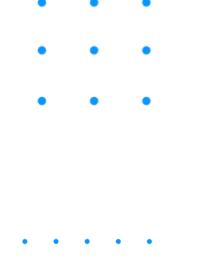




# A Proposal for Social impact measurement Framework ~~^ for Digital Banks in Malaysia

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# **Introduction**

- Digital banks are banks that offer banking products and services wholly or almost wholly through digital or electronic means.
- In April 2022, Malaysia's Central Bank, (BNM), announced 5 successful applicants for Digital Bank (DB) licenses in Malaysia.
- Selected from 29 applications went through a thorough assessment by BNM.
- The assessment criteria cover:
  - i. the character and integrity of applicants,
  - ii. nature and sufficiency of financial resources,
  - iii. soundness and feasibility of business and technology plans, iv. and ability to address financial inclusion gaps meaningfully.



### Factors for consideration in assessing licence applications







- 1. Character and integrity of the applicant
- 2. The business to be authorised is not detrimental to its future depositors, or the public generally
- 3. Soundness and feasibility of the plans
- 4. Nature and sufficiency of the financial resources
- 5. Business record and experience
- 6. To be operated responsibly by persons with competence and experience
- 7. Application will be in the best interest of Malaysia
  - a) Impact to economic activity in Malaysia
  - b) Contribution to trade and investment linkages between Malaysia and other countries
  - c) Effect on financial stability
  - d) Participation of Malaysians in the financial sector
- 8. Nature, scale and activity of corporate group will not impede effective regulation and supervision
- 9. (IFSA) Business will not involve any element contrary to Shariah and possesses a robust Shariah governance framework







### **Overview of Assessment Criteria**



#### Prudential

Soundness and feasibility of business plan, Sufficiency of financial resources, Business track record and experience, Supervisability of group, Character and integrity of shareholders, Business plan is not contrary to Shariah (IFSA only), Robustness of exit plan.



#### Technology

Robustness of underlying technology in supporting digital strategy, Technology and cyber risk management capabilities, Competency and track record of successful digital business, Cloud strategy and cloud risk management plans, Business continuity plans.



#### **Financial Inclusion**

Relevance of identified unserved and underserved (U/US) target segments, Ability to serve the needs of U/US, Experience and commitment in provision of financial services for financial inclusion objectives, Adoption of innovative technology/data, Effectiveness of delivery channels



#### Effect on stability of financial system, Effect of the investment on the level and nature of economic

activity in Malaysia.

# Licensing Framework for Digital Banks Issued December 2020

- 7 Factors for consideration in assessing the best interest of Malaysia criteria
- 7.1 In assessing an application to carry on digital banking business or Islamic digital banking business prior to making any recommendation to the Minister of Finance, the Bank will have regard to part B of the *Licensing Procedures*.
- 7.2 In assessing the best interest of Malaysia criteria as specified under Schedule 5 of FSA or IFSA, an applicant is required to demonstrate to the Bank's satisfaction a commitment in driving financial inclusion, including ensuring quality access and responsible usage of financial services, particularly to underserved and hard-toreach segments that may be unserved, which includes retail as well as micro, small and medium enterprises (MSMEs), in a sustainable manner, without jeopardising the interest of depositors.

# Digital Banks' Business Plan

- 10.3 The applicant must ensure that the overall business plan shall-
  - (a) be aligned with the specified total asset size during the foundational phase, as provided in paragraph 13.1;
  - (b) emphasise and be aligned with financial inclusion objectives of serving the unserved and/or underserved segments. The plan shall include–
    - (i) description of the specific unserved and/or underserved target segments. The identification of the target segment must be supported by market studies and an analysis of the market gaps;
    - (ii) proposed financial products and services that will be offered. The applicant must explain how the solutions to be offered will address the specific needs of the target segment, promote responsible usage of financial services and create positive impact to the target segment. An example would be a solution that encourages the build-up of savings or financial buffers, including retirement savings by the unserved and/or underserved segments;
    - (iii) indicate in the pro-forma financial statements, the share of business from the identified unserved and/or underserved segments relative to the overall projected operations; and
    - (iv) performance indicators that reflect the applicant's value proposition in driving the financial inclusion objectives. These indicators must clearly demonstrate the proposed licensed digital bank's progress in fulfilling the financial needs of the target segments identified in paragraphs 10.3(b)(i) and (ii).

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# **Problem Statement: Mandate for Digital Banks**

- The DBs are required to fulfil the mandates of driving financial inclusion to ensure quality access and responsible usage to the underserved and hard-reach segments that may be unserved.
- Must include performance indicators that reflect applicant's value proposition in driving financial inclusion objectives
- Must demonstrate... progress in fulfilling the financial needs of the unserved and underserved.
- How?
  - Through SOCIAL IMPACT MEASUREMENT



# **Objective of paper**

- This paper proposes a social impact measurement framework for digital banks in Malaysia that may assist DBs in fulfilling their mandate.
- Method: A critical review of literature is undertaken to develop the social  $\bullet$ impact measurement framework.
- various literature related to magasid Shariah, SDG, sustainability, impact  $\bullet$ investing, and VBI is reviewed to develop the components of the framework.



# **Social Impact Measurement?**

- What?
- Why?
- How?

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• Now what?

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# Social Impact Measurement -What is it?

"A process of understanding how much social change occurred and can be attributed to an organisation's activities"



### **Process**

- Ingredients & input •
- Outputs •
- Ongoing & continuous



### Understanding

- Where are we now?
- Where do we want to go?
- How do we get there?
- How can we improve?



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### How much?

- What is our impact?
- How do we measure? •





### **Org's activities**

- What are we doing?
- Does it bring any impact?
- Have we fulfilled our objectives?



# **Social Impact Measurement?**

- What?
- Why?
- How?

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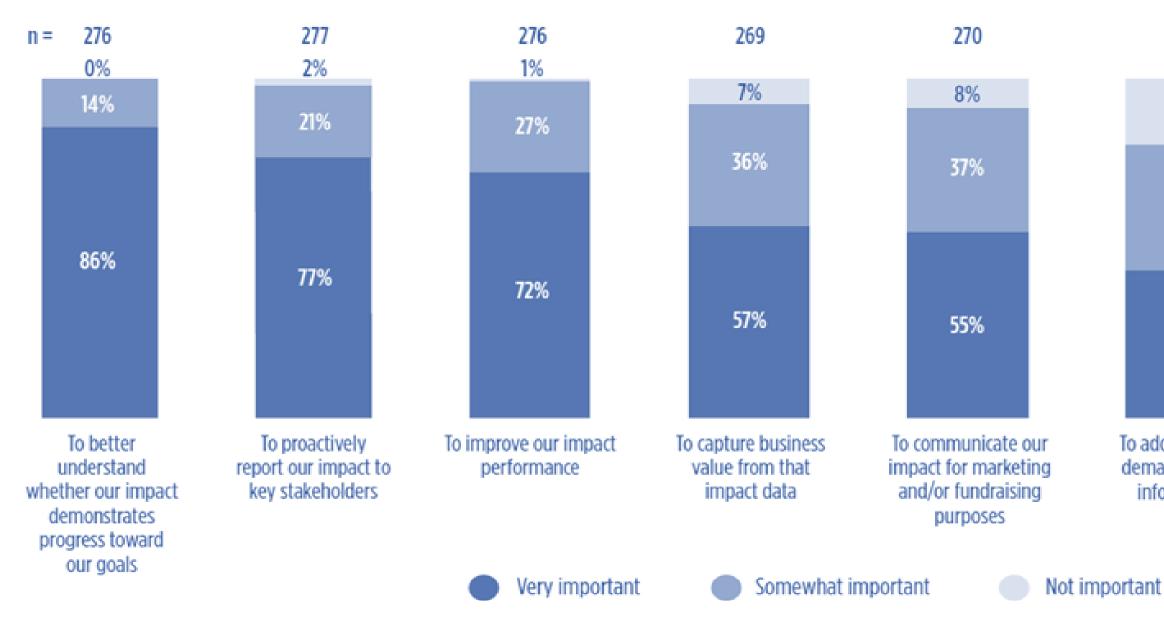
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• Now what?

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# Why impact investing & measurement?

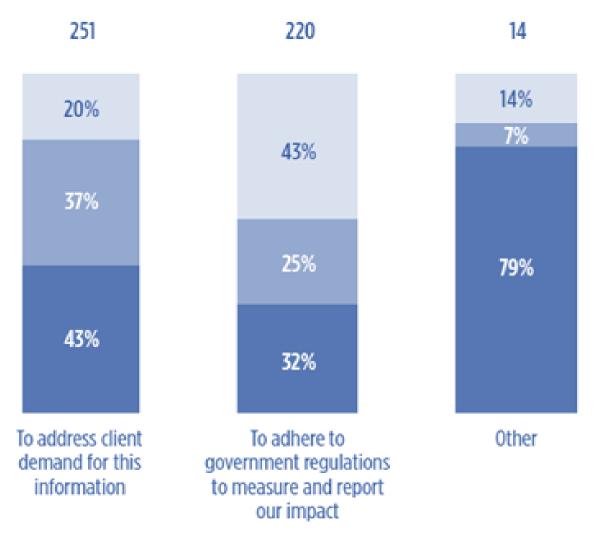


Note: 'Other' motivations include to adhere to certification schemes, to demonstrate the value of a dual mission, to gather data on impact progress, and to promote learning and awareness.

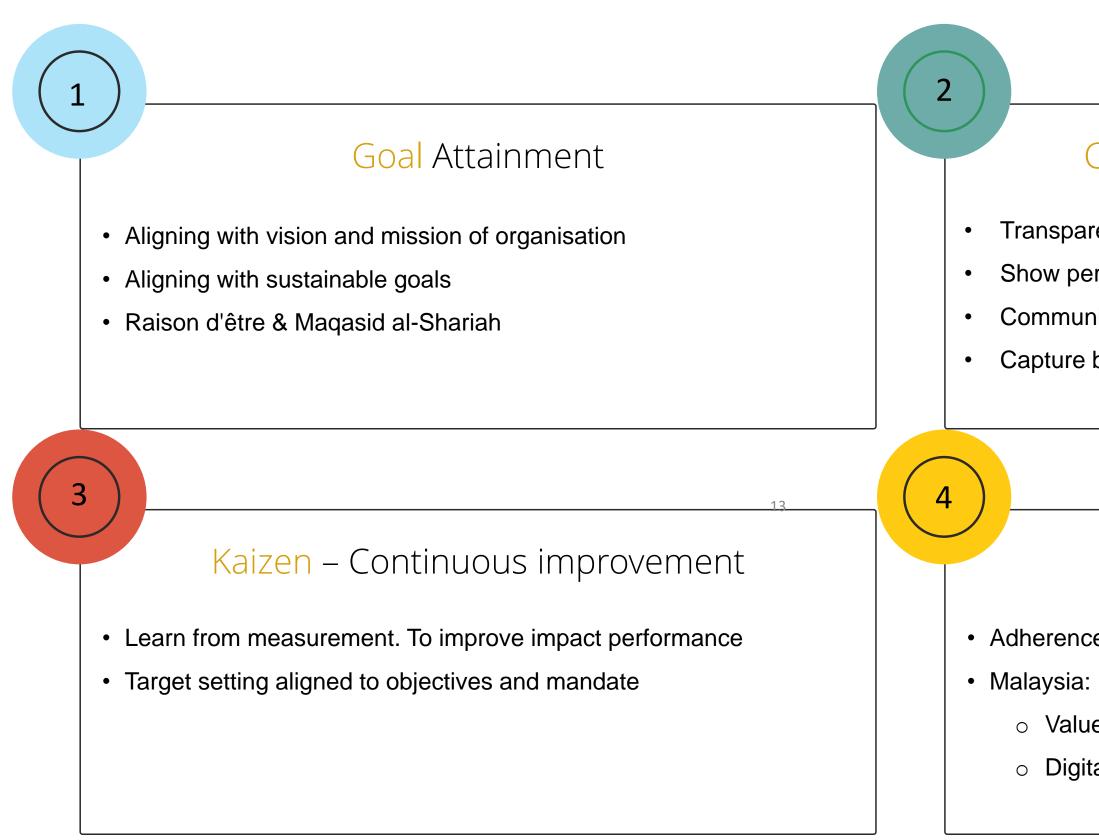
Source: Global Impact Investing Network (2020)

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# Why Measure?



### Communicate with stakeholders

Transparency, accountability, credibility

Show performance & results: Client demand for information

Communicate impact for marketing and/or fundraising purposes

Capture business value from that impact data

### **Regulatory** requirement

Adherence to government regulations

• Value Based Intermediation strategy

o Digital Banks financial inclusion indicator requirements

- What?
- Why?
- How?

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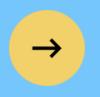
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Now what?





# How to pursue Social Impact Measurement?

No one size fits all.

Depending on the organisation. Generally, through Impact Measurement and Management (IMM) framework

What is Measurement and Management (IMM)?

The process by which impact organisations and investors can understand the effects of their investments, products, & serivces (measurement) and then take action to adapt processes and improve outcomes (management).

#### • IMM

Provide you with a framework to test whether your products & services, and portfolio of investments is achieving those impact goals.

#### • Relatively new but high potential

IMM relatively young and still somewhat fragmented but, encouragingly, growing in scope and sophistication





# Impact Measurement & Management **Principles, Frameworks & Standards**

Organizing Impact Measurement and Management Principles, Frameworks, and Standards

	Principles	Frameworks
Purpose	Rules and best practice to ensure overall integrity of processes and behaviors	Methodologies and conceptual frames to organize IMM
Scope	General	General
Examples	<ul> <li>IFC Impact Investing Principles</li> <li>UN PRI</li> <li>EVPA Principles</li> </ul>	<ul> <li>SDGs</li> <li>IMP's Five Dimensions</li> <li>Standards of Evidence</li> <li>Lean Data</li> <li>G8 Impact Measurement Working Group Report</li> </ul>

Source: Rockefeller (2020)

#### Standards

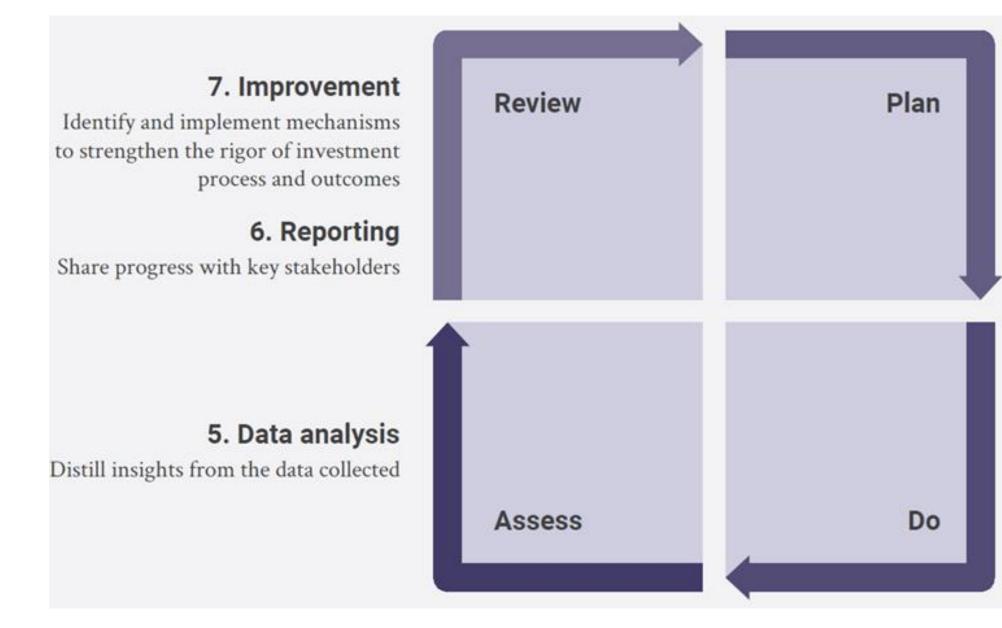
Taxonomy and metrics applied to specific industries, themes, and interventions

#### Industry

- Blab
- IRIS+
- SASB
- UNDP SDG Impact Practice Assurance Standards

## How to measure?

### Four-phase framework of impact measuring



Source: Rockefeller (2020)

#### 1. Goals & outcomes selection

Articulate the desired impact of the investments

#### 2. Metrics definition

Determine metrics to be used for assessing the performance of the investments

#### 3. Data collection

Capture and store data in a timely and organized fashion

#### 4. Data validation

Validate data to ensure sufficient quality

#### \*Business plan must encompass all this

- What?
- Why?
- How?

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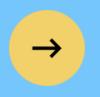
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• Now what?





What is the DB's <u>mandate</u> and <u>vision</u>?

## **Now what?**

Begin with the end in mind. What are the <u>objectives</u> that DBs want to achieve?

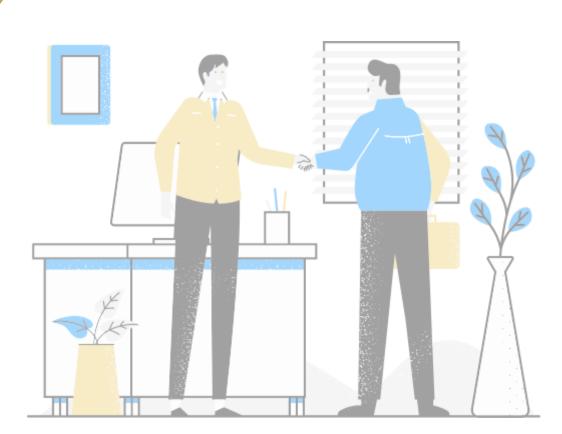
> What are the <u>specific inputs</u> that DBs can implement to achieve this objective?

What are the specific <u>measurable</u> outcomes that DBs expect to achieve from this input?

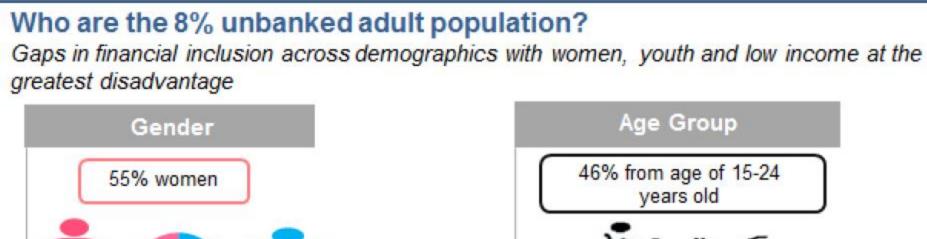
> What is the <u>minimum</u> outcome which indicates that the objective has been achieved?

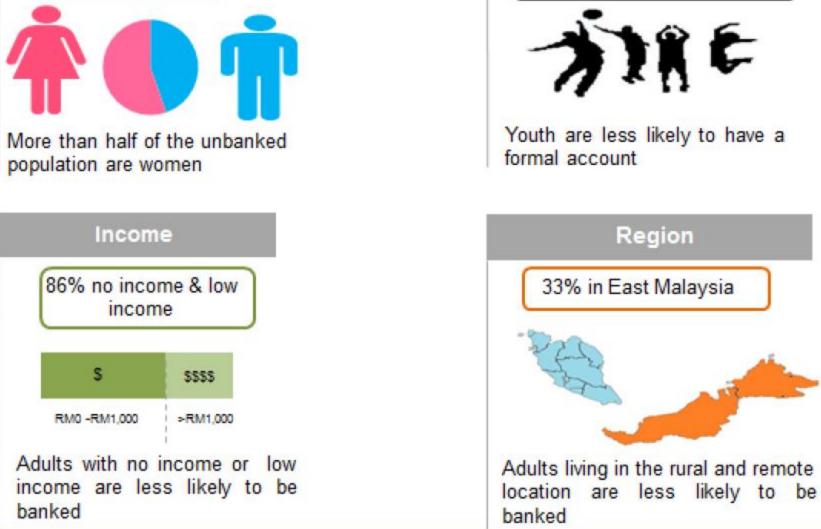
> > How can you report this to stakeholders?





# Identified input and outcomes





Mandate of DBs: 1. Unserved (unbanked) 2. Underserved: i. social impact investors ii. retail investors iii.Islamic social finance investors iv.Uninsured

Source: Bank Negara Malaysia

banked

RM0 -RM1.000

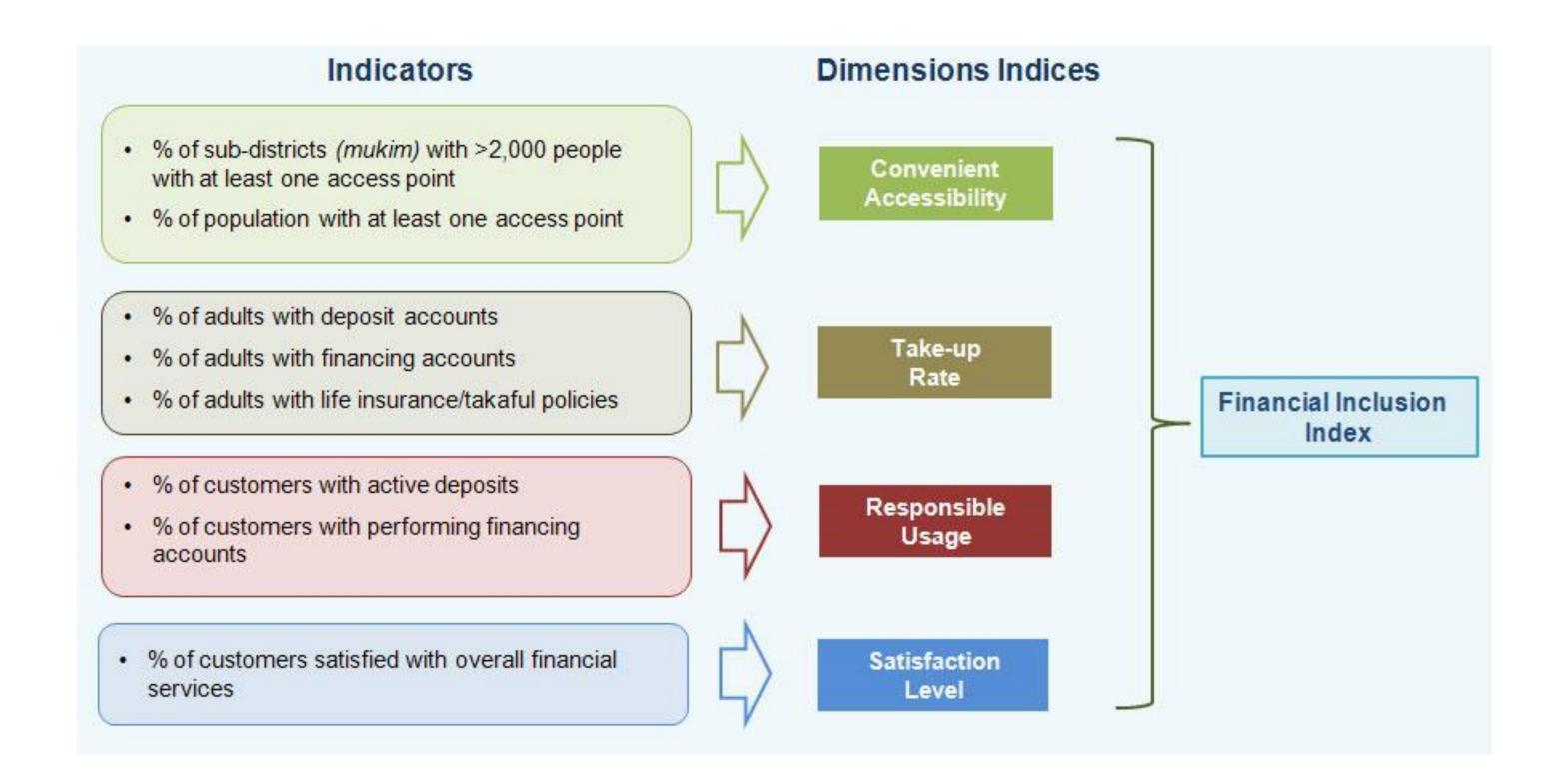
# Sources of input and outcomes

towards greater shared prosperity. The successful achievement of the financial inclusion agenda will be characterised by the following outcomes:

Back to the foundation: BNM's guidelines.

- Increased convenient access to financial services, including in rural areas;
- More effective usage of financial services by all citizens, including the underserved, through an expanded range of products and services that meets their needs; and
- Enhanced quality of financial services that satisfies the financial needs of all citizens, including the underserved.

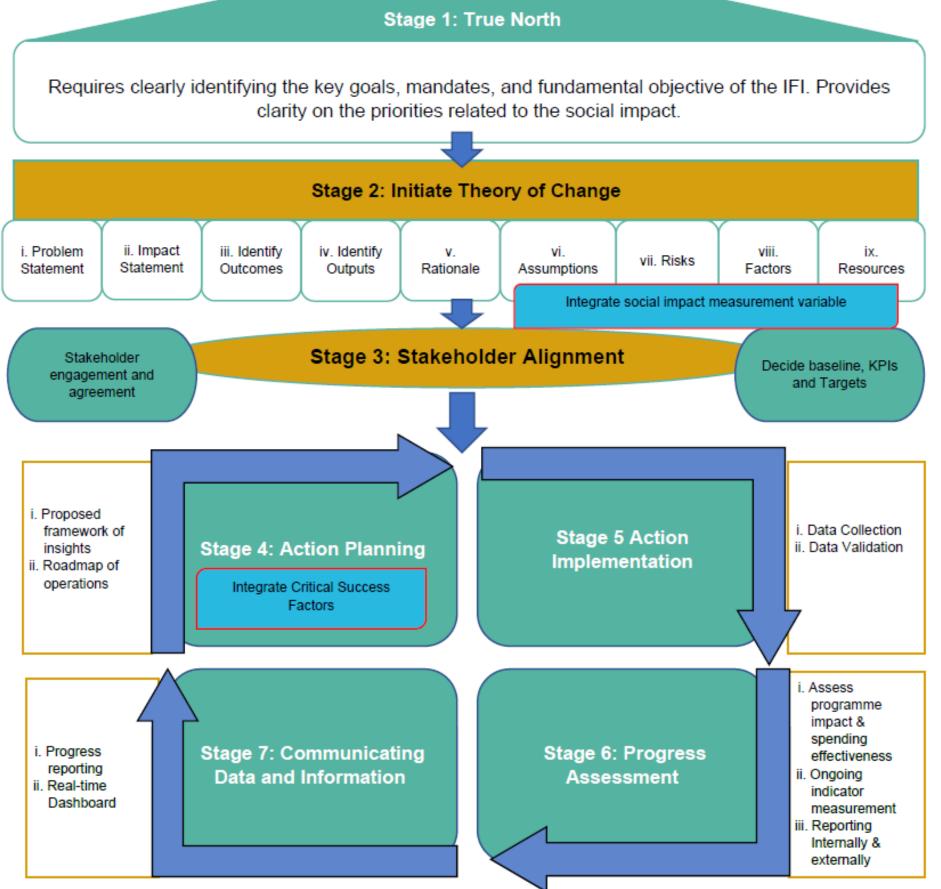
# **"Measuring"** Financial Inclusion



Source: https://www.bnm.gov.my/overview-of-financial-inclusion-in-malaysia#:~:text=In%20advancing%20the%20financial%20inclusion, high%20satisfaction%20of%20financial%20services.

### Social Impact Measurement Framework for Digital Banks in Malaysia

clarity on the priorities related to the social impact.



# Thank you

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