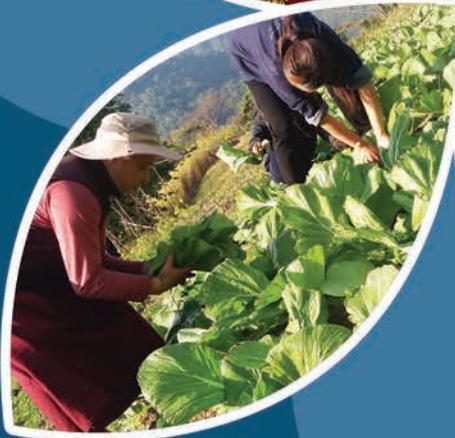




2018 STATE OF FINANCIAL INCLUSION REPORT

Bhutan's Supply Side Perspective



2018

State of Financial Inclusion Report

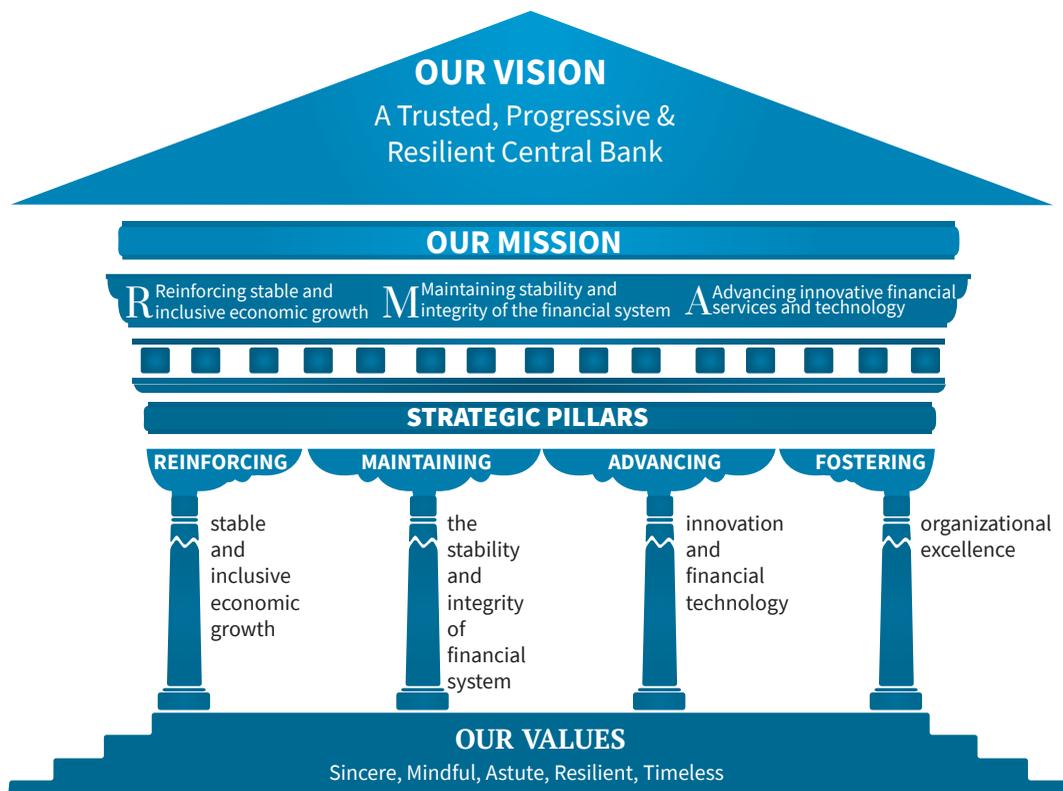
Bhutan's Supply Side Perspective



Aspiration of HM the Druk Gyalpo

- ✓ *Success of democracy to be accompanied by successful economic transformation*
- ✓ *Creating a just, equal and harmonious society*
- ✓ *Financial institutions have a great opportunity to improve credit for our youth and farmers for entrepreneurship and commercial farming...*

RMA's Vision, Mission, Strategic Pillars & Values



Disclaimer Note

The report outlines the state of Financial Inclusion in Bhutan. The data was collected from different financial institutions in Bhutan as listed in the table below:

Banks	Non-Banks	Micro Finance Institutions
1) Bhutan National Bank Ltd.	1) Royal Insurance Corp. of Bhutan Ltd.	1) RENEW
2) Bank of Bhutan Ltd.	2) Bhutan Insurance Ltd.	2) REDCL
3) Druk PNB Bank Ltd.		
4) TBank Ltd.		
5) Bhutan Development Bank Ltd.		

It outlines different supply-side data which includes access points, credit, saving deposit, life insurance policies and value-added services like ATMs and mobile banking apps.

Disclaimer: We have made every attempt to ensure accuracy and reliability of information provided in this report, however, there may be cases where data is not 100% accurate.

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Foreword

The current global financial exclusion stands at 1.7 billion people according to the 2017 Global Findex. This is a drop from 2.5 to 2.0 percent, a result of global policy initiatives to drive financial inclusion.

Bhutan is proud to partner with Alliance for Financial Inclusion (AFI), a global network for promoting inclusive finance. To fulfil AFI's MAYA declaration commitments and as an outcome of the first Bhutan Economic Forum for Innovative Transformation (BEFIT) conference 2017, Bhutan launched its first National Financial Inclusion Strategy (NFIS) and the National Financial Literacy Strategy (NFLS) 2018-2023 in August 2018. The financial inclusion journey now begins with re-defined and reinforced roles of key stakeholders to collectively achieve financial inclusion objectives.

Our country currently observes 36% of financially excluded adult population. With the NFIS implementation plans, collective efforts need to be synchronized and strengthened towards improving the overall national indicator to 85% inclusion by 2023. All joint efforts are expected to be implemented through the Financial Inclusion National Action Plan (FINAP) 2019-2023.

FINAP 2019-2023 shall target improving access points through leveraging digital services, enhance inclusive formal access to key financial products and stimulate Micro Cottage Small industries (MCSI) to boost the overall economic growth.

The governance structure to oversee directions are already in place with the setting up of



Financial Inclusion Secretariat (FIS) under RMA and high-level Steering Committee (SC). In addition, two NFIS cross-sectoral working groups, namely the Products and Channel (P&C) and Consumer Empowerment and Financial Literacy (CEFL) working groups, were also formed as technical teams to formulate and implement the FINAP 2019-2023.

The national strategies offer a comprehensive framework and space for joint collaboration in advancing financial inclusion solutions to long term challenges. From here on, all FSPs are expected to constantly engage and strategize formulating the collaborative national action plan as an inherent part of the strategy implementations.

I truly hope that the national strategies play an important role towards advancing our country's economic transformation through facilitating enabling innovative and collaborative solutions to address Bhutan's financial inclusion gaps. We are pleased to present to the public the first report on the state of financial inclusion in Bhutan.

A handwritten signature in blue ink, which appears to be 'Dasho Penjore'. The signature is stylized and fluid.

Dasho Penjore
Governor, RMA



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Executive Summary



I. Executive Summary

According to supply side data collected in 2017, 36% of the adult Bhutanese population remains unbanked or financially excluded in terms of savings account. More noteworthy is data related to credit and insurance; 83% are credit excluded and 82% insurance excluded.

As per the 2013 demand side survey, 63% of the rural adult population were financially excluded and 94% of the rural populace were engaged in informal financial services and private money lending practices.

The biggest challenge for accelerating financial inclusion are accessibility to formal services and lack of appropriate financial products and services in terms of access points, infrastructure, affordability and KYC requirements. Other important challenges relate to lack of financial literacy particularly in the remote areas. Most Bhutanese lack awareness and readiness to avail formal financial products and services. The country's mountainous terrain also poses access barriers and increases operational costs of providing financial services.

Bhutan, like many other countries, has journeyed from traditional channels of bank lending, ATMs and POS to mobile banking and wallet services. Digital financial inclusion in Bhutan has accelerated with e-money and other Fintech initiatives to reach the last mile unbanked population.

To address Bhutan's financial exclusion the RMA set up the Financial Inclusion Secretariat (FIS) directly under the Governor's office and introduced various enabling regulatory and policy environments. Some recent initiatives include the CSI and MFI Rules and Regulations, Agent Banking regulations, regulations on Micro-loan institutions, NFIS and NFLS 2018-2023, Private Money Lending Regulations, e-money Regulations, REMIT Bhutan, BIPS, Priority Sector Lending (PSL) Guidelines, Consumer Protection Regulations and Crowd Funding Rules and Regulations. Other initiatives with alternate source of financing and financial literacy programs are highlighted later in this report.

The RMA now collaborates with relevant stakeholders for cross sectoral participation in formulating the joint financial inclusion action plans, providing space to both old and new initiatives. Effective interventions to prioritize customer centric financial products and services are expected to fulfil the national agenda of greater economic transformation through inclusive finance bettering livelihoods, creating employment opportunities and financial resilience.

Overall, this report provides the current state of financial inclusion in Bhutan as of December 2018.



II. Country Profile

The kingdom of Bhutan is a landlocked country in South Asia geographically located eastward of the Himalayas. Bhutan is bordered by China to the north and by India in all other directions.

Name : **Bhutan**
Location : **South Asia**
Capital : **Thimphu**
Population : **735,553 (2017)**
Area : **38,394 square km**
Dzongkhags : **20**
Currency : **Ngultrum**

GDP at current market price : **Nu. 164,627 million**
GDP real growth : **4.63%**
GDP per capita : **Nu. 223,815.17**
Main sources of livelihood : **Agriculture, hydropower and forestry**
Politics : **Democratic constitutional monarchy since 2008**
Development philosophy : **Gross National Happiness**
Forestry cover : **60% of forest cover**

Enabling Reforms and Supportive Regulations



**NATIONAL FINANCIAL
INCLUSION STRATEGY
2018-2023**

VISION
Strengthen financial capabilities and
empower all Bhutanese towards greater
financial inclusion.



**NATIONAL FINANCIAL
LITERACY STRATEGY
2018-2023**



**GLOBAL
MONEY
WEEK**

**GLOBAL
MONEY
WEEK**

**GLOBAL
MONEY
WEEK**

III. Enabling Reforms and Regulatory Interventions

Financial inclusion is the provision of appropriate financial products and services at an affordable cost by formal financial service providers that meet the needs of the un-served and underserved segments of Bhutan's population. (NFIS 2015-2023)

A. NFIS AND NFLS 2018-2023

The Royal Monetary Authority launched the National Financial Inclusion Strategy (NFIS) 2018-2023 and the National Financial Literacy Strategy (NFLS) 2018-2023 on 30th August 2018 as approved by the RMA Board during its 138th Board Meeting held on 22nd June, 2018.

Both strategies are the first initiative of the Authority aligned to RMA's vision, mission and strategic pillar of reinforcing stable and economic growth through its strategic priorities of promoting Financial Inclusion and Financial Literacy.

The strategy documents are an outcome of the international conference, the 2017 Bhutan Economic Forum for Innovative Transformation (BEFIT), themed towards promoting financial inclusion.

To fulfil the financial inclusion definition, the NFIS aims to enhance access to and usage of quality and affordable formal financial services by all Bhutanese through an inclusive financial system.

The first five-year strategy document aligns its focus to set clear agenda targets for improving inclusive savings, credit and insurance as priority areas. The strategy seeks to deliver its vision in the context of enhancing four underpinning pillars as follows:

1. Appropriate financial products and services
2. Financial accessibility and proximity
3. Financing for economic growth
4. Financial capability and consumer protection

The strategic pillars are further supported through policy and regulatory framework, appropriate infrastructure and institutional coordination as financial inclusion enablers.

The NFLS 2018-2023 is a complementary document to support the NFIS 2018-2023 and promote financial knowledge, confidence and consumer protection.

The NFLS aims to strengthen financial capabilities and empower all Bhutanese towards greater financial inclusion focusing on four key focus areas: 1) entrepreneurial development, 2) financial access and usage, 3) financial management and responsible finance and 4) digital finance and consumer protection. The strategic priorities focus on strengthening effective collaboration among relevant stakeholders, enhancing financial education, providing targeted support, and putting in place enabling policies and measurements.

The strategy documents target to provide an enabling, coordinated and collaborative space for joint participatory planning in promoting financial inclusion in Bhutan. As an immediate implementation plan, three NFIS working groups have been formed (Products, Channel and Consumer Protection & Financial Literacy) to formulate the cross-sector NFIS Action Plan 2018-2023, guided by the newly formed NFIS Steering Committee.

RMA also conducted the NFIS and NFLS sensitization workshop for all CEOs and representatives of Financial Service Providers, relevant Government Agencies, International Development Partners, NGOs and other relevant stakeholders.

B. SUPPORTIVE REGULATIONS FOR ENHANCING FINANCIAL INCLUSION INFOGRAPH

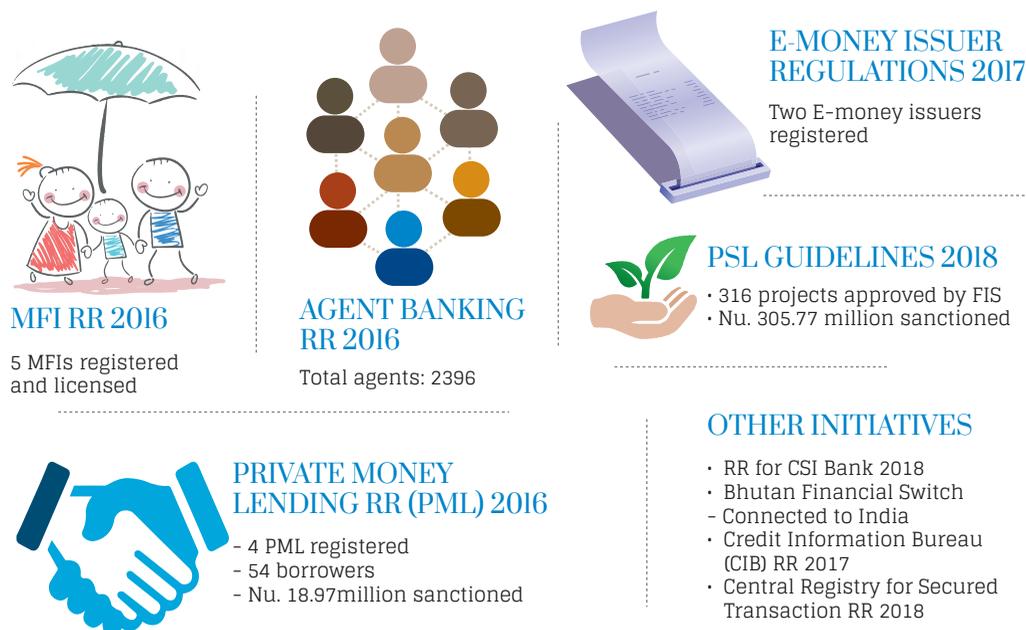


Figure 1: List of key regulations promoting financial inclusion

- | | |
|---|------------------|
| Crowd Funding Rules and Regulations - July 2019 | • New initiative |
| Consumer Protection for Financial Services -August 2019 | • New initiative |

C. DIGITAL FINANCIAL SERVICES AND OTHER INITIATIVES



Figure 2: DFS and other initiatives promoting financial inclusion

IV. Financial Inclusion 'At A Glance'

A. 2018 KEY ACCESS POINTS PER 10,000 ADULTS

The following graphic depicts access points as of 2018. The total access points is observed to be 72 for every 10,000 adults with agents being the most popular access points that is close to 47 per 10,000 adults.

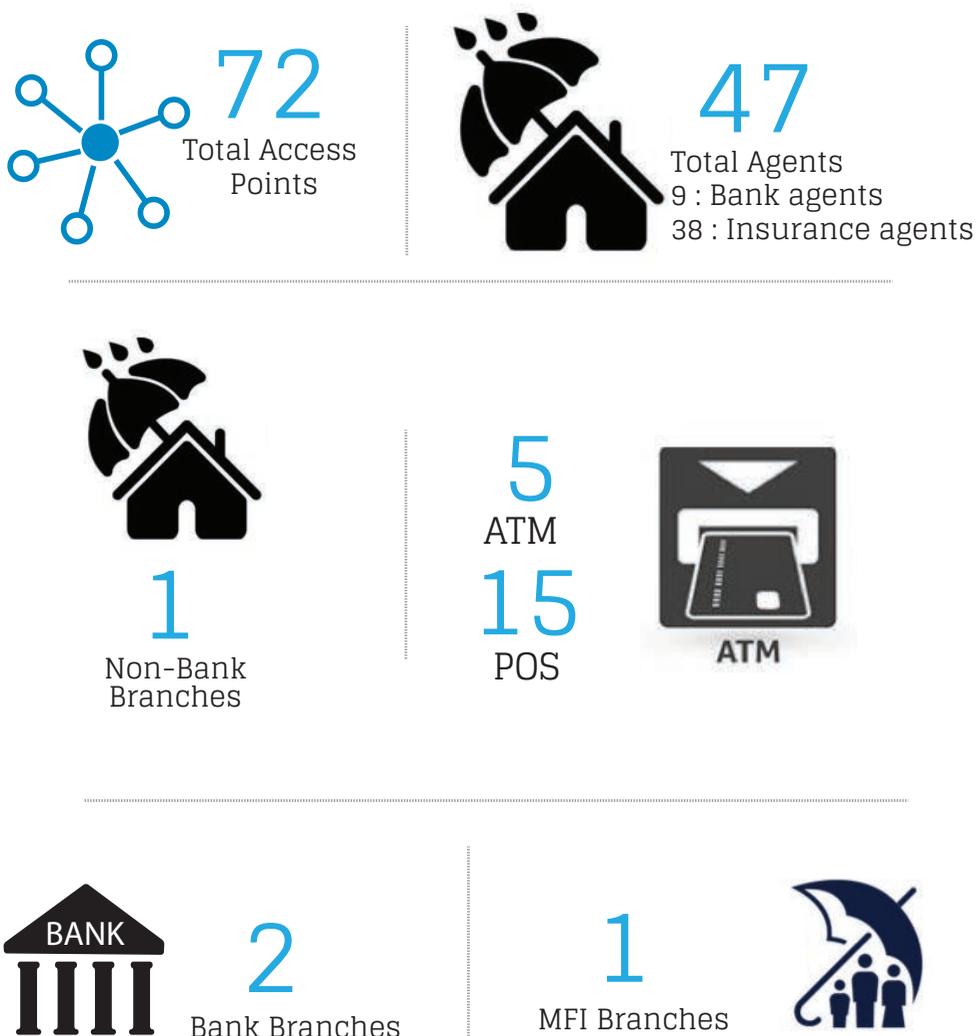


Figure 2: 2018 Key access points per 10,000 adults

B. PERFORMANCE OF KEY SETS OF FINANCIAL INCLUSION INDICATOR FOR 2018 –NUMBER OF ADULTS ACCOUNTS FOR SAVINGS, CREDIT AND INSURANCE

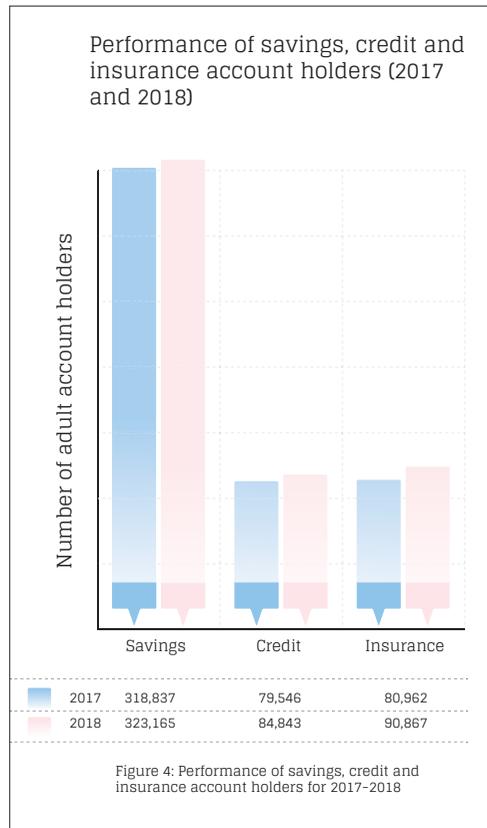
The overall accounts for savings, credit and insurance increased by 1.4%, 6.7% and 12.2 % respectively as compared to 2017. Overall, Bhutan’s financial inclusion in terms of adult savings accounts, reflects 64% of the total adult population in 2018. Similarly, the total unique credit and insurance account holders stands at 17% and 18% respectively.

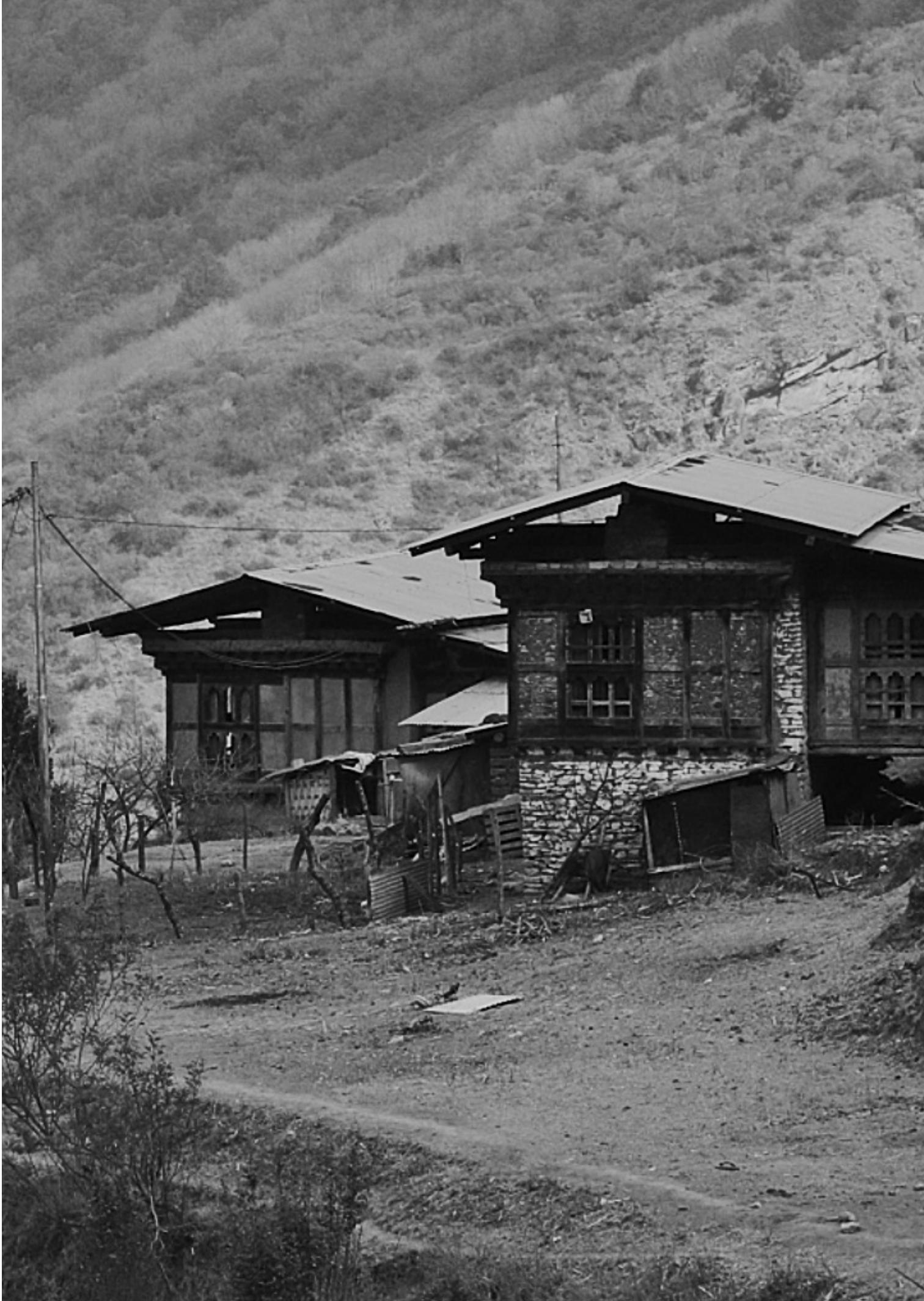
C. MACRO-ECONOMIC ANALYSIS: GROWTH TREND IN LOANS, DEPOSITS AND GDP

Figure 5 (below) depicts growth trends in loans, deposits and nominal GDP since 2008. Credit has grown more than GDP during 2008-2011, outlining excessive credit creation in the economy that were largely import driven and consumption based. As a result, a negative implication was experienced on our external reserve especially the Indian Rupee, which was evident in the 2012 Rupee crisis.

In response to the Rupee crisis, RMA suspended housing and transport loans in 2012 and reintroduced loans with more stringent and prudent requirements. The post 2014 scenario shows that credit has not grown as significantly as in 2012 – 2013.

From 2007 to 2018 GDP grew by 13% (CAGR), loans by 18% (CAGR) and credit to GDP ratio as of 2017 was 69%.





A black and white photograph of two young men walking on a dirt path. They are wearing traditional-style checkered robes with white cuffs. The man in the foreground is wearing dark sneakers, while the man behind him is wearing sandals. The background shows a wooden structure and a tree trunk.

**The Big Picture: Accessibility,
Usage and Performance**

V. The Big Picture: Accessibility, Usage and Performance

A. ACCESS POINTS: CURRENT STATUS AND PERFORMANCE

Access Points include Branches, Extension Offices, Agents, Automated Teller Machines (ATM) and Point of Sales (POS). The analysis is based on data collected as of December 2018.

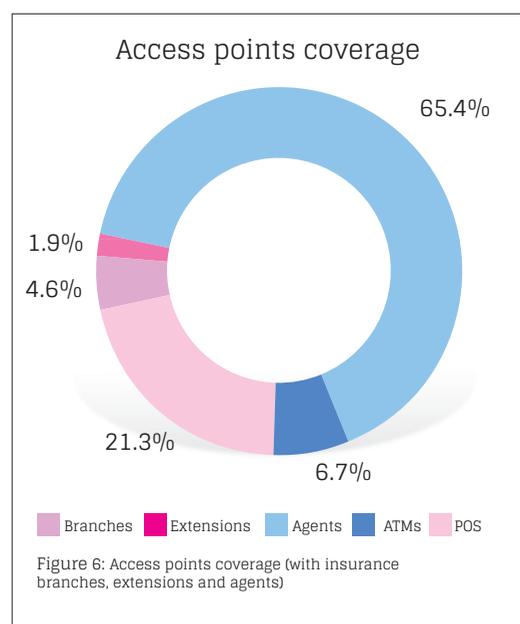
TBank and BNBL make up 7.83% of the total POS access points. ATMs also contribute to a major slice of access points coverage with

2018 (in numbers)	
Branches	171
Extensions	70
Agents	2,396
ATMs	246
POS	779
	3,662

There were 3,662 access points available from the FSPs (commercial banks, insurance companies and MFIs) as shown in the table below. Agents dominate in access points which is largely contributed by RICBL's 1,944 agents.

Figure 6 depicts the percentage share of access points with insurance branches, extension and agents. Agents cover the highest share with 65.4%, followed by POS terminals and ATMs at 21.3% and 6.7% respectively. Branches and Extension Offices constitute only 4.6% and 1.9% of the total access points respectively.

When the data is interpreted without the Insurance access points, such as agents, it portrays a completely different picture as shown in the figure 7; bank agents now reflect only 27.2%, as the second highest access points. POS records the popular access points with 46.8% coverage. BOB's POS leads the popularity of access points (84.21%).



14.8%. Bank branches and extension offices form the least percentage composition in access points coverage.

Performance over time with regard to access points are also analyzed and will subsequently follow after this section.

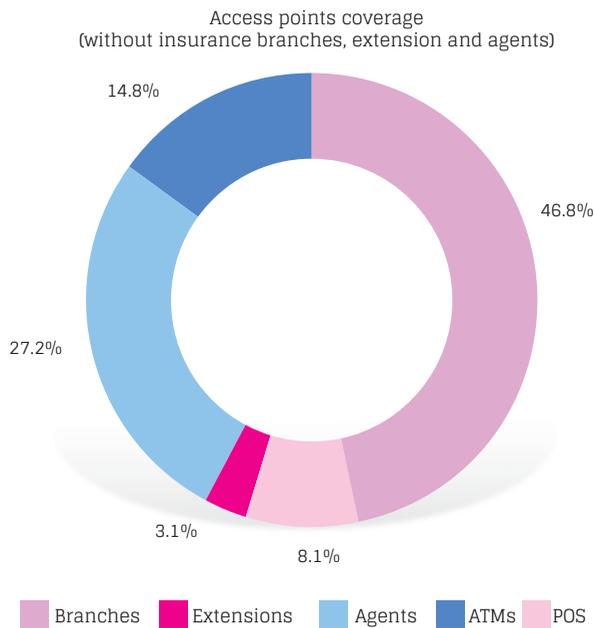
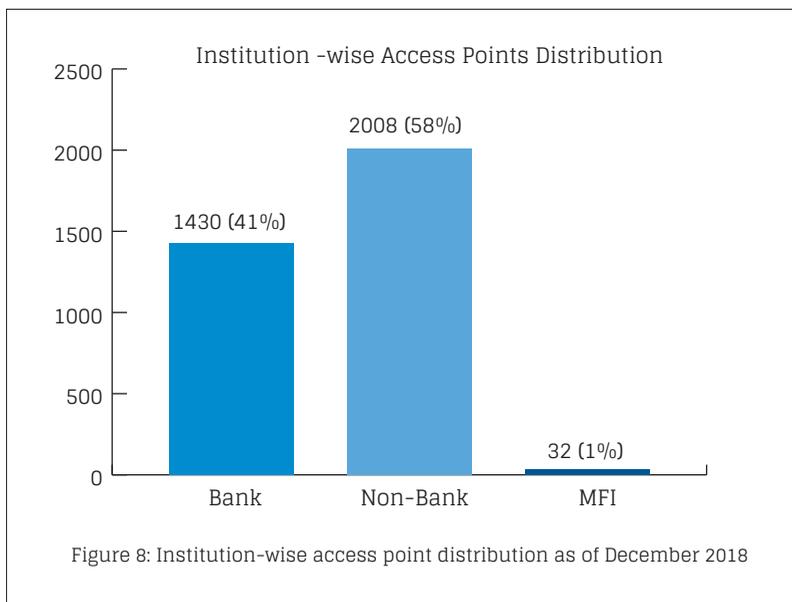


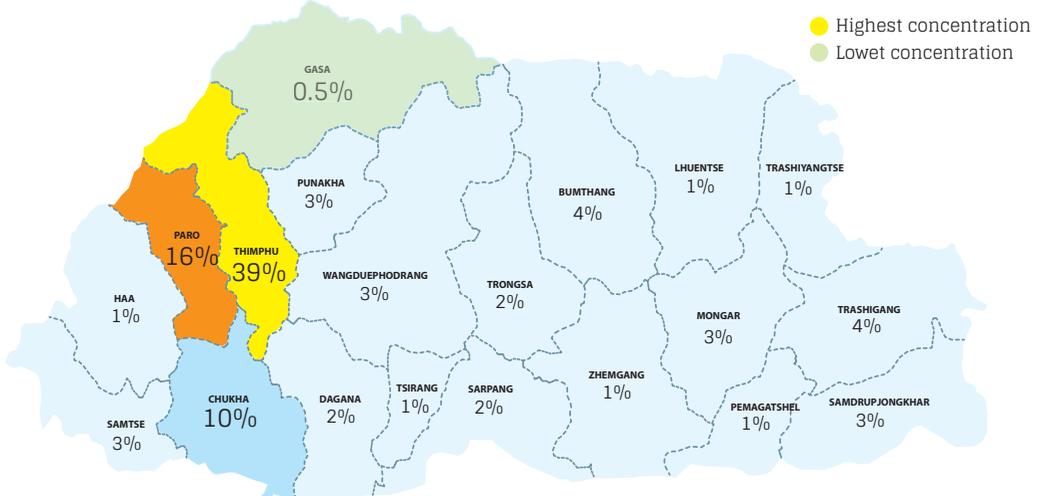
Figure 7: Access points coverage without insurance branches, extension and agents

It is clear from the figure below that non-bank institutions like insurance companies make a significant difference to access points coverage. Non-bank institutions contribute to 58% of the total access points followed by banking institutions with 41% access point distribution (figure 8 below). The MFIs contribute only 1% of the total institution-wise access points distribution.

Figure 9 depicts access points across the country. Thimphu has the highest concentration (39%), followed by Paro (16%) and Chukha (10%). Other Dzongkhags together reflect 35% of the access points distribution. Dzongkhags such as Gasa, Haa, Lhuntse, Trashiyangtse, Zhemgang, Tsirang and Pemagatshel have access points distribution of 1% or less.



Dzongkhag-wise Access Points distribution



Access Points include: Branches, Extension offices, ATMs, POS and Agentrs

Figure 9: Access Points Distribution (Dzongkhag-wise)

Access Points distribution

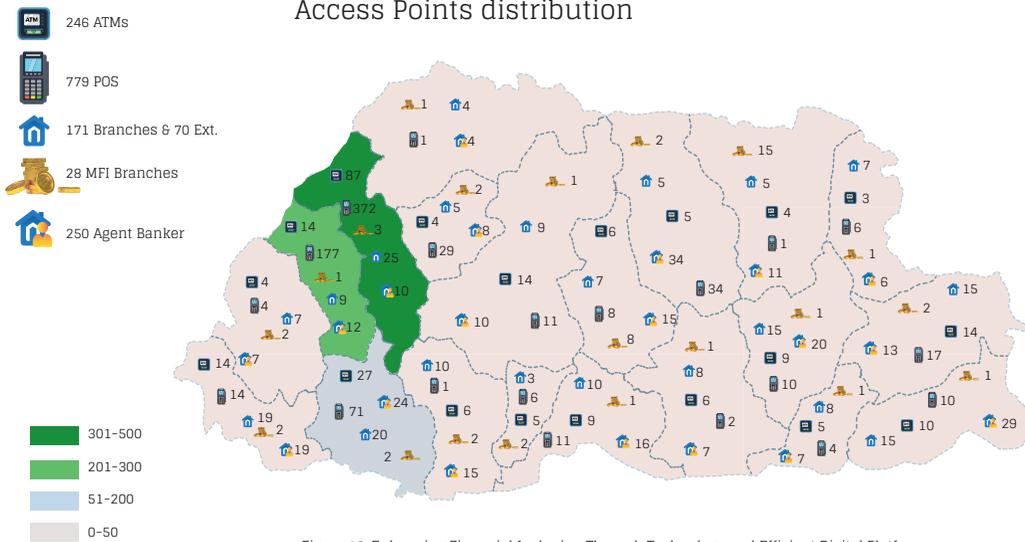


Figure 10: Enhancing Financial Inclusion Through Technology and Efficient Digital Platforms

In terms of performance with access points, the table below depicts increase in extension offices by 6.06%, 2.70% increase in agents, 30.85% increase in ATMs and 2.64% increase in POS. Overall, the total access points increased by 10.43% in 2018 as compared to 2017.

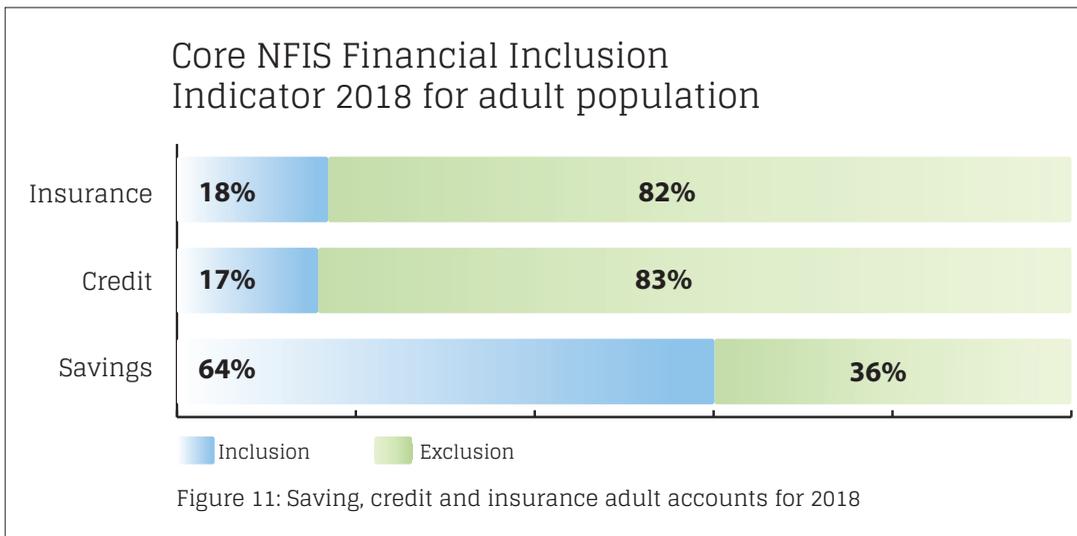
	2017	2018	(+)(-) %
Branches	170	171	0.5%
Extensions	66	70	6.06%
Agents	2,333	2,396	2.70%
ATMs	188	246	30.85%
POS	759	779	2.64%
	3,316	3,662	10.43%

B. SAVINGS, CREDIT AND INSURANCE

1. Savings, Credit and Insurance account penetration

a) Overall scenario

There are currently a total of 777,304 non-unique saving account holders. Non-unique account holders are people holding more than one account in the same or multiple financial institutions. There are 323,165 unique account holders for adults with at least one type of regulated or checking account, indicating 64% of the total adult population as included in the formal financial inclusion and almost 36% as formally excluded. The total saving accounts



increased by 1.36% as compared to 2017.

The total credit account penetration in 2018 was recorded at 17% of the total adult population, an increase of 6.7% as compared to 2017. Additionally, 18% hold formal insurance accounts, an increase of 12.23% as compared to 2017 is observed. Sector specific details are articulated later in this section.

b) FSP-wise composition and performance trend for adult account holders (savings, credit and insurance)

(i) Savings adult accounts

As per figure 12, in 2018, BOBL had the maximum account penetration with 36% of the total adult savings accounts followed by BDBL (24%), BNBL (22%), DPNBL (12%) and T-Bank (4%)

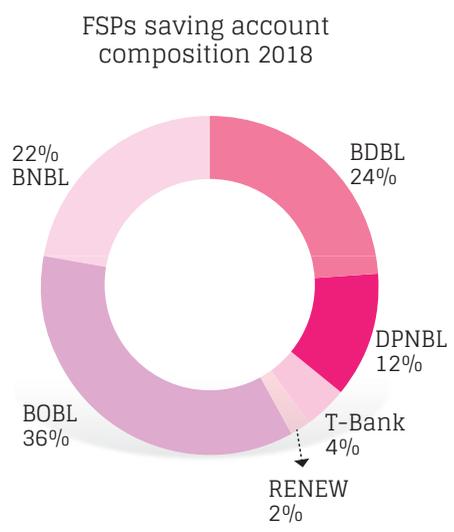


Figure 12: 2018 FSPs Savings Account Composition

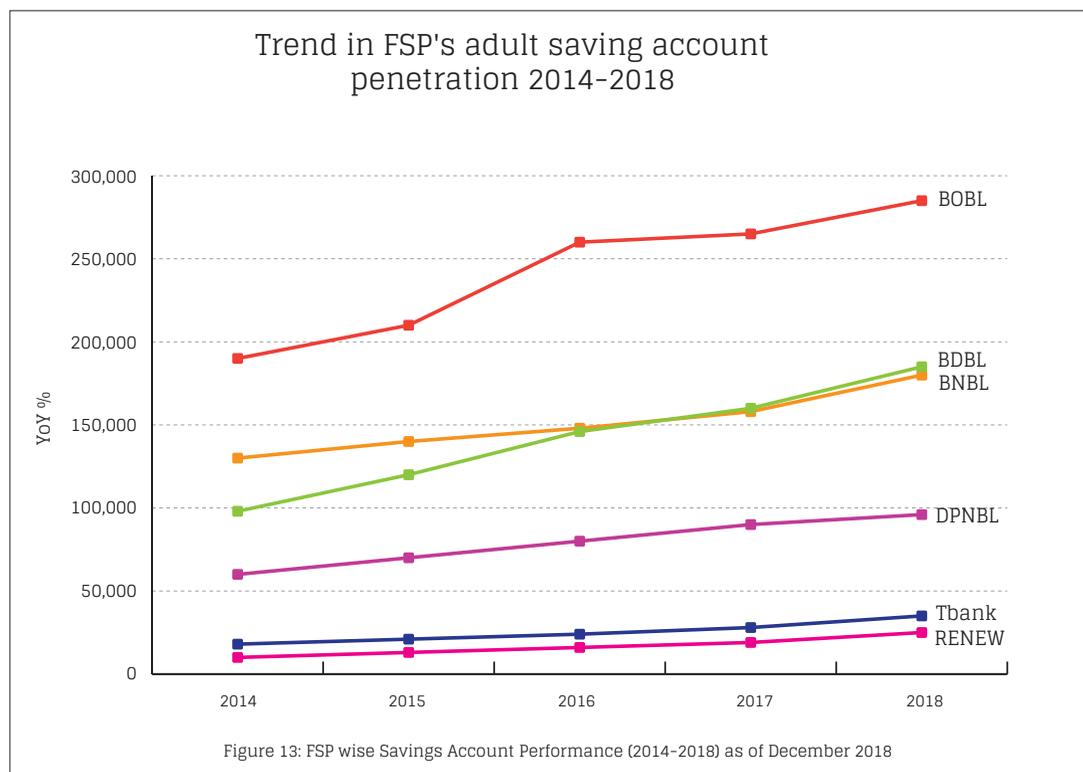
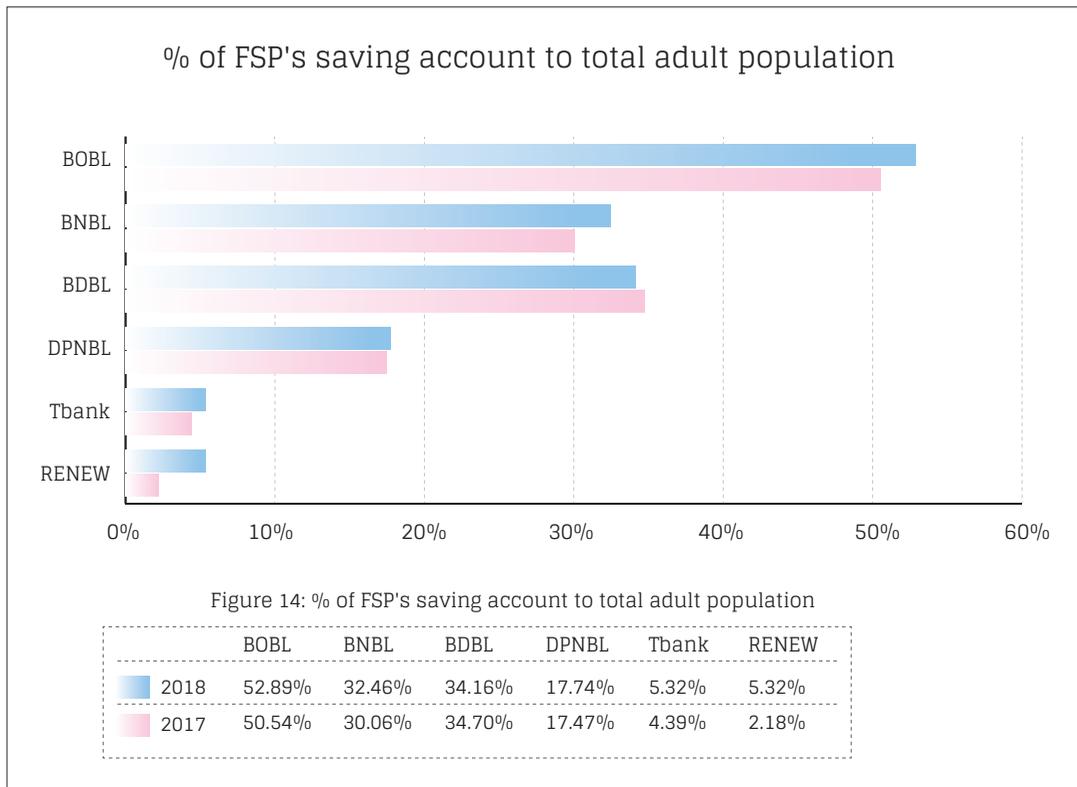


Figure 13: FSP wise Savings Account Performance (2014-2018) as of December 2018

(4%). RENEW Micro-finance holds 2% of the total savings account composition.

Figure 13 represents FSP's performance on adult savings account penetration since 2014. It is observed that BOB holds the highest penetration as highlighted earlier. BDBL has surpassed BNBL since last year and holds the second highest saving account penetration in the financial sector. The rest of the FSPs saw steady increases for the adult saving account.



If FSP's total saving accounts is considered to the total adult population, as reflected in figure 14, BOBL holds more than 50% of account penetration with the Bhutanese adult population. All FSPs observed increasing growth trend as compared to 2017; however, as compared to the varying total adult population, BDBL observes a slight decrease of less than 1%. Overall, the average annual growth rate of total national saving accounts reflects at 12.2%.

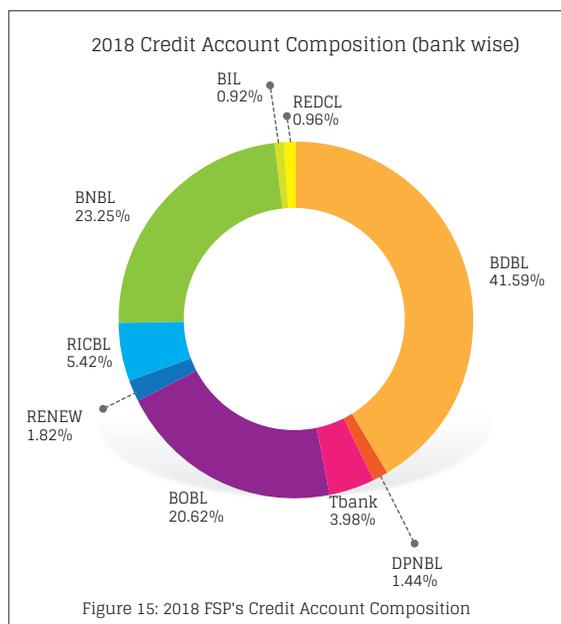
(ii) Credit adult account

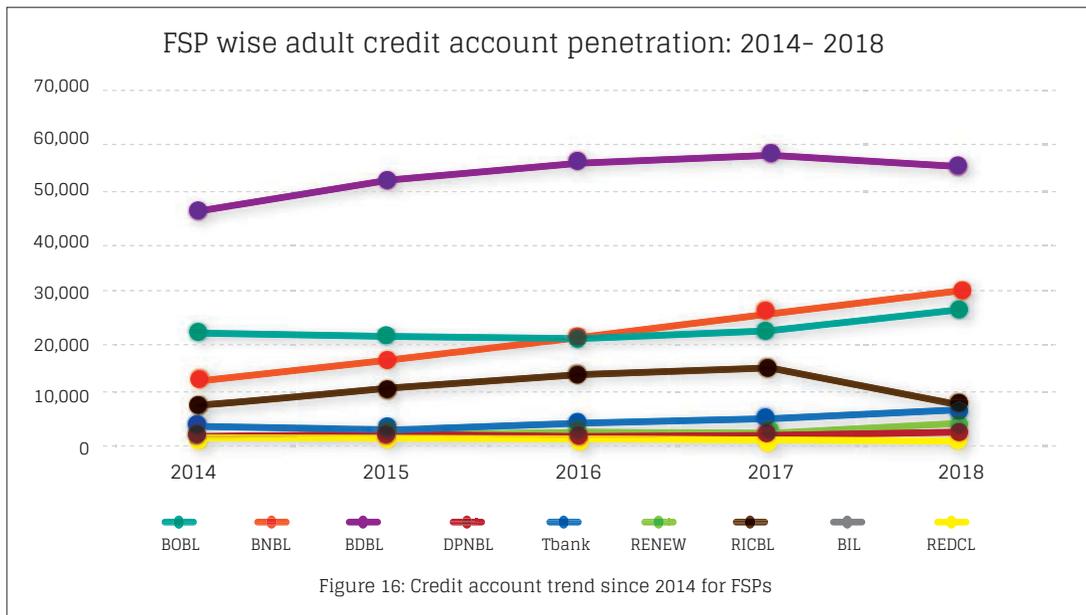
As per the figure 15, BDBL recorded the highest credit account penetration with 54,748 adult credit account holders, which constitute 41.59% of the total credit account composition. BNBL recorded the second highest with 30,435 adult credit clients holding 23.25% of the total credit account composition. BOBL had 26,994 credit clients, accounting for 20.62% of the total credit account composition.

Although BDBL holds the highest credit accounts in the country, it decreased by

2,666 clients as compared to 2017. According to BDBL, this was because its current focus was on its rehabilitation strategy of NPL recovery and high interest rates, which might have led to movement of client's to other banks. RICBL also saw a decline of 7,552 credit account holders compared to 2017.

Figure 16 above depicts trends in credit

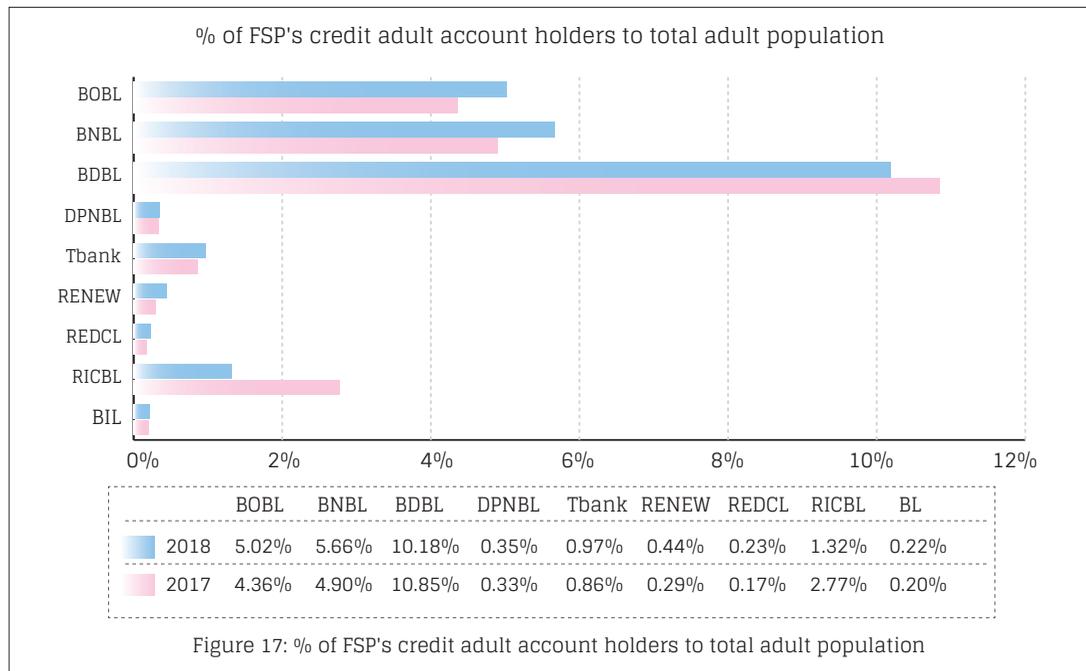




accounts of FSPs in the past five years.

BNBL surpassed BOBL in adult credit accounts penetration since 2016. BDBL has the highest credit account holders to total adult population (10.18%), followed by BNBL (5.66%) and BOBL (5.02%) As compared to the 2017, the percentage composition has decreased for BDBL and RICBL. Overall, the total adult credit account has been annually increasing by 8.3% on average, but observes a decreasing trend.

(iii) Dzongkhag-wise saving and credit account distribution



As per figure 18, more than 50,000/- saving adult accounts, represented by blue dots, are concentrated in Thimphu and Chukha Dzongkhags. The capital city Thimphu has the highest number of Saving Deposit accounts with 32.61% of the total accounts followed by Chukha with 12.01% and Paro with 6.36%. Gasa, with the least population, also has the least number of savings accounts with only 0.3% of the total savings account.

Similarly, more than 10,000 credit account holders are concentrated in Thimphu and Chukha

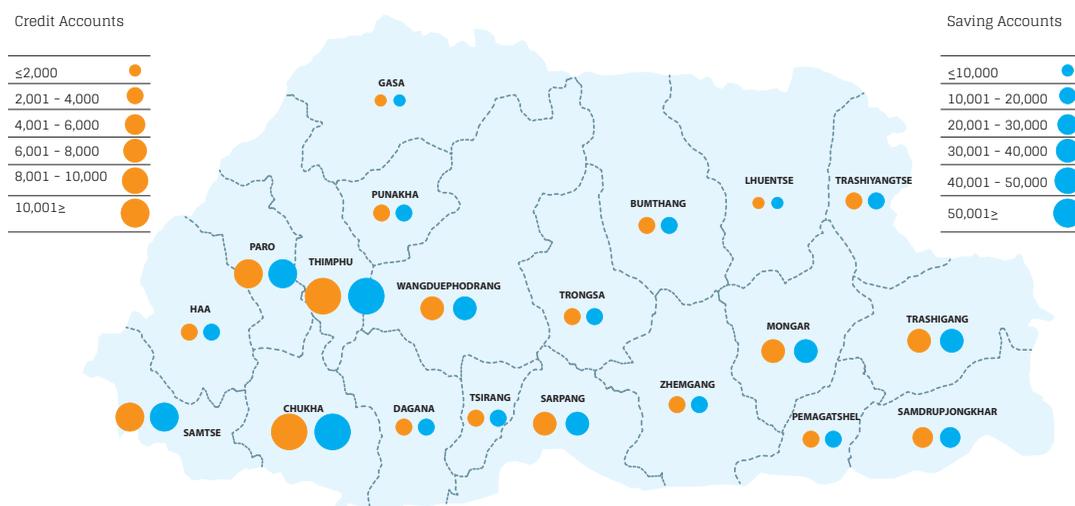


Figure 18: Dzongkhag-wise adult accounts (saving and credit) distribution for 2018

dzongkhags at 27.7% and 10.31% respectively of the total credit account. Gasa has the least credit availed with only 0.34% of the total credit account portfolio.

Overall, most Dzongkhags recorded an increasing trend since 2014 (Figure 19). In 2018, Bumthang, Trongsa and Tsirang observed a decrease in account holders by 13%, 3% and 3% respectively as compared to 2017. BDBL observed a significant decrease in savings accounts in Bumthang Dzongkhag by 3,596 accounts. As for Tsirang and Trongsa, the decrease is contributed by multiple FSPs namely BOBL, BDBL, DPNBL and RENEW Microfinance.

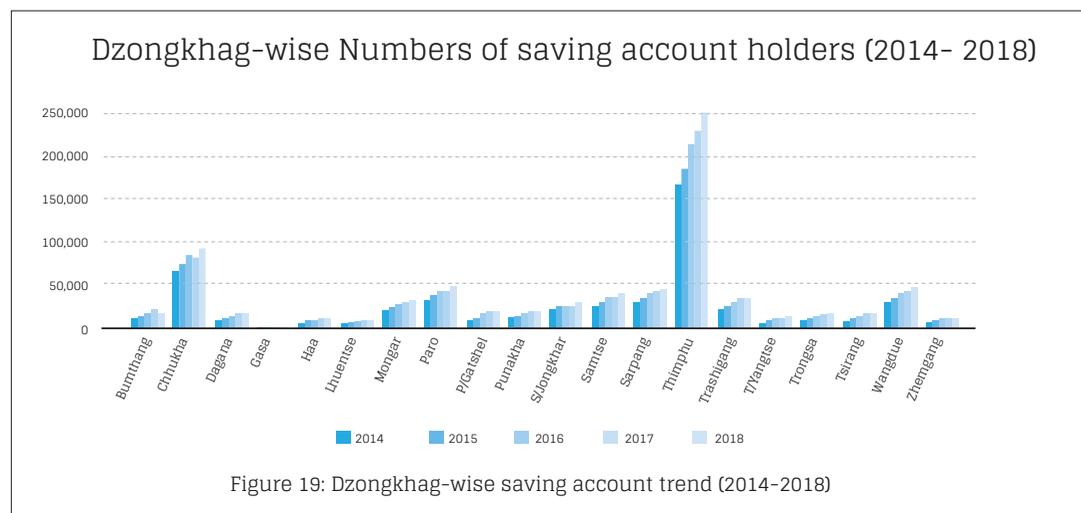


Figure 19: Dzongkhag-wise saving account trend (2014-2018)

The decrease is attributed mainly to closing of accounts and shift in customer base. However, the decrease in number of accounts has not affected savings deposits in most of the FSPs. More on this will be articulated in the next segment of this report. Nevertheless, DPNBL's deposit is observed

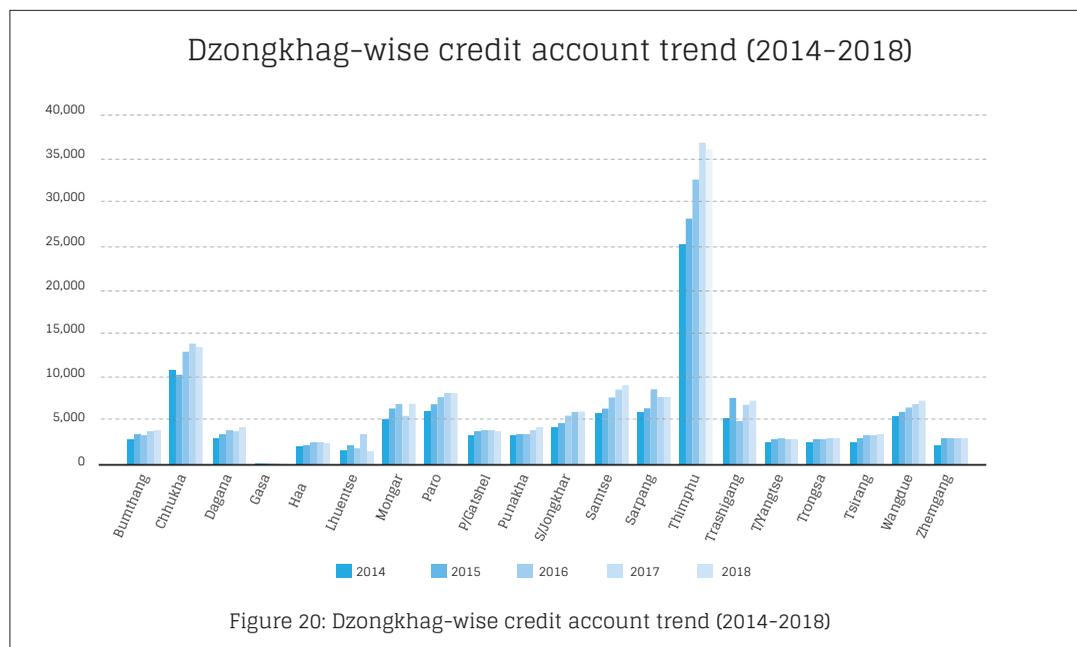


Figure 20: Dzongkhag-wise credit account trend (2014-2018)

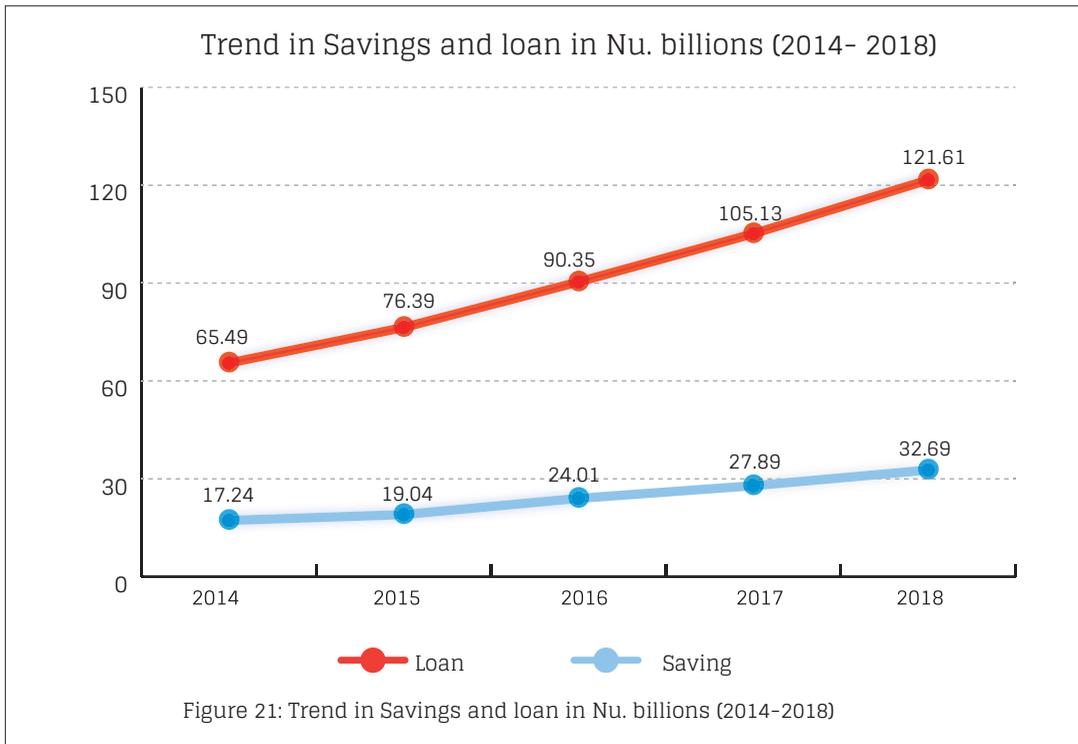
to have decreased in Trongsa Dzongkhag with decrease in number of accounts. BNBL and TBank observed no decrease in number of accounts in any of the Dzongkhags.

Figure 20 presents the trend in Dzongkhag-wise credit account distribution from 2014-2018. In 2018, Thimphu held 27.77% of the total credit accounts followed by Chukha (10.31%) and Samtse (6.87%). Chukha, Haa, Lhuentse, Pemagatshel, Thimphu, Trashiyangtse, Trongsa and Zhemgang Dzongkhags observed a fall in number of accounts as compared to 2017.

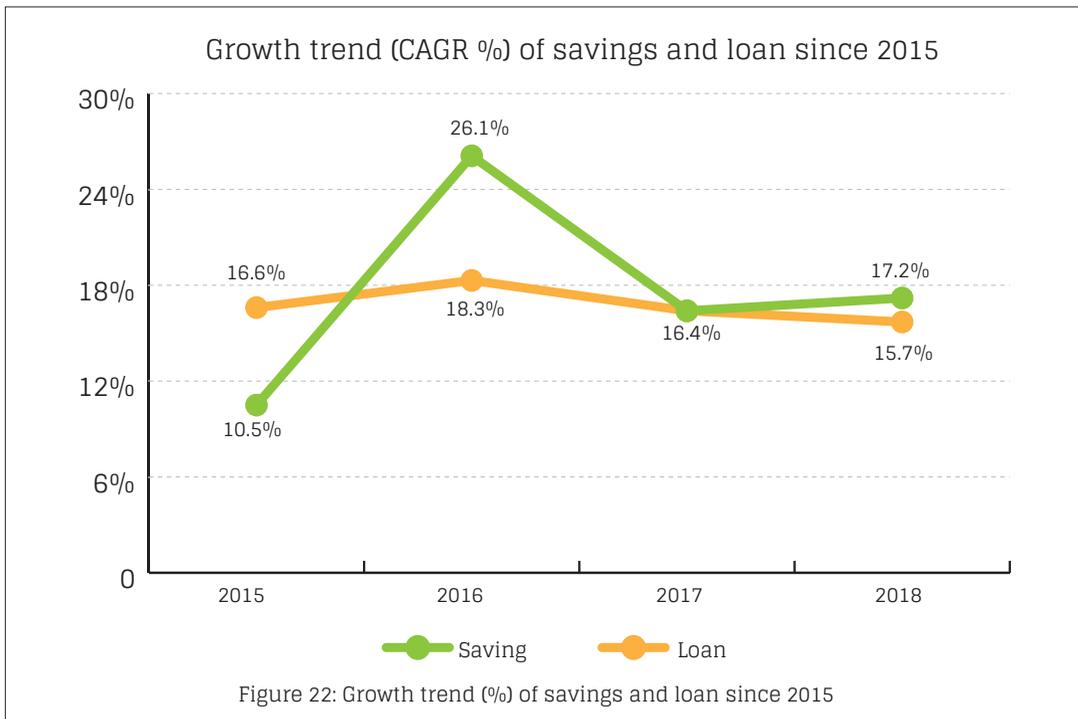
2. Saving and credit exposure (value) performance

a) Overall scenario: Saving deposit and loan value performance

The current total savings amount is observed to be at Nu. 32.69 billion, a growth of 17.2% as compared to 2017. Similarly, loan amount stands at Nu. 121.61 billion in 2018, an increase of 15.7% as compared to the previous year.



As per figure 22 below, the CAGR for deposits rose as high as 26% in 2016, mainly contributed by BOBL's excess liquidity in 2016. The growth in 2018, is stable and not very significant as compared to past years.



3. FSP wise saving and loan performances

2018 Saving deposit composition (Bank-wise)

(i) Saving Deposits

As per the figure 23, BOBL holds the maximum savings amount of Nu. 15.55 billion or 48% of the country's total formal deposits. BNBL, BDBL, DPNBL and TBank Limited hold 24%, 14%, 10% and 4% respectively of the total savings amount.

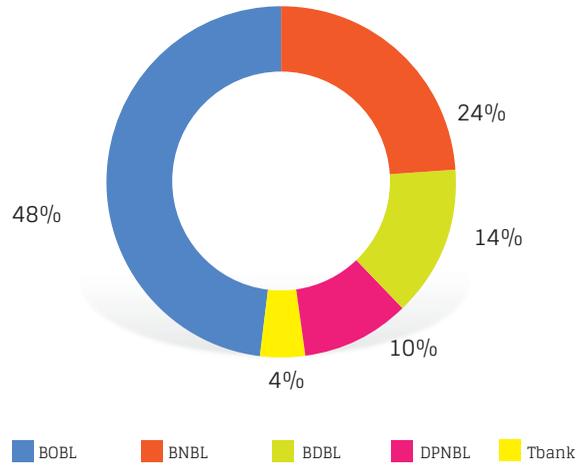


Figure 24, reflects performance of banks in terms of savings deposit amount since 2014. It is observed that BOBL, the highest contributor to the country's deposit composition, also shows a steep increase in deposits since 2015. It is also observed that BDBL surpassed DPNBL since 2016, in mobilizing formal saving deposits. Overall, all FSPs reflect a steady annual increase in

Figure 23: Bank-wise Deposit amount composition for 2018

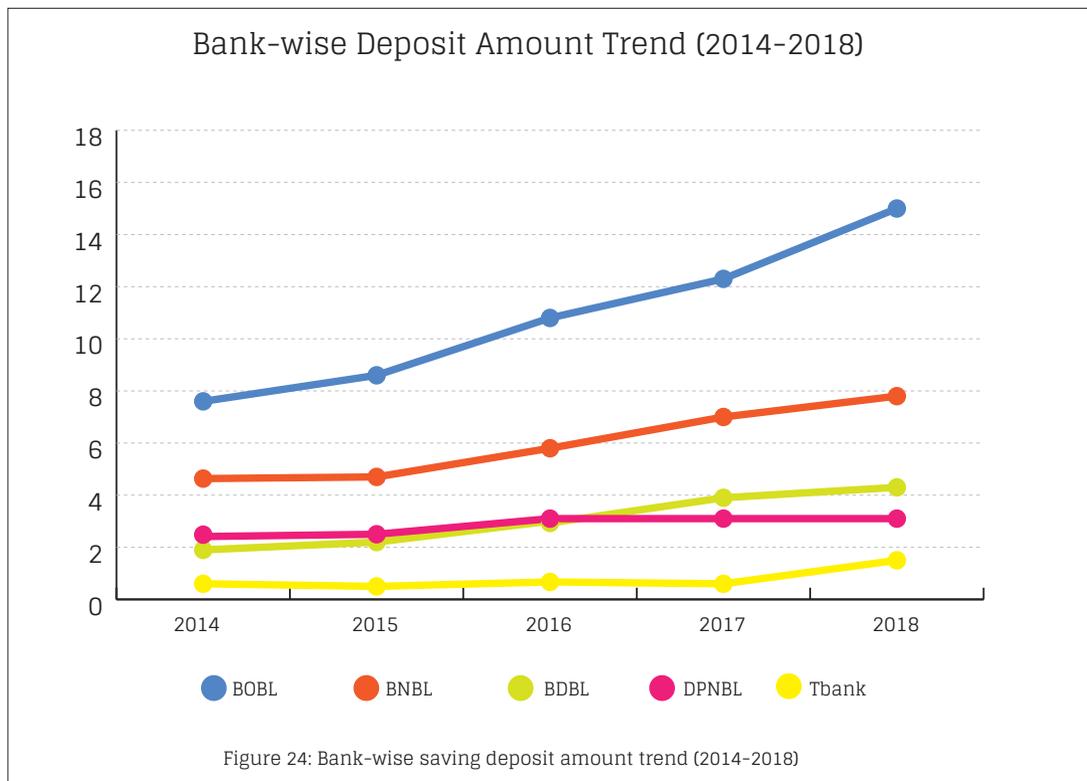


Figure 24: Bank-wise saving deposit amount trend (2014-2018)

deposit mobilization.

(ii) Credit performance

Bhutan held a total credit portfolio of Nu. 121.614 billion as of 2018. Banks together hold 76.28% and non-banks hold 23.36%. All FSP observed increase in credit since 2014 except for BIL which saw a 14% decrease in 2018 as compared to 2017.

As per the figure 25, BOBL holds the highest, almost 30%, of the total credit portfolio followed by BNBL and RICBL with 23.85% and 21.98% respectively. RENEW MF and REDCL holds less than 1% of the total loan composition.

Credit composition of FSPs in 2018

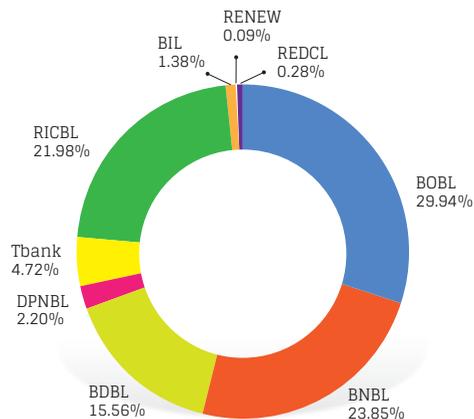


Figure 25: Credit value composition of FSPs in 2018

As per the figure 26, BOBL currently holds a credit portfolio of Nu. 36 billion, the highest in the country, followed by BNBL (29) and RICBL (27).

BDBL (19) as highlighted in the earlier section, has the highest credit account holders with 41.95% credit account penetration. However, BDBL stands fourth in total credit portfolio mainly because it caters to remote areas and lends in smaller amount. Although BDBL and RICBL clients decreased in 2018, their credit portfolios increased in 2018 as compared to 2017.

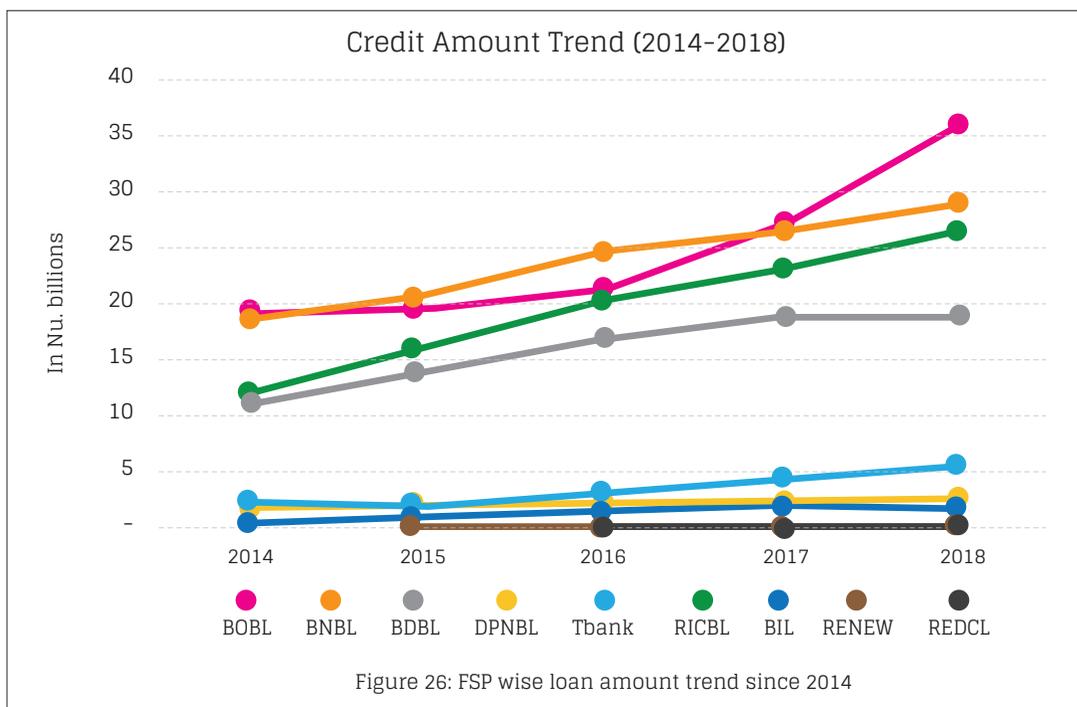


Figure 26: FSP wise loan amount trend since 2014

4. Insurance performance

There were 90,867 insurance account holders with RICBL and BIL comprising 18% of the total adult population in 2018. Insurance inclusion increased by 12.23% as compared to 2017 as a percentage of total adult population.

It is observed that there are 11,863 life insurance accounts in 2018, a 60% increase as compared to 2017. Non-life insurance recorded a growth of 7.4% as compared to 2017.

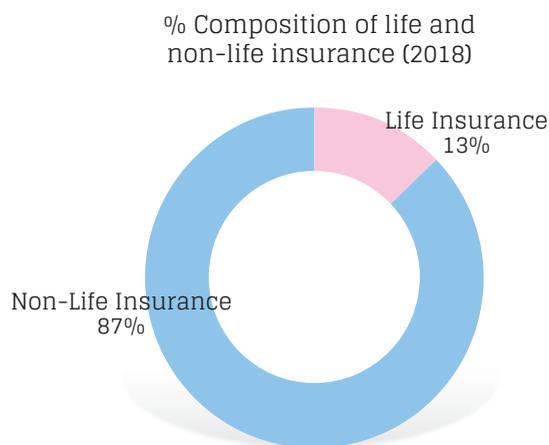


Figure 27: % composition of Life and Non-Life Insurance

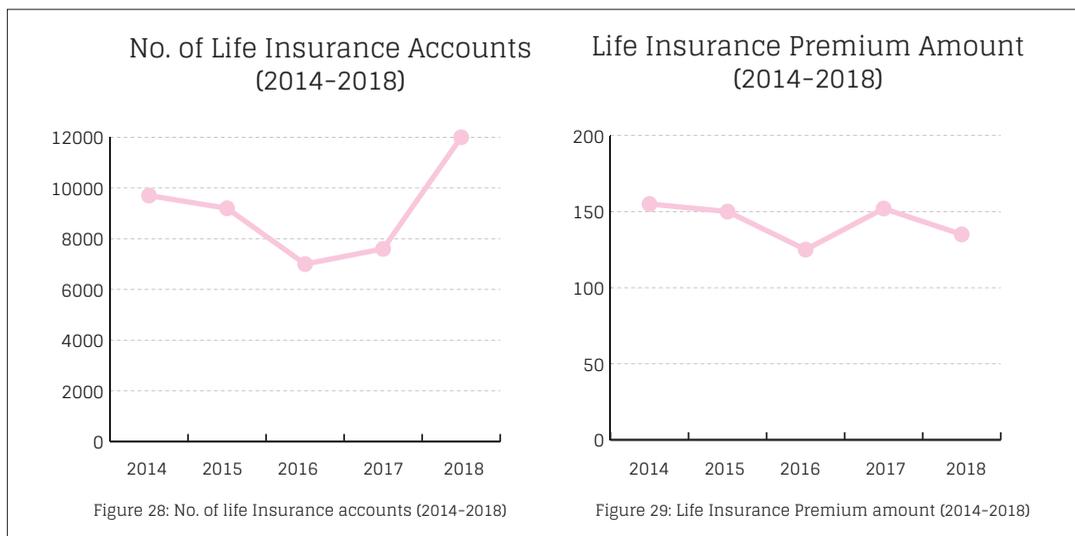
	2014	2015	2016	2017	2018
Life Insurance	9,469	9,105	7,026	7,413	11,863
% Change		-3.8%	-22.8%	5.5%	60.0%
Non-Life Insurance	54,722	62,196	69,698	73,549	79,003
% Change		13.7%	12.1%	5.5%	7.4%
TOTAL	64,191	71,301	76,724	80,962	90,867
% Change		11.1%	7.6%	5.5%	12.2%

Table 1: Life and Non-life insurance accounts (2014-2018):

As per the figure 27, 87% comprises non-life insurance and 13% life insurance as of 2018. Despite the increase in number of insurance accounts, the total premium recorded for 2018 was Nu. 138.51 million, a drop of 9.06% as compared to 2017.

	2014	2015	2016	2017	2018
No. of Accounts	9,469.00	9,105.00	7,026.00	7,413.00	11,863.00
Premium (Nu in Million)	156.94	150.29	126.96	152.35	138.51

Overall, life Insurance comprises only 13.06% of the total insurance with Non-Life insurance comprising the rest 86.94%.



The highest number of life insurance policies were recorded in Thimphu Dzongkhag with 37.42% followed by Chukha Dzongkhag with 24.45% and Paro Dzongkhag with 4.68%. Once again, Gasa held the least with only 0.19% of the total life policy.

Dzongkhag-wise life insurance policy distribution

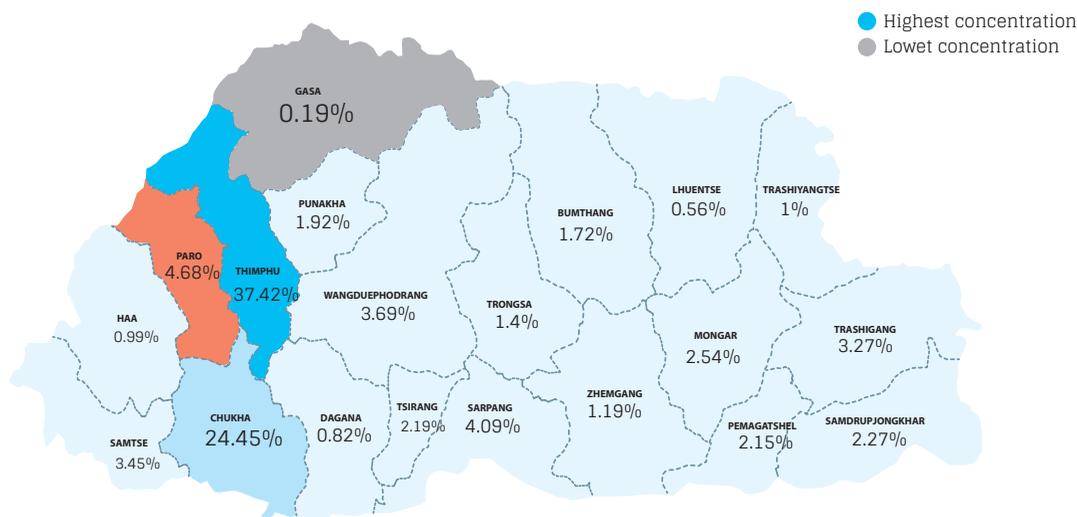


Figure 30: Dzongkhag wise life insurance distribution

C. LENDING EXPOSURE TO THE MICRO, COTTAGE, SMALL, MEDIUM AND LARGE INDUSTRIES (MCSML) SECTOR

The MCSML sector in Bhutan is classified by number of employees and level of capital investment. The following table shows the MCSML sector lending as of December 2018. The MCSML's percentage holding was 55.44%, largely contributed by medium and large industries. Medium and Large industries hold lesser number of accounts but contribute to the highest MCSML amount. Micro and

Cottage industries form the least exposure in the total MCSML. The current status is depicted in the table below. The total Micro, Cottage and Small industries hold only 16% of the total loan portfolio.

MCSML		No. of A/cs	Amount (Nu. in million)	(%) holding
	Micro	26,962	3319.41	2.75%
	Cottage	8,840	3,599.69	2.98%
	Small	6,242	12,502.70	10.36%
	Medium Large	1,715	27,395.88	22.70%
Large	185	20,092.43	16.65%	
MCSML Total		43,944	66,910.11	55.44%
Non-Enterprises		71,947	53,775.18	44.56%
Grand total		115,891	120,685.29	100%

Table 2: 2018 MCSML exposure in terms of number of accounts and amount

As compared to 2017, the MCSML lending performance, in terms of amount, increased for Cottage, Small, Medium Large and Large industries. Overall, MCSML lending exposure increased by 16.72% in 2018 as compared to 2017 as shown in the table below.

		MCSML exposure in Value (Nu. in million)		% increase/decrease
		2017	2018	
MCSML	Micro	2,967.34	3,319.41	11.86%
	Cottage	3,248.70	3,599.69	10.80%
	Small	11,722.38	12,502.70	6.66%
	Medium Large	22,944.96	27,395.88	19.40%
	Large	16,442	20,092.43	22.20%
MCSML Total		57,325.38	66,910.11	16.72%
Non-Enterprises		46,009.09	53,775.18	16.88%
Grand total		103,334.47	120,685.29	16.79%

Table 3: MCSML Performance (2017-2018)

Figure 31 portrays the exposure of loan share of MCSML. Of the total loan exposure, Medium, Large and non-enterprises constitute the highest percentage share. Micro and Cottage industries formed the least percentage share of 3% each respectively.

A significant % share from the Non-Banks have financed Small Industries.

D. GENDER DISAGGREGATED DATA FOR SAVINGS, CREDIT AND LIFE INSURANCE

Figure 32 depicts male and female percentages for each supply-side value share transactions. For savings, males constitute 58% whereas females constitute 42%. For credit, males constitute 65% and females constitute 35%. For life insurance, males and females contribute 52% and 48% respectively. It is observed that there is huge scope of enhancing financial inclusion in terms of women's participation towards credit.

As per figure 33 and 34 (FSP-wise gender performance in saving and credit), RENEW Micro finance, focused on women empowerment, holds the maximum number of saving and loan clients recording more than 90% of their total portfolios with women participation.

Among the commercial banks, DPNB and BDBL have more percentage of female clients with savings account. BDBL record the highest credit client, with female clients of almost 50%.

In terms of savings account, T-Bank Ltd., has the lowest female participation and BNBL has the lowest credit clients compared with other FSPs.

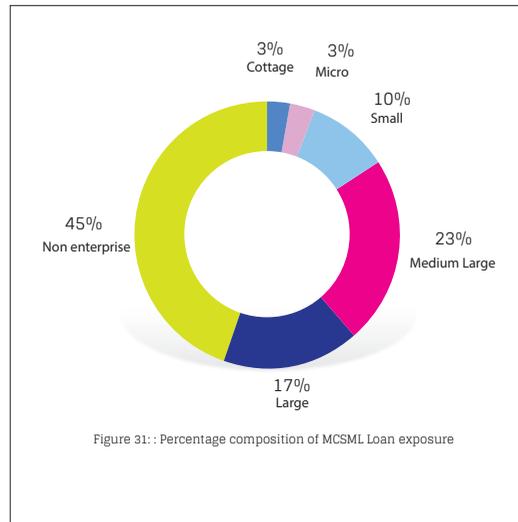


Figure 31: Percentage composition of MCSML Loan exposure

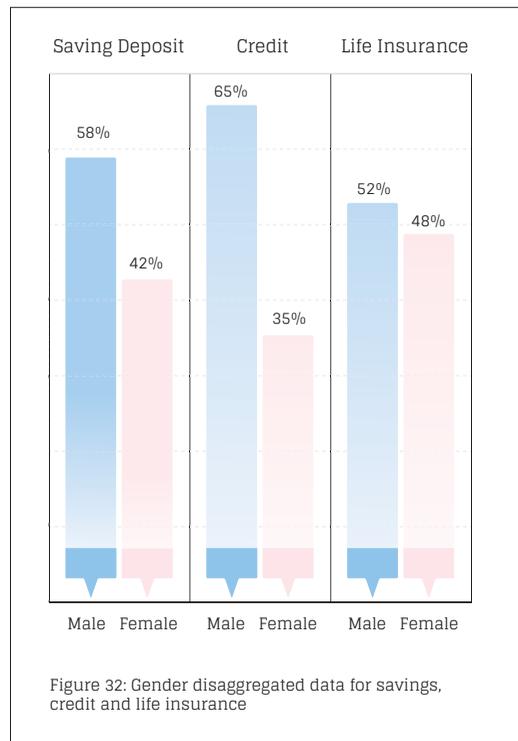


Figure 32: Gender disaggregated data for savings, credit and life insurance

FSP-wise % gender composition of adult saving account holder in 2018

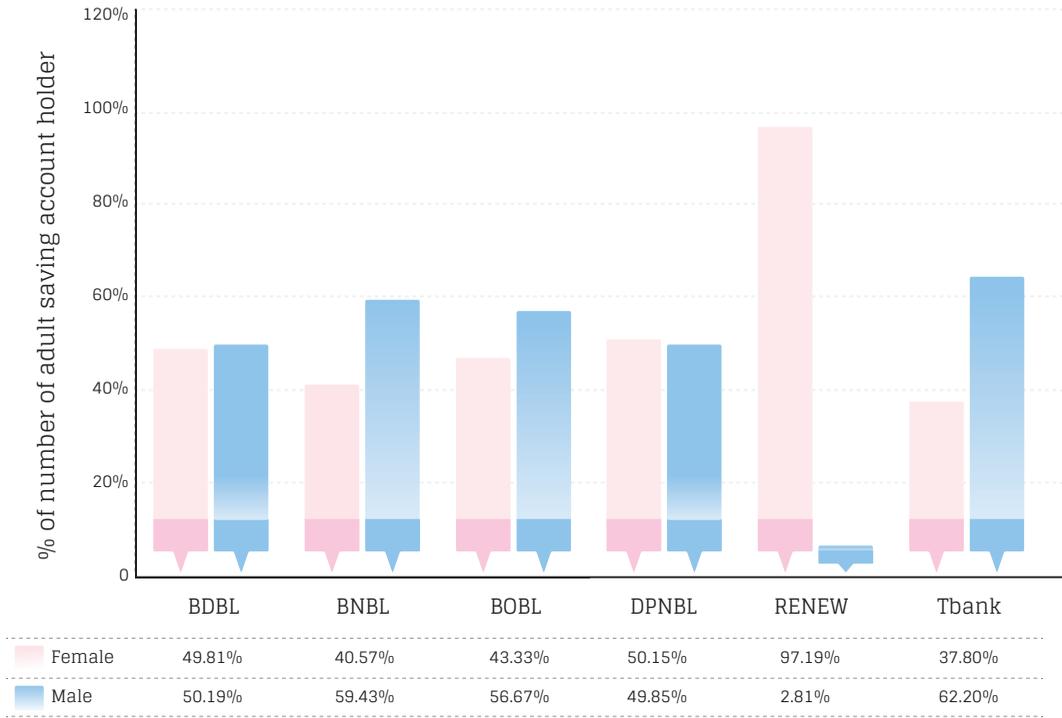


Figure 33: FSP-wise gender performance of adult saving account holder in 2018

FSP-wise % of gender composition of credit account holder 2018

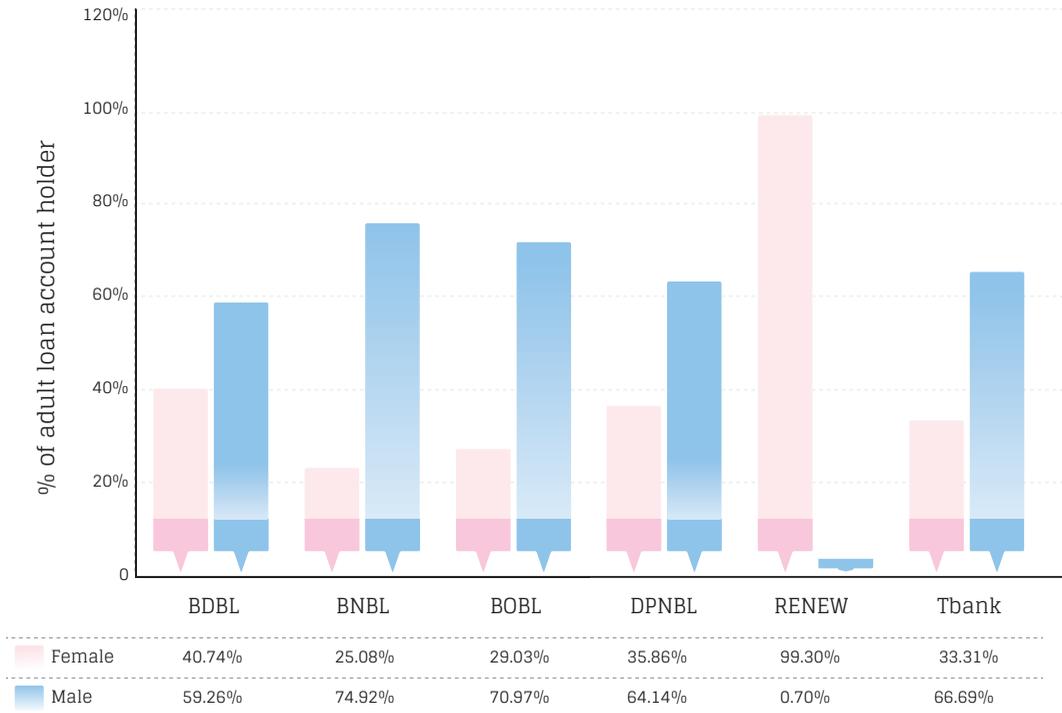


Figure 34: FSP-wise gender performance of adult credit account in 2018

E. RECURRING AND FIXED DEPOSIT (RD AND FD) PERFORMANCES

1. Overall scenario

As per the table below, Bhutan currently holds Nu. 1.81 billion as RD with 31,764 RD accounts nationwide. Similarly, the total FD amount currently stands at Nu. 52.53 billion with 30,265 FD accounts.

In 2016, the number of RD accounts increased by 27.15% as compared to 2015 and decreased by 11.38% in 2017. BOBL has contributed significantly to the increase in RD in 2016 with the introduction of new RD flexi scheme. It is observed that the total deposit from recurring accounts has increased over the years.

In 2016, the 5% TDS on interest earned from FD was waived off as a government intervention to promote savings through FD. As a result, a significant increase of 16.62% was observed for FD accounts and consequently the FD amount also increased by 22% as compared to 2015.

	2014	2015	2016	2017	2018
RD Accounts	25,769	26,693	33,939	30,076	31,764
Growth rate %		3.59%	27.15%	-11.38%	5.61%
FD Accounts	24,811	25,554	29,800	27,776	30,265
Growth rate %		2.99%	16.62%	-6.79%	8.96%
RD Amount (Nu.Billion)	1.09	1.24	1.36	1.57	1.81
Growth rate %		13.70%	9.49%	15.65%	15.22%
FD Amount (Nu. Billion)	32.71	36.38	44.38	49.14	52.53
Growth rate %		11.20%	22.00%	10.74%	6.90%

Table: 4: RD & FD (Account & Value) from 2014-2018.

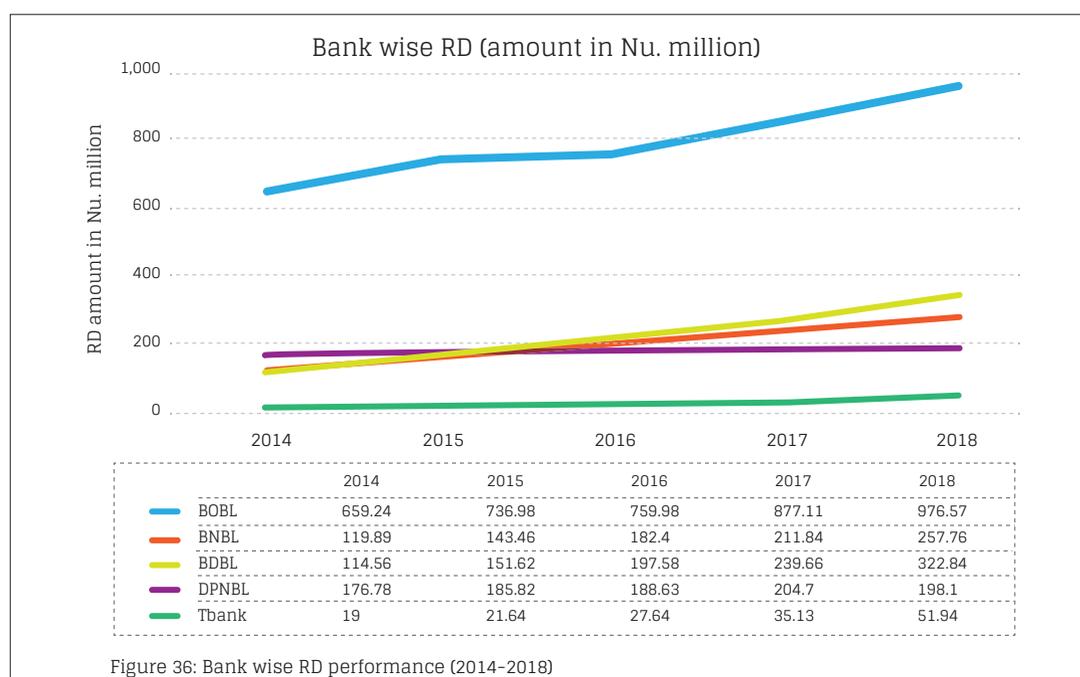
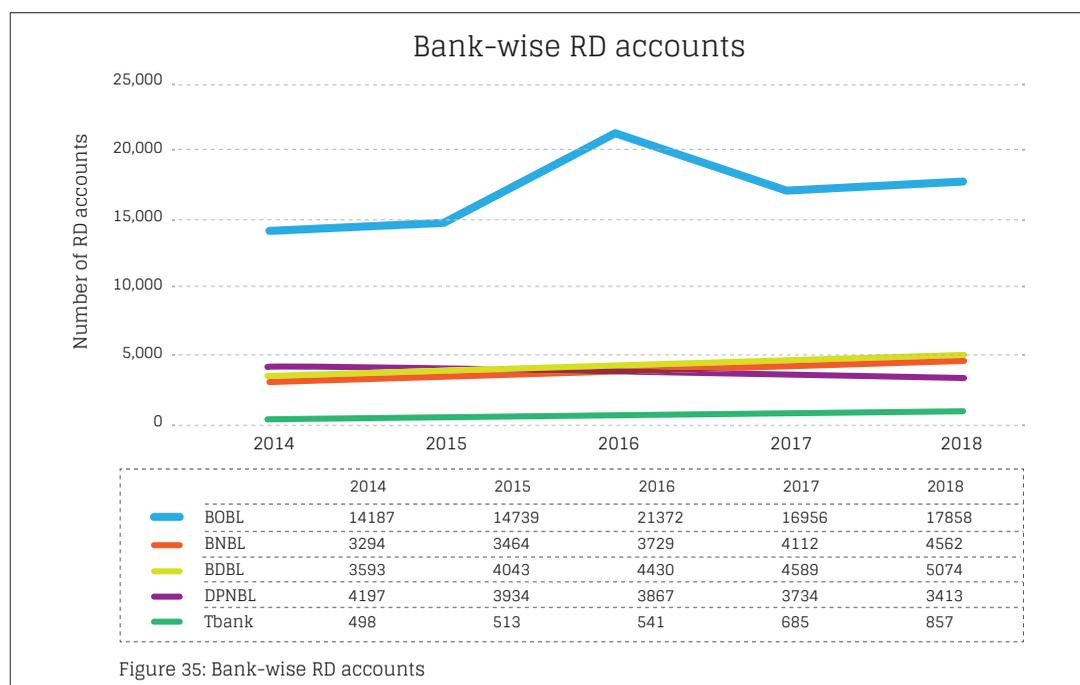
2. Bank wise performance

A) RD Accounts and Value

BOBL holds the highest RD accounts composition, 56.22% of the total RD accounts, followed by BDBL with almost 16% RD account composition.

With BOBL holding the highest number of RD accounts as anticipated BOBL also holds the maximum RD deposit composition with 54.04% of the total recurring deposits of Nu. 976.57 million. BDBL holds almost 18% of the total recurring deposit amount surpassing the rest of the commercial banks.

The total current RD amount stands at Nu. 1.8 billion.

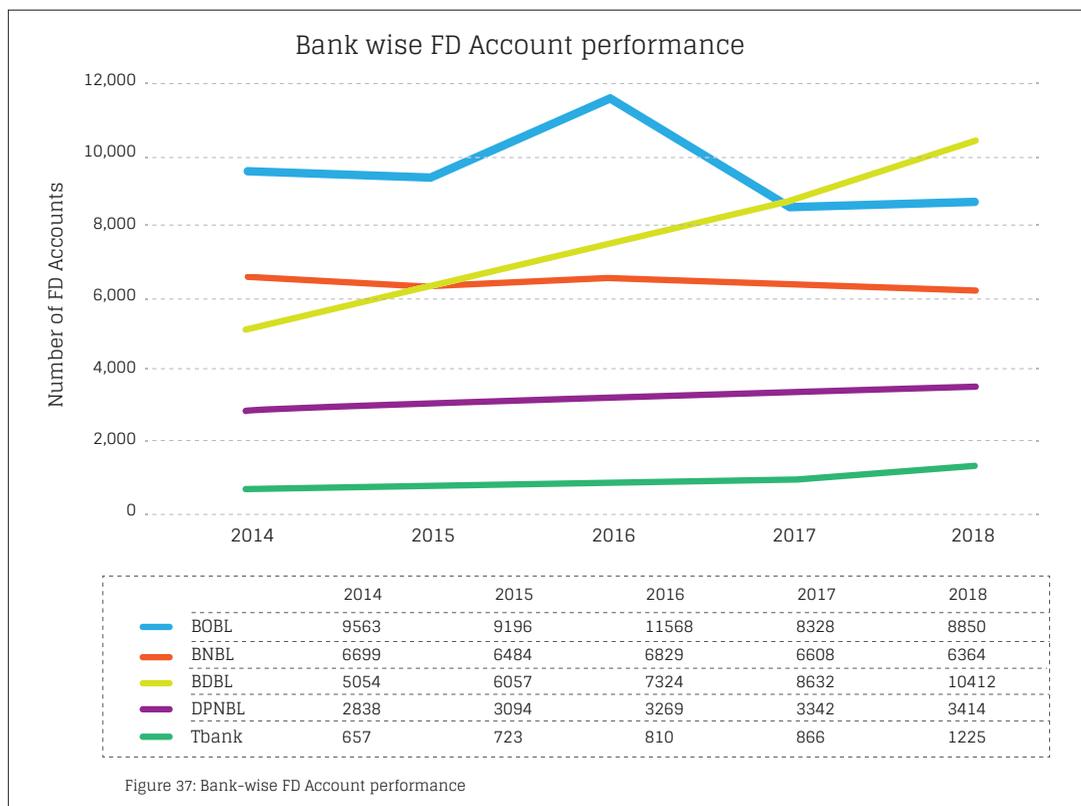


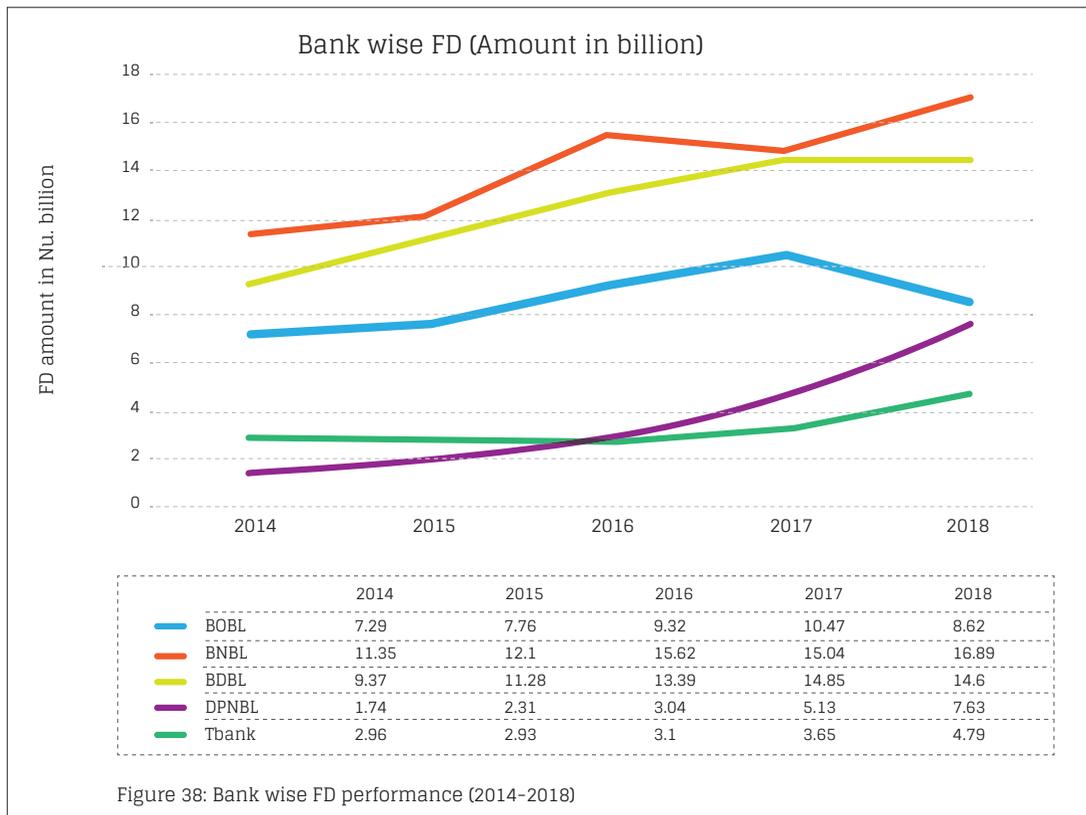
B. FD accounts and Value

In terms of FD accounts, BDBL observed a continuous steady increase and held the maximum (34.4%) number of FD accounts in 2018. BDBL used to offer the highest FD rates as compared to other banks and could be the possible reason for customer's preference for FD. BDBL has surpassed BNBL and BOBL in capturing the FD accounts in the country (figure 37).

In 2016, with government waiving off the 5% interest income earned from FD, BOBL and BDBL depicted significant increase in FD accounts as compared to 2015. Other banks do not reflect any significant increase with the government intervention correlated to FD Accounts.

Figure 38 reflects bank wise performance in fixed deposits since 2014. BNBL holds 32% (highest) of the total FD amount with almost Nu.17 billion. It is followed by BDBL with almost Nu. 15 billion FD, which is 28% of the total composition. It is interesting to observe that although BNBL's FD clients decreased since 2016 but holds maximum FD amount in the country.





BOBL, on the other hand, holds the second highest number of FD accounts and the third highest fixed deposit amount of almost Nu. 9 billion, which is 16% of the total composition. DPNBL has surpassed T Bank since 2016 and has seen a steep rise in holding fixed deposits.

With the tax waiver intervention, the total FD observed in 2016 was Nu. 44 billion, the highest growth rate of 22% over 2015 (Nu. 36 billion). The current total FD stands at Nu. 52.53 billion in 2018.

F. VALUE ADDED DIGITAL SERVICES

Value Added Services include mobile banking applications including QR code facilities and ATM card users. Of the 140,283 Mobile Banking app users in the country. Bank of Bhutan (BoBL) has the highest number (95,170) users followed by Bhutan National Bank (BNBL) with 35,712 users. Druk PNB Bank (DPNBL) and T-Bank have 5,956 and 3,445 users respectively.

There are in total, 1676 QR code users; 1105 with BOBL and 571 with BNBL.

Of the 362,074 domestic ATM card users BOBL holds the highest (201,332) followed by DPNB (68,685) and BNBL (64,463).

G. KEY FINANCIAL INCLUSION INDICATORS

The following tables reflect financial inclusion indicators per geographical penetration of 1000 Sq. km, per 10,000 adults and usage of at least one regulated account.

Year	2017	2018
Adult Population	496,044	506220
Area (Sq. Km)	38,394	38,394
Total Access Point	3,516	3,661
Total Access Point without Agents and POS	424	486
Total Access Point with only Agents and POS	3,092	3,175
Total Branches	170	170
Total Bank Branches	98	98
Total Insurance Branches	68	40
Total MFI Branches	29	32
Total Extension Offices	66	70
Total Agents	2,333	2,396
Total Bank Agents	407	452
Total Insurance Agents	1,726	1,944
Total ATM	188	246
Total POS	759	779
Saving account	318,837	323,165
Credit account	79,546	84,843
Insurance account	80,962	90,867

1	GEOGRAPHICAL PENETRATION (Per 1,000 sq.km)	2017	2018	(+) (-)
a	Total access points	91.58	95.35	3.78
b	Without Agents and POS	11.04	12.66	1.61
c	Only Agents and POS	80.53	82.70	2.16
d	Total branches	4.43	4.43	0.00
e	Bank branches	2.55	2.55	0.00
f	Insurance branches	1.77	1.04	-0.73
g	MFI branches	0.76	0.83	0.08
h	Extension offices	1.72	1.82	0.10
i	Total agents	60.76	62.41	1.64
j	Bank agents	10.60	11.77	1.17
k	Insurance agents	44.95	50.63	5.68
l	ATM	4.90	6.41	1.51
m	POS	19.77	20.29	0.52
2	ACCESS (Per 10,000 Adults)	2017	2018	(+) (-)
a	Total access points	70.88	72.32	1.44
b	Without Agents and POS	8.55	9.60	1.05
c	Only Agents and POS	62.33	62.72	0.39
d	Total branches	3.43	3.36	-0.07
e	Bank branches	1.98	1.94	-0.04
f	Insurance branches	1.37	0.79	-0.50
g	MFI branches	0.58	0.63	0.05
h	Extension offices	1.33	1.38	0.05
i	Total agents	47.03	47.33	0.30
j	Bank agents	8.20	8.93	0.72
k	Insurance agents	34.80	38.40	3.61
l	ATM	3.79	4.86	1.07
m	POS	15.30	15.39	0.09
3	USAGE (% of adults with at least 1 type of regulation account)	2017	2018	(+) (-)
a	Savings	64.3%	63.8%	-0.44%
b	Credit	16.0%	16.8%	0.72%
c	Insurance	16.3%	18.0%	1.63%

A black and white photograph showing a person's hands holding a document. The person is wearing a white shirt and a dark, patterned jacket. The background is dark and out of focus. The text is overlaid on the upper left portion of the image.

**Accelerating Digital Financial
Services for financial inclusion
-The Payment system overview**

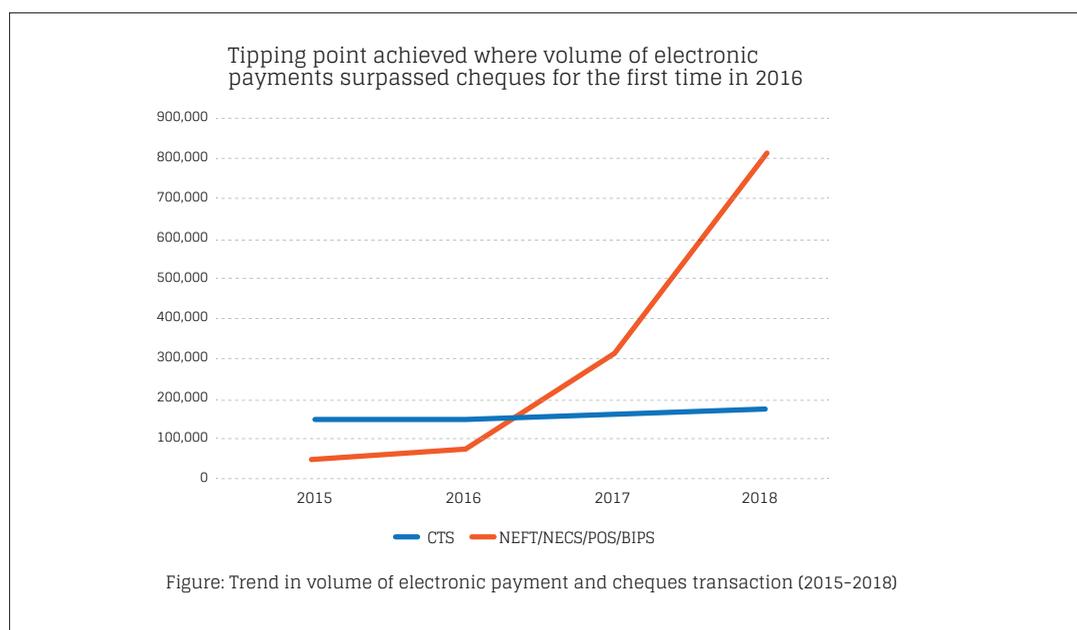
VI. Accelerating Digital Financial Services for Financial Inclusion –The Payment System Overview

A. EXECUTIVE SUMMARY

The overall payment and settlement systems recorded steady growth both in terms of volume and value from 2015 to 2018. Similar growth was seen in all mode of instruments, viz. paper-based instruments, electronic instruments, and other payment instruments such as ATM, POS, and BIPS with increasing number of banks offering mobile banking services and development of various options to customers to originate transactions.

Of the three payments system categories, other instruments as per sl. No 3 above, records the highest volume. Other payment instruments include ATM, PoS and BIPS; of the instruments, ATM holds the highest volume (63 percent) followed by BIPS (24 percent). However, as per the Payment System and Settlement Report 2019, the share of ATM is declining while the share of BIPS is on an upward trend; 7 percent (2017) to 24 percent (2018) over the period. The upward trend of BIPS depicts increased number of users availing mobile apps to make retail payments of up to 100,000 per bank per day, instead of cash.

However, in terms of value, paper-based instruments such as cheques still dominate the payment system (57 percent in 2018) followed by electronic instruments and other payment instruments respectively. This may be due to imposition of transaction limits and transfer fees on electronic instruments and other payment instruments, which are not imposed for cheques. Further, it may be that cheques and electronic systems are used by users to make large value fund transfer, while for retail payment, preference is increasing for mobile based systems. The overall trend indicates that electronic instruments are gaining popularity with the consistent effort of the RMA to digitalize the payment system in Bhutan since 1997.



Further, the comparative analysis conducted on the volume of transactions effected through cheque versus NEFT, NECS, POS, and BIPS from 2015 to 2018 reveal that for the first time a tipping point was achieved in 2016 when volume of electronic and online payment instruments surpassed paper-based instruments reflecting positive growth and acceptance of alternate mode of payment to paper-based instruments.

However, current experience and evidence indicate that the penetration and success of modern electronic payment products and services is concentrated to a large extent in Thimphu, Paro and Chukha and mostly used by those citizens who already have access to formal banking channels.

Therefore, the benefits of modern electronic and online payment systems are yet to reach all sections of society and be accepted across the length and breadth of the country as cash still dominates the payment system (63 percent in volume terms as of 2018) and the value of banknotes and coins in circulation as a percentage of GDP (6.84%) has remained within this range over the last three years as depicted below.

Items	Amount in millions of Nu.	Amount in millions of Nu.	Amount in millions of Nu.
	2015	2016	2017
Notes and coins in circulations (A)	9,496.52	10,440.45	11,264.98
Nominal GDP (B)	132,080.85	148,678.93	164,627.92
Ratio (%) of A:B	7.12%	7.02%	6.84%

B. PAYMENT SYSTEM INITIATIVES UNDERTAKEN IN 2018

1. E-Money Issuers Rules and Regulations 2017

The RMA Board approved the E-Money Issuers Rules and Regulations during the 130th Board meeting held on September 29, 2017. The objective was to authorize and regulate electronic money to support financial inclusion through extension of financial services beyond the conventional branch-based banking.

Subsequently, the 58th Executive Committee Meeting approved and authorized Bhutan Telecom Limited to be established as the first E-Money Issuer Institution in the country. Bhutan Telecom launched the B-Ngul application to offer wallet services to its customers comprising the unbanked population living in the far-flung corners of the country. The department is working towards enabling interoperability of these Nonbank-based wallet systems with other payment and financial service providers.

Month	No wallet account holders	No. of wallet transactions	Value in Nu (Millions)	% increase no of transactions
May, 2018	45,234	871	2.27	0
June, 2018	45,380	1,279	0.44	46.84
July, 2018	45,594	1,016	0.53	-20.56
Aug, 2018	45,836	912	0.75	-10.24
Sept, 2018	46,416	968	1.00	6.14
Oct, 2018	46,639	973	0.64	0.52
Nov, 2018	46,958	894	0.82	-8.12
Dec, 2018	47,466	922	0.74	3.13
Total		7,835	7.19	

Table 4: B-Ngul account holders and transaction details

As shown in the table above, Bhutan Telecom Limited currently has 47,466 users subscribed to its B-Ngul service with a growth rate of 279 users on average in a month. A total number of 7,835 transactions amounting to Nu. 7.19 million were transacted using the B-Ngul wallet system from its launch in May up to December 2018.

2. Payment & Settlement Systems Rules and Regulation 2018:

The Payment & Settlement Systems Rules and Regulations 2018 was implemented on January 30, 2018, to effectively regulate, supervise, and oversee all payment service providers which include payment systems, payment systems operators and payment system participants licensed by RMA. The regulation was released with an objective to promote safety and efficiency of the payment mechanisms and to maintain overall stability of the financial systems in Bhutan. The authority envisages to promote financial inclusion by authorizing suitable payment system models and by following consumer protection guidelines.

Priority Sector Lending(PSL)



VII. Priority Sector Lending (PSL):

Financing for economic growth through promoting Cottage and Small Industries (CSI)

The Priority Sector Lending (PSL) initiative was launched on 13 December 2017 and implemented on 1 January, 2018. The report provides brief updates as of December 2018 as well as a review of the past one year's experience in implementing the PSL.

A. PSL REVIEW

All 20 Dzongkhags (districts) and 7 financial institutions were involved in reviewing PSL proposals in 2018. The Dzongkhags collectively received 1,274 PSL applications, of which 1,009 projects were approved. The capital, Thimphu, received the highest applications (247 projects). Majority applications (78%) were agriculture-related projects with the highest concentration in primary production. Projects were clustered around similar ideas while proponents were all individuals with only a handful of groups.

The financial institutions collectively assessed

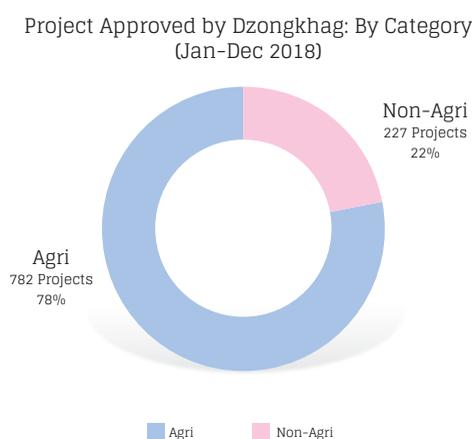


Figure 39: Projects approved at the Dzongkhag level 2018

779 projects in 2018 and 316 projects were approved. More than half the projects rejected by the financial institutions were on account of poor credit history of clients. The financial institutions collectively sanctioned Nu.

305.8 million of which Nu. 229.8 million were disbursed by the end of 2018.

While there were no NPLs reported as of December 2018, current updates reveal that 7 accounts are classified under NPL category (overdue for more than 90 days) and 8 accounts were overdue by more than 45 days.

Since 2018 was a pilot year for the PSL, the RMA has maintained close contact with all relevant stakeholders while also engaging with PSL clients and entrepreneurs to gain first-hand information on experiences from the implementation of the PSL. The RMA team visited the Dzongkhags, interacted with Dzongkhag PSL committee members and also visited PSL clients in each district. The visits were used to gather insights on how to improve the PSL and also as a joint monitoring event. The RMA team was accompanied by representatives from the Dzongkhag PSL committees as well as branch level officers of the financial institutions and by members of the PSL Council. The visits have been instrumental in identifying challenges and further interventions required to improve the PSL.

B. KEY CHALLENGES AND WAY FORWARD

Capacity building continues to be an important area requiring continued focus and investment. The Dzongkhag PSL Committees shoulder a key responsibility in assessing PSL proposals. While committee members have good experience in the crop and livestock sectors,

limited capacity is observed in assessing non-agricultural proposals. There is also a general requirement for capacity building in business proposal assessments. Most clients also lack capacity in aspects such as accounting and book-keeping while ideas have not been very innovative so far.

While the level of commitment and due diligence of the Dzongkhag PSL Committees during assessment of PSL proposals have been commendable, there is a need to institute a formal accountability mechanism to incentivize efficiency and performance and ensure sustained efforts in monitoring and due diligence.

A common feedback from prospective clients have been related to long turn-around-times in processing applications especially by the financial institutions. For some financial institutions, the branch level staff do not have any authority to recommend or approve loans and their responsibility has been limited to collecting the PSL applications and forwarding it to headquarters. Delegation of some authority to branch level staff along with accountability may increase the efficiency of the assessment process while on the other hand financial institutions have expressed concern on the ability to fix accountability.

Another possible reason for the delay may be tied to the fact that targets for the financial institutions were non-binding. Consultations are underway to explore how all the financial institutions can participate in a fair manner in PSL lending. For 2018, two banks accounted for over 80 percent of the approved PSL projects. While these two banks are the oldest banks and have better presence in the districts, there is room for all the financial institutions to improve their participation.

While mandatory insurance was introduced to substitute for collateral or guarantor

requirements, clients have found the insurance premiums, especially for livestock, to be high and adding to the cost of funds. On the other hand, the insurance companies are exposed to high risk with premiums collected disproportionately lower than the sum insured. The insurance companies are exploring expansion of insurance products beyond the PSL while some form of cost-sharing with the government have also been suggested to reduce the cost for PSL clients. Alternative means to de-risk lending to the CSI such as alternate credit scoring models and credit guarantees need to be explored.

Many entrepreneurs, especially young entrepreneurs and startups are unable to produce the 30% equity required to access the PSL loans. While the PSL was a crucial step to encourage more inclusive participation of the financial institutions in lending to Bhutan's CSI sector, there is a need for product diversification and alternate financing mechanisms such as supply-chain financing, crowdfunding, venture capital and other forms of risk capital.

Finally, related to the institution of a culture of responsible borrowers, more work is needed on the possible identification and segregation of clients into willful defaulters, fund diverters and genuine failures with differentiated responses, ranging from efficient and timely punitive action to rehabilitation through mentoring, debt restructuring, etc. Further, since PSL lending is not backed by mortgage, risks to the financial institutions and avenues for recourse need to be further clarified.

An online system to process the PSL applications that is accessible to both the Dzongkhags and the financial institutions has been developed by the Department of Cottage and Small Industries and is currently being tested by the users.

The PSL initiative has gained immense

momentum in the first year of implementation itself with participation of all stakeholders and good awareness among the public. Going forward, we remain optimistic about the success of the PSL given the collective support from various partners.

Capacity building will be a key focus area for 2019 along with the continuation of joint monitoring programs. The implementation has not been without its challenges while many unforeseen issues have cropped up over the year. However, the approach of viewing the PSL Guidelines as a dynamic and live document that will be subject to a continuous process of evaluation and evolution ensures improvement and relevance.

PSL DATA-AT-A-GLANCE

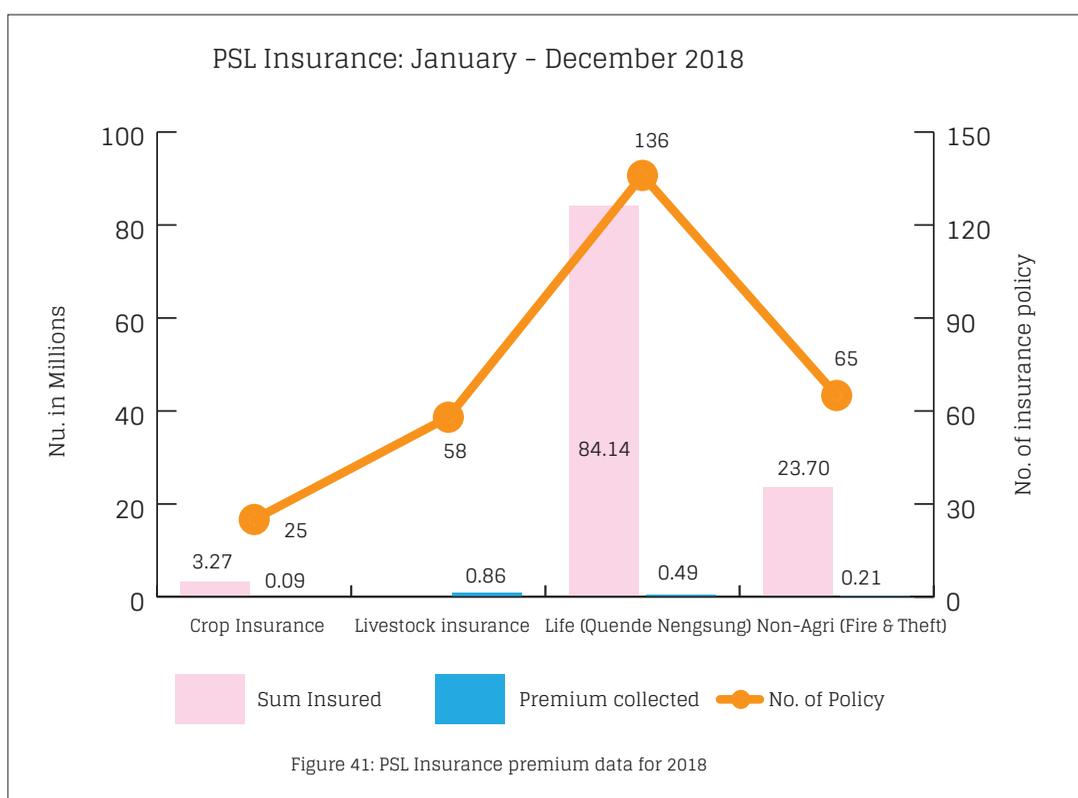
SL #	Dzongkhag	Summary of PSL Applications Processed: January - December 2018					
		No. of Projects Received by Dzongkhag	No. of Projects Approved by Dzongkhag	No. of Projects Received by FIs	No. of Projects Approved by FIs	Loan Sanctioned (Nu. in millions)	Loan Disbursed (Nu. in millions)
1	Bumthang	116	87	50	21	21.47	17.08
2	Chukha	40	37	38	21	30.73	25.40
3	Dagana	139	81	46	11	3.66	3.01
4	Gasa	10	9	9	5	1.98	1.98
5	Haa	40	36	51	15	7.19	4.73
6	Lhuentse	4	4	4	1	0.34	0.10
7	Mongar	10	7	8	1	0.45	0.41
8	Paro	82	46	44	18	16.24	13.71
9	Pemagatshel	61	59	11	2	10.55	5.00
10	Punakha	17	15	15	9	9.18	3.52
11	S a m d r u p - jongkhar	15	11	12	4	7.38	6.22
12	Samtse	106	99	70	29	9.99	6.77
13	Sarpang	117	112	50	28	13.35	11.28
14	Tashigang	46	36	33	21	16.59	11.43
15	Tashiyangtse	4	4	3	1	0.50	0.06
16	Thimphu	247	193	169	91	119.72	90.20
17	Trongsa	18	13	8	5	4.58	2.63
18	Tsirang	131	103	90	18	12.63	11.52
19	W a n g d u e -phodrang	24	17	22	8	13.78	11.31
20	Zhemgang	47	40	46	7	5.46	3.43
	Total	1,274	1,009	779	316	305.77	229.78

Table 5: Dzongkhag wise PSL Data



PSL Insurance Data: January - December 2018				
SI	Insurance Product	No. of Policy	Sum Insured (Nu. in Mill.)	Premiums Collected (Nu. in Mill.)
1	Crop Insurance	25	3.27	0.09
2	Livestock Insurance	58	10.76	0.86
3	Life (Quende Nengsung)	136	84.14	0.49
4	Non-Agri (fire & theft)	65	23.70	0.21
	TOTAL	284	121.86	1.65

Table 6: PSL Insurance data for 2018



**Facilitating Formalised Access:
Private Money Lending Rules
and Regulation (PMLRR) 2016**



VIII. Facilitating Formalised Access:

Private Money Lending Rules and Regulation (PMLRR) 2016

Private Money Lending

The Private Money Lending Rules and Regulations 2016 (PMLRR 2016) was promulgated in December 2016 by the Royal Monetary Authority of Bhutan and enforced from 1st April 2017, after giving existing money lenders three-months time to align their lending with the rules and regulations. The main objectives of implementing the PMLRR 2016 are to:

- a) Regulate private money lending business;
- b) Ensure that private money lending business is brought under the purview of the financial sector through the application of rule and regulation;
- c) Minimize threat to the financial system and enhance the effectiveness of monetary and management; and
- d) Prevent related litigations and adverse socio-economic consequences arising thereof.

The formulation of the Private Money Lending Rules and Regulations was done to streamline rampant practices of informal lending at exorbitant interest rates, lack of due diligence on the assessment of mortgages and collaterals in the absence of clearly drawn procedures to be followed by the lenders and borrowers. All these issues have been specified in the Private Money Lending Rules and Regulations 2016, including the stipulation of 15% interest rate per annum.

This interest rate was fixed by the RMA Board based on the relevant provisions of the Movable and Immovable Property Act 1999, which continues to be enforced by the courts of law in Bhutan. On enforcement of the Private Money Lending Rules and Regulations 2016 lenders can no longer levy an interest of more than 15% per annum and 1.25% per month. The rules and regulations on the private money lending business were drafted in close consultation with the Supreme Court of Bhutan and some eminent judges to comprehensively

cover all issues faced by the judiciary, lenders, borrowers, the public and the regulatory authority (RMA).

In keeping with the provisions of the Private Money Lending Rules and Regulations 2016, RMA, as of now, has registered four lenders - Drukda Capital, ChhimiD Finance and Investment, Thimphu Finance and Kunzang Choden - on fulfillment of specified criteria. The registered lenders are obligated to perform regulatory procedures such as reporting, disclosures and provide the most correct data to the RMA whenever required for review and monitoring.

Since registration, Drukda Capital lent money to 52 clients and made full recovery from 48 clients. ChhimiD Finance and Investment and Thimphu Finance lent money to 3 clients each. The availability of four private money lenders, in addition to the existence financial institutions/entities, has increased access to finance for people in need of funds at short notice and facilitated ongoing efforts towards financial inclusion.

The implementation of money lending rules has drastically reduced monetary litigation in the court and disputes among lenders and borrowers by preventing unwarranted confusion among interest groups with ceiling set at Nu. 500,000.00 a borrower and interest at not more than 15 percent. The RMA carried out public awareness programmes in all the 20 District Courts and 8 Drungkhag Courts and with the Gups of 205 Gewogs, Chairpersons of Dzongkhag Yargey Tshogdus, 20 Dzongdags, BCCI and media in 2017.

Awareness programmes on the rules and regulations were aired through Kuzu FM radio and BBS radio (live broadcast) four times and telecast thrice on BBS television for wider public awareness.

However, some segments of the illiterate population are still unaware of the rules and

regulations. The RMA is exploring other ways to reach out to them. RMA plans to review the existing rules and regulations and propose appropriate amendments to counter challenges faced by the RMA and by the lenders and borrowers and also explore interventions on whether PML has created or has scope of access to finance towards economic development activities.

The following table depicts more details of the PML portfolio data from 1st April 2017:

Names of Lenders	Registration certificate issued on:	No. of borrowers	No of live client/s	No of litigation
ChhimiD Finance & Investments, Thimphu	12th Sept. 2018	2	2	None
Thimphu Finance, Thimphu	12th Sept. 2018	3	3	None
Drukda Capital, Paro	20th March 2018	52	1	1
Kunzang Choden	21st May 2019	0	0	0



Alternate Source of Financing: The 'Jabchor' Platform for Equity Financing

Platform for equity financing

designed to facilitate and announce to the general public the concept of angel investors, towards the promotion of equity financing for young entrepreneurs.

engage and invite interested investors to participate in startup businesses, and also to offer effective

of financing, and to facilitate the creation of a platform to bring together angel investors and young entrepreneurs particularly start-up companies. On the other hand, there are well-established companies that have enough to spare and expect effective returns.

the Single Listing (PSL) initiative towards promoting primary production related projects and other projects have access to equity financing.

the RMA, Company Registry Division, and Tempra Tech Park Limited are

IX. Alternate Source of Financing: The ‘Jabchor’ Platform for Equity Financing

A. BACKGROUND

To humbly join the nation in commemorating 12 Years of His Majesty’s benevolent reign, the Royal Monetary Authority of Bhutan launched Jabchor - a platform to support youths in nurturing and scaling their business ideas through access to equity financing.

In keeping with the national responsibility of responding to concerns and aspirations that emanate from the Royal Throne, the RMA partnered with the Ministry of Economic Affairs, the Royal Securities Exchange of Bhutan, the Thimphu Tech Park Limited and the Bhutan Chamber of Commerce and Industry to launch “Jabchor” to promote innovation, creativity and enterprise among youth. The RMA continues to work closely with the Government and financial service providers to prioritize resources and initiatives to drive the financial inclusion agenda and promote appropriate access to formal finance.

While opportunities for access to finance continue to be strengthened, especially from the commercial banks and MFIs, the RMA continues to also explore more innovative platforms for access to finance through alternate source of financing such as angel investors, P2P and crowd funding. Enabling such innovative platforms would provide more choices and product diversity in addition to traditional bank borrowing.

Young entrepreneurs, particularly startups, are faced with the challenge of early start up equity despite having great business ideas.

On the other hand, there are well-to-do individuals and private companies that have capital to spare and expect effective return on investment. One innovative solution and access to equity finance that RMA, RSEBL, BCCI, Company Registrar and TTP jointly offers is the Jabchor platform – a formal alternative source of financing platform to bring together young entrepreneurs and angel investors.

JABCHOR ENTREPRENEURS



Mr. Sangay Goenpo, founder of Green Path - A private waste management business located at Trashigang



Mr. Dhan Kumar, founder of Eco-Waste Solution -A private waste management business located at Wangdiphodrang



Mr. Jigme Tenzin, founder of Housing. bt -A private business focused on real estate and house maintenance services based at Thimphu



Ms. Sangay Choezom, founder of Chechey Sanitary pads -A private business located at Thimphu



Mr. Nima Moktan, founder of Freelance Bhutan

Jabchor is an initiative to partner with innovative entrepreneurs and grow with them into a successful venture, based on trust and confidence supported by legally executed business partnership deed, recognized by laws of the Bhutan. The Jabchor ventures will help investors enter into a financial partnership with a trust worthy entrepreneur, who will function within a legally defined relation to help investors earn dividends, both in cash and goodwill.

B. SEASON 1 JABCHOR ENTREPRENEURS: INTRODUCTION AND REVIEW

On the first series of Jabchor platform, five business ideas that were carefully screened and groomed, were presented to investors for possible equity ownership:

The current status of Season 1 Jabchor entrepreneurs are as follows:

1. Housing.bt in Thimphu	Investor: Yarkay Group Pvt. Ltd Equity funding: Nu 2 million for 20% equity ownership
2. Eco-Waste solution, Wangdiphodrang	PSL loan of Nu. 7 million PHPA –Nu. 3 million DHI Acceleration fund – Nu. 0.5 million CSI Fund – Nu. 1 million
3. Green Path, Trashigang	Investor –Rigsar construction
4. Chey Chey sanitary pads in Thimphu	Equity funding of Nu.3.5 million at 49% equity ownership
5. Freelance Bhutan	Loden Foundation – Nu.0.6 million

Key Financial Literacy Programs



X. Key Financial Literacy Programs

A. INTEGRATION OF THE FINANCIAL LITERACY CURRICULUM

The National Financial Literacy Strategy (NFLS) 2018-2023 was launched in August 2018 to supplement the National Financial Inclusion Strategy (NFIS) 2018-2023. Educating the next generation is one of the main strategic priorities

under the NFLS and is targeted towards integrating financial literacy components into the mainstream formal curriculum.

His Excellency, Lyonpo J.B. Rai, Minister of Education, graced the MOU signing between RMA and the Royal Education Council (REC) for the financial literacy curriculum integration on



Figure 42: RMA-REC MOU signing for the integration of financial literacy into the main stream curriculum (31st December, 2018)

31st December 2018. Currently, the financial literacy curriculum mapping and integration are under way from grade PP to XII.

B. YOUTH ETHICS (YE) BANKING

Youth Ethics (YE) Banking is an incentive based school banking program conceived during the Global Money Week(GMW) 2017.

Ms. Tshering Yangchen, a grade VI student of

Jigme Losel Primary School (JLPS) in Thimphu, came up with a game design where she stated, ‘what if we were rewarded with Dummy Bank Notes instead of stars as when we perform well in school activities?’

The idea was further conceptualized and formalized into formulating the YE Banking guidelines. YE Banking is also co-funded by the Savings Bank Foundation for International Cooperation (SBFIC), Germany.

With YE Banking, children earn Dummy Bank Notes bearing Bank Points through school program on academics, co-curricular activities, values and ethics. A partner bank is also introduced, with MOU signing for banking services, such as opening of accounts, observing banking days and other normal banking services. Annually, RMA incentivizes the bank points into real cash with adaptive pegged value to be deposited into their bank accounts. Some salient features of YE Banking are:

- Incentive and inclusive based program
- Mass participation of children; every child is benefited
- Linked to general and existing school's ethics and values
- Financial Institutions support and hands on experience

- School sustainable programs such as one school one project
- Inclusion of sub-program package

During GMW 2018, YE Banking was piloted to four recipients: Arekha Middle Secondary School under Chukha Dzongkhag; JLPS in Thimphu; Wangsel Institute for the Deaf in Paro; and Young Volunteers in Action (Y-VIA Group) in Gelephu. The Financial Inclusion Secretariat (FIS) of RMA further replicated the program to 12 more schools across the country as shown in the following map: Phobjikha CS, Wangdicholong LSS, Tshangkha MSS, Dechenling LSS, Lauri PS, Sakteng LSS, Laya CS, Khaling Minsel School, Tabadramati LSS, Goshing PS, Zangkhar PS and Umling LSS. There are currently 16 schools adopting the YE Banking program.



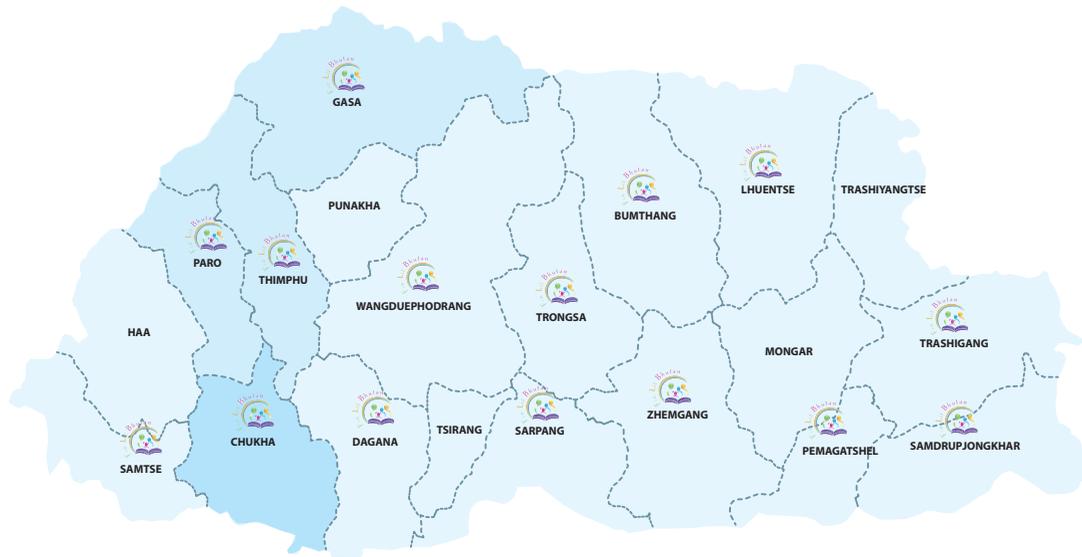


Figure 43: YE Banking pilot programs

C. STUDENTS BUSINESS SEEDLING (SBS) PROGRAM

His Majesty’s visited Desi High School on 1 March 2018 and commanded RMA to organize a student business idea competition to promote innovative business and introduce entrepreneurship through creative and

innovative thinking. SBS program was thus conceptualized to provide hands-on experience with effective learning on entrepreneurship skills at an early age. The program includes design thinking workshops, prototype building, mentoring sessions, field visits, development of simple business proposals and pitching business ideas.



Figure 44: Awarding of HM and RMA scholarship support and certificates at Desi High School



A total of 23 students were selected to pitch ideas and the top three were awarded HM’s scholarship and two more were awarded RMA’s scholarship support. The program is now expected to roll out to tertiary and vocational

institutes in Bhutan.

D. LITTLE CEO’S PROGRAM

Little CEO’s program, inspired by ‘More than a Lemonade Stand’ of e-seedling programs in the US, is a sub-program of SBS, targeted and customized for children aged 13-15 years and



organized during winter vacations. RMA, in collaboration with the Financial Institution Training Institute (FITI), organized the first little CEO's program in January 2019. A total of 12 children took part where they underwent intensive grooming and stimulation of their business ideas.

The program consisted of fun training methodology, including field trips and real experience of selling products to enhance their innovation and creative skills.

E. 2017 FINANCIAL LITERACY ROADSHOW PROGRAM

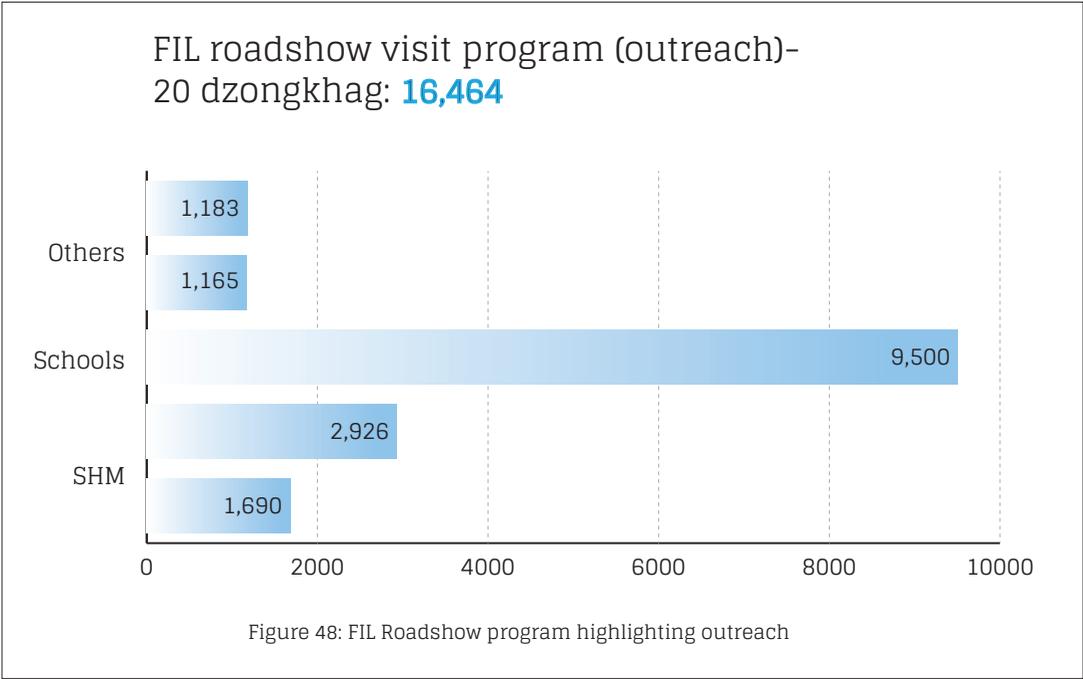
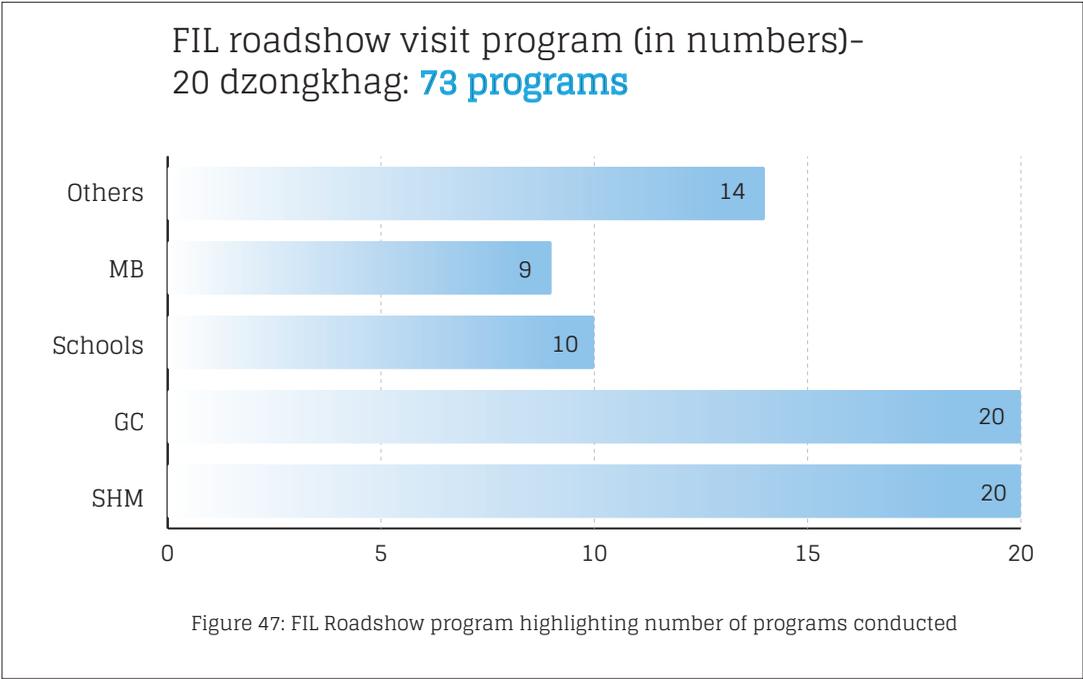
In 2017, a financial literacy roadshow was carried out in the 20 Dzongkhags led by the Honorable Governor of RMA in collaboration with Financial Institutions. The roadshow focused on sensitization of the Priority Sector Lending (PSL) and general financial literacy to Dzongkhag sector heads, public and monastic bodies.

The team covered 20 Dzongkhags and did 72 programs reaching 16,464 participants. Figures below represents total number of programs and outreach to Sector Head Meetings (SHM), Gewog Community (GC), schools, Monastic Body (MB) and other vocational and tertiary institutes.



Figure 46: Snapshots of the financial literacy roadshow 2017

Figures below represents total number of programs and outreach to Sector Head Meetings (SHM), Gewog Community (GC), schools, Monastic Body (MB) and other institutes such as vocational and tertiary sectors.



F. GLOBAL WEEK (GMW) CELEBRATION

2019 Global Money Week is a part of a global celebration organized by Child & Youth Finance International (CYFI) based in Amsterdam, The Netherlands. More than 130 countries across the globe celebrate GMW towards enhancing youth's financial inclusion. The international theme adopted for 2019 GMW is 'Learn.Earn. Save.'

The Authority in collaboration with Ministry of Education, all Financial Service Providers (FSPs), schools and other relevant agencies, organized a series of nation-wide events from 25 – 31st March, 2019 to celebrate Global Money Week 2019. This year's GMW engagement created a huge impact across the nation as it gathered enormous support from various stakeholders for promoting youth and

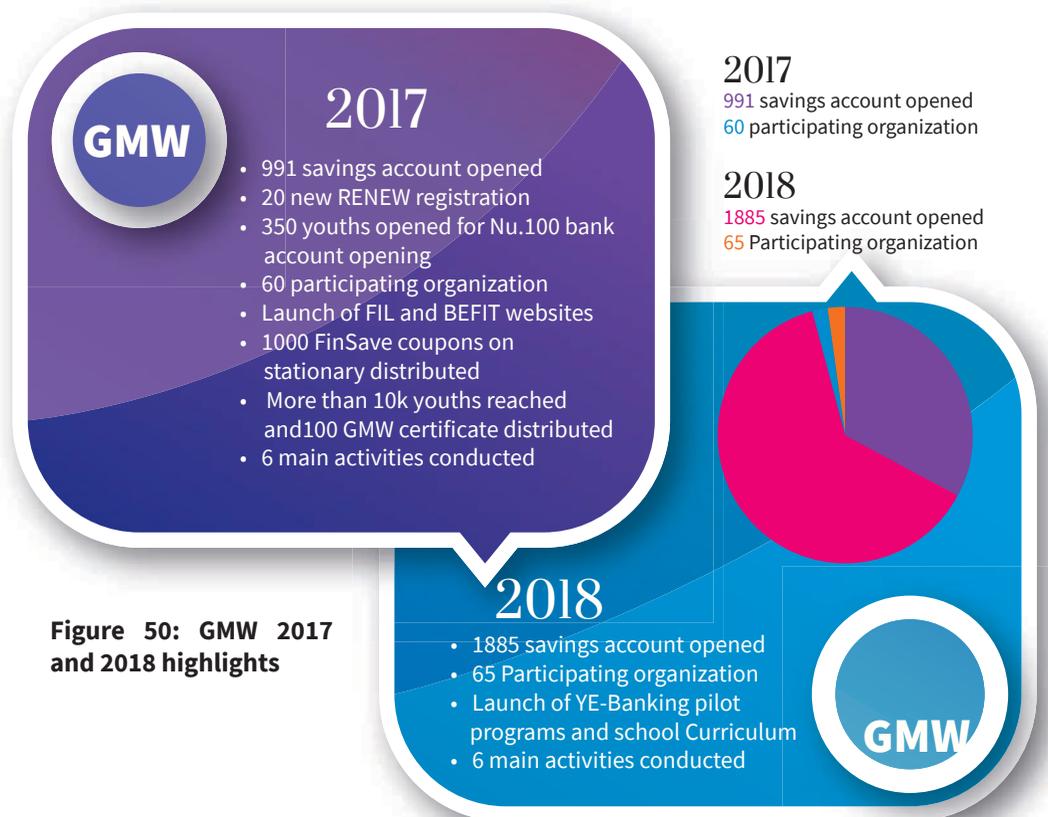


Figure 50: GMW 2017 and 2018 highlights

children's Financial Inclusion. The Authority is pleased to share some of the GMW nationwide initiatives undertaken as follows:

1. Formal directives from MOE encouraging all schools to observe GMW as a part of school's regular calendar events. As a result, we were thrilled to receive overwhelmingly creative responses and interest. This encouraged available Financial Institutions to support and visit schools.
2. The Authority hosted the 2019 international GMW in Sakteng, one of

the remotest gewogs, in Trashigang Dzongkhag, this year. An introduction and a TOT program on Youth Ethics (YE) Banking was conducted at the Sakteng Lower Secondary School. A parallel program was also conducted to engage children with an art competition, speech bubble and story writing challenges. The team also met with the villagers to sensitize them on e-money and opened 30 accounts instantly. Villagers were also sensitised on Priority Sector Lending.

Launch of Youth Saver 1K Milestone Redeemable Token

Youth savers Nu.1K Milestone Token is a 2019 Global Money Week celebration initiative of the Royal Monetary Authority under the Youth Ethics (YE) Banking program supported by the Savings Bank Foundation for International Cooperation (SBFIC) Germany, to promote youth's greater engagement towards financial inclusion.

Within the initiative, children aged 5 to 18 years, can participate in the Nu.1K Milestone and redeem attractive incentives from the Authority by completing each milestone tasks -level wise.



The Authority hosted GMW at Trashigang Dzongkhag (away from the capital) this year. The team went to celebrate at one of the farthest Gewog, the beautiful Sakteng Village of Highlanders.

The team also met with the village people to sensitize on e-money and opened 30 accounts instantly. Priority Sector Lending was also sensitized accordingly.



3. A Youth Saver 1K Milestone Redeemable Token was also launched as an additional program for children and youth.

This year's GMW engagements created a huge impact across the nation as it gathered enormous support from various stakeholders.

The opening event was graced by the Trashigang Dzongda, CEO of T-Bank, CEO of Royal Securities Exchange of Bhutan Ltd and participants from FSPs and other stakeholders.

e-Money sensitization and facilitating account opening in Sakteng Gewog

After the e-Money Issuer Rules and Regulations came into effect from October 5, 2017, the two Telecoms, Bhutan Telecom and T-cell, were licensed by RMA on 5th October, 2018 and 7 February, 2019 respectively. Bhutan Telecom today has 5,363 registered e-money users and T-cell is yet to start operations.

The Department of Payment and Settlement System (DPSS), RMA, is also working closely with the telecoms to help expand e-Money services especially in areas where financial institutions do not have access to extend financial services beyond traditional branch-based channel.

The main purpose of conducting sensitization on e-Money in Sakteng Gewog, in collaboration with Financial Inclusion Secretariat, was to reach those segments of society that do not

have access to banking services.

Most importantly, it was initiated to extend financial services beyond traditional branch-based channels to the domain of every day transactions and to ensure the benefit of e-Money user in carrying out financial transactions. It was also imperative for the Department of Payment system to educate the rural community of Sakteng to understand the payment system that has transitioned from barter to coin to cash and finally digital payment.

The team included a Marketing Officer from regional Bhutan Telecom (BT) office in Mongar Dzongkhag and a technical staff from Trashigang BT office to advocate and pitch the e-Money services to the public.

The following points were presented to 200 people gathered in the GYT hall in Sakteng gewog:

a) Permissible Transaction:

- I) Domestic fund transfer
- II) Cash in and cash out transactions
- III) Utility bills payment
- IV) Top up facilities

b) Transaction limit:

- I) Aggregate daily transaction limit of Nu. 10,000
- II) Maximum balance limit of Nu. 15,000
- III) Aggregate monthly load limit of Nu. 60,000

The team also presented the following points:

- I) Procedures on opening of e-money



- account which is known as B-Ngul and its required KYC norms
- II) Types of financial services provided under B-Ngul system
- III) Cash in and cash out facilities
- IV) Top up facilities and services
- V) Advantages of B-Ngul system
- VI) Information on its nearby agent such as Rangjung BT office, Bartsham extension office and Trashigang branch office

Key output of the event:

DPSS collaborated with Bhutan Telecom to pitch the e-Money services in Sakteng gewog following which BT staff were made to facilitate public in opening the B-Ngul Account. As a part of the opening event, 30 e-Money accounts were opened by the existing BT SIM card subscriber and 5 people subscribed new SIM card which were also registered for e-Money services.

Although many people turned up to open e-Money account most did not fulfil KYC norms as they were not carrying Citizenship Identity Card.

Contributed by: Pema Dorji, Payment System Officer, RMA

RMA's Department Quest

The RMA's Governor's Office organized the "RMA Department's 2019 GMW QUEST – "Learn. Earn. Save" for RMA staff during the 2019 GMW. As part of the 'Global Money Week' celebration, the Priority Sector Lending (PSL) team from RMA visited CNR College, Lobesa, to sensitize students and faculty on the Priority Sector Lending scheme and to discuss collaboration between the College and RMA in the field of RNR-research.

The College has the potential to complement the PSL initiative to transform farming into "enterprise farming". The RMA team was also

joined by our first PSL client - farmer Kinley from Shah Kothoka - who shared his experiences with the students. The RMA was also joined by REDCL Project Officer who presented their products, procedures and success stories.

The Governor's Office (GO) visited Tara monastery, Paro, to celebrate Global Money Week. The team gave thematic session on 'Private Money Lending Rules and Regulations' and 'Central Registry for Secure Transaction' to 25 monks residing at the monastery. The team screened an AV clip on Private Money Lending Rules and Regulations 2016.

The Department of Information and Technology visited Wangbama Central School, Thimphu, to mark the Global Money Week. The Department gave a thematic talk on Digital Financial Services aimed at educating the next generation on the important role of Digital Financial Services and to develop digital skills.

The session, attended by around 100 12th grade students, saw an interactive presentation, Q&A and quiz competition. The winners of the quiz were awarded a piggy bank with a modest amount of money to emphasise the power of savings and to inculcate the habit of saving.

The Department of Currency Management conducted an awareness program on Financial Literacy at Simtokha Dzong. The Department presented to the monks an Introduction to GMW and highlighted the Evolution of Money in Bhutan, the Security Feature of Banknotes, Clean Note Policy, Savings and Benefits of Digitalization in Banking.



The Department of Administration and Finance of Royal Monetary Authority celebrated Global Money week 2019 with the Royal Institute of Health Sciences on the theme "Learn. Earn. Save."

The Department highlighted the following:

1. Preparation for old age, sickness and mishaps.
2. Roles and responsibilities of a civil servant.
3. Consumer Protection.
4. Good financial management and discipline.

Department of Banking, RMA, celebrated the Global Money Week at Thangthong Dewachen Nunnery Zulikha, Thimphu.

The department organized the following activities:

1. Declamation – presentation on the roles and responsibilities of the Central Bank and commercial banks and the benefits of saving through declamation.
2. Debate on "Savings is important for every individual".
3. Experience sharing by the Dratshang on the management of cash.
4. Screening of Global Money Week 2018 AV clip.



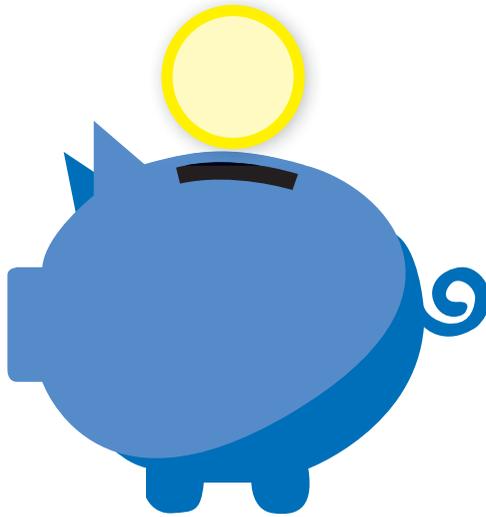
STUDENT AND YOUTH VISIT PROGRAMS

RMA IN COLLABORATION WITH BDBL INTRODUCED YOUTH ETHICS (YE) BANKING IN SAKTENG LSS



PIGGY BANK FOR THE STUDENTS OF TRASHIYANGTSE AND SAMDRUPJONGKHAR





PIGGY BANK ACCOUNT

To encourage children to build saving habits and widen his/her financial knowledge, BNBL has come up with PIGGY BANK ACCOUNT.

ELIGIBILITY:

Children aged 4 – 18

BENEFITS:

Encourages a child to building saving habits from childhood.

A child can also open Piggy Recurring Account and Piggy Bank Term Deposit (FD) Account.

Available of cute passbook and TD certificate to keep track of savings.

No. of accounts opened:

Trashiyangtse: 124

(Trashiyangtse LSS and 5 other schools)

Phuntshothang MSS: 149

(Samdrup Jongkhar)



RSEBL meets students of Sherubtse College and Jigme Sherubling Central School

Team RSEBL presented on the background of the company and its present status.

They also shared information about stocks and shares and highlighted on the importance and benefits of investing in shares, dividends, their value-added e-services.

Contributed by Dawa and Kuenzang Choden, RSEBL

T BANK's Initiatives during GMW 2019



As a part of Financial inclusion, on invitation from RMA, T Bank Limited observed GMW 2019 in dzongkhags where it has branches, to inspire school children and young people to learn about money matters, livelihood and entrepreneurship.

FITI's session with the Artisan National Institute of Zorig Chusum

FITI celebrated GMW 2019 with the National Institute of Zorig Chosum (NIZC), Thimphu. Team FITI delivered thematic session on Financial Literacy focusing on needs and wants, savings, budgeting and entrepreneurship.

ATTENDEES:
23 TEACHERS
240 STUDENTS

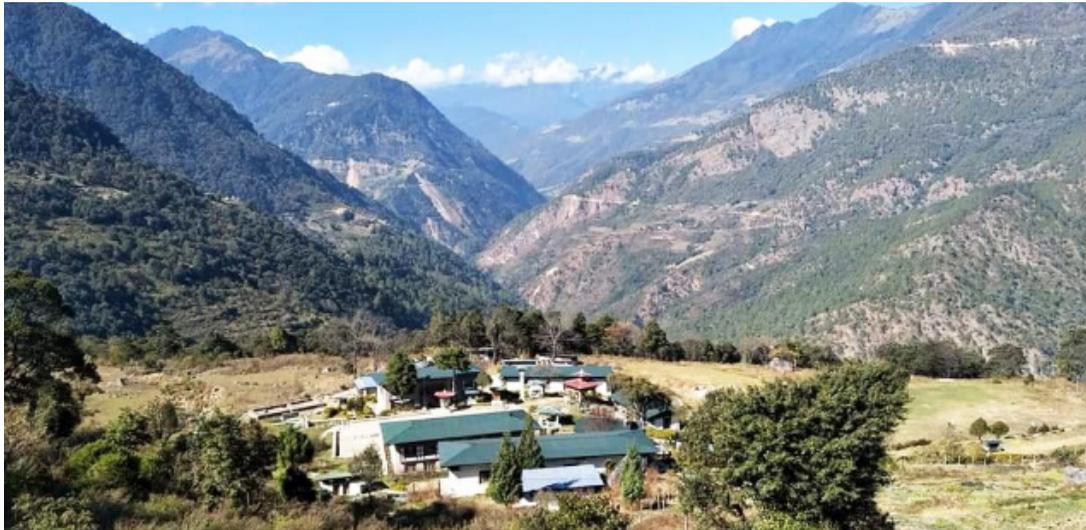
After the celebration of GMW in Trashigang on 25th March 2019, T Bank has held awareness programs at:

- Odzorong CS on 27th March, 2019
- Jampeling CS on 28th March, 2019
- Khaling CS on 29th March, 2019

Below are the number of accounts opened by our branches during GMW:

- Samtse Branch 380 accounts
- S/Jongkhar Branch 60 accounts
- Trashigang Branch 43
- Wangdue Branch 40 accounts accounts
- Mongar Branch 20 accounts





ABOUT THE SCHOOL:

Zangkhar Primary School, one of the earliest institutes in the Kurtoe region, entered the 56th year of its journey in 2018. It was the vision of His Majesty Jigme Dorji Wangchuck, the third Druk Gyalpo of Bhutan, which led to the creation of numerous institutions of learning across the kingdom. What started as a small public school in the 1960's has today blossomed into one of the leading primary schools in Lhuntse Dzongkhag.

Year of Establishment :1962
Name of Principal: Chhimi Rinzin
Number of Teachers: 9
Number of Students: 126
Total No. of students studied since its inception in 1962: 2751

GMW activities at Zangkhar Primary School:

- 25th March, 2019:
Opening event with thematic talk on financial literacy
- 26th March, 2019:
Inauguration GMW Board
- 27th March, 2019:
Lesson on savings, budgeting and needs and wants
- 28th March, 2019:
Old Bhutanese currency display
- 29th March, 2019:
Art Competition
- 30th March, 2019:
Orientation on YE-Banking to students
- 31st March, 2019:
Closing ceremony of GMW 2019

Throughout the week, a series of events and programs were conducted across the country.



Wangduechhoeling Lower Secondary school in Bumthang

Global Money Week was celebrated in Wangduechhoeling Lower Secondary School by conducting the following programs:

- Speech on financial matters by Guest Speaker from BOBL.
- Speech on financial matters by the students of Class eight during assembly.
- Quiz competition on financial matters among Class VIII students.
- Art competition on GMW theme “Learn. Save. Earn.” by Class VII students.

No. of direct attendees:
1023 (Students and teachers)
No. of indirect attendees:
2 BDBL staffs and 20 parents



Contributed by: Sangay, Principal, Chuzagang Primary School

Chuzagang Primary School, Sarpang

Looking at the way students spend money on junk food, the school felt the need to give students awareness on saving money which not only minimize waste in the school compound but also help them to develop saving habit. The school administration, with all the class teachers, gave awareness to the students about saving. The students then consulted with their parents about opening bank accounts. The school in collaboration with Bhutan National Bank Limited (BNBL) opened piggy bank accounts for the students. BNBL officials also gave a thematic talk on Financial Literacy to all students and parents.

The school conducted various programs such as:

- Awareness on money saving
- Talk on Banking
- Drawing Poster Competition by students on the topic My Money
- Opening of piggy account for students
- Walk with theme LEARN-SAVE-EARN



Entrepreneurship Day collaborating with Global Money Week.

AIM: To create awareness on rules and regulations that may help clients run businesses smoothly and successfully.

RENEW Microfinance's objective is to improve the living standard of people in rural areas. This year we targeted clients of Tsirang branch as Tsirang is well known for its agriculture products. We collaborated with BAFRA and Environmental officials of Tsirang district. They explained the importance of knowing the rules and regulations of Bhutan.

The aim of this discussion was to equip clients with the general knowledge of rules and regulations so that it would help them in running their business smoothly and successfully. They can LEARN to work alongside the government, SAVE time and money by avoiding misconceptions and EARN a profitable and honest living in compliance with the rules and regulations.

Druk PNB celebrated GMW 2019 with WCCL

To celebrate the Global Money Week 2019, Druk PNB Bank Ltd, with a view to facilitate and enhance financial inclusion opportunities for the youth of Bhutan, visited the Woodcraft Centre, Thimphu.

It's Druk PNB's endeavour to educate the youth at Woodcraft Centre on various components of banking, besides briefing them about developing their own skills necessary for becoming successful business entrepreneurs.

PRESENTED ON:

1. Youth and importance of saving habits in their prime age.
2. Young Entrepreneurs and their money management requirements.
3. Customer Care: Rights and responsibilities of the potential customers viz a viz Banks,
4. Various Banking Services, viz. Deposits, Remittances, ATM cards, Mobile Banking, Internet Banking and the upcoming products like Point of Sale, Credit Card, etc. Explained how youth can make the most of these services as convenience banking tools for strengthening and enhancing their business.
5. Loan Services: Introduction to various loan products, with focus on the youth and the importance of timely repayment of loans. Creating awareness on the roles and responsibilities of the borrowers and guarantors.



Kuendrel.bt jointly with NPPF, BIL, RSEBL, DCSI and Green Road programme for entrepreneurs at Start Up Centre.

With the Start-Ups

The event was organised and celebrated by kuendrel.bt in collaboration with DCSI, Bhutan Insurance Ltd, NPPF, The Green Road and RSEBL.

The participants were Incubates from the centre and aspiring entrepreneurs from outside. We had a very interactive learning and sharing session.

KEY AREA DISCUSSED AT THE START UP CENTRE

1. Importance of credit financing (loan), Credit discipline and worthiness, how to become a credit worthy borrower, how your bad credit discipline and resulting NPL would affect future opportunities
2. Why save for future, wise investment, avoiding unnecessary expenses
3. NPPF shared about their products and services and why it is necessary to invest for pension
4. BIL came with some protection schemes for our entrepreneurs, sensitized about their products
5. RSEBL shared about stocks, shares, importance and benefits of investing in shares, dividends, their value-added e-services

XI. Supplementary information

A. About AML/CFT and Tiered KYC

FATF Recommendation 1 mandate jurisdictions to assess risk and apply risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. Simultaneously, FATF Recommendation 10 allow jurisdictions to apply simplified customer due diligence (CDD) measures in situations where money laundering and terrorist financing risk is low.

The Anti-Money Laundering and Countering of Financing of Terrorism (AML/CFT) Act 2018 and its Rules and Regulation 2018 provides financial institutions (FIs) to apply RBA, based on which, a simplified CDD measures may be adopted,

subject to approval from the supervisor.

Taking an RBA to AML/CFT safeguards will avoid having excessive, disproportionate and unnecessary requirements, including those that may hinder access to appropriate services for under-served groups. Subsequently, the FIs can adopt the tiered KYC regime, which actually seeks to implement a flexible account opening requirement for low-value and medium-value account holders subject to caps and transaction restrictions. In Bhutan, citizenship identity card (CID) issued by the Ministry of Home and Cultural Affairs is one formal document for identification. To obtain a CID, however is not expensive and cumbersome, so it must be made one of the mandatory requirements.

Financing Risks

AML/CFT Act of Bhutan 2018

Management of Money Laundering and Terrorist

51. A Reporting Entity shall establish a risk-based approach to prevent and detect money laundering and terrorist financing.
52. A Reporting Entity shall:
Undertake an assessment of money laundering and terrorist financing risks;
and
Record findings of the risk assessment in writing and make it available to its Supervisor for review.
- 53. A Reporting Entity:**
 1. Shall apply customer due diligence to all customers in accordance with their Anti-Money Laundering or Countering of Financing of terrorism prevention program; and
 2. May apply simplified customer due

diligence to low risk customers with the written approval of their supervisor.

AML/CFT Rules and Regulation 2018

MANAGEMENT OF ML AND TF RISKS

21. The risk-based approach to be undertaken by reporting entities pursuant to section 51 of the Act shall involve the assessment of ML and TF risk and the management of this risk. Where risk is found to be high enhanced measures, including enhanced customer due diligence is required. Where risk is found to be low simplified due diligence measures may be employed, in accordance with the Act and this rules and regulations.
22. When a reporting entity undertakes an

assessment of its ML and TF risks pursuant to Section 52 of the Act, it shall:

1. Take appropriate steps to identify, assess and understand its ML/TF risks in relation to its customers, the countries or geographical areas in which it operates and its products, services, transaction modalities and delivery channels;
2. Consider all the relevant risk factors before

determining the level of overall risk and the appropriate level and type of mitigation to be applied;

3. Keep the assessment up-to-date through undertaking periodic reviews; and
4. Have an appropriate mechanism to provide up-to-date risk assessment information to its supervisory authority.

Sample Tiered KYC Approach FIs can take

Tiered	Threshold Description	Customer Identification requirement
Level 1 or Low Value Accounts	- Account can be opened at branches, agents or through the web; - Maximum single deposit limited to Nu. 10,000 and maximum cumulative balance of Nu. 200,000 at any point of time	-CID -Passport size photo
Level 2 or Medium Value Accounts	- Account can be opened only at branches (face to face) - Maximum single deposit limited to Nu. 50,000 and maximum cumulative balance of Nu. 500,000 at any point of time -Due diligence to be carried out with cross-checking of information against a valid ID document and against a public database.	- CID - Passport size photo Occupation -Address (present and permanent)
Level 3 or High Value Accounts	- account can be opened only at branches - No cap and restriction on maximum single deposit and maximum cumulative balance at any point of time -Comply with full KYC requirements	- CID - Passport size photo - TPN - Source of fund -Anticipated annual income - Introducer

While opening accounts as described above, the customer should be made aware that if at any point of time, the balances in all his/her accounts with the bank exceeds the stated threshold, no further transactions will be permitted until the additional KYC is completed.

In order not to inconvenience the customer, the bank must notify the customer when the balance is about to reach the threshold amount (Nu. 10,000 difference to the threshold) that appropriate documents for conducting the KYC

must be submitted otherwise the operations in the account will be stopped.

Note: For information, the RBI has issued directive simplifying KYC procedure for opening accounts for those persons who intend to keep balances not exceeding Rs. 50,000 in all their accounts taken together and total credit in all the accounts taken together is not expected to exceed Rs. 100,000 in a year. If the amount exceeds the threshold, then full KYC is required.

Central Registry for Secured Transaction is a

B. About Central Registry

division under the Royal Monetary Authority of Bhutan established with the executive directive from the Royal Government of Bhutan in accordance with Part VI of Moveable and Immoveable Property Act of Kingdom of Bhutan, 1999. It will act as a single and centralized repository for all security interest in moveable property.

The purpose of the Central Registry of Secured Transaction (CRST) in moveable property is a computer registry that serves the entire Kingdom of Bhutan. The CRST allows both individual and institutions to record their financial interest in moveable goods (vehicles, stocks, shares, etc.)

Central Registry was launched in August 2013 and went live in July 2014. After the system went live, financial institutions were provided with 6 months for data entry where they initially started with vehicle registration for the first three months and other moveable collaterals in the remaining three months.

The fees were applicable only for the loans given after June 30th 2014 by the financial institutions. The Central Registry for Secured Transaction was reverted to Royal Monetary Authority with effect from 1st July 2018.

Functions of Central Registry

The Central Registry acts as a single, centralized repository for all security interests on moveable goods.

These are essential purposes served by a CR which are as follows:

1. To make information available to the public on secured transactions on moveable property only.
2. To determine the priority of conflicting claims over the same property subject to multiple security.
3. Provide a public service to anyone wishing to make inquiries of possible existing relationship between a creditor and a debtor as it relates to movable collateral

4. Respond to inquiries, collect and reconcile fees, provide assistance to when required, issue all within the prescribed time frame as set out in the Statute.
5. Oversee the administration of the secured transactions law in other jurisdictions
6. Keep current with best practices in the area of electronic registries
7. Provide information and training to users of the system, and other public institutions,
8. Maintain and refine further development of legal framework and Registry operations

Types of collateral	Individual	Institution
Two-Wheeler	97	8
Light Vehicle	9575	127
Medium Vehicle	354	23
Heavy Vehicle	2899	417
Heavy Bus	61	15
Medium Bus	61	17
Taxi	2222	4
Machinery and Equipment	897	318
Power Tiller	7	0
Tractor	54	7
Stocks and Inventory	210	145
Shares and Securities	76	7
Project Assets	52	87
A/c Receivables	3	3
Plants and Machinery (Stone Crushers, etc.)	61	38

Table 7: Registered Security Interest as of 6th of April 2019.

The Central registry provides notice to potential lenders of credit of all the debtor's prior security interests in moveable property.

Individual: As per CRST regulation means a natural person who holds an identification number/passport number/work permit.

Institution: As per CRST regulation means a juridical person being issued with Certificate of Incorporation by the Registrar of Companies upon incorporation under Companies Act of Bhutan.

The benefit of the registry is that it improves the access to credit by allowing more types of moveable collateral to be used to avail loan. The registry allows more certainty for secured parties on where they stand in terms of priority in relation to other secured parties having the same moveable collateral pledged.

Now with the new enhanced system, it also allows potential purchasers to search the registry to ensure that the goods that they might purchase are not subject to a loan.

Lenders can also check to ensure that there are

no previously filed liens against goods that the debtors may be offering as collaterals.

With the above benefits, more collaterals (which are not listed above) can be used for the access to finance in order to improve the state of Micro, Small and Medium Enterprise (MSME) Sector Development Program (SDP) and entrepreneurs as Bhutan has a modern secured transaction law (Movable and Immovable Property Act 1999) and a newly enhanced CRST system which can perform a dramatic impact on the economic development.

In other countries the Secured Transaction Registry is also known by other names, such as, Movable Property Registry, Collateral Registry, Personal Property Registry and Movable Property Security Interest Registry.

The purpose for all these Registries is to provide the basis for free-flowing credit markets, reducing the potential losses lenders face from non-repayment while using movable property as collateral.

XII. Conclusion: Scope and opportunities

The state of financial inclusion provided in this report highlights the current state and progress of the past five years in terms of supportive regulations promoting financial inclusion, infrastructural access points, access to basic financial products and services, digital channels, alternate sources of financing and financial literacy.

Financial inclusion efforts have been prioritized at the national level with joint support from the key government agencies and financial service providers. The RMA has taken several measures to diversify and enhance financial inclusion towards strategic economic development. The National Financial Inclusion Strategy provides a road map for Bhutan to collectively plan and strategize financial inclusion initiatives to enable regulatory interventions, enhance appropriate financial products and services through digitally defined solutions to the unreached and underserved population in the country.

The report also explores opportunities for deepening financial inclusion in the next three to five years and includes the following:

- ❖ **Recreating Appropriate financial products:** Financial inclusion in Bhutan currently measures at 64%. Within the basic financial products, the scope of deepening inclusion will relate to increasing more access to savings, productive credit and micro insurance for agriculture related products. All FSPs must focus on financial service delivery to geographical areas other than Thimphu. Bhutan's financial inclusion target is 85% by 2023.
- ❖ **Improving access points:** To promote financial inclusion to the unserved and underserved, access points particularly

agent banks, could be promoted.

- ❖ **Introducing new market players:** Bhutan currently has smaller but adequate numbers of financial players catering to a segment of adult population. But there is scope for introducing new and effective players strategically to increase access to finance such as the existing postal network for financial delivery. There is also scope for including cooperative and self-help groups to the formal financial service provider's list.
- ❖ **Focusing on innovative alternate sources of financing:** Alternate sources of lending is very new to Bhutan. Innovative lending such as increasing the movable collateral registry list with warehouse receipts could be one solution to drive access to finance particularly for farmers. Other innovative access to financing scope extends to crowd funding, angel investors, partial credit guarantee schemes, venture capital, etc.
- ❖ **Leveraging Fintech and DFS:** Fintech is another area of accelerating digital initiatives and technologies for financial inclusion. Sandboxing regulations could be targeted to attract innovative and Fintech based ideas for access to finance. There is untapped potential in fostering interoperability, particularly with QR code and wallet services. There is scope of promoting e money to be also included in the FI value store transactions. IGF is another area for sustainable financing to eliminate exclusion.
- ❖ **Enhancing financial literacy and consumer protection:** Enhancing financial literacy is one key area to promote financial capabilities in terms of improving financial knowledge, skills and behavior towards

making effective financial decisions. While speeding and promoting financial inclusion, all policies must focus on balancing growth with consumer protection capacity in terms of having in place effective redressal mechanisms, fair market conduct and inclusive treatment, consumer information privacy and extending rights and responsibilities of both consumers and service providers.

- ❖ Enhancing Effective measurement: There is indeed a need for a demand side survey to gauge the financial inclusion penetration in the underserved and unserved population for further supportive interventions and

redefining financial inclusion objectives where relevant.

The possibilities listed above can extend to the requirement and demand in keeping with the country's situation and development policies.

To meet financial inclusion objectives, collaboration and collective efforts are key to drive access to finance. All agencies outside the government should also partner to supplement Government initiatives for overall inclusive development and attainment of the country's sustainable goals.

