

BANKING & FINANCE

- C A M B O D I A -

Issue 1 NOV - JAN 2017

WWW.BANKINGFINANCECAMBODIA.COM

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H.E. Chea Serey Director-General of the National Bank of Cambodia

SAFE HANDS STEERING THE ECONOMY

by Iain Donnelly

Since taking over as director-general of the National Bank of Cambodia in November, 2013, Her Excellency Chea Serey has been a very busy woman. As well as ensuring the economy stays stable and inflation manageable, she has pushed new initiatives such as financial inclusion and literacy, and the promotion of the Riel. She also chairs the board of the Credit Bureau of Cambodia, is President of the Cambodian Economic Association, and is chairwoman and founder of the Raksa Koma Foundation, which seeks to empower underprivileged Cambodian children. I met up with her at the end of a long working day to find out what her visions for Cambodia are.

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The World Bank recently revised Cambodia's economic status, moving it up one rung. In the long term this will likely affect both aid allocation and also some favourable trade agreements currently in place. What are your thoughts on the revision, and what long term plans or policies do the NBC see as necessary to counter any of those potential negatives?

I think the fact that the World Bank changed our status up one place to a lower-middle income is a great testament to what the government has achieved in a very short space of time. We have to acknowledge that Cambodia's economic history is fairly young, and that really since around 1969/70, we have not been able to develop economically. We have had a period of recent history where the monetary system was completely abolished and we have had to rebuild everything from scratch. Up until 1998 there were still pockets of fighting here which meant that it was difficult to travel in some areas and of course meant that investors were not flocking to invest in the country. So it is only really in the last 18 years or so that we have managed to come from being a war-torn country to being the 7th fastest growing economy in the world. This is a hugely significant achievement.

Having said that I think that the fact that Cambodia is a beneficiary of grants and cheap concessional loans from our developed partners will eventually change due to this revised status, but I think the government realise this, which is why there are plans to introduce a bonds market here. And there have

been changes and improvements made to the tax collection system which means a significant rise in the amount of tax revenue. So I think these developments and others will offset any negative that results from our revised economic status. Any adjustments to these factors will not take effect for some time, which allows time for the government to look at alternative strategies.

As far as the NBC is concerned, our main focus remains financial stability and ensuring that we supervise Cambodian banks prudently. Something that I have said many times before is that if you think of

the economy as a whole as being a human body, then the financial system is the heart of that body. Just as the heart pumps blood to feed the organs, so must the financial system channel funds in order to feed the economy. It can't beat too fast but nor can it beat too slowly. So maintaining the health of the financial system is perhaps our main focus. Monetary policy is another thing we look at and at the moment we have managed to maintain a very reasonable inflation rate compared to our neighbouring countries as well as a fairly stable exchange rate for the past 15/16 years or so. One challenge we are facing



is the dollarised economy. This is something we are actively tackling but in a very prudent manner. We don't want to label our policies as "de-dollarisation" because that infers that we are taking the dollar out of the Cambodian economy and we are not doing that. It's more about encouraging use of the Riel.

We are looking at developing 'universal apps' where every bank will be able to use the same application to interface with its customers for payment services but that would also be limited to the Riel. We have just announced, as part of our 'Love Riel' campaign, that people can exchange old or damaged banknotes for new ones at any of the NBC's branches under the "Loving Riel Banknotes" name. The Government initiatives to allow tax collection, payment of utility bills, and payroll of public employees using the Riel have been very helpful to our efforts in promoting the use of local currency. We also have an announcement coming up shortly regarding inter-bank markets so keep an eye open for that.

This change in status is very beneficial in my opinion as we are already seeing heightened rates of inward investment as a result. Investors are seeing how fast the country can move and how well it can adapt and the fact that we have a very young population is also attractive to them.

The NBC has just issued a survey on FDI (foreign direct investment) along with the National Institute of Statistics. We actually believe that there is more FDI than is revealed in the survey so the results are rather conservative.

Is there a need for consolidation in the banking sector? And will the Prakas of March this year on new capital requirements act as a catalyst for this?

I think there are different levels of development in every country. Nearly every country goes through a phase of having many banks or financial institutions. Then there normally comes a period of consolidation. As a regulator, we can't force anyone into consolidation but we can enable the environment for it to happen. At the end of the day, it is natural for the bigger fish to eat the smaller ones so I do think we will see some consolidation across the sector. We have seen good levels of competition recently, particularly in the microfinance sector where we have seen interest rates coming down. The UNCDF (United Nations Capital Development Fund) recently estimated that about 50% or more of our population have access to finances, and our own data shows about the same figures too. This is a huge growth from the 3 or 4% figures from when I first joined the

NBC. But, for me, it's not the number of banks that are important; it is what they are doing at local level.

A bonds market has long been discussed for Cambodia, with the first scheduled government bond due to be issued in 2018. How successful do you think it will be? And will the bonds be denominated in Riel?

I can't speak for the Ministry of Economy and Finance as to what denomination the bonds will be in as that will be a decision for the treasury. I think financial instruments in Cambodia are quite limited and it's a stumbling block for the inter-bank market and for alternative investment for the banks. When you have a lot of liquidity sitting, in another country that could be invested in bonds, but in Cambodia there are only loans just now so obviously you are going to see swift credit growth because that is the only instrument available. The central bank does issue NCDs (Negotiable Certificate of Deposits) but the rate we could offer is relatively low and has very short tenures. We have modified the structure of that instrument so we have seen an increase in the number of banks holding our NCDs and we are about to announce, hopefully in the next week, a new instrument that will further promote the inter-bank market, especially in the local currency. So I am looking forward to this bond market.

The new FAST system has been in place for several months now and has been a success so far. How well do you think Cambodians will take to the concept of cashless transactions?

The NBC bears the costs of the system development so we expect the banks to 'free-ride' on us with this system and then to pass the benefits on to their users. It's only been a few months since we launched it so it is perhaps too early to fully assess its success but we are seeing encouraging figures; from July to August there was around a 200% increase in use. But eventually we will be able to fine tune that system by allowing the users to access mobile applications in order to transact.





We have already issued a Prakas that by 2017 all banks must join the FAST system. At the moment we have what we call the 'founding members', those institutions that joined us on a voluntary basis and who have supported us since the very early stage of development. As far as ATM/POS shared switch is concerned, we will roll out the system in early 2017, and eventually make it compulsory by 2018. I believe this will lead to a change in the financial landscape as far as means of payment is concerned.

I think overall that the system can move very fast, Cambodia has been able to leapfrog so many things as far as both technology and banking evolution are concerned. With such a young population I think it is relatively easy for people to embrace the new technologies that are coming out. A large percentage of the population has a smartphone and also access to the internet. So I think as new options for cashless transactions come onto the market then they will take to it very fast. But we are also

aware that such technologies do come with security risks so you have to take measures to limit and mitigate risk. As the regulators, we need to look at any payment systems offered to the market and ensure the providers are offering adequate security measures.

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Something you are very vocal about support for is the need for both financial inclusion and financial literacy. How do we achieve this?

Inclusion and literacy have to go hand in hand. You want people to be included but you want them to truly understand what they are included in. Financial literacy and financial capability development are the means by which we achieve greater financial inclusion. We believe that when people are educated and when they understand what financial services are for, what those services can help them with, and then the inclusion part will follow naturally. We launched our 'Let's Talk Money' campaign in March of 2015 which has helped build the financial capability of ordinary Cambodians,



particularly those in rural areas. We have made sure that the stories we have created for the campaign are ones that people can relate to. We've worked with many organisations to come up with this campaign and we are very proud that it has been successful and made an impact.

We have heard a lot of concerns about people taking out multiple loans and increasing their debt level, but preliminary data from the Credit Bureau of Cambodia's (CBC's) shows that 80% of borrowers have a relationship with only one bank or financial institution. Currently, a number of studies are being conducted on the level of over-indebtedness in Cambodia and a number of recommendations will be made depending on the result. So we will have to wait for the details of those studies before making any observations about the over-indebtedness level.

Through our campaign videos we try and teach people how to be careful in terms of taking out more loans without understanding the payments they will be due to make, and we ask them to consult with their service provider to discuss any problems. Most of the big MFIs are now certified by the SMART Campaign, which means they adhere to international standards of client care and consumer protection.

We're also producing cartoon books that are aimed at children as we believe it is essential to start early as far as the financial literacy aspect is concerned. So the cartoons are funny and amusing, but at the same time educational, then at the end of the book there will be some questions to see if they have understood the message. We are also engaging with the Ministry of Education as we want to see the idea of financial literacy embedded into the general education system. But we don't want to see it as a stand-alone subject as we believe it can be incorporated into subjects such as maths or social science.

I see the use of technology, and especially the smartphones we have already discussed, as an ideal channel to getting our message out

to everyone, especially those in rural areas. That's why we spend a lot of money and effort on putting these messages out on social media or in multimedia format. But we also have to bear in mind that some areas have poor or no internet access so we have to create things that will fill those gaps. This is another reason we want it embedded in the education system; if we can't reach the parents we can reach the children, and they in turn can pass the message on to the older generation, or indeed help with things like interest calculations or reading a contract thoroughly. We don't want money and finances to be a taboo subject.

Gender disparity is still a global issue, especially at leadership level. In Cambodia we are lucky enough to have two determined and intelligent women in leadership roles in banking, yourself and Leonie Lethridge at ANZ. Do you see yourself as a role model for young educated Khmer women to strive for success?

I don't know if I see myself as a role model, I think there are a lot more successful women in Cambodia who are doing great jobs but are probably less exposed to the media than I am. We also have two deputy-governors who are women, within our management team around 70% are women, and out of five people at director-general level, three are women, so overall women are very well represented in the NBC. We have just recruited 60 new staff – out of a thousand applications – and I think 70% of them are women too.

As a member of the Alliance for Financial Inclusion (AFI), which consists of 93 central bank members, the National Bank of Cambodia is taking gender and women financial inclusion very seriously. Being on the high level Committee for Gender and Financial Inclusion myself, I am proud to announce that AFI

members have endorsed the Denarau Action Plan which calls on all concerned parties to push forward with bridging the gender gap in financial inclusion. Women are a crucial part of the world's economy; if you look at global consumer spending, around 70-80% of that comes from women. So if you financially empower women then you encourage them to spend more which helps further strengthen the economy.

But it brings me back to financial inclusion here which still suffers some gender disparity. Women are borrowing at microfinance level here for subsistence businesses – around 83% of MFI customers are female – but the moment they move beyond subsistence level business, there seems to be more hesitancy from banks in approving lending to women. So while pushing for higher overall levels of financial inclusion, I especially hope to tackle the disparity we have discussed. [BFC](#)

