



WORLD BANK GROUP

**FINANCIAL INCLUSION IN THE MALDIVES
FINDEX 2018 SURVEY**

September 2019

Financial Inclusion in the Maldives¹

INTRO: In this note we explore the many ways that adults in the Maldives are using digital payment services through mobile phones, the internet, and bank accounts. We also explore savings habits and outline opportunities to use digital technology to bring financial services to adults who still have no accounts.

The *Findex Notes* series summarizes data compiled by the Global Findex from nationally representative surveys of more than 150,000 adults in over 140 economies in 2017, including more than 1,000 adults in the Maldives. The Global Findex is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. The full dataset and methodology are available at <https://globalfindex.worldbank.org/>.

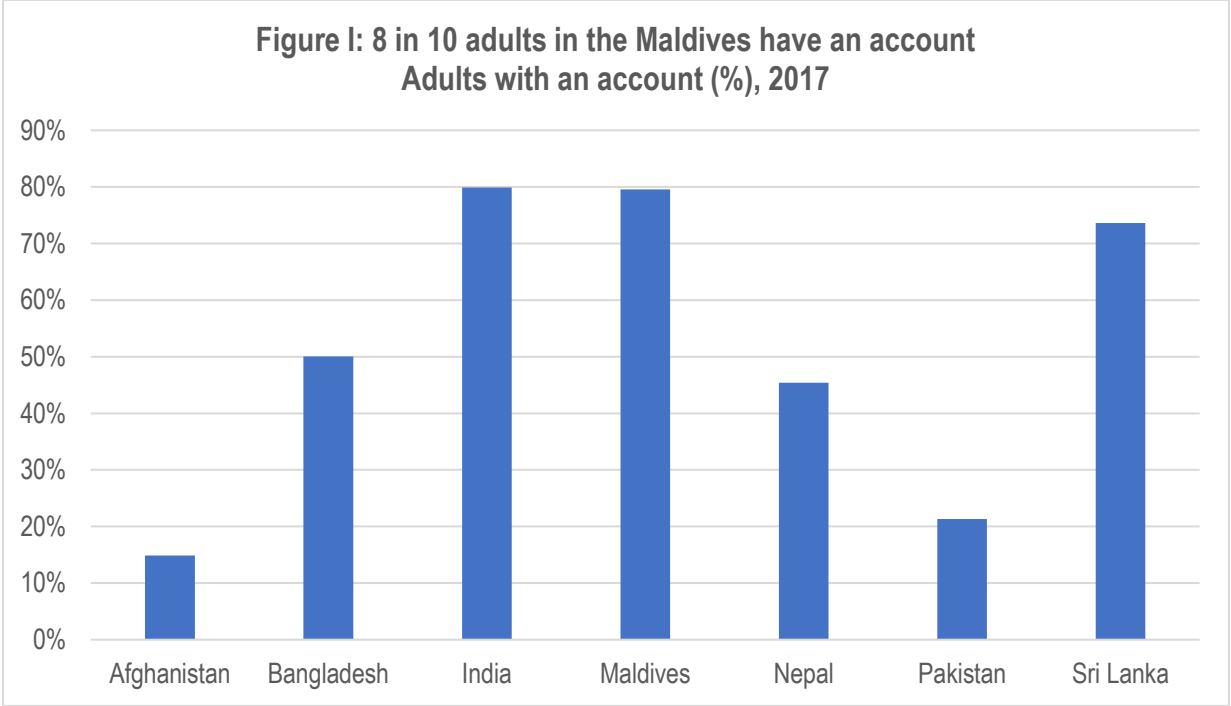
Research is showing that when people embrace digital financial services, a range of development benefits follow. When women in India received personal accounts linked to a jobs guarantee program, they increased their labor force participation and earnings compared to women who received such payments into a joint account controlled by their husbands. The improvements in employment and earnings improvements disproportionately benefitted women with previously low labor force participation and those whose husbands were most opposed to their getting a job.ⁱ Women-headed households in Nepal spent 15 percent more on nutritious foods (meat and fish) and 20 percent more on education after receiving free savings accounts.ⁱⁱ Another study found that the adoption of mobile money accounts in Kenya helped lift 194,000 people out of poverty, and that the accounts proved especially beneficial for women.ⁱⁱⁱ Mobile money has also been cited as a fast and efficient method of sending and receiving funds from a network of acquaintances during an emergency, potentially reducing the likelihood that those impacted by a financial crisis will descend into poverty. The benefits of digital financial services extend to governments as well. In

¹ This paper was authored by Leora Klapper, Saniya Ansar, Jake Hess and Dorothe Singer (Development Research Group, World Bank), under the supervision of Anoma Kulathunga (Finance, Competitiveness & Innovation Global Practice, World Bank) as one of the outputs on FIRST Initiative Funded Enabling a Non-Bank Mobile Money Solution Technical Assistance Project (P155693) to Maldives on September 22, 2019. Any follow-up to this note may be referred to Anoma Kulathunga, Senior Financial Sector Specialist, South Asia Finance Competitiveness and Innovation Global Practice (Team Leader) or Amila Indeewari Dahanayake, Economist, South Asia Finance Competitiveness and Innovation Global Practice (co-TTL).

India, leakage dropped by 47 percent when pension payments were made via biometric smart cards instead of being handed out in cash.^{iv}

Account ownership is high

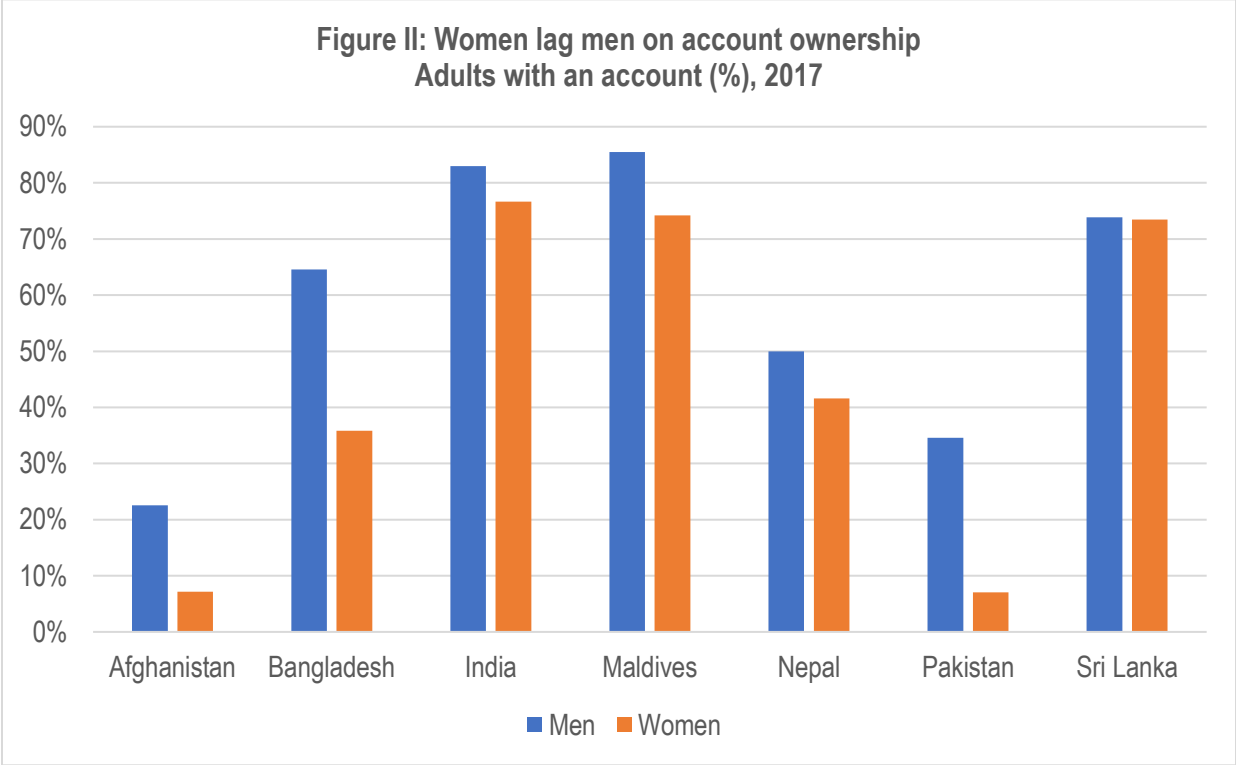
In the Maldives 80 percent of adults have an account, the highest number of any South Asian economy other than India (Figure I). Regionally and globally, most adults who have an account do their banking at a formal financial institution, such as a bank, credit union, or microfinance institution. Some people—particularly in Sub-Saharan Africa—use mobile money accounts which are offered by telecommunications companies and operated on simple mobile phones. The Maldives is one of the rare economies outside of Sub-Saharan Africa with high mobile money penetration. In the Maldives, 23 percent of adults have a mobile money account. No other South Asian economy has mobile money penetration above 10 percent, except for Bangladesh, where the number is 21 percent.



Source: Global Findex database.

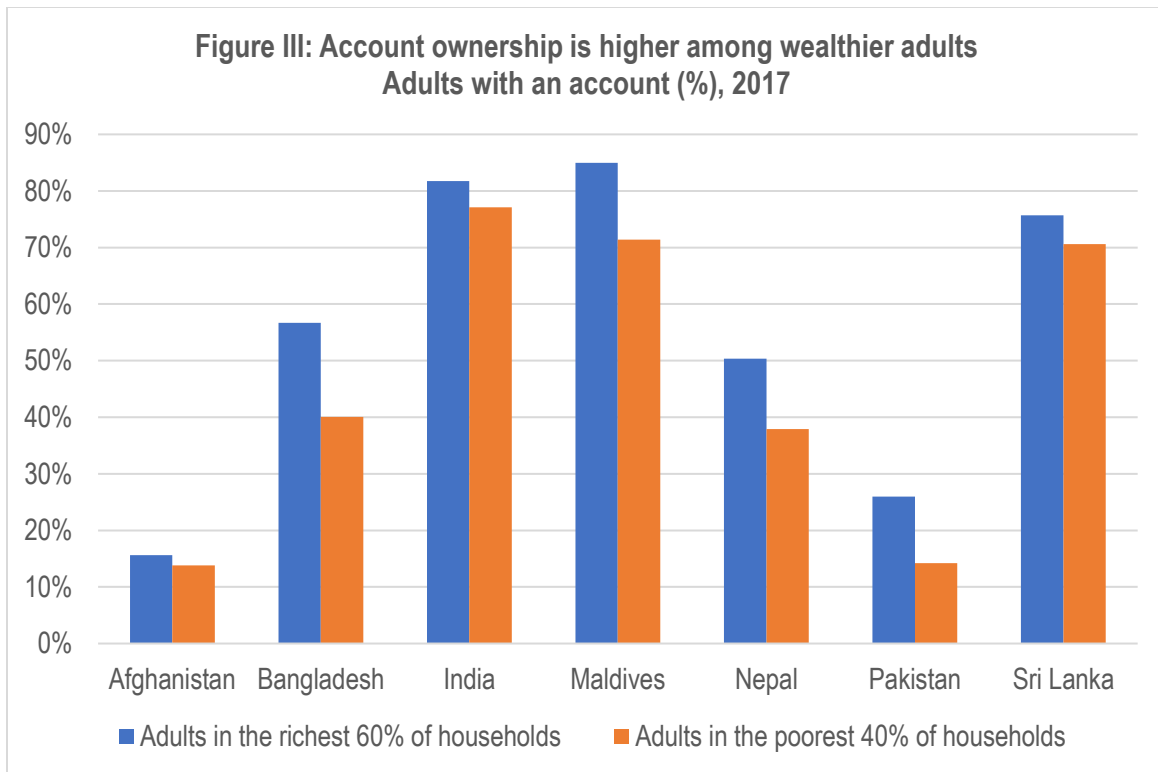
Women and the poor lag behind

Account ownership inequalities persist even though the Maldives has relatively high financial inclusion. While 85 percent of men have an account, only 74 percent of women do, leaving an income gap of 11 percentage points (Figure II). Regionally, the Maldives' gender gap falls in the middle. Significantly larger gender gaps exist in Afghanistan, Bangladesh, and Pakistan and smaller ones are found in Sri Lanka and India.



Source: Global Findex database.

Adults in the richest 60 percent of households in the Maldives are 15 percentage points more likely to have an account than those in the poorest 40 percent. That income gap is fairly typical in South Asia outside of India and Sri Lanka, where income differences are only a third of what they are in the Maldives (Figure III). Afghanistan's low-income gap likely reflects low overall account ownership in that country.

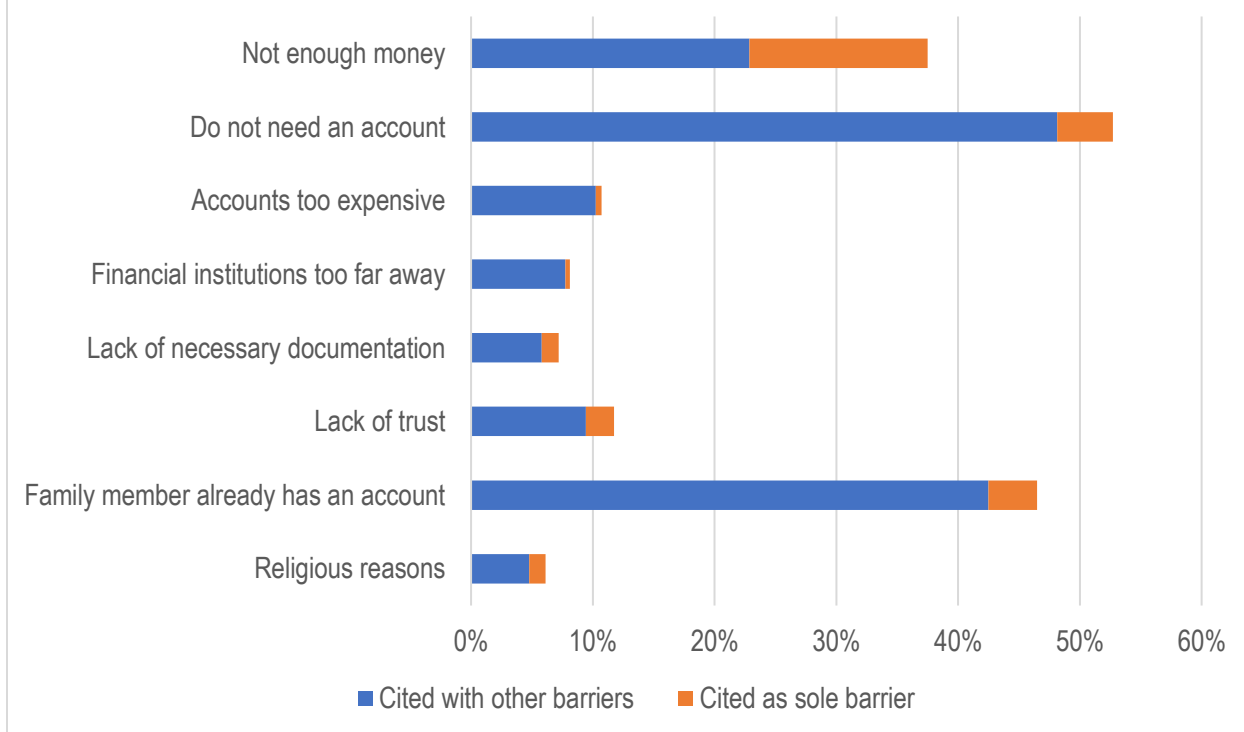


Source: Global Findex database.

Barriers to financial inclusion

About 1 in 5 adults in the Maldives still have no account at a financial institution and are therefore unbanked. To reveal barriers to financial inclusion, the Global Findex survey asked these people why they have no accounts at financial institutions. Around half of the unbanked said they do not need an account. Yet only 5 percent cited this as their sole reason, which might suggest that unbanked adults would be open to using financial services if they were affordable and relevant to their needs. The next most commonly cited reason for being unbanked was that a family member already has an account, which is cited by slightly less than half of respondents, followed by insufficient funds, which is mentioned by nearly 40 percent. Only 6 percent of respondents pointed to religious concerns, and 1 percent cited this as the sole reason for being unbanked. By contrast, 15 percent of respondents mentioned insufficient funds as their sole barrier (Figure IV).

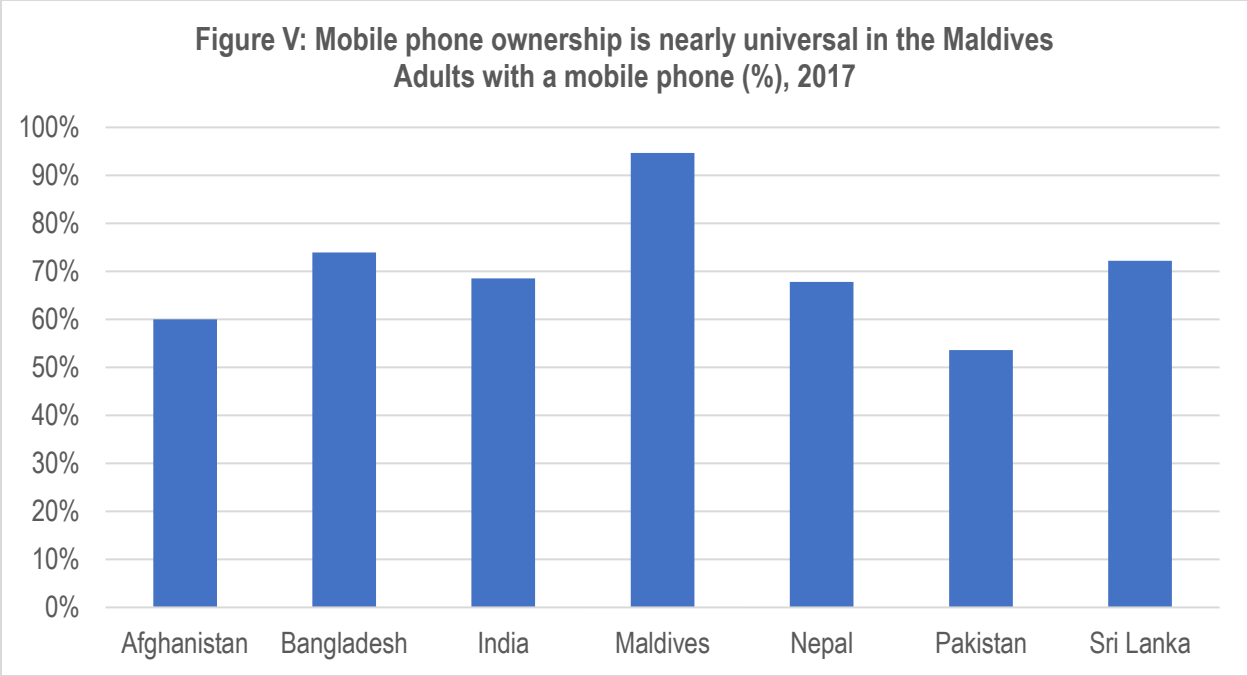
Figure IV: Unbanked adults in the Maldives face a range of barriers to getting an account - Adults without a financial institution account reporting barrier as a reason for not having one (%), 2017



Source: Global Findex database.

High mobile phone ownership

Goods and services—including financial services—are increasingly provided through mobile phones. Research suggests that digital transactions are often safer, quicker, and cheaper than cash. Mobile phones can be especially helpful for people who live in rural areas that are overlooked by traditional banks. More than 90 percent of adults in the Maldives have a mobile phone, which is the largest share in South Asia, and close to the average found in high income economies (Figure V). As the next sections of this note show, high mobile phone ownership is reflected in widespread use of digital transactions in the Maldives.



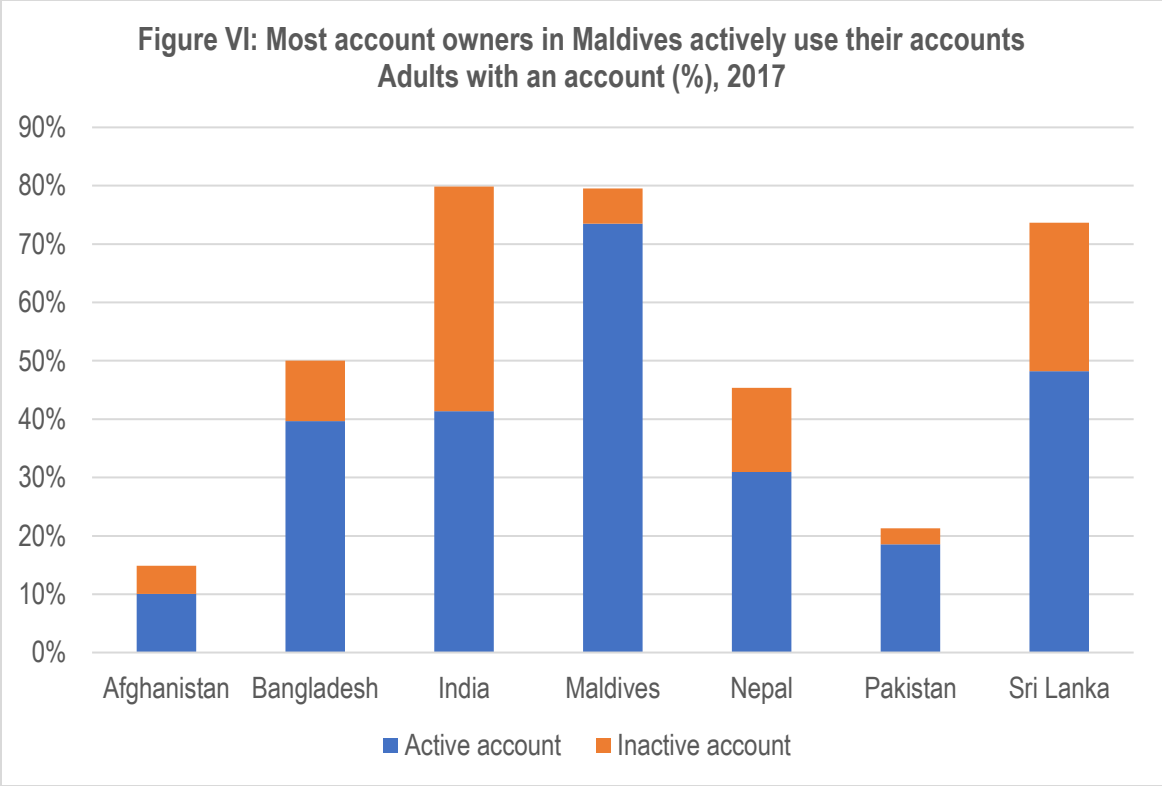
Source: Global Findex database.

People use their accounts

Accounts only matter if people use them to improve their financial wellbeing. The goal of financial inclusion is to help people manage their money, so they can escape poverty, invest in the future, and insure against economic emergencies.

Globally, most people actively use their accounts, whether for saving, making payments, or some other purpose. South Asia, and especially India, are notable for having a lot of unused accounts. In India, for example, nearly half of accounts are dormant—unused for any sort of deposit or withdrawal in the past year. Behind India's high dormancy rate is a recent government policy that gave free accounts to more than 1 billion previously unbanked adults. Many of these new account owners have yet to start transacting.

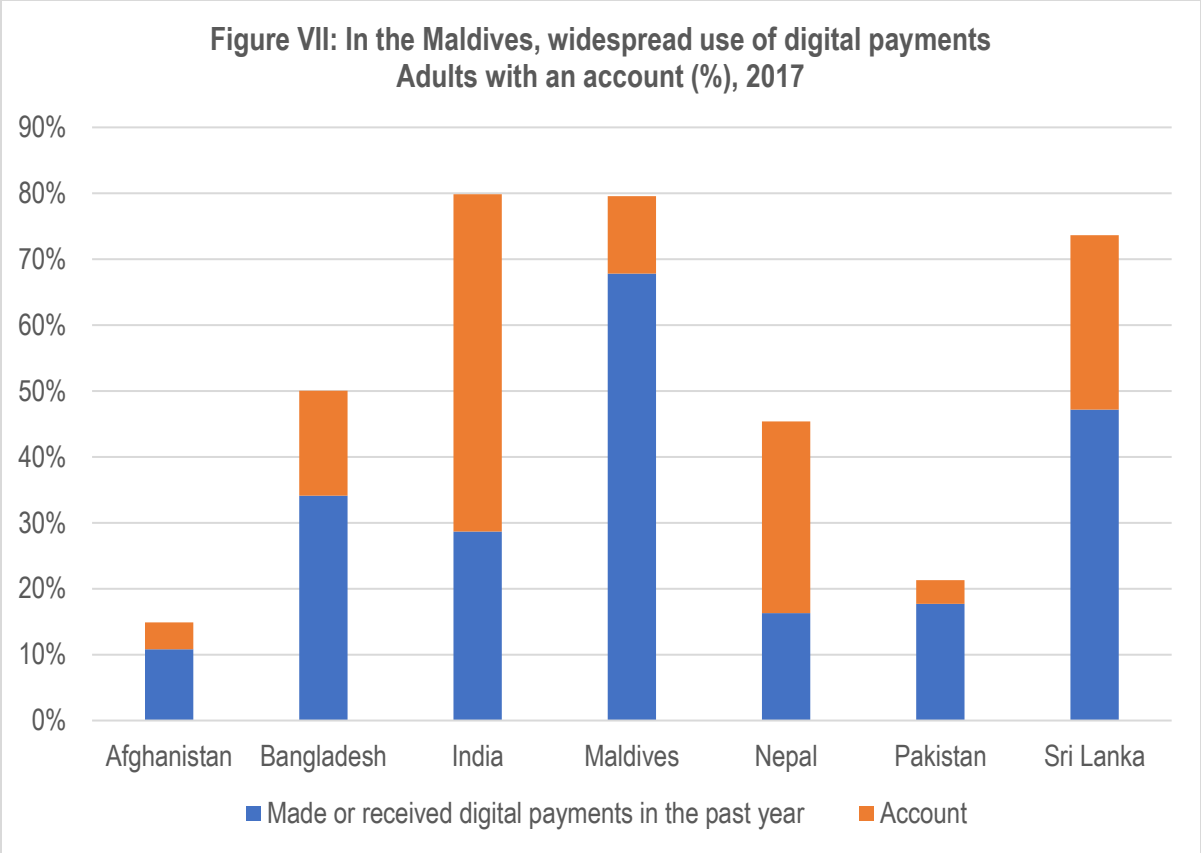
Dormancy is relatively low in the Maldives, where more than 90 percent of account owners report using their accounts for at least one deposit or withdrawal in the past year (Figure VI). These numbers reflect widespread usage of accounts for digital payments, as the next sections explore in detail.



Source: Global Findex database.

Widespread use of digital payments

Overall in the Maldives, 68 percent of adults report making or receiving digital payments—by far the largest share in South Asia (Figure VII). These payments can include but are not limited to retail transactions made through mobile phones and the internet, receipt of wages, government payments, or agricultural payments into an account, collecting domestic remittances into an account, and payments through a debit card or credit card.



Source: Global Findex database.

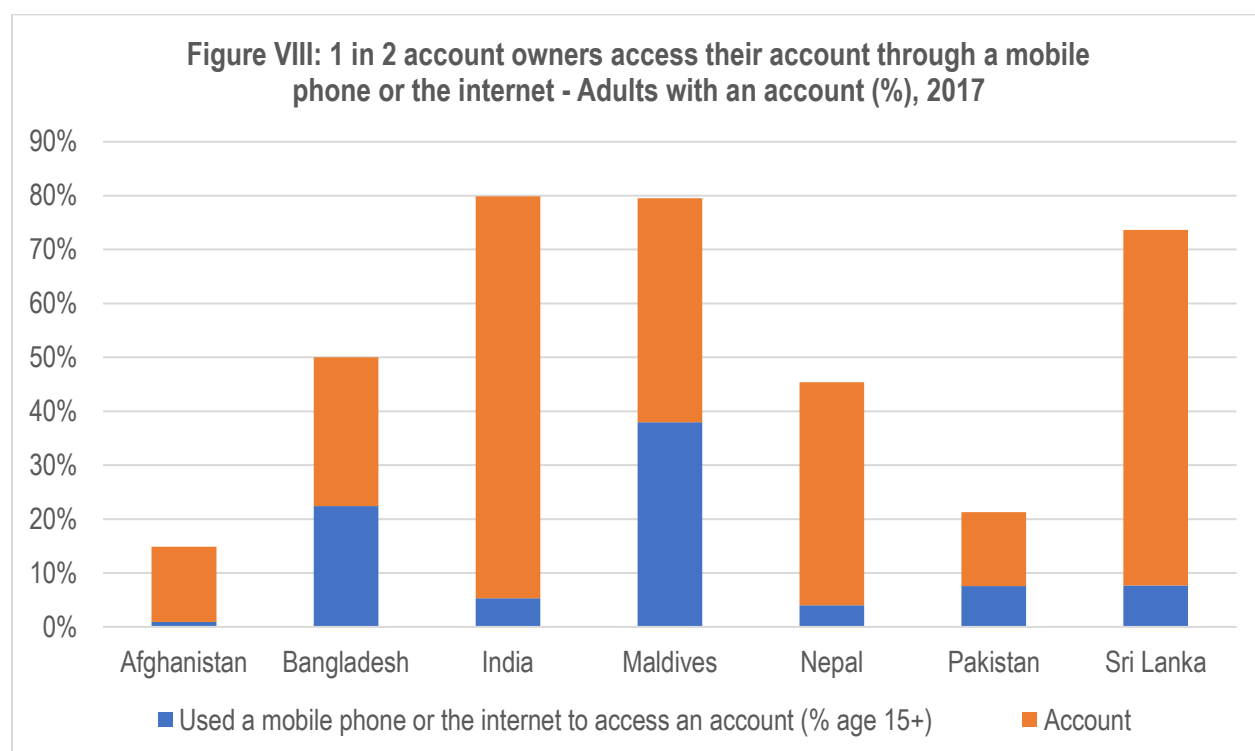
Digital wage payments

The Maldives leads South Asia both in the overall share of adults using domestic remittances and the percentage who rely on digital channels to do so. Nearly half of adults in the Maldives report sending money to or receiving money from friends or relatives living in other parts of the country. Among domestic remittances users, about two-thirds report using a financial institution to do so. Overall a fifth of adults in the Maldives and Bangladesh report using a mobile phone for domestic remittances. This last number likely reflects the rise of mobile money accounts, which are widely seen as a cheap and efficient way to move money.

Digital wage payments are also common in the Maldives. Overall, about 4 in 10 adults report receiving wage payments in the past year. Among wage recipients, 82 percent receive their earnings directly into a financial institution account. When it comes to use of digital payroll, the

public sector is ahead of the private sector. While 93 percent of public sector wage earners are paid digitally, the same is true of only 73 percent of private sector wage earners.

Digital financial products are only helpful if people know how to use them. One rough indicator of financial capability is the use of mobile phones or the internet to check account balances. In the Maldives, around half of account owners do so, which is relatively high compared with the rest of South Asia (Figure VIII).



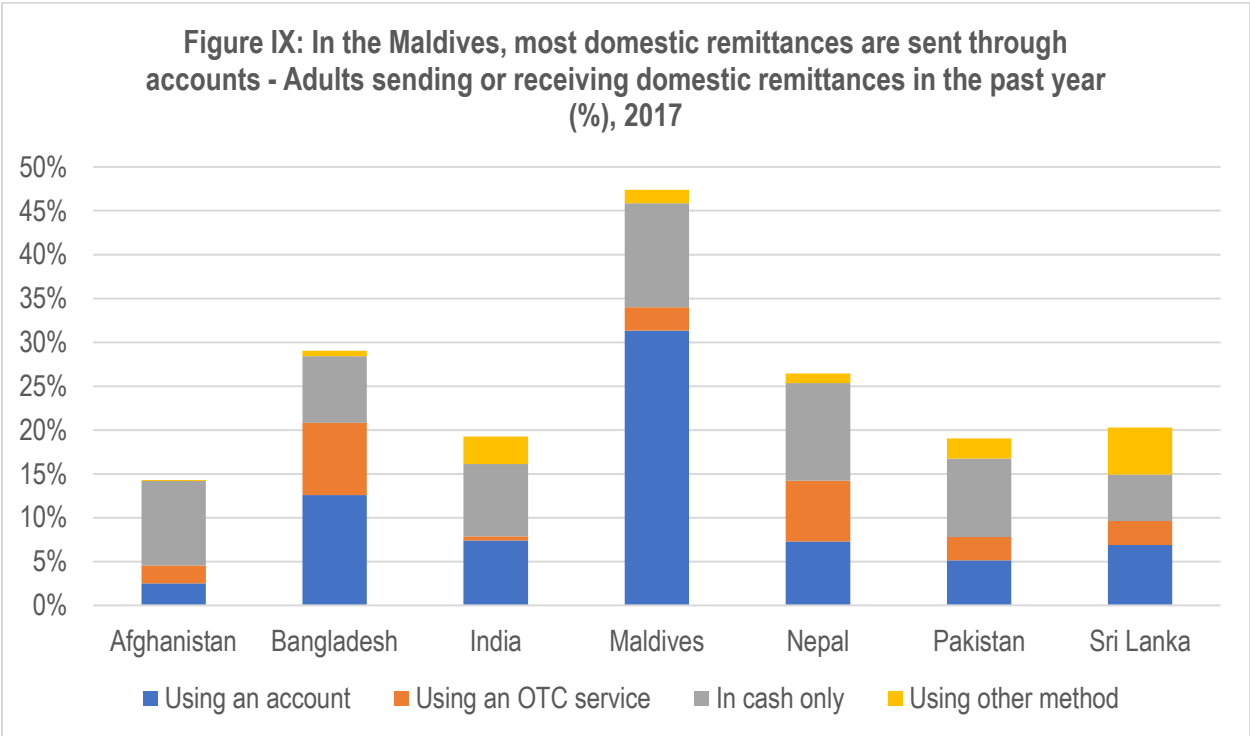
Source: Global Findex database.

Domestic remittances

Online shopping is more advanced in the Maldives than the rest of the region. About 1 in 3 adults in the Maldives report using the internet to buy something online in the past year. The share is in the low single digits in all other low and middle-income economies in South Asia for which data is available. Purchasing something on the internet does not necessarily mean paying for it on the internet; some people prefer to pay in cash when the order is delivered. In the Maldives, online

shoppers prefer to pay digitally. Among the adults who reported making an online purchase, nearly two-thirds said they paid for it online, and a third said they paid in cash upon delivery.

Domestic remittances—money sent to friends or relatives living in other parts of the country—play an important role in development and financial inclusion. For example, research shows that people who have access to domestic remittances through mobile money are better able to manage unexpected expenses and therefore less likely to fall into poverty. In the Maldives, 47 percent of adults report sending or receiving domestic remittances in the past year. That number is far beyond the average in South Asia or developing economies generally. People can use domestic remittances in different ways. Some use accounts, while others use an over-the-counter service such as Western Union, or simply send cash. In the Maldives, accounts are by far the most popular option (Figure IX).

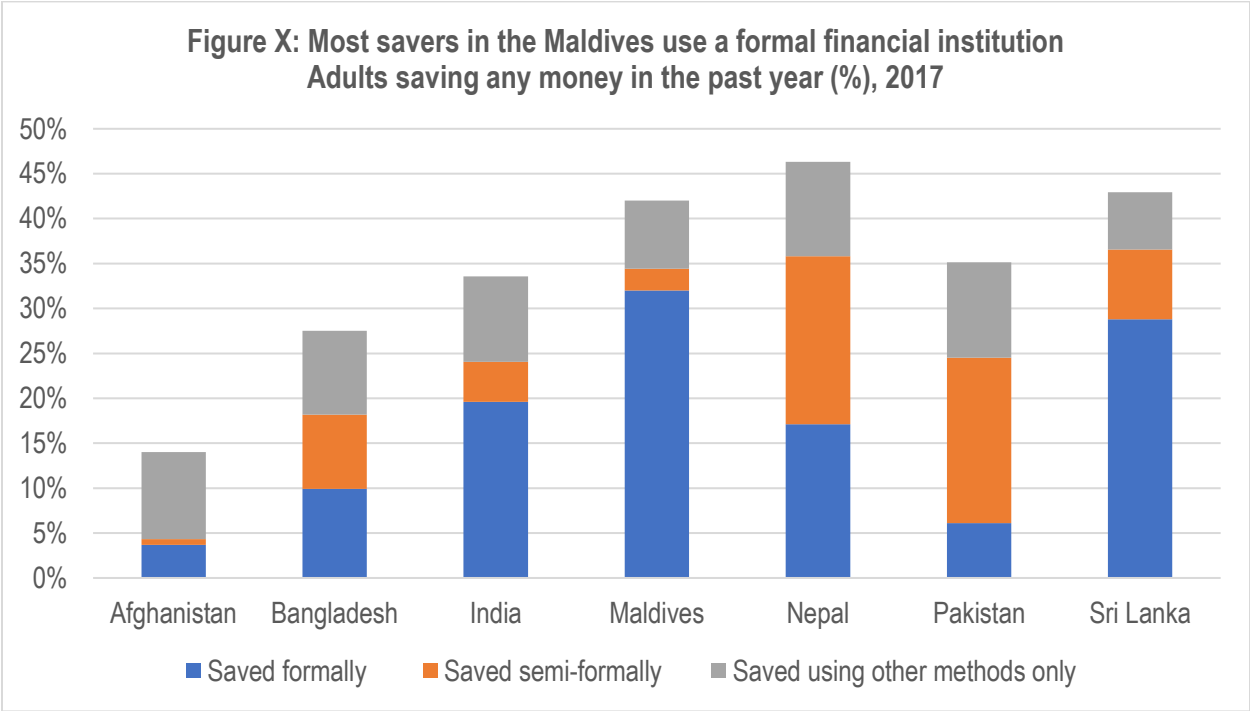


Source: Global Findex database.

Savings in formal financial institutions

People save for future expenses—a large purchase, investments in education or a business, retirement, or possible emergencies. There are various methods of saving. Some people keep their

money in a bank account. In developing economies, many people use semi-formal rotating savings groups, which usually operate by collecting weekly deposits from members and disbursing the entire amount to a new member each week. Some savers prefer to use "other" methods, such as stuffing cash under a mattress, or holding sellable assets like gold or livestock. In the Maldives we find a strong use of formal savings: 4 in 10 adults report saving money, and the overwhelming majority of savers use a formal financial institution to do so. This is in contrast to economies such as Nepal and Pakistan, where semi-formal savings are popular, as well as Afghanistan and Bangladesh, where "other" methods are common (Figure X).



Source: Global Findex database.

Expanding account ownership by digitizing domestic remittances

Although account ownership is high in the Maldives, there are still chances to bring unbanked adults into the formal financial system by moving routine cash payments into accounts. Overall 85 percent of unbanked adults in the country have a mobile phone, potentially putting digital financial services in reach. Roughly 1 in 6 unbanked adults in the Maldives report sending or receiving

domestic remittances exclusively in cash or through an over-the-counter (OTC) service. People who use OTC domestic remittance services might be relatively easy to sign up for accounts. They are already familiar with digital payments and might be comfortable making transactions through an account. The challenge for the private sector is to offer people affordable options for moving money. One reason for the popularity of OTC services is that they tend to be less expensive than accounts.

Digitizing utility payments could increase account usage

There are also opportunities to increase usage of digital payments in the Maldives. Two-thirds of adults in the country pay utility bills, yet 69 percent of these payers use cash only to do so. Among adults with an account, nearly half still pay utility bills in cash. Allowing utilities users to pay for services such as water, electricity, and trash collection digitally can have big benefits. For providers, digital payments lower the costs of collecting fares. A recent review of utilities in Africa, Asia, and Latin America found that digital payments lowered trash collection costs by between 57 percent and 95 percent and increased revenue from between 15 percent and 37 percent. For customers, digital channels save time by removing the need to travel to government offices. Yet it is critical that utilities providers ensure that digital products are clear and easy to use. Digital utility payments have suffered low adoption in some countries due to poor product design.^v

Conclusion

The Maldives has some of South Asia's strongest financial inclusion numbers. Account ownership is high, digital payments are widespread, and people are using mobile phones for a range of transactions. These achievements notwithstanding, the Global Findex shows that governments and businesses could boost ownership and use of formal financial services by transitioning routine cash payments into digital channels².

ⁱ Field, Erica, Charity Troyer Moore, Rohini Pande, Natalia Rigol, and Simone Schaner. Ongoing. "Strengthening Women's Financial Control Through Personal Bank Accounts." IPA research overview, available online at www.poverty-action.org

² This analysis does not include the Findex additional questions on mobile usage.

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- ⁱⁱ Prina, S. 2015. "Banking the poor via savings accounts: Evidence from a field experiment." *Journal of Development Economics* 115(C), 16-31.
- ⁱⁱⁱ Suri, Tavneet, and William Jack. 2016. "The long-run poverty and gender impacts of mobile money." *Science* 354 (6317): 1288-1292.
- ^{iv} Muralidharan, Karthik, Paul Niehaus, and Sandip Sukhtankar. 2016. "Building State Capacity: Evidence from Biometric Smartcards in India." *American Economic Review* 106 (10): 2895-2929.
- ^v Waldron, Daniel, Caroline Frank, Akanksha Sharma, and Alexander Sotiriou. 2019. "Testing the Waters: Digital Payments for Water and Sanitation." Working Paper, March 2019, CGAP/GSMA.