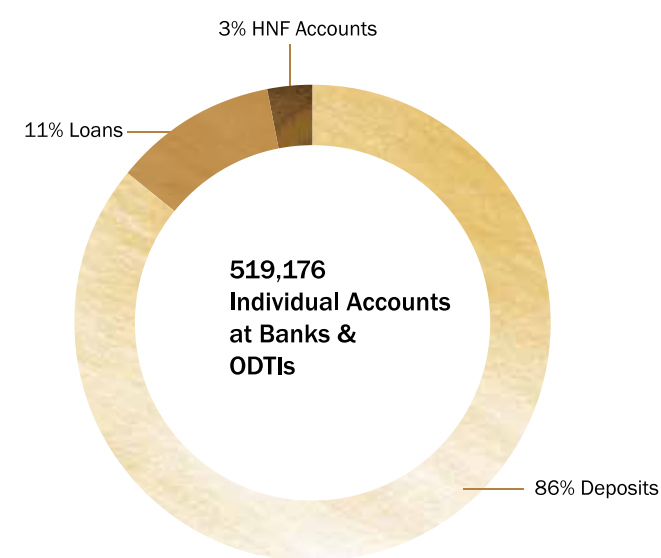


Diagram: Total Individual Accounts Held by Banks and ODTIs



In terms of percentages, 413,235⁷ of adults in Timor-Leste with ownership of at least a deposit account is equivalent to 62% of the adult population. From the credit perspective, 58,352⁸ adults or 9% of the adult population, currently hold a loan account.

Diagram: Take Up of Deposit and Loan Accounts in Timor-Leste



⁷This figure is not adjusted for clients with accounts in more than one Bank or ODTI.

⁸This figure is not adjusted for clients with accounts in more than one Bank or ODTI.

3.1.1

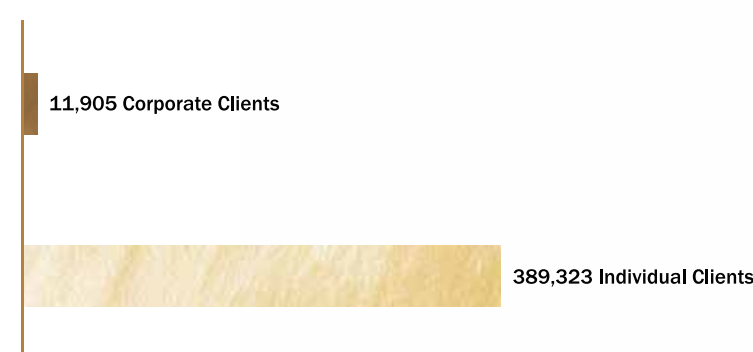
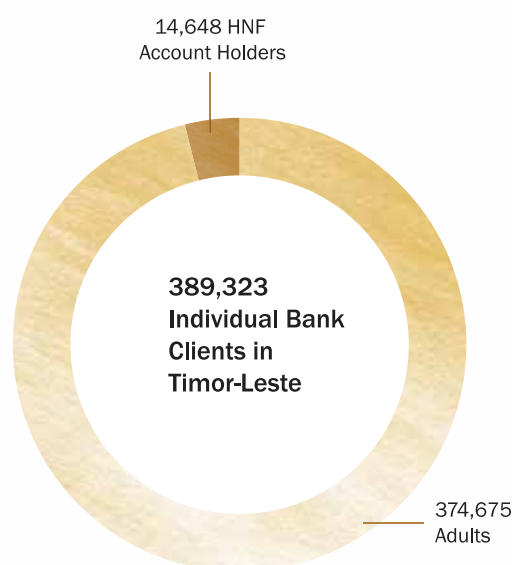
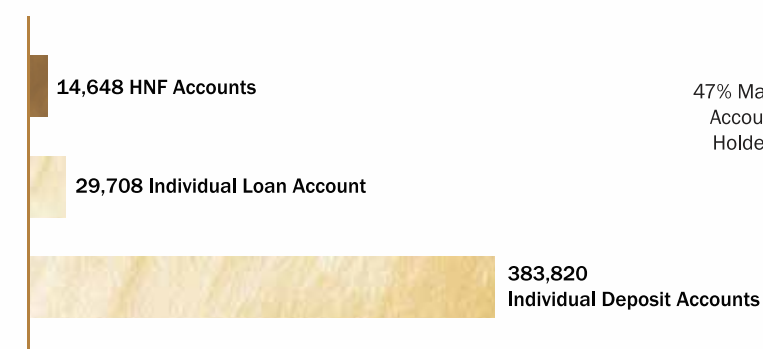
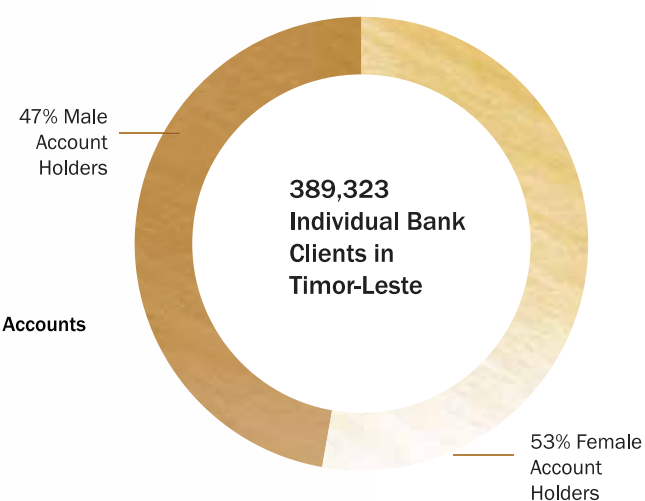
Usage of Financial Services Offered by Banking Institutions

Banking institutions have the largest share of clients and accounts in the country. As detailed in the previous chapter, while banks only have access points in only 87 out of 452 sucos in the country, they continue to be the main financial service provider for Timorese.

As at end-2018, there are a total of 401,228 clients with account ownership in the five banks in Timor-Leste. The clients come from two categories, corporate clients and individual clients. Of the 401,228 clients, 11,905 are corporate clients and 389,323 are individual clients. The individual client category is made up of 374,675 adults and 14,648 children aged 16 and below who are holders of the HNF Accounts. From this breakdown, it can be concluded that 374,675 out of 662,285 adults in Timor-Leste, corresponding to 62% of the adult population, have bank account ownerships.

From the analysis on the number of bank accounts, the data shows that the number of accounts exceed the number of clients, concluding that some clients have more than one account at a banking institution. There are currently 13,790 corporate accounts in the banking sector, which are held by the 11,905 corporate clients. This is a 1 to 1.16 ratio of client to account. The ratio is a bit lower for individual clients, with a ratio of 1 to 1.10, or 389,323 clients to 428,176 accounts.

The examination of account types established that the types of accounts maintained in the banking system are heavily skewed towards deposit accounts. For the individual clients, the total accounts comprise of 383,820 deposit accounts, 29,708 credit accounts and 14,648 HNF Accounts. Deposit accounts take the greatest share, at 89% of the total individual accounts in the banking system.

Diagram: Clients of Banking Institutions**Diagram: Breakdown of Banks' Individual Clients****Diagram: Breakdown of Individual Type Bank Accounts****Diagram: Gender Distribution of Bank Account Holders**

The breakdown of gender distribution of total individual bank account penetration, including HNF Accounts, shows that females have higher account ownership than males in Timor-Leste. There are 205,056 female clients who own 218,746 accounts, in contrast to 183,348 male clients who own 208,390 accounts.⁹ The ratio of female to male clients in the banking system differs from the population of Timor-Leste, where there are more men compared to women in the country.¹⁰

⁹There are 921 Individuals equivalent to 0.2% of total account holders which did not provide information on their gender. These 921 individuals have a take up of 1,042 accounts in the banking system.

¹⁰Source: Population Census 2015 reports that there are 582,531 females and 601,112 males of the 1,183,643 population in Timor-Leste.

Five Commercial Banks Operating in Timor-Leste



Banco Nacional de Comércio de Timor-Leste

The only national bank and main bank for Government payments to the people, including salaries and social transfers
Formerly a microfinance institution, it became a bank in 2011
Bank's client market share: 69%



Caixa Geral de Depósitos, Timor-Leste Branch (BNU)

Longest operating bank in the country, since 1912
Bank's client market share: 17%



PT. Bank Mandiri, Timor-Leste Branch

Started to operate in Timor-Leste in 2003
Bank's client market share: 10%



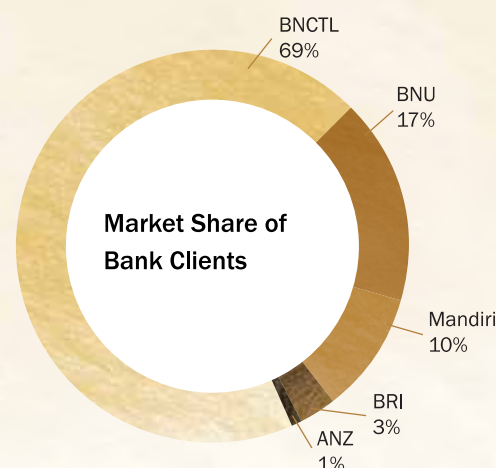
PT. Bank Rakyat Indonesia, Timor-Leste Branch

Started to operate in Timor-Leste in 2017
It is the bank with highest proportion of credit account to deposit accounts
Bank's client market share: 3%



Australia and New Zealand Bank, Timor-Leste Branch

Focused on corporate clients, in 2018 started the process to terminate the individual accounts
Bank's client market share: 1%



3.1.2

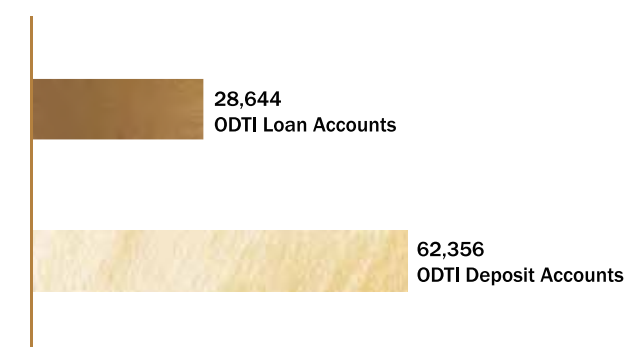
Usage of Financial Services Offered by ODTIs

Contrary to banking institutions, ODTIs have a wider network of access points in the country, covering 233 out of 452 sucos. However, ODTIs client base is very much lower than the banks. The data collected shows that ODTIs have a total of 38,560 clients across Timor-Leste.

The 38,560 ODTI clients currently own 91,000 accounts, denoting a high ratio of accounts to clients. The reason for this is due to the ODTIs' requirement for all clients using credit facilities to also maintain a collateral savings account which is classified as a deposit account. This justifies the high ratio of 1 to 2.36 of clients to accounts serviced by ODTIs.

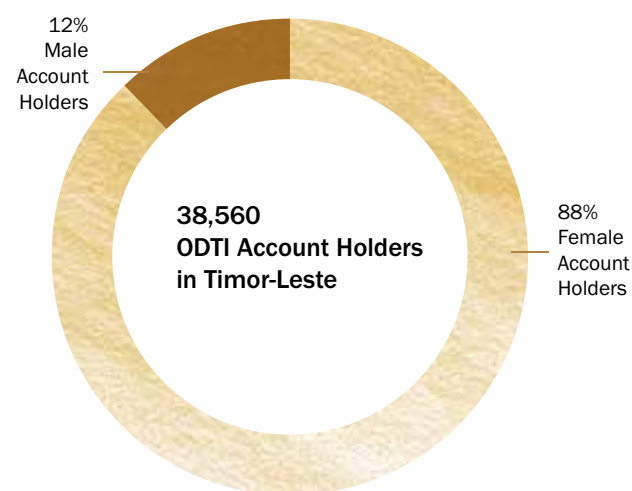
While ODTIs are strong in the area of microfinancing, the total accounts maintained by ODTIs include 62,356 deposit accounts and 28,644 credit accounts. The mandatory collateral savings account for all the clients with credit facilities, coupled with additional deposit by other clients have resulted in higher number of deposit accounts maintained with ODTIs. Although deposits take a higher share of accounts at 69%, these numbers are more evenly distributed compared the banks which are very heavily skewed towards deposit accounts.

Diagram: Breakdown of ODTI Account Types



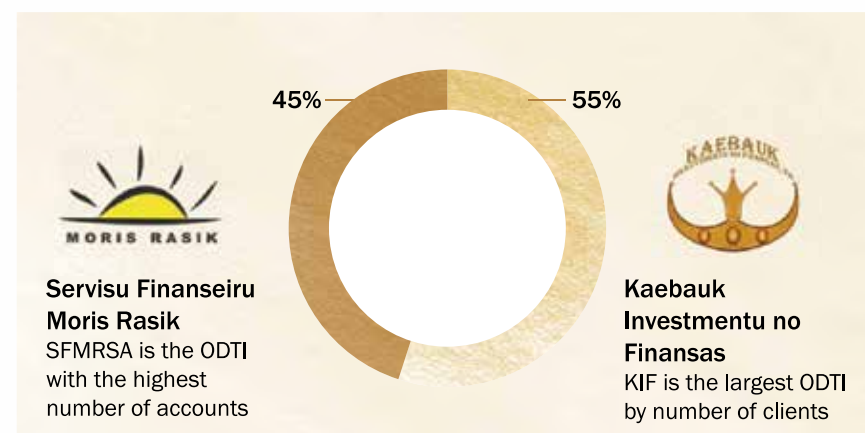
Another aspect where ODTIs differ from banks is the demographics of the client base. It was found that 88% of ODTI clients are female, and they take up 90% of the total accounts maintained with ODTIs. The male segment of ODTI clients only take up 9,506 accounts in total.

Diagram: Breakdown of ODTI Clients by Gender



ODTIs which are made up of MFIs which have been transformed under a more robust regulatory structure, have historically been successful in reaching the female population with its products and services.

Diagram: ODTIs Market Share by Number of Clients



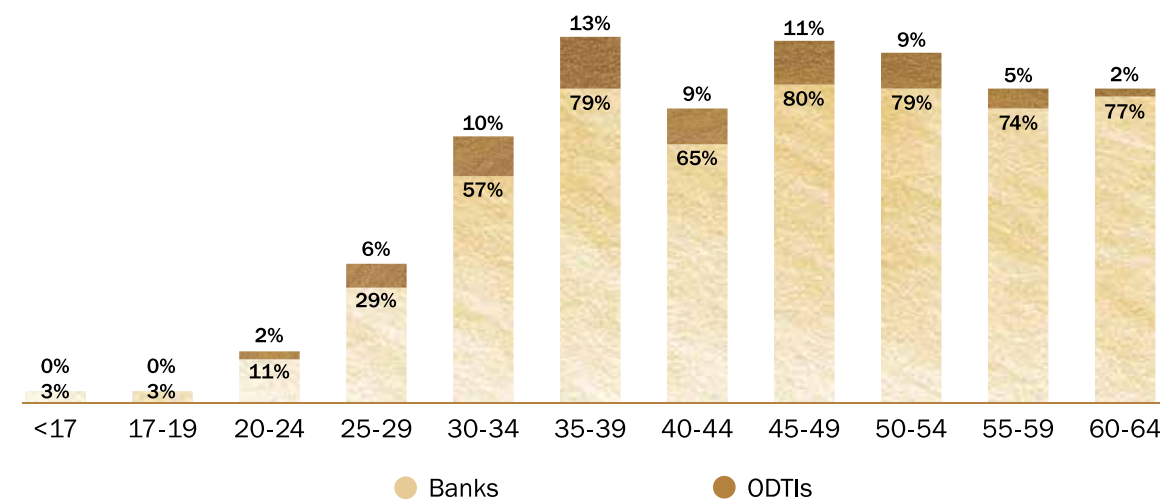
3.2

Account Ownership by Age Demographics

Delving into the penetration of financial accounts by age demographics, reveal that usage of financial services is higher for females as opposed to males for all age groups. This is true for both bank and ODTI clients. Overall, there are 205,056 female versus 183,348 male clients recorded in the banking sector, arriving at a total of 389,323 clients or 34% of the total population. The ODTI sector recorded 33,810 female and 4,750 male clients, reaching 3% of the total population.

In the banking sector, the data shows that the highest penetration of bank accounts are amongst clients aged above 65¹¹, as the citizens in this age group receive Government elderly social benefits paid through their bank accounts. The 45-49 age group come in second, with a bank penetration rate of 80% for that age group.

Diagram: Bank and ODTI Client Penetration by Age Groups



In summary, the usage of bank accounts is more prominent for adults and older age groups, demonstrating higher bank penetration rates compared to the youths. For instance, only 3% of Timorese between 17-19 years of age have bank accounts. Likewise, 11% between 20-24 years of age and 29% between 25-29 years of age have bank accounts. Timorese within all age categories of 30 and above show penetration rates of at least 50%.

The ODTI sector diverges from the banking sector in terms of age demographics of their clientele. While the banking sector displayed higher penetration rates amongst the adults and older age groups, the ODTI account penetration are highest for the 35-39 age group reaching 13% of Timorese within that age group. This is followed by the 45-49 age group which hit 11%. ODTIs products and services have very low take-up amongst those in the youngest bands and oldest bands of age groups in the country.

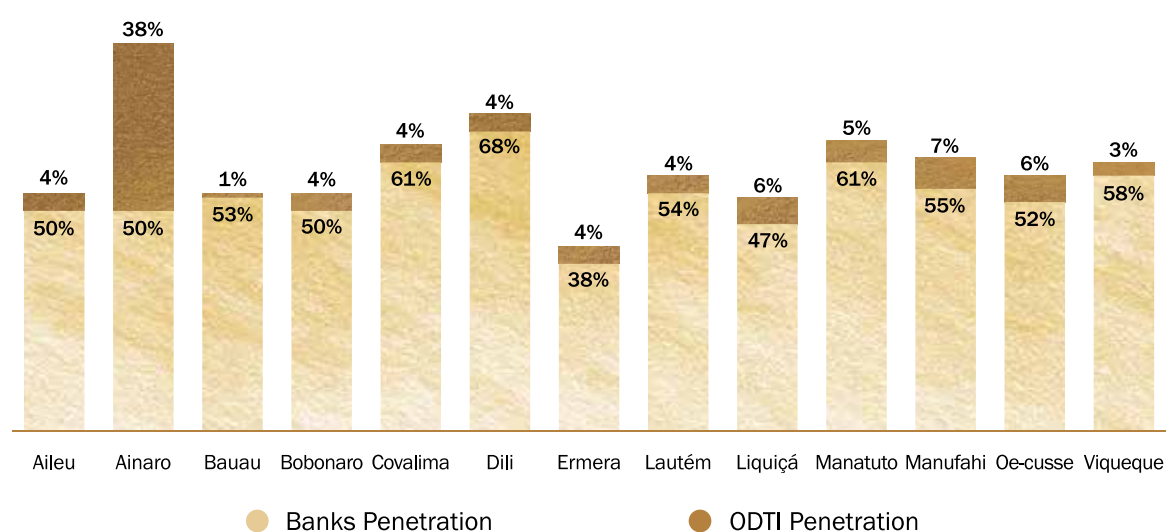
¹¹Elderly benefits are paid through bank accounts, increasing the bank account penetration of the age segment to around 100%

3.3

Account Ownership by Municipalities

Assessments on the usage of financial services must also include evaluations by location to determine areas where usage is still lacking. A few remarkable discoveries were unearthed from this analysis.

Diagram: Bank and ODTI Client Penetration by Municipalities



Firstly, the municipality with the highest account penetration is not the Municipality of Dili. In fact, it is the Municipality of Ainaro that hit 88% of account penetration for its adult population, the highest amongst all municipalities. The high penetration rate was supported by the high take up of ODTI products in the municipality, reaching 38%, suggesting that majority of Timor-Leste's ODTI clientele reside in this municipality.

The Municipality of Dili has the highest bank account penetration in country, reaching 68% of the adult population. In total, 123,287 adults in Dili accounting for 72% of Dili's adult population, hold at least a financial account with the banks or ODTI.

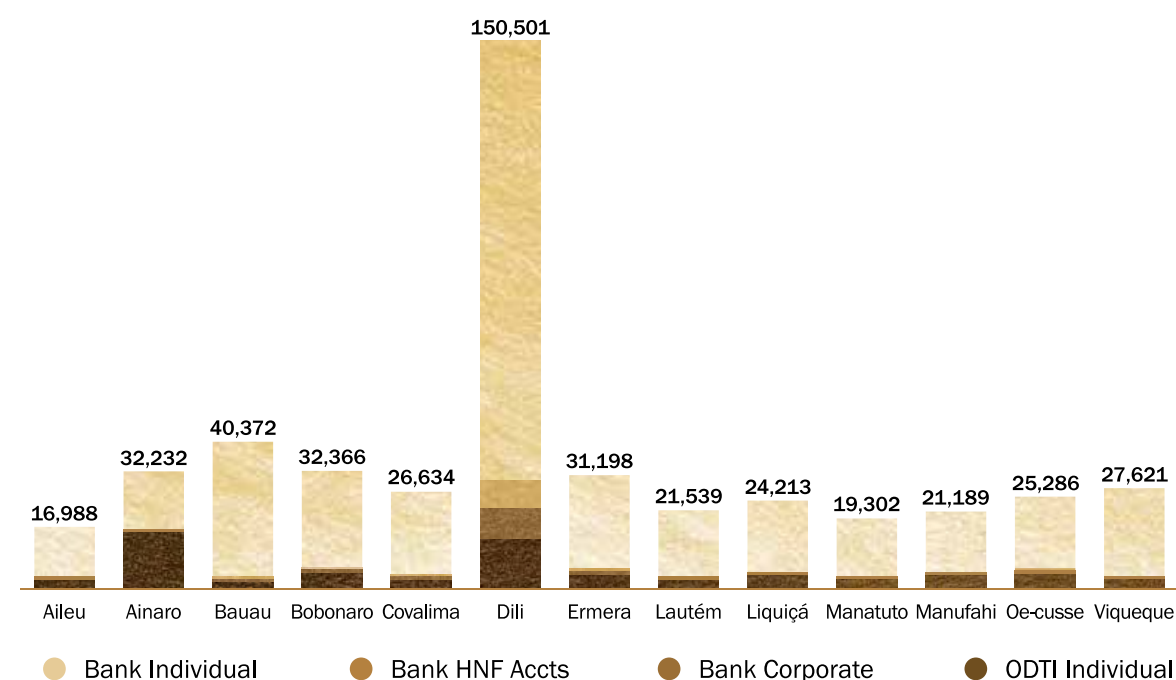
In terms of low usage, the data shows that the municipality which should be accorded attention is Ermera, with total account penetration only reaching 42%. The bank account penetration for this municipality stands at 38%. This municipality was one of the municipalities identified in the earlier chapter which had a high number of unserved sucos. These challenges have indeed impacted the take up of financial services by the residents in this municipality. It is also interesting to note that the Municipality of Baucau, which has the highest percentage of unserved sucos in the country, had a higher take up of financial services compared to Ermera with a total account penetration of 54%.

All other municipalities have a total account penetration of 50% and above, signifying that at least half the residents in each municipality own a form of account offered by banks or ODTIs.

The breakdown of account take-up across municipalities correlates to the account penetration rates. As projected, Dili showed the highest deposit account take up, largely contributed by bank account penetration and to a lesser degree the ODTIs account penetration.

The Municipality of Dili accounts for 32% of the market share of deposits in the country, while the other municipalities share range from 2% to 8%. In contrast, Dili's total population accounts for 23% of national population, while its adult population is 26% of the national adult population. This shows that deposit take up in the country is skewed towards this municipality.

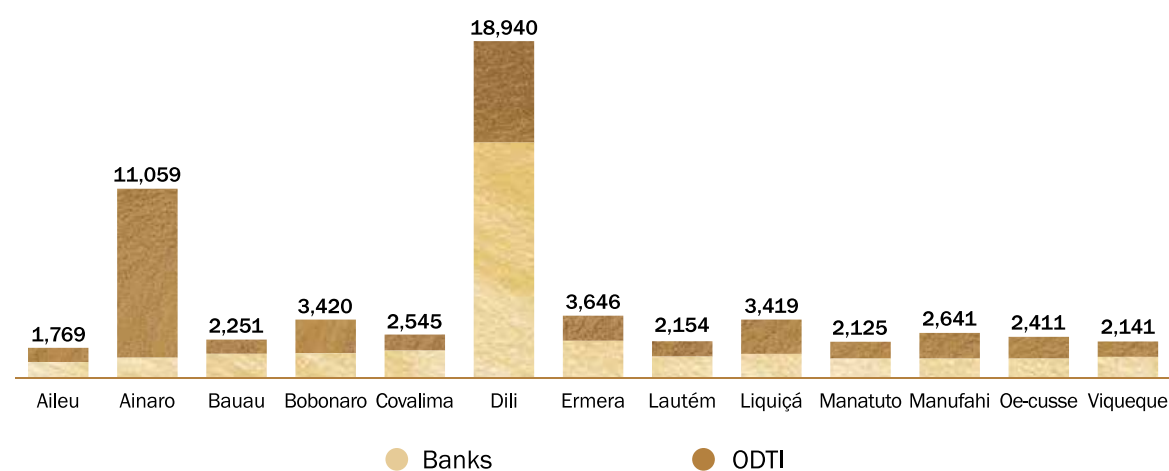
Diagram: Distribution of Deposit Accounts Across Municipalities



A majority of the municipalities exhibit higher take up for bank deposits in contrast to ODTI deposit accounts. This scenario only differs in the case of the Municipality of Ainaro, where the take up of bank deposit and ODTI deposits are more equitable. In Ainaro, bank deposits and ODTI deposits stand at 16,308 individual accounts to 15,200 individual accounts respectively. This finding is consistent with the earlier discussion regarding the strong presence of ODTIs in Ainaro where ODTIs require loan customers to maintain a mandatory collateral savings account.

From the credit standpoint, Dili also has the largest share of the total loan accounts in the country with 18,940 accounts or 32% of the market share. The Municipality of Anairo, which only accounts for 5% of Timor-Leste's population, follows close behind with 11,059 accounts arriving at 19% of the market share which is principally impacted by the ODTI loan accounts in that municipality. The remaining municipalities have much lower take up of loan accounts, with market shares ranging from 3% to 6% of total loan accounts.

Diagram: Distribution of Loan Accounts Across Municipalities



3.4

Usage of Other Financial Services


Playing a complementary role to the banks and ODTIs, the other financial services providers offer alternative or supplementary financial services for Timorese. For instance, Timorese currently also benefit from insurance products and services. Insurance products and services still have relatively low penetration in the country, with a total of 4,840 policies comprising of 2,136 individual policies and 2,704 group policies. The data shows that the main policies taken up by Timorese fall under the category of Accident, Health and Travel, which account for 3,658 policies or 76% of policy take up. There was a total of 113 claims reported in 2018, and 100% of the claims were paid out. Insurance companies are currently only operating in the administrative and economic capital of Dili as it is presently most feasible for the insurance companies. Nevertheless, forward looking policies will be put in place to explore the viability of expanding the take up of insurance services beyond the capital.

Credit unions in Timor-Leste on the other hand currently have 12,733 members, of which comprise of 6,222 female and 6,511 male members. As at end-2018, there are 43 credit union access points in 24 sucros across the country. Seeing that the scope of the services offered and clientele is quite narrow, the penetration of services for credit unions are still considered low, compared to larger institutions such as the banks and OTDIs.

Diagram: Total Take Up of Insurance Policies at End-2018

Full Year 2018 Data		Number of Policies		
Type of Insurance	Individual	Group	Total	
Accident, Health & Travel	1,813	1,845	3,658	
Construction	-	6	6	
Financial	1	-	1	
Liability	6	62	68	
Marine & Aviation	-	4	4	
Motor Vehicles	303	669	972	
Property	13	101	114	
Miscellaneous	-	17	17	
Total	2,136	2,704	4,840	

Diagram: Factsheet on E-wallet in Timor-Leste

Fact Sheet on E-wallet in Timor-Leste			
Telemor, one of the three telecommunication operators in Timor-Leste has been given a license to launch e-Wallet services			
 Telemor Profile <ul style="list-style-type: none"> Brand name: Telemor Company name: Viettel Timor-Leste Unipessoal Lda Headquarters in Timor-Leste: Dili Established: 2012 Service launching: 2013 Main services: mobile, internet, fixed broadband License to launch e-wallet: August 2018 	Number of Clients		
		Total	Female Male
	Total Clients at Dec / 2018	660	199 461
	Total Clients at Feb / 2019	2,088	725 1,363
	Total Transactions (Q4 2018)		
		Total	Female Male
	Total Transactions	10,480	3,052 7,428
	Cash-in Transactions	464	168 296
	Cash-out Transactions	620	149 471
	Areas Served With Agents		
Agents		Geographic Presence of Agents	
No. of Registered Agents		Areas with e-wallet agents	
		Municipalities	13
		Administrative Posts	42
		Sucos	79

There was a surge in e-wallet agent access points in the recent years, with 178 registered agents under Telemor Fintech which was awarded a license in August 2018 to conduct a pilot for an e-wallet product. Under this product the transactions which clients can make include balance inquiry, mini statement, transfers, cash-in, cash-out and telephone air time purchase. Since its launch until December 2018, there were 660 registered clients in the system and at the time this report was written, the number of registered clients grew to 2,088 by end February 2019.

3.5

Key Takeaways

The observations on the ownership of financial accounts, backed with statistical evidence on its penetration levels, indicate the level of acceptance and usage of financial services by Timorese. This in turn, enables the identification of areas where further attention is required on both the demand and supply side.

On the demand side, it is vital to ensure Timorese have the awareness that usage of financial services can enhance their livelihoods by helping them to build savings, easing their cash flows in times of need, and aiding them to realise their goals. This data which uncovers the areas and segments with low usage is a pivotal component to inform the future design of targeted assistance, advisory and literacy programmes to promote the take up and usage of financial services.

At the same time, on-going studies on the supply side are important to understand whether the institutions are offering suitable products which can help Timorese build better financial health, and whether these institutions are able to reach areas and segments of society where usage of financial services is low. By identifying these opportunities for improvements, financial institutions can be further bolstered to encourage enhanced take up and usage of financial services and this ultimately supports the financial inclusion agenda.



Financial Inclusion Quality Indicators

4.1 Key Considerations in Measuring Quality of Financial Services	78
4.2 Financial Inclusion Quality Indicators	81
4.3 Key Takeaways	86



In addition to access and usage, the quality dimension forms the third and final pillar in financial inclusion measurement frameworks. Assessing quality encompasses the efficiency and effectiveness in delivering financial products and services, taking into account whether they are able to meet the needs of society and the options which are available to customers. In the domain of financial inclusion, quality also entails clients' level of awareness and understanding of financial products and this is a priority so they learn to make better choices and use products responsibly.

Quality measurement has always been regarded as a daunting task for it is largely subjective, based on opinions and perceptions of customers. Nevertheless, in the recent years, many strides have been made to overcome this challenge, with the multilateral organisations and standard setting bodies coming to a consensus on all the key elements, components and best practices in designing and developing quality indicators.

4.1

Key Considerations in Measuring Quality of Financial Services in Timor-Leste

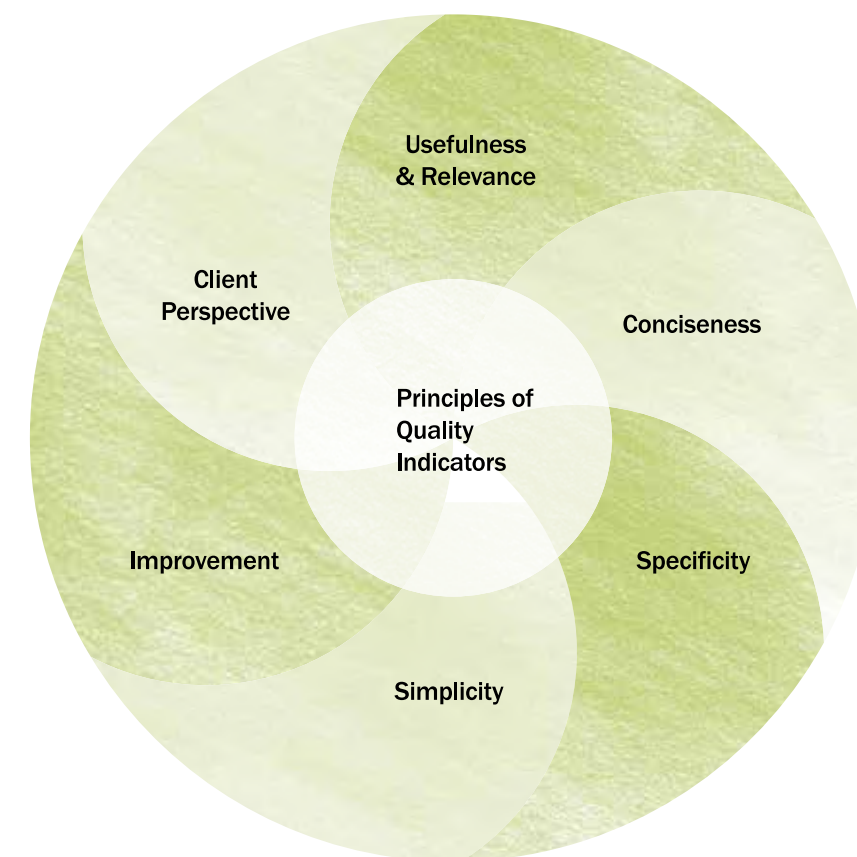
There are many circumstances which can impact and influence quality of financial services. This includes the cost of services, financial literacy, redress platforms and dispute management, transparency, security and trust in the financial system. Furthermore, what complicates the measurement of quality is the quantification of clients' views, judgement and feedback.

Therefore, in many countries, financial inclusion demand-side data surveys have been introduced to collect information about users of financial services and this data is ultimately used to aid in understanding whether their financial needs are met, whether they feel satisfied with the current financial services in the market and all the barriers they encounter in accessing financial services. It is vital that demand-side surveys be designed to encapsulate actual conditions and place importance in customers' experience. As a consequence, the demand-side data collected will be authentic and realistic, supported by specificity for further data analysis.

Timor-Leste has yet to launch a demand-side data survey and for this reason, it remains a challenge to measure quality of financial services in the country. There are on-going plans to collect demand-side data in the near future, where BCTL together with the Government, will join forces to embark on the first nationwide demand-side survey on financial inclusion. The demand-side survey will take into consideration the current best practices in designing quality indicators. According to the Alliance for Financial Inclusion (AFI)'s guideline note¹², quality indicators should be based on six key principles:

¹² Indicators of the Quality Dimension of Financial Inclusion (AFI Guidance Note No. 22, August 2016).

Diagram: Six Principles in Designing Quality Indicators



- 1 Usefulness and relevance.** It is important to ensure indicators are beneficial and relevant to design domestic policies.
- 2 Conciseness.** A succinct set of indicators should cover all essential dimensions of quality.
- 3 Specificity.** Indicators should be directly correlated to financial inclusion.
- 4 Simplicity.** Simple indicators should be selected over similar, but more complex ones.
- 5 Improvement.** Indicators should be impartial, even if they may shed bad light on the country's situation.
- 6 Client Perspective.** Data should capture the real situation clients face without presumptions by regulators.

The guidance note also divides the indicators into eight categories.

- 1 Affordability** indicators measure how costly it is to open and maintain an account.
- 2 Transparency** indicators assess whether clients have received clear and sufficient information about financial services.
- 3 Convenience** indicators capture perspectives on the ease and comfort of accessing and using financial services.
- 4 Fair treatment** indicators focus on clients' perceptions of fair treatment at financial institutions.
- 5 Consumer protection** indicators delve into the laws and regulations designed to ensure the rights of consumers are protected.
- 6 Financial education** indicators explore level of knowledge on basic financial terms and the ability of users to plan and budget their income.
- 7 Indebtedness** indicators quantify how many borrowers have made a late debt payment within a certain period of time.
- 8 Choice** indicators examine the range of options available for clients in using financial services.

These principles and categories of indicators are also consistent with the endorsed basic set of financial inclusion data by the G20's Global Partnership for Financial Inclusion (GPFI) which encompasses financial knowledge, financial behaviour, disclosure requirements, cost of usage, and credit barriers.

4.2

Financial Inclusion Quality Indicators

In this chapter, BCTL analysed the quality dimension based on supply-side information due to the lack of demand-side information as Timor-Leste has yet to collect demand-side data. The data was studied and evaluated to gauge whether clients face incessant barriers to access and utilise financial inclusion productively and effectively to meet the range of their financial needs.

4.2.1

Affordability Indicators

In order for all segments of society to be able to obtain and use financial services, it has to be reasonably priced and affordable. If financial services are costly, it automatically excludes the poor communities from using financial services because it is simply too expensive for these vulnerable segments of society.

Diagram: Monthly Cost of Maintaining a Deposit Account in Timor-Leste

Details	Banks				
	BNCTL	BNU	BRI	Mandiri	ANZ
Type of Account	Savings	Access Account	Savings	Savings	
Bank Share of Accounts (%)	70%	17%	3%	10%	No Retail Accounts
Maintenance Fee (USD)	0.50	2.92	0.30	0.75	
Debit Card (USD)	0.42	0.35	0.25	0.21	
4 ATM Transactions (USD)	-	1.00	-	-	
Total Monthly Cost (USD)	0.92	4.27	0.55	0.96	

Evaluation of supply-side information from banks found that there are costs involved in maintaining a savings account at banks in the country. The monthly commitment to maintain an account can be rather costly, with charges ranging from maintenance, debit card issuance and usage as well as ATM transactions. Out of all five banks, BNU's rates are the highest, charging USD4.27 for all services. BNCTL, BRI and Mandiri do not charge for ATM withdrawals, and they are able to maintain the monthly rates to below USD1.00 per month for clients to maintain their account. Currently, BRI has the lowest charges with USD0.55 per month. This brings the average monthly costs for using deposit accounts in the country to USD1.49, comparative to the national minimum wage of USD115.00 per month, it represents 1.30%.

A large segment of Timor-Leste's population lives below the national poverty line¹³. High monthly charges for the usage of bank accounts may be deemed too expensive for these groups of society, especially since most of the poor have no consistent earnings and many are subsistence farmers. Consequently, most of the poor and vulnerable groups of society will have no choice but to forgo using financial services due to the shortage of disposable income. This situation ultimately leads to the lack of quality in terms of affordability of financial services to advance financial inclusion.

4.2.2

Transparency Indicators

The transparency dimension outlines the need for clear, simple and sufficient information to enable customers to understand and be aware of the contractual obligations involved in taking up financial services. Without straightforward information that is easily grasped by the people on the ground, they may not comprehend the commitment required to use financial services responsibly. BCTL's analysis on bank documents uncovered the reality that certain documents are lengthy and difficult to understand. This includes price lists which are too complex for the layman, for example the price list from one bank has 29 pages.

In addition to lengthy and complicated documents, banks in Timor-Leste are also unable to deliver monthly or annual statements to clients as there is no postal office delivery service available in the country. To overcome this, some banks may provide the option of sending statements by email and this is only if it is requested by clients. Furthermore, the banks may charge a fee for this service. Hence, clients need to retrieve statements at the bank branches as internet banking is not widely available. In this situation, clients may not even be aware of the monthly charges being charged to their account or the interest payments for their loan accounts.

It is evident that there are still various challenges concerning transparency of financial services in the country. Hence it is important to consider evaluating factors such as the use of plain language, translations into local dialect and standardization of disclosure formats which distinctly states the processes, rights and obligation of customers in monitoring transparency.

¹³41.8% of the population live below the poverty line according to the Timor-Leste Survey of Living Standards 2014.

4.2.3

Convenience Indicators

One of the basic factors which contribute to high customer satisfaction is the ease of using financial services. Members of society should not be subjected to various obstacles to be able to assess and utilise financial services. A clear example is in terms of distance. Financial services should be convenient to reach, where segments of society should not have to travel long distances and incur high travelling costs to reach financial services access points.

The mapping of the bank and ODTI branch network has made it possible to study the percentage of the population with ease and convenience to access financial services.

Diagram: Population Residing Within Bank Coverage Areas

Bank Branch Coverage Areas					
Radius	Area (km sq.)	% of Total Land Area	Households	Estimated Population	% of Population
5 km	1,081	7%	36,206	209,460	18%
10 km	3,670	25%	62,085	359,177	30%
25 km	12,101	81%	173,740	1,005,128	85%

The data shows that only 18% of the population reside within 5km of a bank branch, indicating that 82% of the population need to travel more than 5km to the nearest bank branch. In comparison, 30% of the population live within 10km of a bank branch, while 85% of the population live within 25km of a bank branch. This means that for the 15% of the population who live the furthest from a bank branch would find it most inconvenient and costly to travel to a bank, often demotivating them from using banking services.

Diagram: Population Residing Within ODTI Coverage Areas

ODTI Branch Coverage Areas					
Radius	Area (km sq.)	% of Total Land Area	Households	Estimated Population	% of Population
5 km	1,630	11%	74,928	433,477	37%
10 km	5,357	36%	114,852	664,447	56%
25 km	13,579	91%	180,349	1,043,362	88%

As for the ODTIs, 37% of the population live within 5km, 56% live within 10km and 88% live within 25km of the branch network. The data offers concrete evidence that there are still segments of the population in Timor-Leste, living in rural and remote areas which would find it highly inconvenient to get to a bank or ODTI branch. This affects the level of satisfaction of Timorese in using financial services, and thus impacts the quality of financial inclusion.

Aside from using distance and travelling time to reach access points as a measurement for convenience, other factors which can be used as input to this indicator include client feedback on time spent waiting in line at financial institutions and the level of ease they experience in the process of obtaining financial services.

4.2.4

Fair Treatment Indicators

Fair treatment of consumers is defined by the honest, objective and unbiased actions of financial institutions in handling and managing with their clients. The desired goal of this concept is for clients to feel comfortable and confident in dealing with financial institutions before, during and after clients take up the financial services. Financial institutions have an obligation to ensure there are no acts of prejudice towards clients or unreasonable barriers put in place which hinders financial inclusion. Therefore, customers' feedback on whether they have been unfairly treated by financial institutions will be helpful to identify the strengths and weaknesses in fair treatment practices in Timor-Leste.

4.2.5

Consumer Protection Indicators

The area of consumer protection examines the breadth and depth of the laws and regulations which are implemented to safeguard customers and prevent financial institutions from gaining an unfair advantage over consumers. The elements of a well-designed, dynamic and robust consumer protection framework include ensuring fair trade and accurate information in the marketplace, without deceptive exploitation against customers. Consumer protection indicators can be measured by applying the analysis on the complaints or feedback from customers when contacting a consumer protection authority, taking into account the results of dispute resolution. Another feature which may be used as an input to measure consumer protection is to examine the deposit insurance in place to protect customer from adverse events in the financial sector.

4.2.6

Financial Education Indicators

The role of financial education is to expand financial literacy levels so that all segments of society are equipped with the ability to make sound financial decisions in their daily lives. Financial literacy prepares an individual with the awareness, knowledge and skills to use financial services responsibly and improve their financial health. The measurement of indicators in this area would take into account the level of awareness on financial terms, products and services by customers, as well as their ability to apply simple skills, such as budgeting and saving for an emergency.

4.2.7

Indebtedness Indicators

Indebtedness is another major concern affecting the quality of financial inclusion. While promoting the use of financial services, responsible usage of financial services remains the upmost priority as undesirable situations such as accumulating too much debt can be damaging to society's financial health. The levels of indebtedness can be examined using demand-side information such as the percentage of customers making late payments for their loan accounts and the percentage of customers only paying the minimum of their loan obligations.

As a proxy, consolidated data from the supply-side on late payments for December 2018 shows that 94.4% of loans are paid on time, while the remaining 5.6% are paid after the due date or not paid at all. The percentage is based on the total value of the loans from commercial banks and one ODTI. The other ODTI is currently in the process of automating the data submission.

Diagram: Details on Non-Performing Loans in 2018

Payment Delays	Classification	% of Loans
1 to 30 days overdue	Under Supervision	0.2%
31 to 90 days overdue	Sub-standard	0.5%
91 to 180 days overdue	Doubful	0.6%
More than 180 days overdue	Loss	4.3%



4.2.8

Choice Indicators

The quality dimension of financial inclusion is further enriched by having a range of choices for customers in taking up financial services. Having a choice gives customers higher levels of satisfaction because they are able to compare and choose financial service providers and products which meet their needs better. Being presented with choices also empowers customers to make decisions for themselves, allowing them to take accountability for their selection. Hence, it would be suitable to assess customer feedback on the range of financial service providers and services available to them in each administrative unit to gauge whether they feel they are offered with the sufficient options for an enhanced user experience of financial services.

4.3

Key Takeaways

Quality indicators are important because it is a measure of excellence and merit for financial inclusion. For the financial system to achieve real financial inclusion, having access to and take-up financial services is insufficient. The quality aspect gives validity to advancements in financial inclusion as it reflects the fulfilment of society’s financial welfare and satisfaction. Society is the heart of financial inclusion goals, which aims are to ensure that all members of society benefit from accessing and using financial services to improve their standards of living.

Currently, the monitoring and evaluation on the levels of financial inclusion has been relying solely on supply-side data. Recognizing the importance of measuring quality indicators for the progress of financial inclusion, BCTL together with the Government commits to embark on a demand-side data collection project as a short-term goal. The aim of this demand-side survey is to obtain genuine, transparent and representative data to enrich Timor-Leste’s financial inclusion measurement framework with quality indicators. The attainment of this unadulterated data will enable regulators to obtain real feedback from the ground to not only monitor progress related to quality, but also deepen the existing understanding of society’s predicaments and translate this to strengthened policymaking which will make a real difference to the people on the ground.

Financial Inclusion Developments

5.1 National Strategy for Financial Inclusion	90
5.2 The Modernization of Payments Systems	92
5.3 Piloting E-wallet Services	94
5.4 Enhancing Access to Credit for Small and Medium Enterprises (SMEs)	99
5.5 Key Takeaways	100



Following the publication of the Financial Inclusion Report 2016 other initiatives have been taken to promote financial inclusion. This chapter describes the main initiatives focused on the promotion of financial inclusion, the development of the National Strategy for Financial Inclusion (NSFI) 2017-2022, the pilot of e-wallet services, the implementation of the Credit Guarantee Scheme and the continued effort to modernize the National Payments Systems.

5.1

National Strategy for Financial Inclusion

BCTL has remained committed to bring the financial inclusion agenda forward and in order to do so, BCTL decided to develop the National Strategy for Financial Inclusion (NSFI). The NSFI was designed in consultation with partners and key stakeholders from the Government, private sector, development partners and civil society groups.

The NSFI outlines the roadmap of action plans to be achieved over the period of 2017 to 2022, in order to build a stronger, more innovative and inclusive financial sector for Timor-Leste. The strategy is centred on the importance of clearly defined action plans as an effective and efficient way to bring real, quantifiable changes and improvements in financial inclusion for the country.

The action plans were defined based on evidence on the ground and include targets and objectives, planning and coordination, strategy implementation, as well as monitoring and evaluation processes. The action plans cover the following topics: development of access to financial services, financial products, product pricing, capacity building, institutional arrangements, financial literacy, and consumer protection.

The implementation status of the NSFI actions plans are summarized in the table below. In 2017 and 2018 BCTL focused on implementing the National Card and Mobile Switch, and the approval of the Loan Guarantee Scheme. The developments of other action plans are however, behind the targeted timeframe.

Timeframe	Action Plan	Status
Broad Strategy 1: Enhance Access Points & Payments Systems		
2017	Implement the National Switch platform: all bank connected	●
2018	Establish “light touch agent regulation” for bank and insurance agents	●
	Leverage on the usage of mobile vans to widen outreach to underserved areas	●
	Expand the roles of FI's meeting centres	●
Broad Strategy 2: Specialised & Affordable Financial Services		
2018	Undertake efforts to understand market needs through surveys or leveraging on the national census	●
	Improve pricing strategy to enhance affordability of financial services	●
	Collaborate with interested banks to launch product for the underserved	●
	Focus on developing micro-savings products	●
Broad Strategy 3: Capacity Building & Supportive Infrastructure		
2018	Adopt appropriate and supportive regulatory framework to set up the Credit Guarantee Scheme to boost the MSMEs access to finance	●
	Establish a National MSME council	●
Broad Strategy 4: Financial Literacy & Consumer Protection		
2017-2020	Continue to prioritize the National Strategy for Financial Literacy (NSFL)	●
	Introduce targeted financial education programmes for all sections of society supplemented by road shows, knowledge sharing sessions and visits to money museums	●
2018	Financial services providers to provide training and advisory to customers on their products and services	●
	Continue to enhance regulatory frameworks for consumer protection, by building on the Customer Protection Law	●
2018-2020	Enrich financial education material to include diversified financial product and services	●
	Offer existing financial clients access to customized financial education programmes	●

Implementation Status:

● Postponed

● Partially Completed

● Completed and On-going activities

5.2

The Modernization of Payments Systems

The national payments systems form the foundation for financial payments settlements and this is essential for the delivery of financial services.

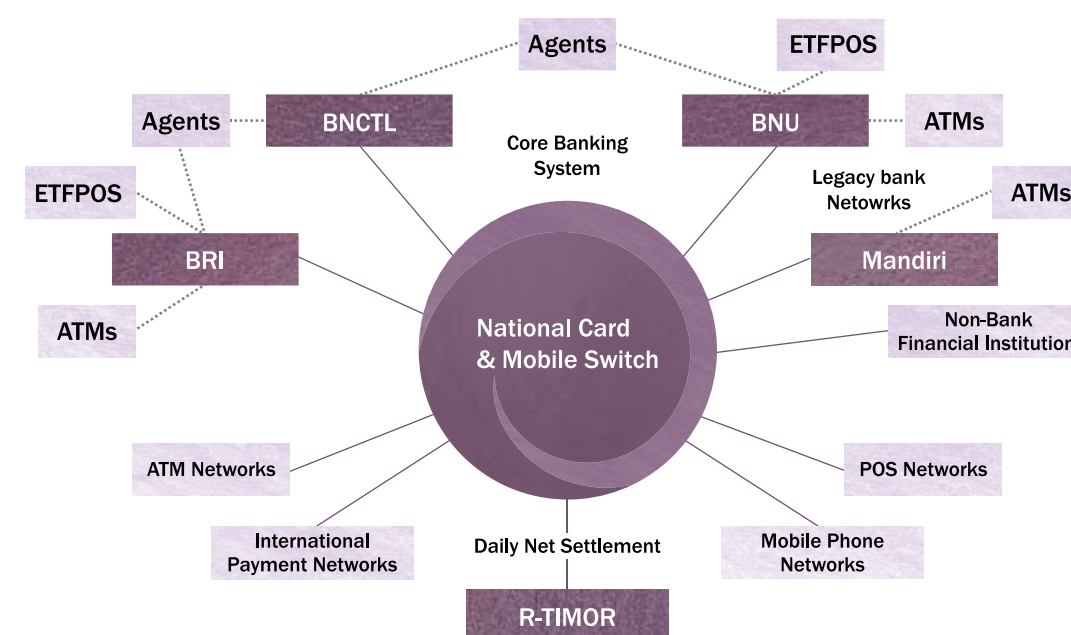
Traditional forms of payments, based on cash, have proven to be inefficient and costly for people living outside of urban areas, as most payments must to be performed using the limited network of cash-in and cash-out access points. Additionally, the costs related to the provision of currency notes are substantial for countries using United States dollars (USD), such as our country.

In order to facilitate the development of electronic forms of payments and enhance the efficiency and safety of interbank transactions, BCTL embarked on the modernization of the national payments systems. In April 2015, BCTL implemented R-TIMOR, which encompasses a Real Time Gross Settlement system for large and urgent interbank transactions, and an Automated Clearing House for less urgent payments where settlements are performed twice a day. The participants of the R-TIMOR are the commercial banks, the Ministry of Finance and BCTL.

The Ministry of Finance has been connected to R-TIMOR since February 2018. The connection enables the Ministry of Finance to perform bulk payments from the Government to people (G2P) or to service providers (G2B) directly through the system, reducing the time required for banks to process the transactions.

The National Card and Mobile Switch platform allows other financial services providers to be connected to the R-TIMOR to access interbank settlement services. The National Card and Mobile Switch integrates a diverse number of players and systems, such as the banks and their core systems, ATMs and ETFPOS devices, telecommunication providers, as well as banking agents. The ability to support diverse systems incentivised the development and promotion of alternative financial services channels, such as e-wallet.

Diagram: R-TIMOR System



In December 2018, the P24¹⁴ project was launched as part of the National Card and Mobile Switch implementation. P24 will connect all banks' ATMs and ETFPOS networks, allowing bank cards to perform transaction at any ATM or POS regardless of the bank which issued the card. Currently the ATM network of two commercial banks, BNU and Bank Mandiri, have already been integrated onto this platform, while the other two commercial banks serving the retail sector will complete the process in the next months. The integration of the ETFPOS network is planned for the first half of 2019.

5.2.1

Next Steps for the Advancements of Payments Systems

The National Card and Mobile Switch will also integrate telecommunication operators offering e-wallet services, which facilitate the day-to-day financial transactions. This will enhance the ease of making payments, enabling individuals and businesses to choose the channels to perform payments, either at branches, ATMs, ETFPOS or e-wallet agents, at their convenience.

After the integration of the financial services providers at the national level, the National Card and Mobile Switch will begin the process for regional integration, connecting to payments systems from other South East Asian countries to facilitate regional financial settlements. The connection to other countries is based on individual negotiations with the payments systems authority from each country.

¹⁴P24 stands for payments available 24 hours a day.

5.3

Piloting E-wallet Services

Digital wallet or e-wallet is a digital way of storing electronic funds to perform financial transactions. E-wallet has great potential to facilitate financial inclusion as it is able to reach wide segments of the population, including unserved clients, with simple mechanisms which are easy to understand and low transaction costs due to the light distribution infrastructure.

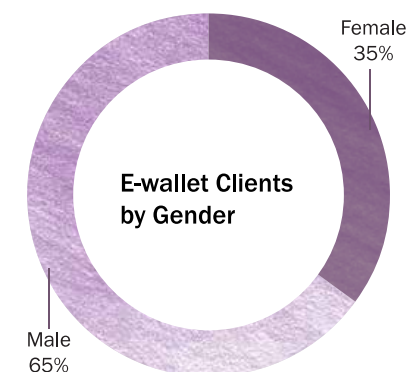
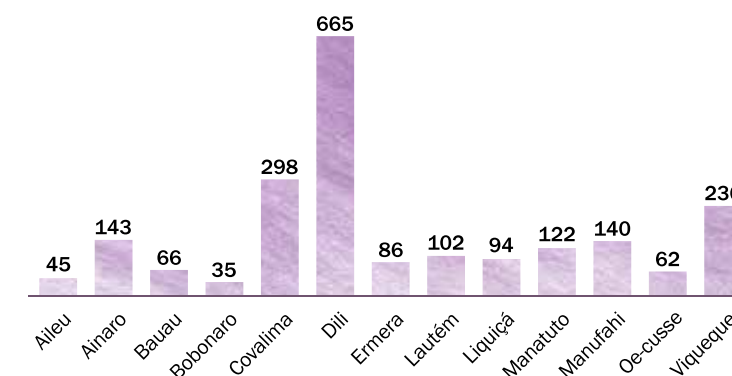
BNU launched the first e-wallet services in Timor-Leste in March 2015. However the project faced a number of barriers which has deterred its expansion and progress. One of the main issues was related to the lack of proper registration of telecommunication clients as the client information available does not meet the Know Your Customer (KYC) requirements.

In August 2018, Telemor Fintech, a company owned by a telecommunication operator, was granted a license to conduct a pilot for e-wallet services. Telemor Fintech's e-wallet services offer national cash-transfers at lower cost to registered clients. In addition to cash transfers, clients can purchase mobile credit or air-time, perform cash-in and cash-out transactions, and in the future, pay utility bills. Telemor Fintech is currently developing an application for smartphones to facilitate the e-wallet usage.

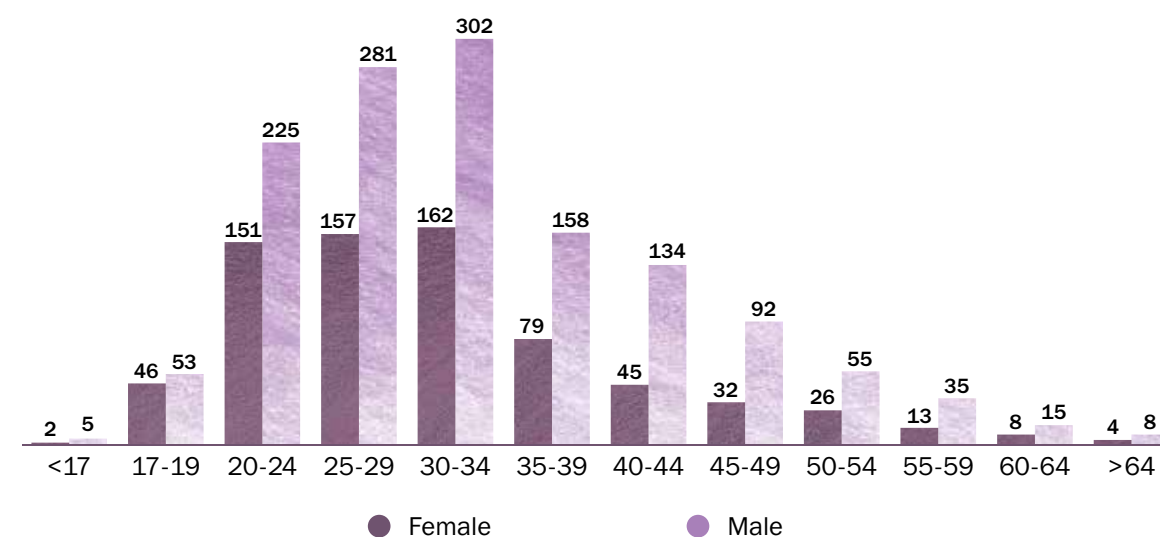
Telemor Fintech requires clients interested in accessing the e-wallet services to undergo a complete registration process, complying with KYC regulation. Telemor Fintech targets clients which are unbanked, and those living in remote, rural areas not served by commercial bank branches. Currently only Telemor telecommunications' clients can register to use the e-wallet service.

BCTL has adopted a regulatory sandbox approach to innovative financial services in Timor-Leste, which is key to develop the fintech sector. The sandbox regulatory approach refers to the mechanism for developing regulation or adapting compliance with strict financial regulations, while new technology is being tested in a closed and monitored environment. This allows the regulation to keep up with the fast pace of technology and innovation, without forgoing customer protection.

The following diagrams show the distribution of the 2,088 clients registered for e-wallet services, since the service was launched. The gender perspective on the uptake of the service shows that male clients are more predominant, representing 65% of users, while female users represent 35% of total users. However it is premature to draw specific conclusions whether it skews towards a particular gender as the service has been available for only 6 months. The geographic distribution is promising, even though the clients are concentrated in Dili (32%), there are clients from all municipalities already using the service.

Diagram: E-wallet Clients by Gender**Diagram: E-wallet Clients by Municipality**

Among the registered clients, there is a higher concentration amongst younger clients between 17 to 35 years of age. This is the exact age segment with lower bank account penetration. The reason for the higher take up by this age group can be attributed to the e-wallet promotion campaigns which were focused on university students. The propensity for younger generations to adopt new technology can also be a determinant for the higher take up, but this theory requires further examination.

Diagram: E-wallet Clients by Age Group

Telemor Fintech also started to develop its own e-wallet agent network which spans across the country. The agents perform cash-in and cash-out transaction, client registration, and give overall support to clients. According to Telemor Fintech, the agent network will have presence in every suco by the end of 2019. The map below shows the distribution of the current 178 e-wallet agents.



As part of the e-wallet promotion campaign, Telemor Fintech has produced a video explaining the service and how to perform the transactions, conducted fairs at main universities sites, participated in local events, and offered an 8% discount for purchases of Telemor credit or air-time when it is paid through its e-wallet service.

The performance of the e-wallet channel in its first six months shows promising results. This financial service shows immense potential to reach younger users which is the segment with the lowest financial account penetration. Furthermore, this preliminary result also denotes the impending prospect to increase the presence of agents to cover all sucos. This will be a ground-breaking opportunity to make financial services available to the whole population, including the segments living in rural and remote areas.

5.4

Enhancing Access to Credit for Small and Medium Enterprises (SMEs)

The SME sector is considered essential to boost economic development, as this sector is responsible for the highest share of job creation and it contributes significantly to Gross Domestic Product (GDP) in most countries. A critical aspect to promote SME development is the access to credit. This is vital for SMEs to have the means to start operations, to manage daily cash flows, to cope with unforeseeable events, and to expand. According to the World Bank¹⁵, Timor-Leste ranks poorly in the set of indicators related to “getting credit”, as revealed in the 2019 Doing Business Report where Timor-Leste scored 20 out of 100 points, and was placed 172 out of 190 economies evaluated.

Commercial banks operating in Timor-Leste are very conservative in evaluating business credit, resulting in a minimal proportion of the business with offered credit lines from banks. The main reasons behind the banks' conservative behaviour towards providing financing for businesses are the drawbacks of the regulatory environment which is curtailed by the absence of credit bureaus, insolvency laws and movable asset registries. Moreover, SMEs often operate in an informal way, with a lack of financial control and financial reports to support their loan application.

BCTL started to evaluate the feasibility and models for a Government sponsored credit guarantee mechanism in 2013. Based on the analysis conducted, BCTL proposed to the Government to establish the Credit Guarantee Scheme (CGS) to facilitate SME access to credit, while also strengthening the relationship between the business community and the commercial banks. The final design of the CGS, including the conditions and criteria to access the guarantee, has been approved by the Government and is currently in the implementation phase.

¹⁵World Bank. 2019. Doing Business Report 2019: Training for Reform.

5.5

Key Takeaways

The development of the NSFI brought key stakeholders together to discuss and coordinate financial inclusion efforts, defining a clear path towards the achievement of the country's financial inclusion goals. Open and clear communication channels between key stakeholders must be nurtured to facilitate the implementation of action plans and partnerships for a more collaborative approach towards the financial inclusion objectives.

A wide range of initiatives have been developed to incentivise the access and usage of financial services to meet the needs of Timorese. The complete implementation of P24 will bring greater convenience to financial services users, while increasing transparency and security of the national payments systems. The e-wallet services have indicated potential to widen outreach of financial services among the younger segment of the population, a segment which banks have not been able to serve fully. The acceptance of the e-wallet channel among the rural population is yet to be tested, and this aspect will be addressed in the near future. The CGS functions to facilitate access to loans for businesses with inadequate collateral while the regulatory environment is further developed to enhance the banks' risk appetite to provide lending products. BCTL will be focused on monitoring, evaluating and fine-tuning these initiatives to ensure they achieve their intended goals for financial inclusion.



Financial Literacy

6.1 Financial Literacy Programmes in Elementary Schools	106
6.2 Financial Literacy Awareness Events	108
6.3 Children Savings Accounts: Ha'u-Nia Futuru	109
6.4 Basic Record-Keeping and Accounting Training for MSMEs	111
6.5 Key Takeaways	112



Timor-Leste's financial literacy movement focuses on financial opportunities and risks, as well as how to manage them through savings, insurance and financial education. In 2014, BCTL undertook a leadership role to introduce the National Financial Education Awareness campaign focusing on three key pillars: Plan, Save and Protect. The project started with the National Savings Day celebration on 29 November 2014, championed by the President of Timor-Leste.

Through the years, BCTL continued to promote financial literacy by conducting awareness activities throughout the country and by developing the National Strategy for Financial Literacy (NSFL). The NSFL defines financial literacy as “a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”.

Diagram: National Strategy for Financial Literacy



The NSFL defines action plans for five years, from 2016 to 2020. The implementation of action plans are on track for the activities and programmes related to financial literacy at elementary schools and Basic Record-Keeping and Accounting Training for MSMEs. However, the implementation of financial literacy action plans for youths and adults are behind the initial schedule.

Timeframe	Action Plan	Status
Focus Area 1: Building Capacity and Capability of the Sector		
2016	Identify teachers and delivery training	●
	Train IADE (replaced CCI) trainers and Literacy Champions	●
2017	Train-of-Trainers (experienced teachers) to train other teachers	●
	Train management teams for selected schools	●
	Train university students to be peer tutors	●
2018	Train community leaders and facilitators	●
	Train a team of mentors to monitor progress of training	●
Focus Area 2: Providing Leadership		
2016	Set up working groups from: Ministry of Education, financial sector, other Government bodies	●
	Coordinate activities with other stakeholders	●
	Set up reporting and secretariat structure	●
	Promote the NSFL across the country	●
	Lead development of policies and appropriate savings products	●
2017	Set up an advisory group incorporating public, private and community sectors	●
	Develop a separate Financial Inclusion Strategy	●
	Regular meetings with key stakeholders, with expected outcomes identified for each of them	●
	Ensuring on-going funding for activities	●
	Set up a network of financial literacy providers	●
	Develop a dedicated website or a webpage	●
2018	Identify capability and delivery gaps, develop an action plan to address them	●
	Set up a coordination team for all different activities	●
	Organize an international conference to share best practices	●
Focus Area 3: Reaching Target Groups		
2016	Conduct a pilot of financial literacy to be taught at 5-10 schools	●
	Develop a communication plan to promote NSFL to target audience	●
2017	Set up a mentoring programme for teachers	●
	Explore work and resources in other Government departments to leverage their coverage	●
	Set up network of women's groups engaged in delivering financial literacy	●
	Link microfinance work with financial literacy initiatives to leverage existing programmes	●
2018	Pilot “Smart Money Clubs” at universities	●
	Roll out concept to other campuses/training institutions	●
	Appoint financial literacy champions in the community, including religious leaders	●

Timeframe	Action Plan	Status
Focus Area 4: Maintaining Quality		
2016	Develop financial literacy competency framework for adults	●
	Develop Principles of Engagement for the finance sector	●
	Develop minimum requirements for educators	●
	Develop standards for training programme and resources	●
2017	Modify the content if required and launch school programmes nationwide	●
	Develop quality resources and make them available at low or no cost	●
	Develop a central resource bank	●
2018	Review the university student training & peer tutoring model and content	●
	Organise stakeholder meeting to check mid-point progress	●
	Develop quality standards for training and education materials	●
Focus Area 5: Sharing What Works		
2016	Evaluate the awareness campaign reach	●
	Develop an evaluation plan to measure progress	●
	Develop pre and post financial health check materials	●
2017	Evaluate the school pilot and publish findings	●
	Evaluate IADE training benefits to the MSME sector and publish findings	●
2018	Evaluate the university pilot	●
	Carry out national financial knowledge and behaviour survey	●

Implementation Status:

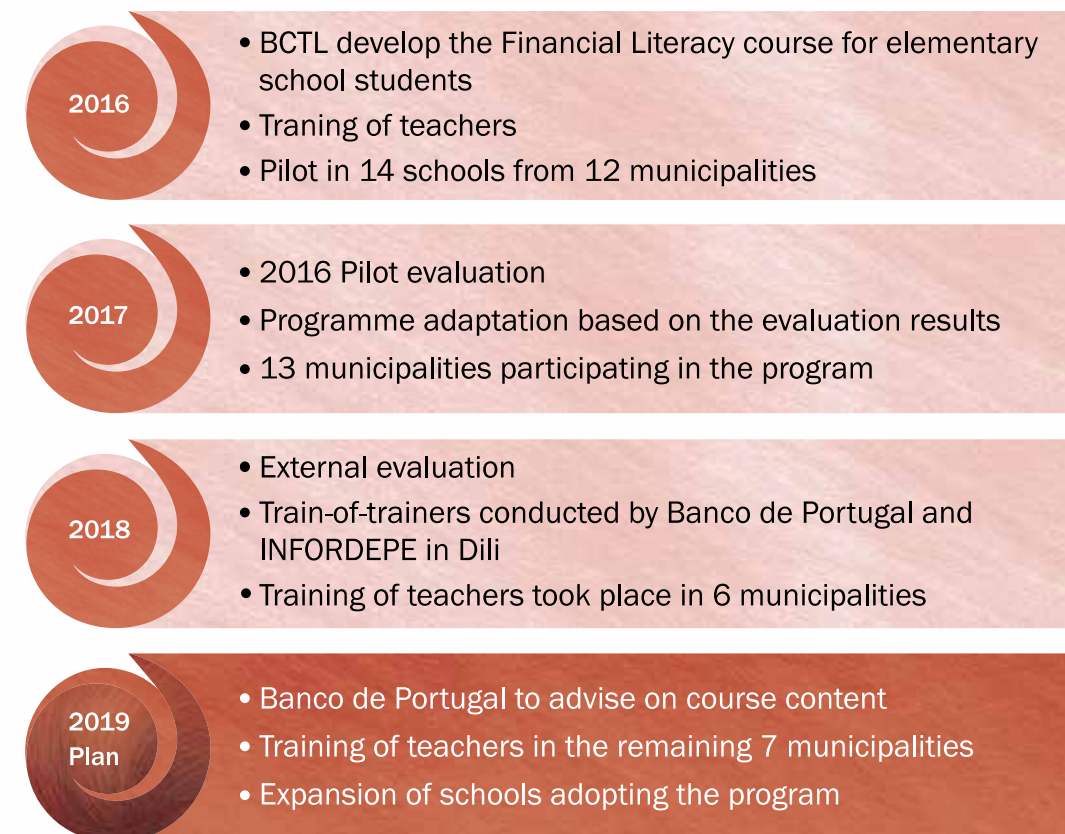
● Postponed ● Partially Completed ● Completed and On-going Activities

6.1 Financial Literacy Programmes in Elementary Schools

BCTL and the Ministry of Education have been working together to include a financial literacy module in the national curriculum. BCTL has developed a financial literacy module targeted at school students aged 7 to 12. In 2016 BCTL and the Ministry of Education signed the MOU to implement the financial literacy module in public schools, starting with a pilot project in 14 schools from 12 municipalities.

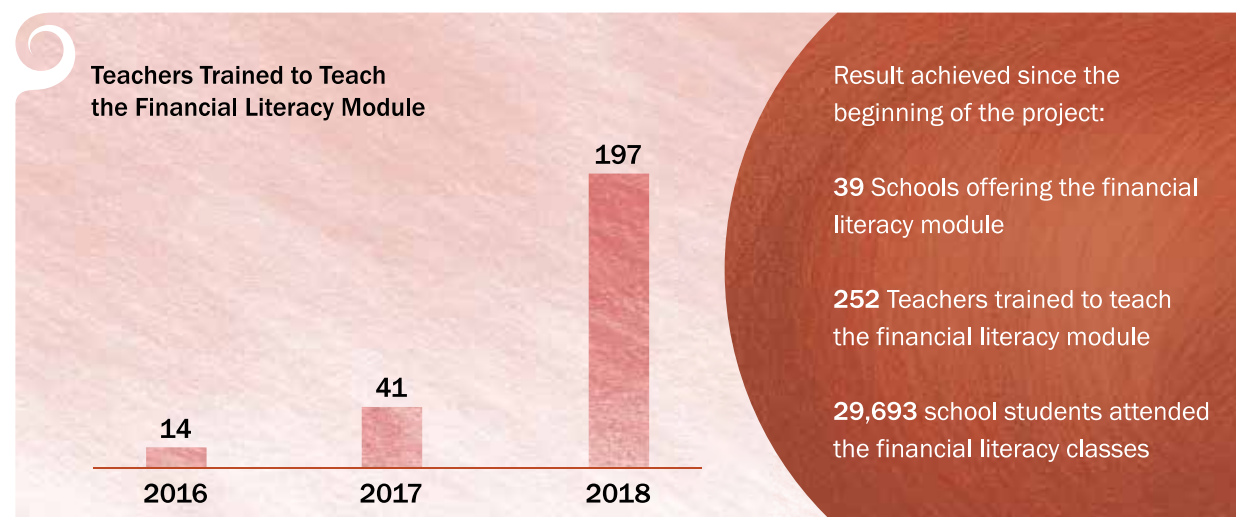
The financial literacy module includes four lessons for each age group and covers concepts of money and national currency, savings versus spending, needs versus wants, the value of products, spending and budgeting, delayed gratification (saving for future spending), supply and demand, the banking system (savings and gaining interest), and planning for the future (targets and goals).

Diagram: Key Implementation Activities of the Financial Literacy Programme



In 2018, the programme activities were focused on training more teachers in order to expand the programme to all 1,278 elementary schools across the country by 2020. Banco de Portugal has collaborated with our country for this programme by providing an external evaluation and assigning a team conduct train-of-trainers activities in Dili. The programme evaluation involved interviews with teachers and students, observation of classes, and analysis of the challenges discussed during the train-of-trainers sessions. The evaluation results were shared in a workshop conducted in February 2019 with the education directors from each municipality as well as the schools directors.

Diagram: Financial Literacy at Schools



The initiatives in 2019 will be focused on addressing the programme evaluation results, adjusting and improving the module, continuing the training of teachers, and expanding the number of schools offering the financial literacy module.

6.2

Financial Literacy Awareness Events

National Saving Day

The nationwide awareness campaign aimed at improving financial literacy launched in 2014 focuses on three key pillars: Plan, Save and Protect. The National Savings Day which was celebrated for the first time during this programme continues to be celebrated each year on 29 November. The main objective of this initiative is to raise awareness about personal and small business finances, promoting a change in the spending behaviour to encourage the habit of saving.

The celebration is centred on the financial literacy topics from the module taught at elementary schools with engaging activities such as painting and quiz competitions for school students. The HNF Accounts was also promoted to children and parents during the event. In 2015 the event was conducted in Dili, a year later the event took place in Liquiça, and in 2017 in the Special Administrative Region of Oe-cusse Ambeno.

In 2018, the celebration was carried out through a Financial Literacy Road Show to increase the number of participants. A team from BCTL visited 17 elementary schools in ten municipalities to conduct the financial literacy activities.



Global Money Week

BCTL participated in the Global Money Week for the first time in 2017. Schools students visited BCTL's head office in Dili and participate in activities and talks educating them about money, how the coins are produced, the meaning of the designs, importance to "save now for a better future", and HNF Accounts.

In 2019 the Global Money Week was conducted on 25 to 29 March. BCTL and commercial banks developed a more comprehensive programme, different activities were conducted each day of the week, including visits to BCTL and commercial banks branches, as well as programmes in schools organized by the banks.

6.3



Children Savings Accounts: Ha'u-Nia Futuru (HNF)

"Ha'u-Nia Futuru" means My Future in Tetun. This was the name chosen for a savings programme launched in August 2015 for children up to 17 years old. This account is available in all commercial banks with exception for ANZ¹⁶ and it is offered free of charge, with the same conditions and remuneration rates. The HNF Accounts only allows withdrawals when the account holder reaches 17 years of age.

The HNF Accounts aims to encourage children to discover the benefits of saving money in a bank account by monitoring the balance increases due to new deposits and interest payment. It also aims to incentivize families to build a reserve to finance the children's further education.

In 2017, BCTL and Care International developed a cartoon story about the HNF Accounts which was published in the Lafaek Magazine¹⁷ to promote the product. BCTL also continued to promote the HNF Accounts in all events and programmes related to financial literacy.

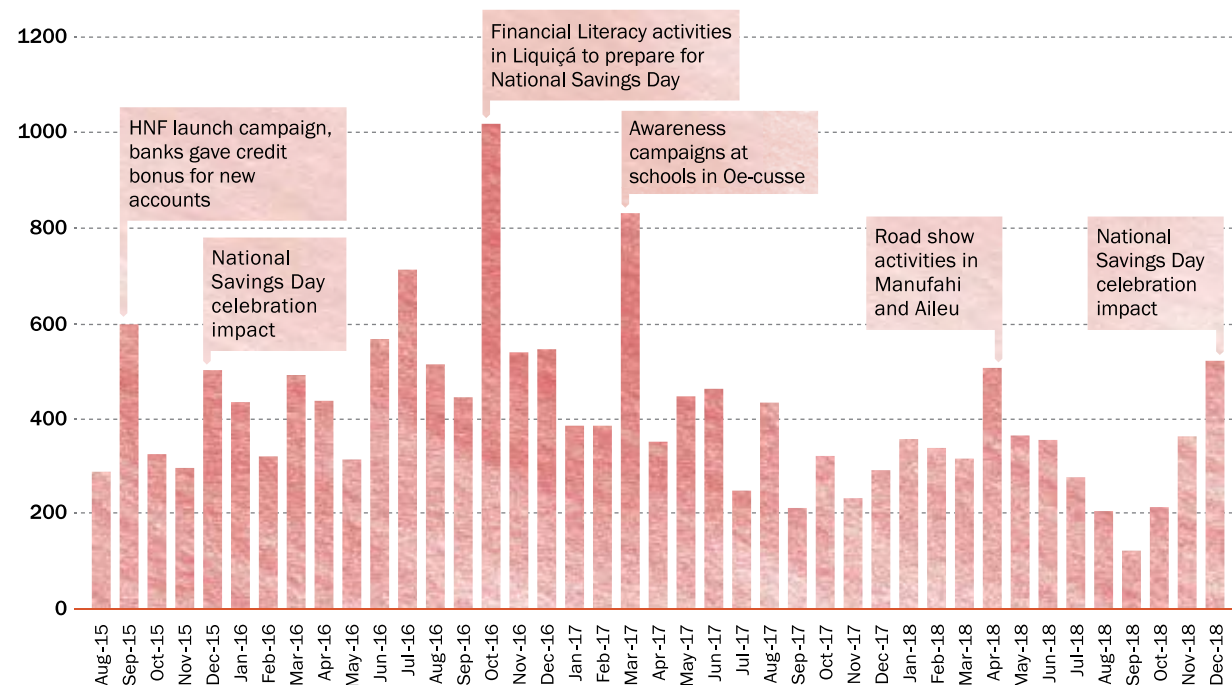
The data collection for this report revealed that at December 2018, there were 14,648 HNF Accounts in the country. The growth of new accounts was lower in 2018, compared to the previous years. The number of new account in 2018 stood at 3,448 compared to 5,336 new accounts in 2016 and 4,615 new accounts in 2017. The account penetration for the children up to 17 years old is 2.8%, signifying room for improvement for usage of this account.

¹⁶ANZ Bank's activities in Timor-Leste have shifted focused to corporate clients since September 2018. HNF clients and other individual clients were invited to close their personal accounts and withdraw their bank balances, or move their bank balances to other commercial banks.

¹⁷Lafaek educational magazine is a Care International initiative to introduce a culture of reading and learning to children and adults in Timor-Leste. The magazine has been published and distributed since 1999. The Lafaek magazine is printed three times a year and reaches over 120,000 students and 9,000 teachers; it is distributed to every school in Timor-Leste.

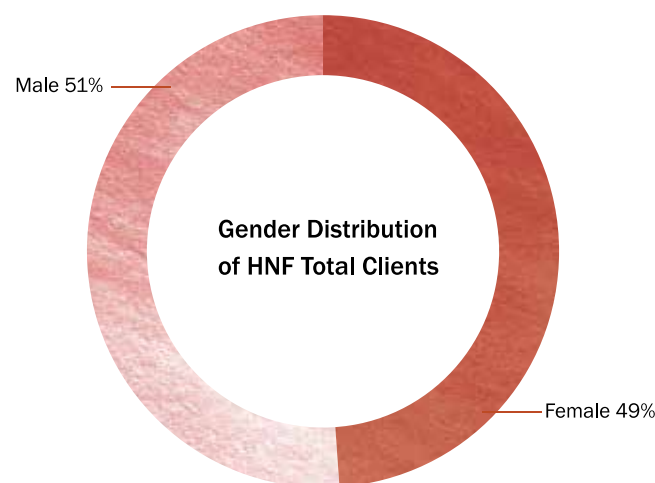
It was observed that product awareness is important in encouraging the opening of these accounts. The data shows spikes in account openings around timing of financial awareness campaign activities, as presented in the graph below.

Diagram: New HNF Accounts



The gender distribution of the HNF Accounts is balanced. There are HNF clients distributed across all municipalities, but Dili has the highest concentration of accounts making up 42% of the total accounts. This is likely due to the larger number of bank branches in the municipality and frequency of financial literacy activities in the capital.

Diagram: Gender Distribution of HNF Account Holders



6.4

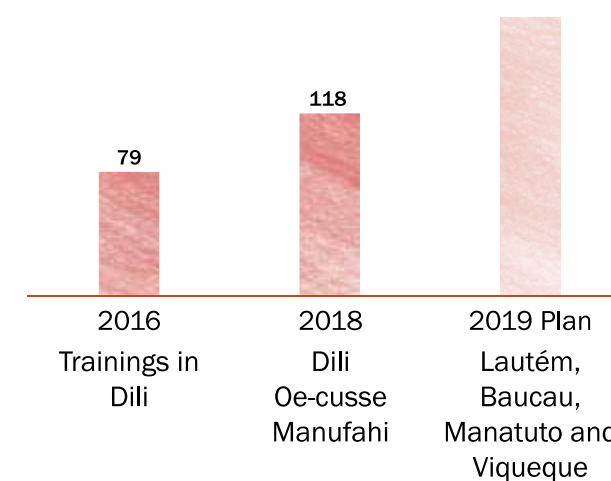
Basic Record-Keeping and Accounting Training for MSMEs

A vibrant and diverse MSME sector is essential for the development of enterprises in Timor-Leste. BCTL launched a module on Basic Record Keeping and Accounting for MSMEs in 2016 to enhance the financial awareness and capabilities of MSME owners. In the same year, the first training was carried out with the objective is to equip MSMEs with the skills and knowledge to prepare financial reports and loan applications.

BCTL coordinated the development of the module and the overall training. A specialized training organization, Industry Safety Assessment and Training (ISAT), conducted trainings for four groups of MSME staff. The Chamber of Commerce Industry Timor-Leste (CCI-TL) was responsible to inform the members and select participants for the training.

Monitoring and evaluation activities were conducted throughout 2016 and 2017, and this included visits to MSMEs to evaluate their ability to implement the content learned. Based on the evaluation results, the participants' feedback, and the ISAT instructors' suggestions, the training module was revised and improved for the next phase of the project. The module was adapted into three main topics, basic accounting, financial plans and financial documentation. The topic on financial plans was newly added after the pilot evaluation.

Diagram: Number of Participants in the Basic Record-Keeping and Accounting Training for MSMEs



In February 2018, BCTL, Institute for Entrepreneurship Development (IADE) and CCI-TL signed a MOU to collaborate in the expansion of this training. The training will be available in all 13 municipalities, conducted in stages. During the 2018 period, the two-week full-time training was conducted in Dili, Oecusse and Manufahi municipalities, and in 2019 new sessions are planned to take place in Lautém, Baucau, Manatuto and Viqueque.

6.5

Key Takeaways

The financial literacy promotion among children has gained momentum, with the success of the financial literacy module currently being offered in many schools across the country. The effort of training the teachers will pave the way for this financial literacy module to reach all public elementary schools by 2020. BCTL's partnerships with key stakeholders such as the Ministry of Education, Instituto Nacional de Formação de Docentes e Profissionais da Educação (INFORDEPE) and Banco de Portugal have been indispensable for the project implementation. The awareness campaigns and the creation of HNF Accounts play a key role to spur financial literacy efforts especially amongst children as they are given the opportunity to experience a real financial product design specifically for their needs. Thus, BCTL will continue to focus on promoting the HNF Accounts.

In addition to children, BCTL will also devote attention to other target groups as it is necessary to reach out to as many segments of society as possible to empower them with financial literacy. It is crucial to educate both individuals and MSMEs on the benefits which financial literacy can bring. Over the next few years, BCTL will be emphasizing the development of programmes for youth and adults segments, as well as continuing the on-going plans to push the Basic Record-Keeping and Accounting training for MSMEs to reach more municipalities.



Financial Inclusion for the Future of Timor-Leste

7.1	Identifying Financial Inclusion Barriers and Opportunities for Further Financial Inclusion	116
7.2	Aligning the Next Steps towards the National Strategy for Financial Inclusion (NSFI) 2017-2022	118
7.3	Conclusion	122



The Financial Inclusion Report 2018 was set out to build on the foundations laid by previous financial inclusion report to document the current state of financial inclusion across the country. This report aims to analyse and evaluate how far the country has come since taking up the financial inclusion agenda and use this information to detect and narrow down priority areas where disparities are the most evident. The findings from this report are crucial to plan targeted interventions so that resources can be employed to tackle the most high impact areas.

7.1 Identifying Financial Inclusion Barriers and Opportunities for Further Financial Inclusion

The extensive analysis of the data and indicators in this report was able to portray the reality of financial inclusion in the country. The data genuinely reflected the actual conditions on the ground, capturing both the good achievements and the gaps concurrently. This truthful look into the state of financial inclusion in the country is valuable as it is able to highlight all the weaknesses which allow policymakers to strategize and turn these shortcomings into opportunities to improve financial inclusion.

7.1.1 Disparities in Access to Financial Services

Currently, 4 out of 65 administrative posts do not have any form of financial services access points within its borders, and 34 out of 65 administrative posts do not have any banking access point. Deeper assessment at the sucos levels also reveal that 196 out of 452 are unserved by any financial service providers, while 365 out of 452 sucos are unserved by banks. The indicators attest that there are still high levels of exclusion in certain areas in Timor-Leste.

The analysis demonstrate that disparities are wide, with municipalities like Dili enjoying high levels of inclusion while other municipalities such as Baucau and Viqueque struggling with exclusion. Financial access points in the country are highly concentrated in urban areas, enabling urbanites to access financial services easily and conveniently. The scenario is the total opposite for Timorese living in rural and remote areas, where they need to travel long distances and incur travelling costs just to reach an access point.

Financial inclusion in the country can only progress further by addressing these issues in an apt and systematic manner to bring more of the population into the financial system. The strategies to widen outreach of access points cannot be done by BCTL alone, but it will have to be a collaborative and coordinated endeavour between regulators, financial service providers and payments channel providers.

7.1.2 Low Usage of Financial Services

The indicators on account penetration in Timor-Leste show that 62% of the adult population have a deposit account and 9% of the adult population have a loan account. This indicates that 38% of adults, a vast number equivalent to 249,050 people, are still not using regulated deposit accounts to transact and save.

Account penetration is not the only predicament affecting the usage dimension of financial inclusion. It was also observed that deposit accounts in the country are not being utilised to its full potential. Timorese have yet to nurture the habit of using savings accounts to make financial transactions and accumulate savings. In fact, a majority of the accounts maintained at banks are only being used to receive Government payments as indicated by the inactive usage of accounts by Timorese receiving social benefits or salaries through bank accounts. This customer segment makes up majority of bank deposit clients in Timor-Leste.

It is clear that there is room for improvement in relation to the financial account penetration rates and its degree of usage in the country. To confront these challenges, it is crucial to ensure that financial products in the market are meeting the needs of Timorese to motivate them to use these services. Financial literacy and awareness is also an element which cannot be overlooked as it eradicates ignorance and instils knowledge and assurance for Timorese to use financial services.

7.1.3 Absence of Demand-side Data to Measure Quality Indicators

This report was able to produce an in-depth study using supply-side data to evaluate the performance of financial inclusion through the access and usage indicators. The supply-side data, backed by statistics from the census, led to comprehensive and corroborated data analysis for these two dimensions. This facilitated the identification and documentation of specific problem areas and drawbacks faced by Timorese in terms of access and usage of financial services.

However, the same in-depth analysis could not be replicated for the quality indicators due mainly to scarcity of demand-side information. The analysis of the quality dimension for this report was completed based on supply-side input only. Our country has yet to embark on a demand-side data collection project, and stemming from the absence of this information, the report was incapable of computing the quality indicators accurately.

This gap can be rectified through possible demand-side data collection exercises in the forthcoming years. Demand-side information may be gathered out through a variety of methods including focus group discussions, questionnaires or surveys with representative samples or by leveraging on Government census projects. It is important to note the significance of simple and well defined questions to collect precise, consistent and reliable demand-side data for the purpose of measuring the quality of financial inclusion.

7.2 Aligning the Next Steps towards the National Strategy for Financial Inclusion (NSFI) 2017-2022

Armed with the data and evidence on the levels of financial exclusion in the country, the next few years present a timely opportunity to take down and overcome some of the financial inclusion obstacles which are the most achievable. In prioritising strategies for the coming years, it is vital to align the goals and outcomes to the vision defined by the NSFI 2017-2022 which serves as the roadmap for the advancement of financial inclusion in the country. It is also critical to deliberate the practicality of the ensuing phases for financial inclusion by considering the viability of all focus areas and action plans. Bearing this in mind, BCTL will accord attention to five key areas, parallel with the strategic outcomes of the NSFI 2017-2020.

7.2.1 Expand Access Points in Unserved Administrative Posts

BCTL will continue to stress the importance of the outreach of financial services access points across Timor-Leste. The absence of access points in unserved areas inevitably leads to involuntary exclusion because the citizens simply have no choice but to disregard using financial services as it is not within reasonable reach. Thus, having access is a prerequisite of financial inclusion and as a next step, BCTL targets to ensure that all administrative posts will be covered by financial service access points.

The success of this mission to have 100% of administrative posts covered by financial services access points is dependent on a few factors. BCTL will have to continuously engage with financial services providers to study the options of increasing access points. These engagements have to be supplemented by research, development and upgrading of technology to leverage on innovative channels to deliver financial services where opening physical branches are not feasible. Existing initiatives with high potential for outreach, such as the e-wallet channel, will also be promoted actively in the coming years.

BCTL will also collaborate with the Government to provide input on issues related to rural development, encompassing road access, as well as telco and internet infrastructure because these conditions also play a big part in ensuring financial services access points are operational in these unserved and underserved areas. When Timor-Leste has achieved 100% of administrative posts covered by access points, BCTL can then focus its attention at a more granular level, such as increasing the percentage of administrative posts covered by bank access points and increasing the percentage of sucos covered by financial services.

7.2.2 Boost the Usage of Financial Services through New Product Features

The design and development of new financial products targeted at the vulnerable and marginalised groups will be prioritized in the coming years, with emphasis on exploring the feasibility of introducing micro-insurance and enhanced savings accounts. BCTL aims to create a micro-insurance product which provides the poor and low-income households with the means to protect themselves against risks. For a micro-insurance product to be successful to reach the masses, it has to be both simple and affordable in terms of premium payments. All administrative and claims processes have to be streamlined, with delivery to the clients.

In terms of savings products, the current deposit product range in the market can be augmented to better meet the needs of all Timorese and motivate the nation to cultivate a habit of using regulated savings account to build savings. Product features which can be further elevated include the lowering of monthly administrative costs to maintain a savings account, and well as the establishment of a better interest payment system as the current interest rates paid in existing savings account are too low to benefit clients. The availability of financial products that satisfy the needs of Timorese is envisioned to increase the take up and usage of financial services.

7.2.3

Intensify Financial Literacy Programmes for Consumers

The sphere of financial literacy will always remain a key priority area and in the ensuing phase, BCTL aspires to deepen the outreach of financial literacy programmes nationwide. Timor-Leste already has on-going financial literacy programmes involving school children, therefore more attention will be conferred into the implementation of financial literacy syllabus for youths and adults. Investments in financial literacy programmes will safeguard the financial health of citizens of Timor-Leste for the future as it imparts the necessary awareness and skills needed to make informed financial decisions.

While schools can certainly be leveraged upon to reach many children for child focused initiatives, one of the main considerations is the appropriate channel which can be used to most effectively reach youths and adults. Another point to consider would be the suitability of the syllabus for these target segments and this includes designing programmes with topics that are simple to understand, relevant for day to day lives and that there are no language barriers in presenting the programme materials.

7.2.4

Empower Financial Service Providers to Educate Customers

The financial services providers will also be empowered with the authority and accountability to conduct briefings to clients and potential clients on their products and services. Customer engagement is a central humanizing component in building strong and trusting relationships between the financial service providers and clients through communication. The concept behind this is to encourage financial services providers to reach out and retain customers through education, instead of simply employing marketing tactics.

This process enables the financial services providers to coach their clients on the products offered, how to use the products and the ways the products can add value to their daily lives. Aside from education, these engagements also facilitate two-way communication where clients can also convey constructive feedback to financial services providers. This open and transparent communication will in turn build positive customer experiences which will translate into trust and confidence in financial services, the providers and the financial system as a whole.

7.2.5

Collect Demand-Side Data to Measure Quality Indicators

BCTL will also give precedence to the continuous refining of the country's financial inclusion measurement framework. Demand-side information quintessential for financial inclusion measurement and to this date, Timor-Leste is still lacking in this particular area. BCTL will be addressing this gap by working with the Government to include specific questions related to financial services in the next nationwide census which will be carried out in 2020. Leveraging on the nationwide wide census offers the advantage of reaching the population more extensively with the survey questionnaire, while carefully managing resources. This demand-side data collection can then be examined and dissected together with the population census data and this process will be pivotal in computing and tracking the financial inclusion indicators under the financial inclusion measurement framework.

Since the nationwide census will only be conducted in the year 2020 and the results may only be available after that, BCTL also plans to organize a client survey with a smaller sample size over the next few years. This endeavour will be done on a practical and cost effective scale to gauge client needs and perceptions regarding financial services to advance the understanding of the quality aspects of financial inclusion. These smaller scale surveys will also be useful to explore more in-depth questions and responses, with greater focus on quality indicators.



7.3

Conclusion

Our country has come a long way since the establishment of the financial sector and through the years, BCTL has overseen the development of a safe, stable and facilitative regulatory environment to foster financial inclusion. The financial sector has deepened and matured over the years with inclusiveness being embraced as an important mandate. However, there is still a lot more to be done as our country still faces many obstacles and barriers which delay and impede inclusion.

The Financial Inclusion Report 2018 has accomplished its objectives by accurately identifying the existing and persisting gaps for inclusive finance in the country. At present, the available data and statistics from this report have proven to be instrumental in allowing BCTL to identify and plan the next steps and road ahead for financial inclusion. This report will serve as the principal reference for constructing and implementing policies directed at the most vulnerable and excluded groups of society in the following years to come.

Timor-Leste's financial inclusion data measurement and monitoring frameworks will support our country on the long and challenging path towards an inclusive financial system. This is a path that requires enduring commitment from all financial inclusion stakeholders to take on the obstacles one by one, in each and every municipality, administrative post and sucos, across all genders and age groups. With the pledge from all stakeholders who aligned with the same vision in pushing this agenda forward, only then can Timor-Leste achieve truly sustainable financial inclusion for the benefit of its people.



Acronyms and Abbreviations

AFI	Alliance for Financial Inclusion
ANZ	Australia and New Zealand Bank (ANZ) Banking Group, Timor-Leste Branch
ATM	Automated Teller Machine
BCTL	Banco Central de Timor-Leste
BNCTL	Banco Nacional de Comércio de Timor-Leste
BNU	Banco Nacional Ultramarino - Grupo Caixa Geral de Depósitos, Timor-Leste Branch
BRI	Bank Rakyat Indonesia (Persero) Tbk., Timor-Leste Branch
CCI-TL	Câmara de Comércio e Indústria de Timor-Leste
CEB	Currency Exchange Bureau
CGS	Credit Guarantee Scheme
EFTPOS	Electronic Funds Transfer Point of Sales
FI	Financial Institution
FIR	Financial Inclusion Report
G2B	Government to Business
G2P	Government to Person
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
HNF	Ha'u-Nia Futuru
IADE	Instituto de Apoio ao Desenvolvimento Empresarial
INFORDEPE	Instituto Nacional de Formação de Docentes e Profissionais da Educação
ISAT	Industry Safety Assessment and Training
KIF	Kaebauk Investimentu no Finansas, SA
KYC	Know Your Customer
Mandiri	PT. Bank Mandiri (Persero) Tbk. Dili, Timor-Leste Branch
MFI	Microfinance Institution
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MTO	Money Transfer Operator
NITL	National Insurance Timor-Leste, SA
NSFI	National Strategy for Financial Inclusion
NSFL	National Strategic for Financial Literacy
ODTI	Other Deposit Taking Institution
OECD	Organisation for Economic Co-operation and Development
P24	Payments Available 24 Hours A Day
POS	(Electronic Funds Transfer) Point of Sales
R-TIMOR	Rede de Transferência em Tempo Real
RTGS	Real Time Gross Settlement System
SFMRSA	Servisu Finanseiru Moris Rasik, SA
SME	Small and Medium Enterprises



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