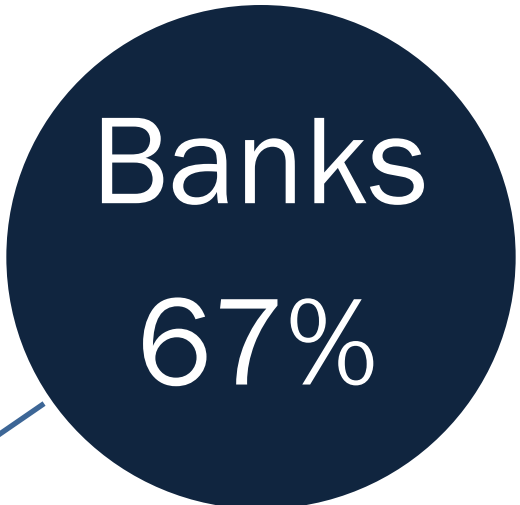


Strengthening Financial Sector in Maldives



Maldives Finance Forum 2016

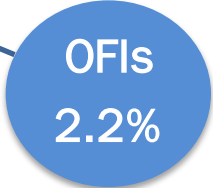
Financial Sector Total Assets



The financial system in Maldives is shallow, dominated by banks

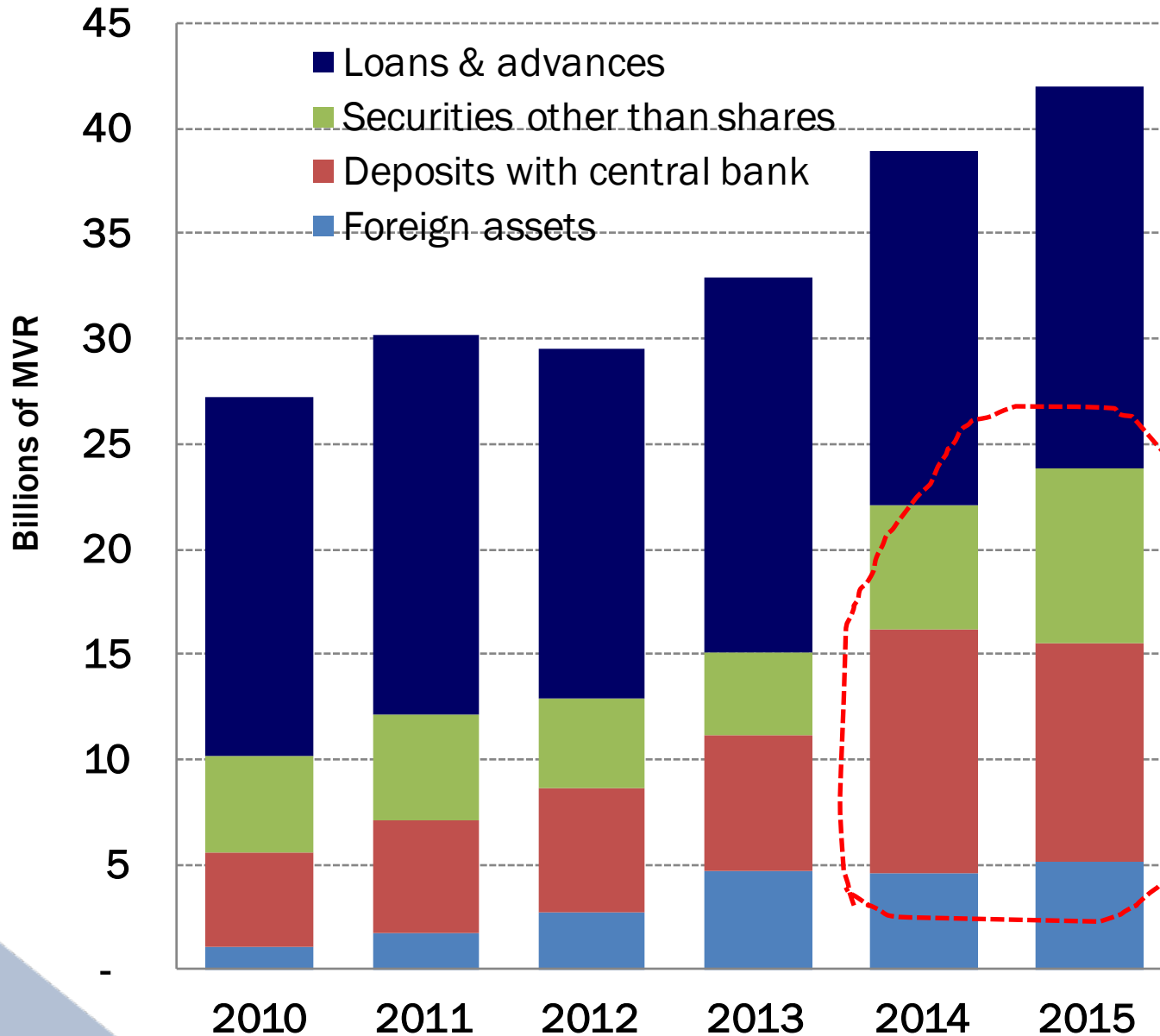


Capital Market is underdeveloped with limited market participants



Services provided by OFIs is limited

Commercial Banks Assets Portfolio Allocation Trends



*Moderate growth
in private sector
credit*

Private Sector Loans & Advances by Commercial Banks

77%

75%



2009

10%

17%

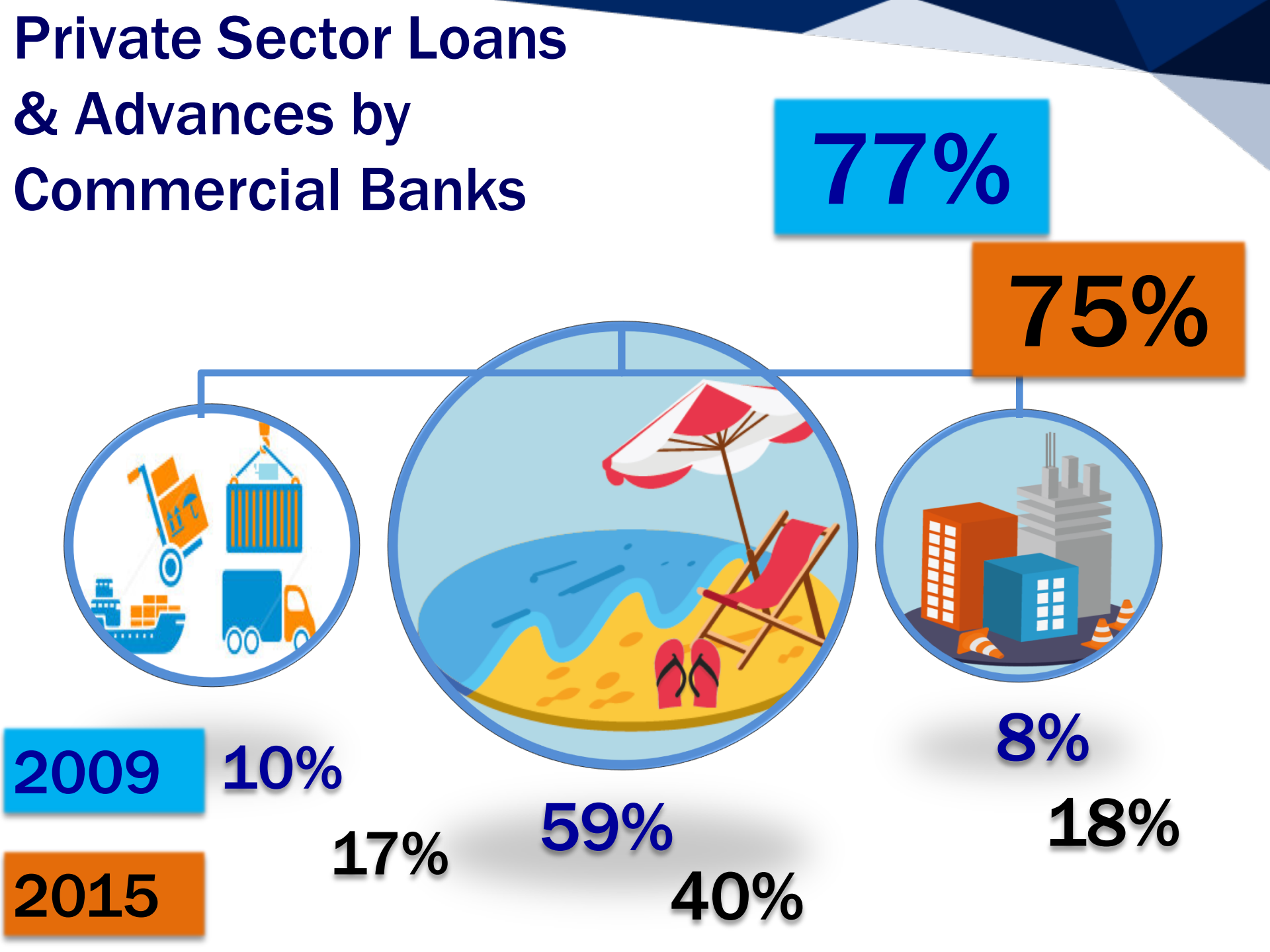
59%

8%

18%

2015

40%



Financial soundness indicators

March 2016

Relatively stable but the still-high NPLs

Capital

Total Risk Based-Capital 40.1%

Asset Quality

NPLs/Total Loans
12.1%

Total Prov/Total Loans
12.9%

Earnings

ROA 6.4%

ROE 29.3%

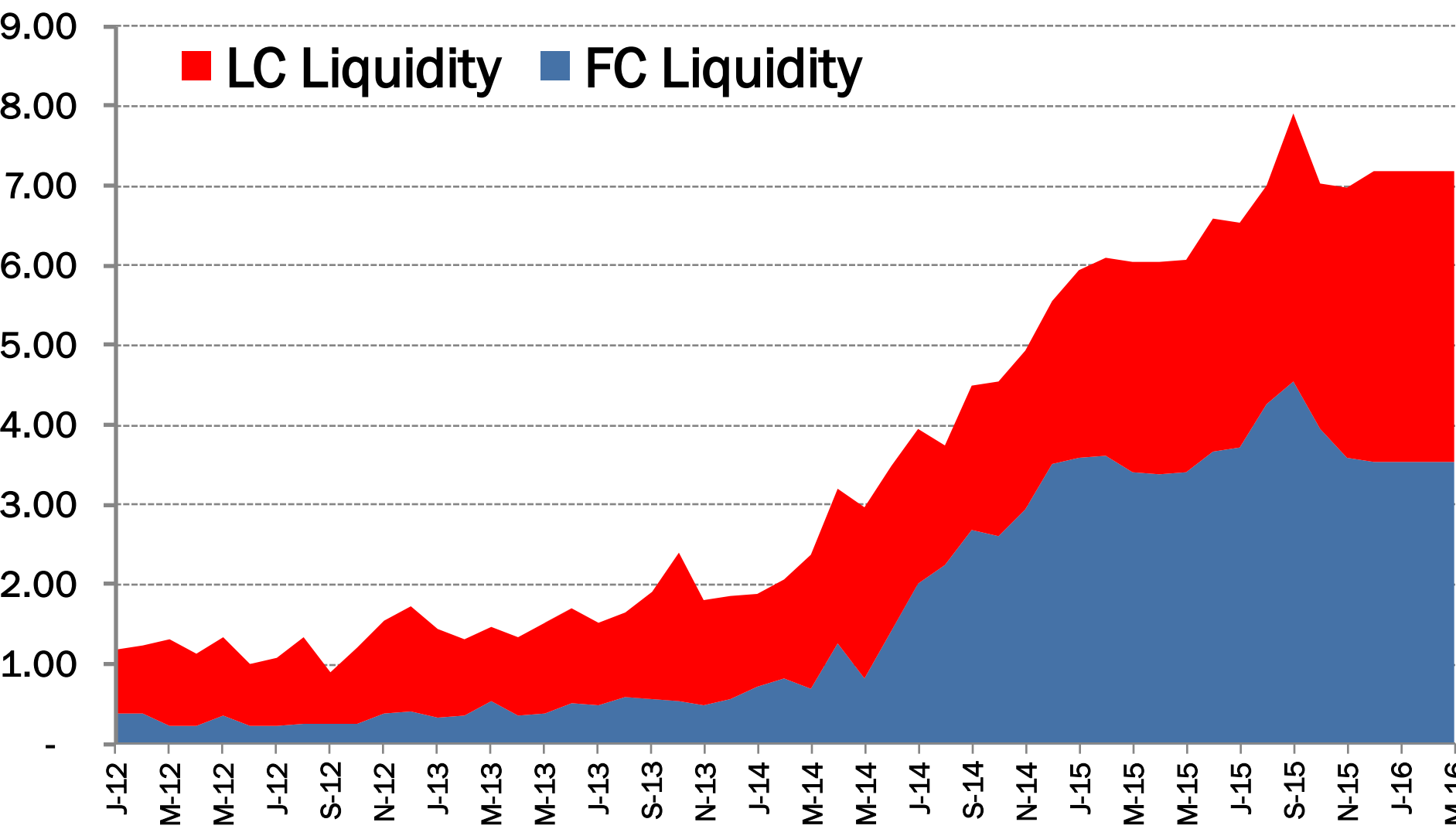
Liquidity

Basic Liquidity
68.7%

FC Liquidity
54.2%

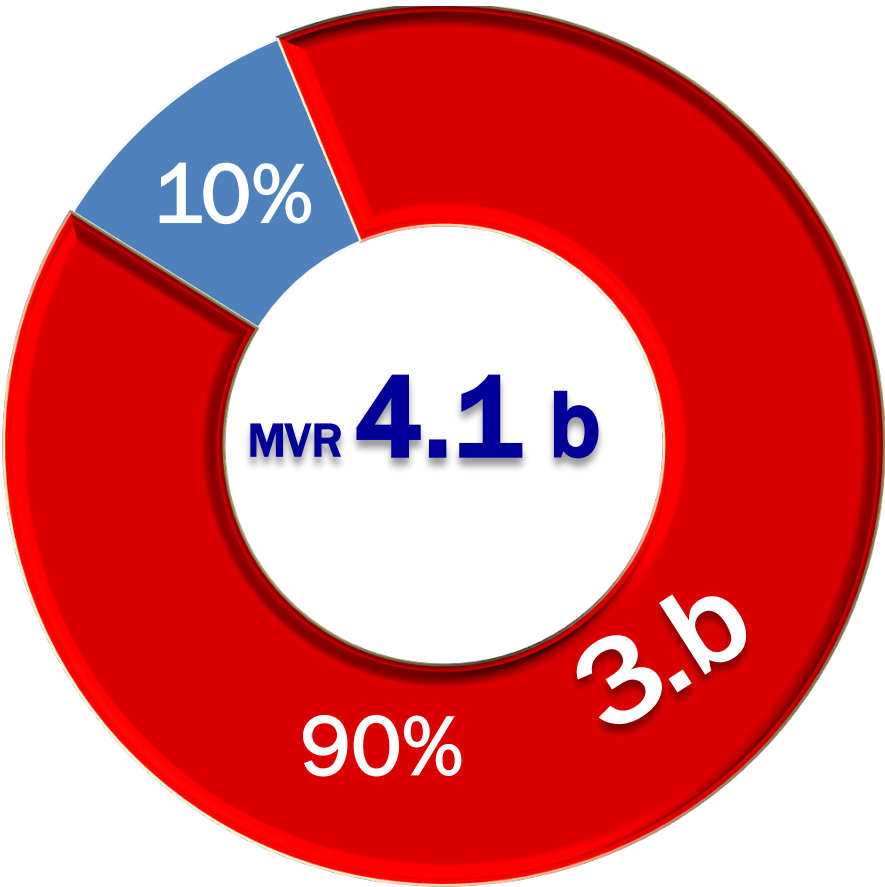
Banking Sector Liquidity Trend

Billions , MVR



Banking sector liquidity:

Local Currency vs Foreign currency



- Local currency excess reserve
- ODF

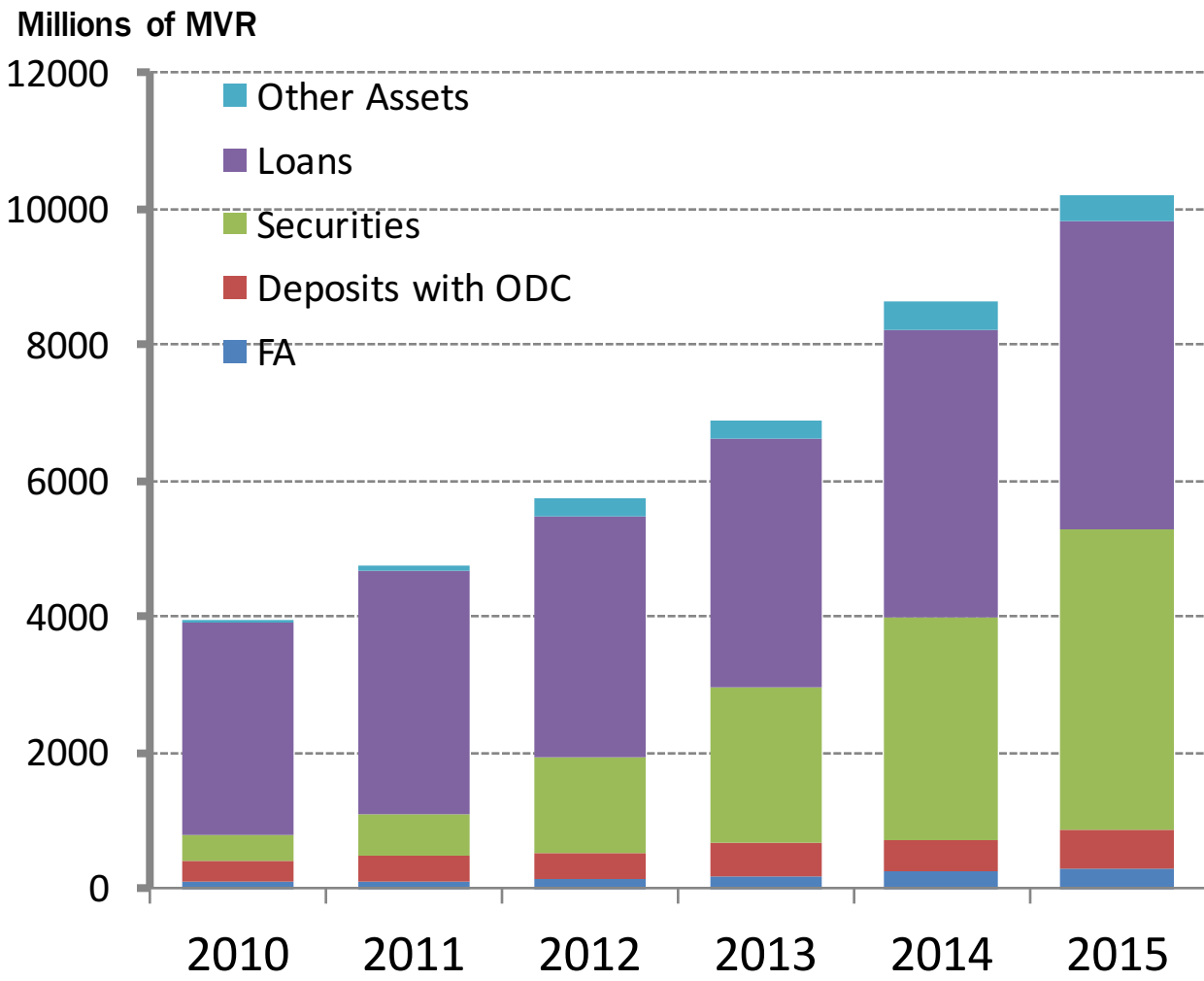
■ FC Excess Reserves

April 2016

OFIs Assets Portfolio Allocation Trends

OFIs Investment in securities as percent of total Assets has increased significantly

2010 9%
2015 44%



Capital Markets

The current supply of securities is extremely limited

Government Securities: Mar 2016

MVR 12.9 b T-bills

MVR 7.3 b T-bonds

MVR 436 m Islamic instruments

Corporate bonds - 2 issues

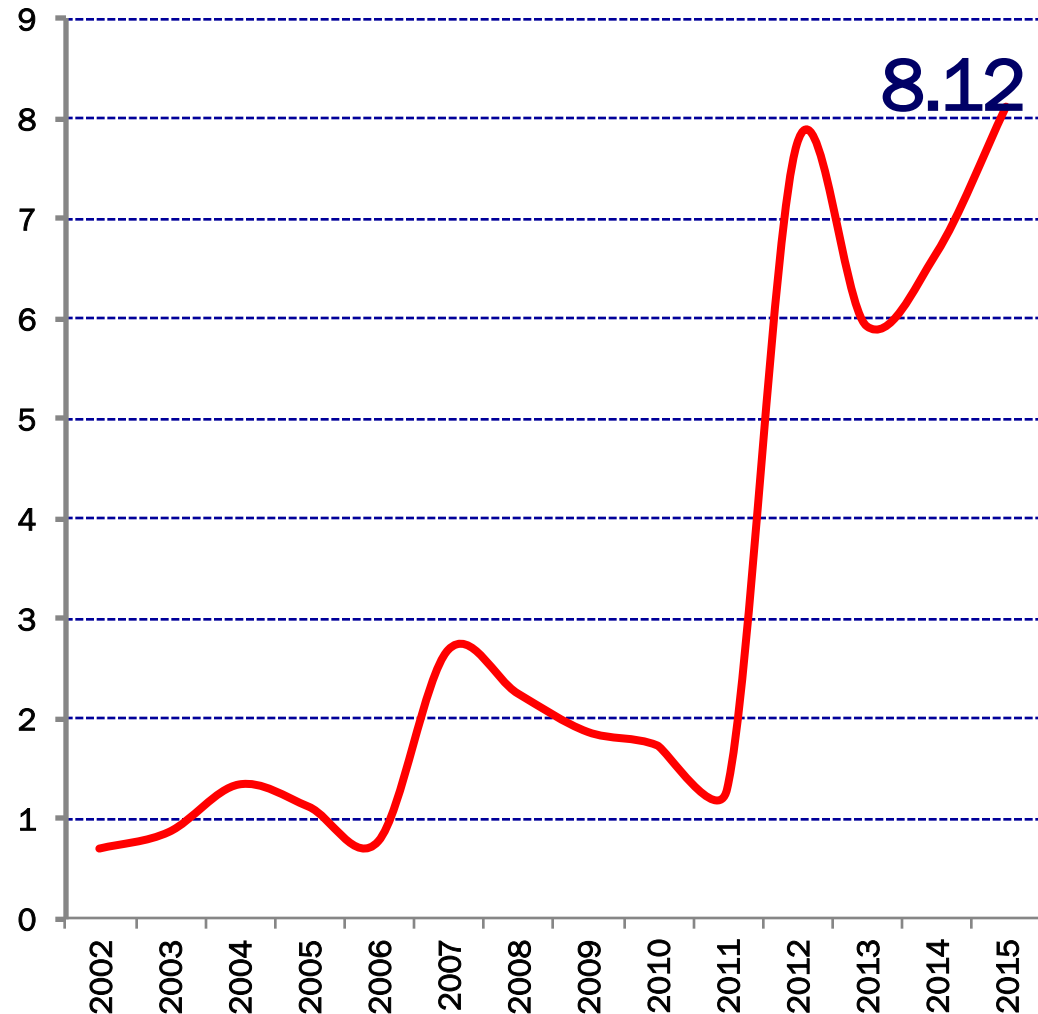
Equities - Dec 2015

MVR 8.2 billion

[six are directed to list] limited secondary market operations

Market Capitalization 2002 -2015

Billions of MVR



Financial Sector issues & Challenges

Market Structure

Extensive market domination by the commercial banks

Lack of Competition

Risk -averse culture

Collateral Base -lending constraints financial inclusion

Lack of long-term funds - Capital Market developments ,

Financial Sector issues & Challenges

Market Structure

Higher Non-Performing Loans

- *Concentrated lending*
- *Lack of insolvency framework*

*Weak Legal Framework for
enforcements*

Depth and Instruments

- *No secondary market for Government Securities*
- *Limited long term instruments and trading of these instruments non-existence*
- *Inactive market players*

Inadequate financial infrastructure

Financial Sector issues & Challenges

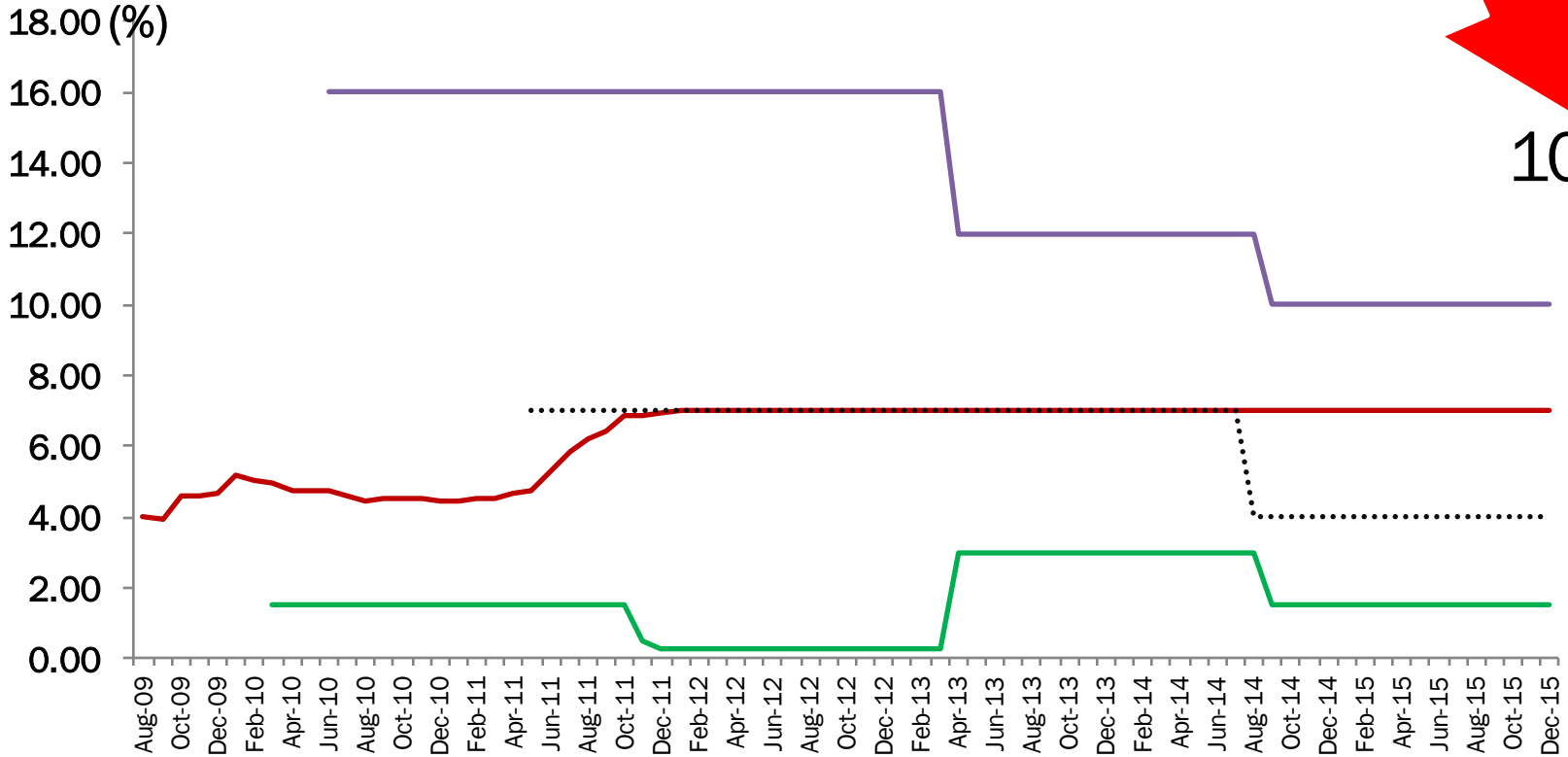
Market Efficiency

*Financial sector shows major cost
inefficiencies*

Large Net Interest Margins & effective Interest Rate Spreads

Transferable deposits	Deposits					Loans & advances	
	Transferable deposits	Savings deposits	Time up to 3 months	Time 3–6 months	Time 2–3 year	Public non-financial	Private Sector
2015 Dec	2.36	2.20	3.33	3.04	3.94	9.64	10.82
2014	2.24	2.23	3.40	2.93	4.01	9.98	11.38
2013	2.23	2.25	2.73	3.31	4.00	11.02	11.42
2012	2.24	2.25	2.14	3.16	3.80	8.95	10.51
2011	2.22	2.25	2.21	3.24	4.10	8.71	10.17
2010	2.21	2.25	2.07	4.29	3.75	8.75	10.45

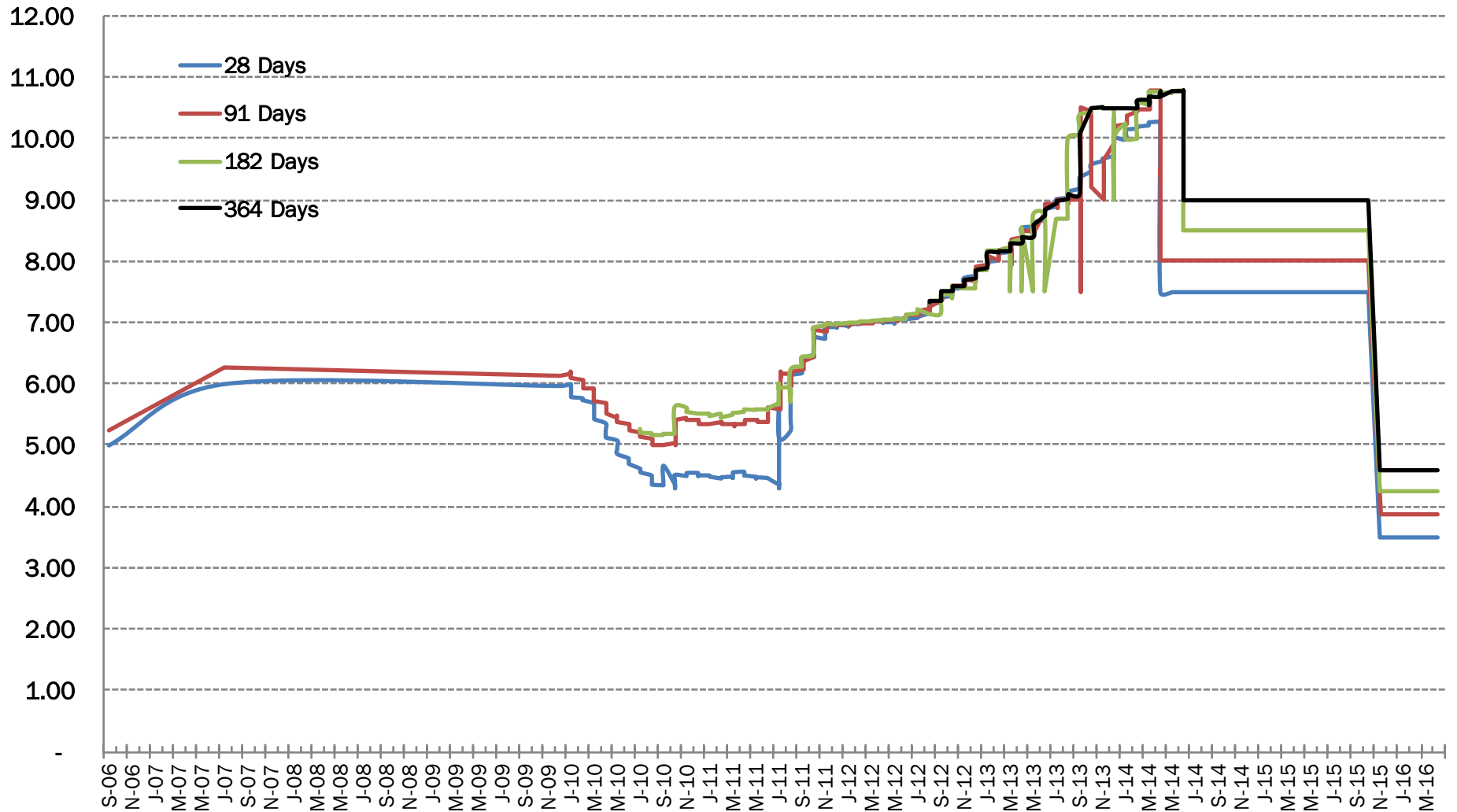
MMA Policy Rates & The Minimum Reserve Requirements



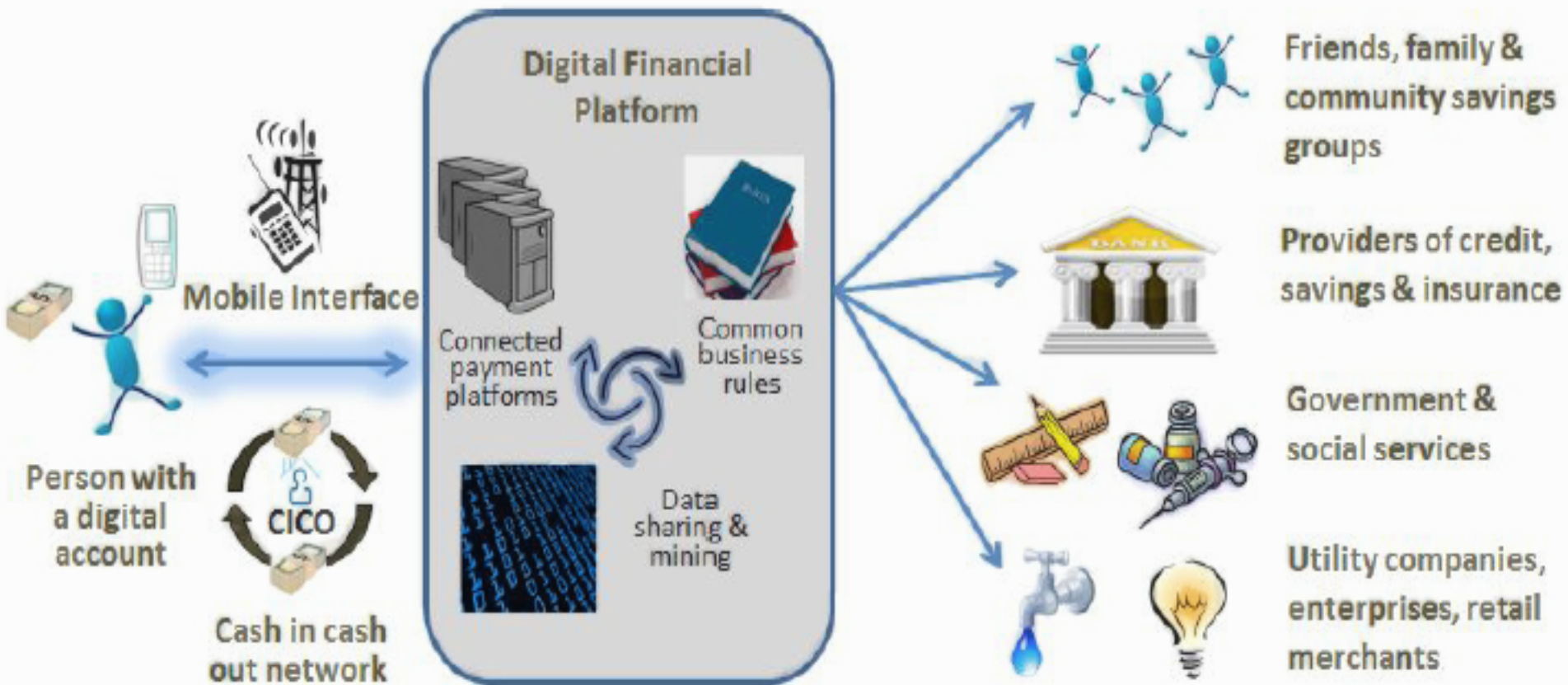
MRR 30%
25%
20%
10%

— OMO rate IPR — ODF rate — OLF rate

Treasury Bill Rates (% p.a)



Financial Inclusions



Financial Inclusions

Government Authorities have launched several initiatives to improve financial inclusion

SME Act from 2013

MMA Act has the power to carry out development projects to increase and strengthen financial inclusion across the country

Credit Guarantee Scheme

Mobile banking.

Movable collateral registry

Credit Information Bureau

Improving access to retail payments services.

Financial Literacy programs

Financial Inclusions

Complementing measures to foster Financial Inclusions

Setting up an SPV for SME lending

*Postal offices could be incorporated into the
network of non-bank financial services agents
[17 offices and plans to open two more]*



Financial Market Infrastructure

Financial Market Infrastructure

Payment and Settlement Systems

*Real Time Gross Settlement (RTGS)
infrastructure*

*Policies to foster greater usage &
efficiency of the system*

Encourage optimal usage of systems by the participants

Complete Straight-through-Processing (STP) arrangements with the banks.

*Migrate high-value cheques to RTGS - MMA could introduce threshold value
and Charges*

Financial Market Infrastructure

Payment and Settlement Systems

*Automated Clearing House (ACH)
infrastructure*

ACH implementation process

Cheque truncation and imaging

Expediting the direct debit component

Leveraging large-volume payment programs

Financial Sector Infrastructure

Payment and Settlement Systems

Interoperability of the payment card infrastructure

Financial Market Infrastructure

Payment and Settlement Systems

Development Strategies

Payment System Act will allow a non-bank entity to provide E-money services and will ensure legal certainty.

Mobile money: Government may consider linking it to G2P and P2G payments

Establishment of a formal oversight function for the payment system.

Financial Market Infrastructure



The Legal Framework

Financial Market

Infrastructure

Legal Framework



No legal framework providing for a range of security interests that can be taken over movable assets.

The use of real property as the main collateral to secure bank credit impedes financial inclusion

Measures to address this issue

Develop a Secured Transactions Law, (Drafted- AG)

Collateral Registry,

Streamlining land registration process to enable security over a wider range of assets, without possession. [digitalization process of the Land Registry]

Financial Market Infrastructure

Legal Framework

Problematic enforcement

Measures to address this issue

The law should provide for an extrajudicial enforcement procedure that permits enforcing security over immovable and movable assets.

Or An arbitration tribunal should be established by MMA to hear specific claims above or below a certain monetary threshold

Financial Market Infrastructure

Legal Framework

Problematic enforcement

Measures to address this issue

The judiciary should be strengthened to promote transparency, independence, and efficient management of cases dealing with creditor and debtor rights

Provide targeted training and capacity building

Support the transition from the currently paper based court filing and case-management system to an electronic one

Create and implement an online, easily accessible and comprehensive database of laws, legal materials and judicial decisions that could contribute to enhancing the legal climate.

Financial Market Infrastructure

Legal Framework

Problematic enforcement

Measures to address this issue

Develop an out-of-court workout framework

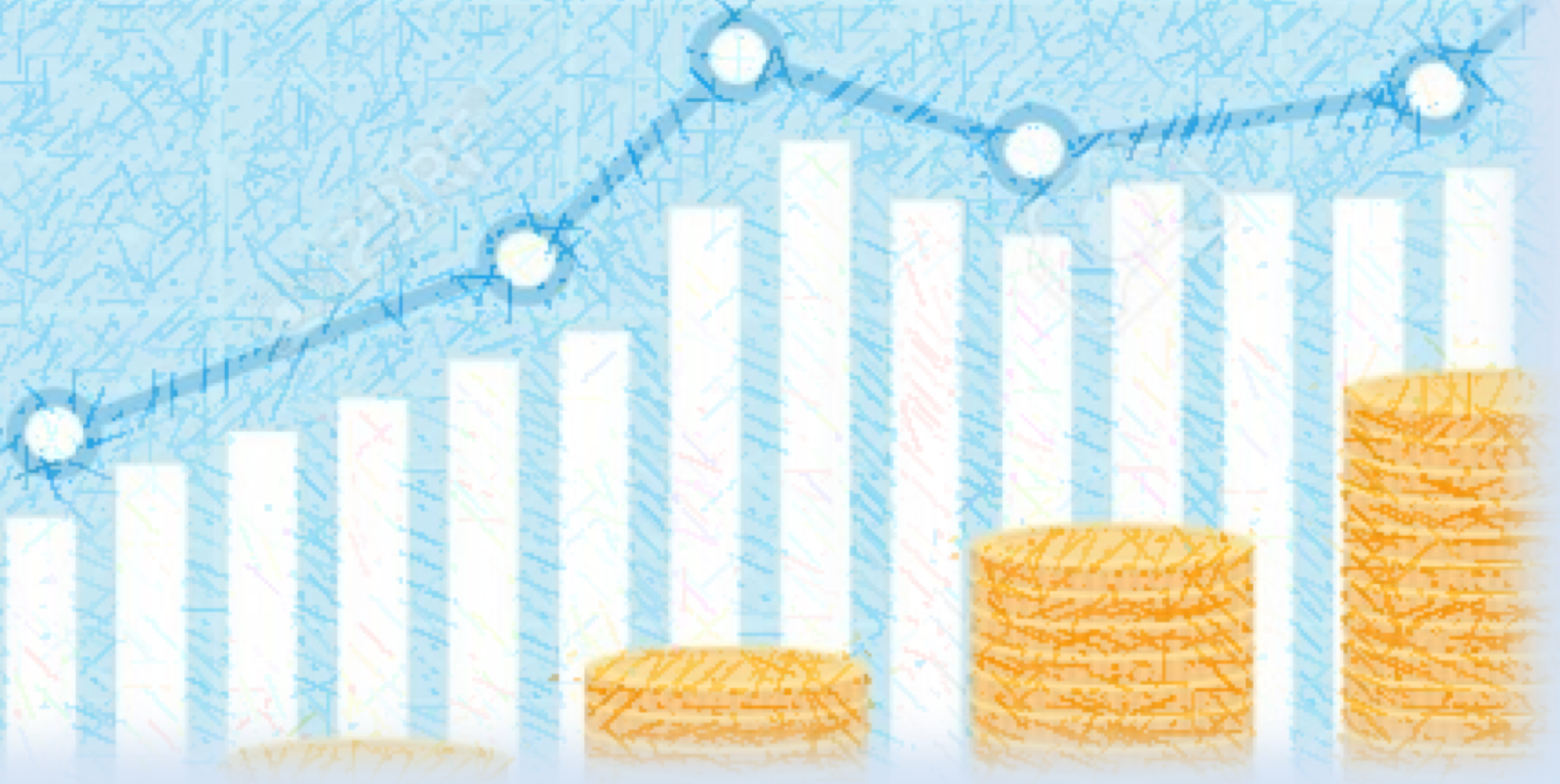
Develop a modern insolvency law

*An Insolvency Law should be developed that deals with corporates,
small businesses and individuals*

Train qualified liquidators.

IPO

Capital Markets



Capital Markets

*Demand for Securities
from investors has been
limited*

Issues Identified

Awareness and missing saving culture

Limited Institutional investors

No foreign investors – lack of country credit ratings , legal frameworks for defaults, SOEs Articles restricts foreign shareholders

Capital Markets

Infrastructure Environment

Issues Identified

MSE, trading system requires repair before secondary market operations

Securities settlement processes at both depositories are effectively manual

Neither depository allows for intermediaries to act as custodians or agents for clients.

Capital Markets

Building Securities Market

Find possible ways to kick-start the market rather than on implementing best global practices.

Repairing critical parts of the market infrastructure

Seeking to create liquidity by using Market makers

OR

Issue longer dated bonds to the existing “hold to maturity” investor base

Capital Markets

Building Securities Market

Establish a Project Group [both public and private sector] MMA, MOFT, CMDA, MSE and MPAO

Steering Committee for policy decisions [MOFT, MMA, CMDA]

The group should consider running a pilot issues – short term bonds 2-3yrs, possibly USD and Islamic bond

Allow inter-bank operations – ie inter-bank repos

Capital Markets

Encouraging Private Sector Listings

Capital Market financing is less attractive for private corporates

Encourage SOEs & Pvt Companies to issue Corporate Bonds

The group should consider running a pilot issues – short term bonds 2-3yrs, possibly USD and Islamic bond

Foster strong relationship with existing issuers – regulator to conduct regular meetings

Capital Markets

*Attract overseas
investors*

*Access to USD; US dollar problem could be addressed by issuing
USD Bonds*

Insolvency law;

Country Credit Rating.

Capital Markets

Islamic Capital Market Products

The Islamic securities market is thin, illiquid

Develop legal and regulatory framework for Sukuk market

Developing sound framework for sovereign Sukuk and short-term certificates



Corporate Governance

Corporate governance

Observed Practices

Internal Audit functions across the system require further development and greater independence.

Lack of Independent credit risk review functions, and mostly depend on the asset classification regulation to stratify portfolio risk.

Disclosure practices require some improvement.

Corporate Governance

*The corporate governance framework highlights **notable gaps** and its ineffective enforcement.*

It does not apply across the financial sector.

The existing regulation on corporate governance to be more closely aligned with best international practice, in order to create a level playing field

Thank You



Maldives Finance Forum 2016

Financial Sector Development Unit
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