



**NATIONAL FINANCIAL INCLUSION  
COUNCIL OF JAMAICA**



**NATIONAL  
FINANCIAL INCLUSION  
S T R A T E G Y**

*Access for ALL* 

*2016-2020*



## Contents

1. Executive Summary .....	4
2. Introduction .....	6
2.1. The Rationale .....	6
2.2. Economic Context .....	6
2.3. The Vision for 2020 .....	7
2.4. The Reality in 2015.....	8
2.5. Our Opportunities for Advancement.....	8
3. Current State of Affairs.....	10
3.1. What We Have Done So Far .....	10
3.2. Where We Are Now .....	12
4. Objectives Moving Forward.....	20
4.1. What Should Be Done .....	20
4.2. How We Should Do It .....	24
5. National Leadership and Coordination .....	25
5.1. The National Financial Inclusion Council .....	25
5.2. The Financial Inclusion Steering Committee.....	26
5.3. The Technical Secretariat.....	26
6. Monitoring and Evaluation.....	27
6.1. Tracking NFIS Implementation .....	27
6.2. Monitoring and Evaluation Framework.....	27
6.3. Evaluation of Key Actions .....	28
7. Action Plan.....	32
Annex 1. Diagnostic of Financial Inclusion in Jamaica .....	39
Annex 2. Data Sources .....	51

## Abbreviations and Acronyms

ACH	Automated Clearing House
ATM	Automated Teller Machine
BOJ	Bank of Jamaica
BSA	Banking Services Act
CAC	Consumer Affairs Commission
CSI	Credit Supply Index
CTMS	Centralized Treasury Management System
DBJ	Development Bank of Jamaica
DTI	Deposit Taking Institution
FIS	Financial Inclusion Strategy
FISC	Development Bank of Jamaica
FSC	Financial Services Commission
FTC	Fair Trading Commission
GCT	General Consumption Tax (16.5% value-added tax)
GDP	Gross Domestic Product
GOJ	Government of Jamaica
HAJ	Housing Agency of Jamaica
JBA	Jamaica Bankers Association
JBDC	Jamaica Business Development Corporation
JDIC	Jamaica Deposit Insurance Corporation
JMB	Jamaica Mortgage Bank
JMD	Jamaican Dollar
JPS	Jamaica Public Service Company
JSE	Jamaica Stock Exchange
LAC	Latin America and the Caribbean
LTV	Loan To Value
KYC	Know Your Customer
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MI	Mortgage Insurance
MIDA	Micro Investment Development Agency
MEGAJC	Ministry of Economic Growth and Job Creation
MEST	Ministry of Energy, Science and Technology
MICAF	Ministry of Industry, Commerce, Agriculture and Fisheries
MOFPS	Ministry of Finance and Public Service
MOJ	Ministry of Justice
MLSS	Ministry of Labour and Social Security
MSME	Micro, Small and Medium-sized Enterprise
NAMLAC	National Anti-Money Laundering Committee
NBFI	Non-Bank Financial Institution
NHT	National Housing Trust
NIS	National Insurance Scheme
NPCB	National People's Cooperative Bank
NWC	National Water Commission
OECD	Organisation for Economic Co-operation and Development
OPM	Office of the Prime Minister
OUR	Office of Utilities Regulation
PATH	Programme of Advancement Through Health and Education
PIOJ	Planning Institute of Jamaica
POS	Point of Sale
SME	Small and Medium-sized Enterprise

March 2017

SSF  
STATIN

Self-Start Fund  
Statistical Institute of Jamaica

## ***1. Executive Summary***

In support of the Vision 2030 - National Development Plan, and in recognition of its commitment to the Alliance for Financial Inclusion, the Government of Jamaica puts forward this National Financial Inclusion Strategy (NFIS). The goal of the NFIS is to create the conditions in which Jamaicans, particularly those who were previously underserved by the domestic financial system, are able to save safely and build up resilience against financial shocks, and firms are able to invest, grow and generate greater levels of wealth. We believe that these goals can best be accomplished by leveraging the combined resources of the public sector, the private sector and civil society to coordinate the design and implementation of the NFIS. To this end, we have established a National Financial Inclusion Council, comprised of selected Government Ministries, Departments and Agencies, the financial services industry, civil society representatives and other interested stakeholders.

Our vision for 2020 is for Jamaica to achieve an inclusive financial system in which every adult and enterprise has access to, and is able to make full use of a range of adequate, quality, and affordable financial services.

In taking stock of the current levels of financial inclusion, we recognise that much has been done over the last few years to make Jamaica more financially inclusive, but many challenges remain:

- Usage of accounts and of electronic transactions instruments is low, in part due to their perceived high cost;
- Households struggle to be financially resilient as they lack suitable and accessible savings, affordable insurance, and retirement products, and likewise businesses and farms can benefit from insurance products that meet their needs;
- Too many people, businesses and farms do not have access to credit and other financing instruments that specifically meet their needs; and
- About half of the population has low confidence that the financial system will serve their needs and most do not understand the basics of personal finance.

The reforms outlined in this NFIS are structured around four pillars - Financial Access and Usage, Financial Resilience, Financing for Growth, and Responsible Finance - and a cross-cutting foundation of Supporting Infrastructure.

**Pillars of Jamaica's Financial Inclusion Strategy**



- The Financial Access and Usage pillar supports reforms that will facilitate increased usage of electronic payments, expansion of innovative distribution channels, digitization of government payments, and development of financial products that channel remittance proceeds into accounts/cards.
- The Financial Resilience pillar supports reforms that will contribute to increased savings, insurance, and retirement accounts for the low-income and

informal segments of the population.

- The Financing for Growth pillar supports measures that will enable eligible households, businesses and farms to access credit and alternative financing instruments that are currently lacking in the market.
- The Responsible Finance pillar supports measures that will result in enhanced disclosure by financial institutions, adequate business practices and better informed consumers who can resolve conflicts in an efficient and low cost manner.
- The cross-cutting foundation of Supporting Infrastructure is aimed at developing and enhancing the enabling environment for the provision of financial services. This will be done through the enhancement of the legal, regulatory and supervisory framework and more systematically coordinating and monitoring financial inclusion reforms. Our efforts to enhance the legal, regulatory, and supervisory framework for the financial sector will aim to strike a balance amongst safety and soundness, financial inclusion and financial integrity.

In order to monitor implementation progress and measure our achievements, we have designed a monitoring and evaluation framework (Section 6), with indicators that are closely aligned to the pillars of the Strategy. We have also specified clear targets for these indicators that will help evaluate Jamaica's progress towards increased financial inclusion.

## **2. Introduction**

### **2.1. The Rationale**

Access to financial services such as payments, savings, credit, insurance and retirement products can yield significant benefits for all segments of the society. With improved financial inclusion, households can manage irregular cash flows, increase investments in entrepreneurial activities and afford basic services such as education and health. They can also insure against adverse events and thus avoid falling into poverty. For businesses and farms, especially small and new ones, access to finance encourages investment in new and more productive activities and helps them expand, mature and generate employment. Financial inclusion is an enabler and accelerator of economic growth, job creation and development. While financial inclusion alone cannot bring people out of poverty, it can help them build better lives.

In 2010, the G20 formed the Global Partnership for Financial Inclusion, emphasizing the importance of financial services for improving the livelihoods of poor households and supporting micro, small, and medium sized enterprises (MSMEs), acknowledged as the engine of employment and economic growth. Launched in 2011, the Alliance for Financial Inclusion's Maya Declaration has also become an important international channel for championing country-led commitments and initiatives aiming to advance financial inclusion. The Bank of Jamaica and the Ministry of Finance and the Public Service are members of the Alliance for Financial Inclusion, demonstrating the Government of Jamaica's commitment to the financial inclusion agenda. As a further demonstration of that commitment, Jamaica now joins the ranks of the 30+ countries that have launched, or are developing, National Financial Inclusion Strategies. These Strategies, which delineate the development and implementation of coordinated and well sequenced policy reforms, have been acknowledged as important tools in achieving national financial inclusion goals.

Over the last few years, much has been done to make Jamaica more financially inclusive but challenges remain and further efforts are needed. The Government of Jamaica recognizes that a National Financial Inclusion Strategy (NFIS) can serve to deepen and accelerate national efforts to reach higher levels of financial inclusion by 2020. This NFIS supports Jamaica's goal for sustainable prosperity as outlined in the Vision 2030 - National Development Plan, which aims to make Jamaica "the place of choice to live, work, raise families, and do business". An inclusive financial sector supports Vision 2030's goals by creating the conditions in which Jamaicans are able to save safely in the financial sector and build up resilience against financial shocks, and firms are able to invest, grow and generate greater levels of wealth. Thus, financial inclusion can contribute to Jamaica's transformation from a middle-income country to one which affords its citizens high standards of living and quality of life.

### **2.2. Economic Context**

Since the 1970s, the Jamaican economy has been stuck in a cycle of low growth with high unemployment and unsustainable fiscal finances with high debt. Moreover, like those of many other Caribbean countries, the Jamaican economy has been affected by recurring natural

disasters that have taken a heavy toll on households. The economy has also struggled to recover from the effects of the global financial crisis, which led to a decline in export revenues and adversely affected tourism earnings and remittances inflows. The impact of the global crisis also reversed Jamaica's progress in reducing poverty. The official poverty rate increased to above 19 per cent in 2012, with particular negative effects in the rural areas where poverty increased the most to above 21 per cent in that year.<sup>1</sup> Persisting macroeconomic weaknesses and weather-related shocks created a crisis of investor confidence in early 2013.

Informal economic activity in Jamaica is pervasive. It is estimated that the informal sector accounts for 40 to 45 per cent of GDP.<sup>2</sup> There are several reasons for the high informality, including low economic growth with low employment generation, tax avoidance and the high cost of doing business, especially the high costs of dealing with the public sector bureaucracy. The World Economic Forum's Global Competitiveness Report of 2013-14 cited the inefficient government bureaucracy and crime as the most important challenges to doing business in Jamaica. The World Bank's Doing Business 2016 report ranked Jamaica 64th of 189 countries, with its lowest placings in the areas of paying taxes (146), registering property (122), trading across borders (146) and enforcing contracts (107). Negotiating the bureaucracy has long been a complaint of the investor community. The costs are most burdensome on small enterprises that do not have the resources to spend on compliance, particularly tax payments.

Recognizing the deep reforms that are necessary, we have embarked on a comprehensive and ambitious programme of fiscal adjustment and structural changes, with international support, to stabilize the economy, reduce debt and create the conditions for higher, sustained growth and resilience. The results of these reforms have been encouraging as the recent directions of the major macroeconomic accounts have been positive. The fiscal deficit has been all but eliminated and the debt trajectory has been reversed. The external accounts, partly aided by a decline in oil prices, has improved substantially and real GDP growth has resumed. The outlook for the economy envisages GDP growth over the medium term between 2 per cent and 3 per cent.

It is against this economic background that we have approached the development of the NFIS. The Strategy does not aspire to directly solve the deep structural issues in the Jamaican economy. It is targeted to affect how Jamaicans manage their financial lives so as help them participate in - and benefit more fulsomely from - the new economy.

### **2.3. The Vision for 2020**

By realising the objectives set forth in this NFIS, it is envisioned that Jamaica will achieve an inclusive financial system in which every adult and enterprise has access to, and is able to make full use of a range of adequate, quality, and affordable financial services.

This means a vision for 2020 in which:

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<sup>1</sup> World Bank, Jamaica Country Partnership Strategy for 2014-2017.

<sup>2</sup> International Labour Organization (2014), Informal Employment in Jamaica & The Informal Sector in Jamaica, Inter-American Development Bank (IDB), 2006.

- Every adult and enterprise is connected to the financial system, through access to and ability to use a transactional account;
- Every adult and enterprise is able to save and insure itself to be protected from potential shocks;
- Every adult and enterprise has access to appropriate and affordable credit or alternative financing instruments; and
- Every adult and enterprise is adequately protected as a financial consumer and is able to access the necessary education for improving their financial capability.

In order to deliver on this vision for 2020, the Government and its agencies, the financial services industry, civil society, development partners and other stakeholders need to all work together to implement a coordinated and well-sequenced Action Plan to be executed by 2020. As such, a highly participatory implementation process, involving all stakeholders, under the auspices of a Financial Inclusion Council, is necessary. The primary task of the Financial Inclusion Council is to define roles and responsibilities at the political, technical, and consultative level and hold all actors accountable for the successful completion of reforms and achievement of targets in this NFIS.

## **2. 4. The Reality in 2015**

In taking stock of the current levels of financial inclusion, we recognise that much has been done over the last few years to make Jamaica more financially inclusive, but many challenges remain:

- Usage of accounts and of electronic transactions instruments is low, in part due to their perceived high cost;
- Households struggle to be financially resilient as they lack suitable and accessible savings, affordable insurance, and retirement products, and businesses and farms do not yet benefit from insurance products that meet their needs;
- Too many people, businesses and farms do not have access to credit and other financing instruments that specifically meet their needs; and
- About half of the population has low confidence that the financial system will serve their needs and most do not understand the basics of personal finance.

## **2. 5. Our Opportunities for Advancement**

While the challenges we face today present an undeniable risk to reaching our vision for 2020, they also bring opportunities for improvement, which are to:

- Expand the retail payments infrastructure and foster easier access to and greater use of electronic transaction instruments;
- Encourage the use of a diverse set of financial services. These will range from savings - , financing - and insurance products, to retail pension savings arrangements, including those provided by non-bank financial service providers for population segments that were previously

underserved (informally employed, MSMEs and agriculture-dependent households and businesses);

- Ensure that all consumers of financial services are adequately educated, protected, informed, fairly treated and are able to resolve conflicts in an effective and cost efficient manner; and
- Enhance the enabling environment for the provision of financial services, including through further improvements in the financial infrastructure with respect to the legal, regulatory and supervisory framework, supportive public finance programmes and a more systematically coordinated and monitored approach to reforms.

## **3. Current State of Affairs**

### **3.1. What We Have Done So Far**

As part of our overall growth and competitiveness reform agenda, we have already embarked on ambitious financial sector legislation reforms. In 2014, we adopted the Banking Services Act (BSA) to strengthen the regulation and supervision of deposit-taking institutions (DTIs), strengthened depositor protection and, in 2015, adopted several BSA implementing regulations, including an agency banking regulation. The securities dealers' framework has also been reformed, making less risky business models (collective investments schemes) available to securities dealers and protecting the interests of retail repo clients.

Providing access to safe and efficient payment systems is a first step towards financial inclusion. In recent years, we have made significant advances with the modernization of the payments and settlement legal framework and infrastructure, in accordance with the international standards of safety, security, and reliability. In order to foster the development of electronic retail payment systems and instruments that take advantage of available technology to provide more efficient payment services in a safe and cost effective manner, we issued the "Guidelines for Electronic Retail Payment Services" in 2013, permitting banks and non-bank payment service providers to provide retail electronic payments. Five (5) pilot projects for non-bank payment service providers to use mobile technology are currently ongoing and a further thirteen (13) applications are at various stages of assessment.

We have also taken significant initiatives to enhance the enabling financial infrastructure, including adopting the Credit Reporting Act in 2010 and licensing three (3) credit bureaus, modernizing the secured transaction framework with the adoption of the Security Interests in Personal Property (SIPP) Act in 2013, the establishment of the electronic movable collateral registry in 2014 and adopting the insolvency law and related regulations.

We adopted the MSME and Entrepreneurship Policy in 2013 which, among other things, highlighted access to finance as a constraint for MSME operations and outlined several policy objectives in this area. We have tasked several public entities to ease financing constraints and provide capacity building to MSMEs, such as the Micro Investment Development Agency (MIDA), the Self-Start Fund (SSF) and the Jamaica Business Development Corporation (JBDC), and are now working to improve the programmes undertaken through these agencies. Through the Development Bank of Jamaica (DBJ), we provide on-lending to MSMEs via financial institutions, operate a partial credit guarantee scheme and provide grant financing programmes for capacity development of MSMEs.

We have continued providing financing for farmers and agricultural value chain firms that enhance farmers' ability to gain access to finance. DBJ provides financing resources for farmers and manages an SME supply chain support and skills upgrading project that will, *inter alia*, provide opportunities for agricultural value chains. We are also supporting the establishment of new, non-traditional agricultural value chains through Exim Bank. The Ministry of Industry, Commerce,

Agriculture and Fisheries (MICAFA) operates a registry of farms, which facilitates their identification and has established a number of agro-parks with productive and communications infrastructure.

With regards to providing our population with affordable housing finance solutions, we have a national loan portfolio exceeding JMD 250 Billion with over 50,000 families carrying mortgages in a responsible manner. We have adopted a number of initiatives to support titling for lower income households, including via the National Housing Trust (NHT) and the Housing Agency of Jamaica (HAJ). NHT plays a crucial role, together with HAJ, financing over 75 per cent of housing completions. We have been updating our National Housing Policy, which outlines challenges and reforms related to finance, land acquisition and housing construction, with the goal of providing a wide range of housing choices for all income levels. The 2014 amendments to the Mortgage Insurance Act aim to make mortgage loans more affordable to the average Jamaican by making it easier for lenders to accept smaller deposits from borrowers. This change will particularly impact new entrants to the workforce, young professionals and public sector workers, who have stable jobs but do not have sufficient savings for a large down payment.

In order to encourage transparent and fair market conduct practices, we adopted an enforceable Code of Conduct for DTIs (an implementing regulation of the 2014 Banking Services Act) in 2015, which has established minimum standards of business conduct and a set of provisions to ensure fairness and transparency for financial consumers of DTIs. Our efforts to ensure the safe and responsible provision of financial services are also reflected in other reforms. An amended securities legislative framework, the 2013 Fraudulent Transactions Act, and the 2013 amendments to the Securities Act and Securities Regulations, represent meaningful progress in reducing the prevalence of risky business models, lottery scams, pyramid schemes, and other types of investment fraud.

The importance of enhancing the financial capability of Jamaicans is already well-integrated into our national strategic priorities. As one example, the 2012-2015 Medium-term Socio-Economic Policy Framework includes as a priority action to “[incorporate] information on new financial services into consumer education on financial literacy.” Several programmes have already made considerable progress in this area, including a range of media education and advocacy activities via radio programmes, print articles, and social media engagement, as well as the Financial Education in Schools Programme launched in 2009. This programme is expected to be complemented by the forthcoming incorporation of financial education in the national school curriculum.

The private sector has also contributed significantly to our financial inclusion efforts in recent years, including through banks’ continued expansion and enhancement of self-service banking, including ATMs, cheque deposit boxes, online, mobile and telephone banking; the redesign of deposit account products to include free electronic transactional accounts; the introduction of in-branch ambassadors to assist customers with self-service banking; and the launch of reloadable payroll cards to facilitate electronic payroll by corporate and commercial customers to their unbanked employees. The credit union sector has also piloted a first-of-its-kind mobile wallet solution aiming at allowing customers to perform cash-in, cash-out, person to person (P2P)

transfers, bill payment and other services through their mobile phones. The insurance sector has also put efforts into the development of micro-insurance products.

### 3.2. Where We Are Now<sup>3</sup>

We have identified four main challenges to enhancing financial inclusion in Jamaica:



Cash  
Reliance



Financial  
Vulnerability



Inadequate  
Financing



Distrust and  
Low Literacy

#### Cash Reliance

There is limited use of digital payment instruments and usage of bank accounts remains low.



**23 PER CENT OF ACCOUNT HOLDERS HAVE NOT USED THEIR ACCOUNTS IN THE PAST YEAR.**  
**65 PER CENT OF WAGE EARNERS RECEIVE THEIR WAGES IN CASH.**

Although there is an increasing range of retail electronic payments available, cheques remain the most widely used non-cash payment instrument. The use of digital payment instruments, including card-, mobile-, and internet-based, is low.<sup>4</sup> While 65 per cent of Jamaicans report owning a debit card, just 25 per cent have used it in the past year. The penetration of non-traditional distribution channels, whether electronic or through mobile technology, remains limited.

<sup>3</sup> The analysis of individual-level usage of financial services presented in this section draws heavily from the 2014 Global Findex survey. The 2014 Global Findex data for Jamaica are based on face-to-face interviews with 504 randomly selected and nationally representative adults. The interviews were conducted between October 17 and November 8, 2014 as part of the Gallup World Poll. The complete Global Findex data and questionnaire are available at <http://www.worldbank.org/en/programs/globalfindex>.

<sup>4</sup> Just three per cent of adults report using 'mobile banking', defined as a mobile platform for making transactions from an account at a financial institution. Use of mobile money wallets, including CONEC Mobile Wallet, are similarly reported by just one per cent of adults – though this is to be expected given that these products are still in the pilot stage. Ten per cent report having used the internet to pay bills or make purchases in the past year. These trends do not differ markedly from the rest of the region, although mobile money products have achieved relative success in several countries, including Paraguay and Haiti.

Due to the high level of informality in Jamaica, cash is still king for day-to-day transactions. Among wage earners, 65 per cent receive wages primarily in cash, as opposed to 35 per cent who report receiving wages through an account at a financial institution. The receipt of wages, grants or gifts electronically would be impactful for financial inclusion: 19 per cent of adults receiving wages into an account report that the account is their first. Of those who report sending or receiving domestic remittances, 35 per cent use their account at a financial institution to do so, 28 per cent use an over-the-counter transaction (e.g. Western Union), and 37 per cent report doing so exclusively via cash. Among the 11 per cent of Jamaicans who have received a social transfer from the Government in the past year, 34 per cent report that this payment was made in cash. Agriculture-related payments (reported by 15 per cent of the population) are also made overwhelmingly in cash.

This reliance on cash is also manifested in the low levels of usage of financial services. While Jamaica has the highest proportion of formally banked adults among middle income countries in Latin America and the Caribbean (LAC) with 78 per cent of adults owning an account at a financial institution,<sup>5</sup> Jamaicans do not actively use their accounts. Twenty three per cent of Jamaican account holders have not made a deposit into or withdrawal from their account in the past year. This rate of account inactivity is higher than the average in the LAC region, or upper-middle income country group, both at 11 per cent.

There are several explanations for the low level of account usage. The costs and convenience associated with active usage may not align with the day-to-day needs of Jamaicans.<sup>6</sup> There is a perception that the fees associated with financial services are too high. The low-income and less educated segments of the population are also reluctant to approach formal financial institutions. The prevalence of a cash-based informal economy also makes it easy and convenient to operate in cash.

The distribution of access points can also be a possible cause for low usage adding to the inconvenience and opportunity cost of formal financial services. Jamaica has limited outreach levels compared to regional peer countries with 76 access points (ATMs and bank and cooperative branches) per 1,000 km<sup>2</sup> – which is lower than Trinidad and Tobago (110) but higher than Bahamas (41) and Belize (7). It also has a low penetration of access points per 100,000 people – with 42 ATMs, bank branches, and cooperative branches per 100,000 people – lower than most of its peer countries, including the Dominican Republic and Trinidad and Tobago.<sup>7</sup> This highlights the need for innovation in delivery channels in order to circumvent the high costs of setting up traditional brick and mortar banking.

In Jamaica, documentation requirements can be a key barrier to greater financial inclusion. With the emergence of new financial products and services, such as mobile banking, use of agents, and others, challenges are emerging in how to effectively apply anti-money laundering and

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<sup>5</sup> 7 per cent of Jamaican adults report to not have an account due to documentation; 12 per cent due to high costs; and 6 per cent due to distance.

<sup>6</sup> 47 per cent of Jamaican account holders report not making a deposit in a typical month, and 44 per cent report not making any withdrawals in a typical month, a rate that is higher than for country peers.

<sup>7</sup> 2013 IMF Financial Access Survey.

countering the financing of terrorism (AML/CFT) mechanisms to these products. Currently, know your customer (KYC) requirements are applied equally regardless of the value or nature of the transaction. In other countries, there have been noteworthy initiatives that have used tiered KYC frameworks to promote simplified bank accounts, mobile banking and other low-risk financial products, with the objective to promote financial inclusion while safeguarding the integrity of the financial sector.

Financial inclusion and financial integrity (through AML/CFT requirements) are internationally recognized as mutually supportive and complementary objectives.<sup>8</sup> Measures that enable more citizens to use formal financial services increase the reach and effectiveness of AML/CFT regimes by reducing the transactions that cannot be accounted for when performed informally.

In Jamaica, a risk-based approach to AML/CFT regulation and supervision is lacking, as there are no clear definitions for the concepts of “low risk” and “lower risk” activities. Compliance with KYC requirements is challenging. In 2012, an Economy and Production Committee appointed by the House of Representatives noted “the difficulties encountered in opening a bank account” and expressed the view “ that the information required is onerous and should be reduced, if regulations allow”.

### *Key Policy Challenges*

- **Access to the retail payment infrastructure is restricted only to banks, impeding the growth of electronic retail products.**
- **There is no policy framework for opening accounts with a tiered KYC regime for low-risk, low-value transactions.**
- **There is lack of clarity with regards to the regulatory regime for electronically stored value, particularly for remittance service providers.**
- **There is no strategy to distribute government payments via electronic means.**

### *Financial Vulnerability*

Households struggle to be financially resilient, as they lack suitable savings, insurance, and retirement products, and likewise businesses and farms can benefit from insurance products that meet their needs.



**ONLY 30 PER CENT OF JAMAICANS REPORT SAVING THROUGH A REGULATED FINANCIAL INSTITUTION.**

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<sup>8</sup> FATF Guidance (2011), Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion

One of the most important challenges for households is to increase their financial resilience:- their ability to mitigate stress incurred by certain life events that impact their income and/or assets, be it at an individual level (e.g., unemployment, widowhood, health problems) or at a larger scale (e.g., recessions, natural disasters). To increase their financial resilience, households can increase emergency reserves through savings, and/or purchase adequate insurance to mitigate potential risks.

Jamaicans save mostly outside the formal financial sector. Seventy-four per cent of Jamaicans have saved or set aside money in the past year, although only a third have done so via a regulated financial institution. Saving informally involves a number of inherent risks of loss due to saving-in-kind or failure of the savings mechanism used.

There is also some financial insecurity among Jamaicans, with many not able to come up with money for an emergency. When asked about the feasibility of quickly coming up with JMD 28,000 for an emergency, 37 per cent of Jamaicans report that it would be 'not at all possible' or 'not very possible'.<sup>9</sup>

Jamaicans also do not have adequate pension arrangements in order to have a steady source of income upon retirement. Pension coverage is concentrated among workers in the formal economy. The National Insurance Scheme (NIS) covers about 34 per cent of the labour force, and would not be sufficient to cover the living expenses of retirees. Private pension plans at end-2014 covered only about 9 per cent of the employed labour force (over 1 million people).<sup>10</sup> The low pension coverage is of particular importance given the aging population in Jamaica, coupled with the planned increase in the retirement age.<sup>11</sup> Jamaicans may also not trust saving for old age in pension funds, due to fears of macroeconomic instability and inflation potentially eroding the value of their savings. With the lack of pension systems to cover those who fall between social assistance and private pension savings systems, many Jamaicans turn to informal financial services that are less reliable in the long run.

With regards to insurance, market penetration remains relatively low, with premiums remaining relatively stable in the range 4.0 – 5.0 per cent of GDP between 2012 and 2014. Micro-insurance is underdeveloped, with only three micro insurance products having been introduced in the market.<sup>12</sup> A number of products which have features of micro-insurance have, however, been recently introduced to the market. Insurance companies have also been looking to use diverse distribution channels, such as credit unions, due to their ready pool of clients. Identifying and building well-performing distribution channels is crucial to achieving the large scale needed for micro-insurance to work. Complementing the Government's efforts to help address catastrophic events, private companies have started to offer weather indexed insurance policies to farms and rural dwellers on a commercial basis, which while still very small, could enhance their capacity to

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<sup>9</sup> This amount is approximately equivalent to 1/20 of gross national income (GNI) per capita; a value applied for this question across all economies surveyed as part of the 2014 Global Findex. Among those who responded 'somewhat possible' (22 per cent) or 'very possible' (37 per cent), the most commonly reported source of funds is friends and family, followed by savings.

<sup>10</sup> FSC (2014), Private Pension Industry Quarterly Statistics – December 2014.

<sup>11</sup> A new public pension system is expected to be implemented by 2016.

<sup>12</sup> FSC (2014), Improving Access to Insurance for the Low-Income Population in Jamaica.

deal with adverse climatic events. This is of particular importance as Jamaica is prone to catastrophic weather events and climate-related risk, which affects particularly lower-income individuals located in vulnerable communities, including coastal areas.

### **Key Policy Challenges**

- **There is no policy framework for encouraging commitment savings products to specifically respond to the needs of the low-income population.**
- **There is no specific regulatory and supervisory framework for micro-insurance, proportionate to the level of risk.**
- **While the pension funds sector undergoes reform, there is no policy framework for encouraging a retirement product for low-income and informally employed, persons with low fees and easy contributions.**

### **Inadequate Financing**

Too many people, businesses, and farms are excluded from mainstream credit and financing instruments.



Although Jamaica has a high proportion of formally banked adults, only 11 per cent of them have borrowed from a formal financial institution in the past year<sup>13</sup> and just 7 per cent have outstanding mortgage loans.<sup>14</sup> Informal borrowing is high, with 45 per cent of Jamaicans reporting having borrowed money in the past year, mostly from family and friends.

More than half of the population live in rural areas and have limited access to finance, even though the agriculture sector contributes about 6.5 per cent of GDP and employs about 17 per cent of the labour force. The availability of financial services in rural areas, especially for lower income households, small-scale farmers and entrepreneurs, is limited, representing a bottleneck for the generation of economic activities and improvements in the livelihood of the rural population.

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<sup>13</sup> Forty-four per cent of Jamaicans report having borrowed money in the past year, but borrowing from family and friends was reported by 30 per cent of adults, and borrowing from informal private lenders was reported by two per cent.

<sup>14</sup> Lower than the average value in LAC (10 per cent), as well as in Belize (13 per cent) and the Dominican Republic (14 per cent).

Informal and low income borrowers have little access to housing loans. The large proportion of informal economy and high income inequality reduces affordability for a significant part of the population. Only NHT offers affordable products with low down payment requirements and below-market interest rates.<sup>15</sup> Jamaica also faces a significant persistent housing shortage and a little under a half of the land parcels lack title, which affects the poor disproportionately. The cost of obtaining and transferring a title is also high, discouraging households from registering their ownership and thus limiting their ability to obtain mortgage finance. Broadly, the informal segment of the population cannot access mortgage finance, regardless of income, as they are not served by the formal financial sector and have only limited access to finance via credit unions.

Similar to households, formal MSMEs rarely use the financial sector to finance their investments. Only about 27 per cent of all formal SMEs have a bank loan or line of credit, well below the average of 48 per cent in Latin America and the Caribbean (LAC).<sup>16</sup> More than 40 per cent of firms in Jamaica consider access to finance a major constraint, especially small enterprises (47 per cent, compared to the average of 32 per cent in LAC). As a result, investments are mostly financed with own funds, delaying decisions and eroding productivity, competitiveness and growth. The lack of funding for the SME sector, or its high cost, has a negative impact on entrepreneurship and business profitability and stability through the business life-cycle, so harming employment.

Outside of the traditional banking sector, the supply of formal non-bank finance and other product offerings is limited. The assets of credit unions represent less than 5 per cent of GDP and they provide mostly consumer finance. In addition, the microfinance sector is small and the absence of a regulatory framework for the activities of microfinance entities may hinder growth in this segment. Factoring is not developed and is not recognized as a financial service in the BSA. Leasing is scarcely used due to existing ambiguities in the legal framework. In terms of equity, there are not enough instruments available in the market. Venture capital is not developed and there are only 22 companies listed in the Jamaican Stock Exchange for SMEs (Junior Stock Market) with low liquidity and turnover ratios. Capital markets are also underdeveloped, dominated by sovereign bond issues in the primary market, and repos in the secondary market. Assets-based Lending (ABL), such as loans against inventory, accounts receivable, warehouse receipts, is non-existent.

Low penetration of credit to low income households and MSMEs and high interest rates have been driven by high credit risk, the result of significant information asymmetries due to a high level of informality, lack of a credit reporting system and lack of reliable financial statements. Lending rates average about 18 per cent annually and are twice as high for micro-entrepreneurs as for medium-sized firms. Credit unions and microfinance institutions (MFIs) charge rates of above 50 per cent annually for microenterprise loans. Credit bureaus have started operations recently and are contributing to reducing information asymmetries in the market, and thus reducing the credit risk for financial institutions. However, financial institutions still lack the strategies, processes, and

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<sup>15</sup> All formal employees are NHT contributors. Self-employed people can make voluntary NHT contributions and subsequently borrow at these preferred conditions.

<sup>16</sup> 2010 World Bank Enterprise Surveys

lending methodologies to serve this segment and have high traditional collateral requirements, focused mostly on real estate or motor vehicles. Furthermore, the informal economy has only access to credit unions and MFIs or unregistered lenders.

For the agriculture sector in particular, it is estimated that less than 10 per cent of farmers have access to credit. Banks provide mainly loans to large farms in the traditional sectors (poultry, sugar cane, coffee, etc.) and well-established agro-processors. The National People's Cooperative Bank of Jamaica (NPCB) has been the main provider of medium sized loans, with small loans granted by credit unions and MFIs. However, the financial performance of NPCB was hampered by past losses, and currently the Government of Jamaica is working on a strategy to restructure NPCB. In addition, credit unions and MFIs, which are not supervised by BOJ, report an uneven performance of their agricultural loan portfolios. This situation, combined with the lack of knowledge about agriculture and agricultural lending for most financial service providers, limits their capacity to grow their loan portfolios to farms.

Products and services that are different from traditional loans to finance the development of the agriculture sector are non-existent and financing through leasing, factoring or warehouse receipts is not available. Value chain finance solutions whereby financial institutions lend to farmers involved in contract farming are very limited. The development of risk hedging mechanisms is limited to the incipient efforts mentioned above to introduce micro-insurance, while price hedging instruments are only used by large exporting firms and not available to farms.

### **Key Policy Challenges**

- **There is no simplified prudential framework governing documentation requirements for SMEs.**
- **There is an uneven regulatory and supervisory framework for financial services providers to lend to MSMEs, including agriculture.**
- **There is no legal framework and infrastructure for the development of alternative financial products for MSMEs (leasing, factoring, venture capital).**
- **Land titling is costly, impeding the use of land as collateral.**
- **There is no policy framework for encouraging mortgage insurance and property catastrophic coverage that would lower the down payment required from borrowers.**

### **Limited Confidence and Low Literacy**

Most people do not understand the basics of personal finance and half the population does not trust the financial system.



**HALF OF THE JAMAICAN POPULATION DOES NOT HAVE CONFIDENCE IN FINANCIAL INSTITUTIONS**

There is some distrust among the population that financial institutions will adequately serve their needs. According to the 2013 Gallup World Poll, just 50 per cent of Jamaicans report having confidence in financial institutions. This distrust is linked to socio-economic disparities and a prevailing perception among those at the bottom of the economic ladder that the financial system is for the “haves” rather than the “have-nots”. Thus, many Jamaicans prefer to rely on their social networks to manage risk and make investments.

However, addressing cultural barriers to greater trust in the system is not enough, as many Jamaicans still struggle to understand basic financial concepts. In 2012, a demand-side financial capability survey was implemented by the Financial Services Commission in partnership with the OECD. The survey found that while the financial literacy of Jamaicans is comparable to other countries in most areas, there is significant room for improvement particularly in basic financial knowledge (e.g., time value of money, identifying and calculating the impact of interest compounding on savings), and behaviours (e.g., short-term money management).

The limitations inherent in Jamaicans’ financial capability are compounded by the difficulties they face in navigating the financial system, as demonstrated by their challenges in obtaining simple, clear and comparable information about financial services. In fact, there is currently no standard methodology for calculating effective interest rates, nor are adjustable mortgage rates calculated with publicly available information. One result is that consumers are not well-equipped to shop around for financial services, as they cannot easily compare “apples with apples.” In addition, when faced with problems, Jamaicans do not always know where to turn to resolve their disputes. Responsibility for receiving consumer complaints is currently shared by several government agencies (BOJ, FSC, CAC, FTC) and in most cases these agencies are limited in their legal capacity to fully mediate financial disputes. Thus, consumers must rely on the court system to achieve full resolution.

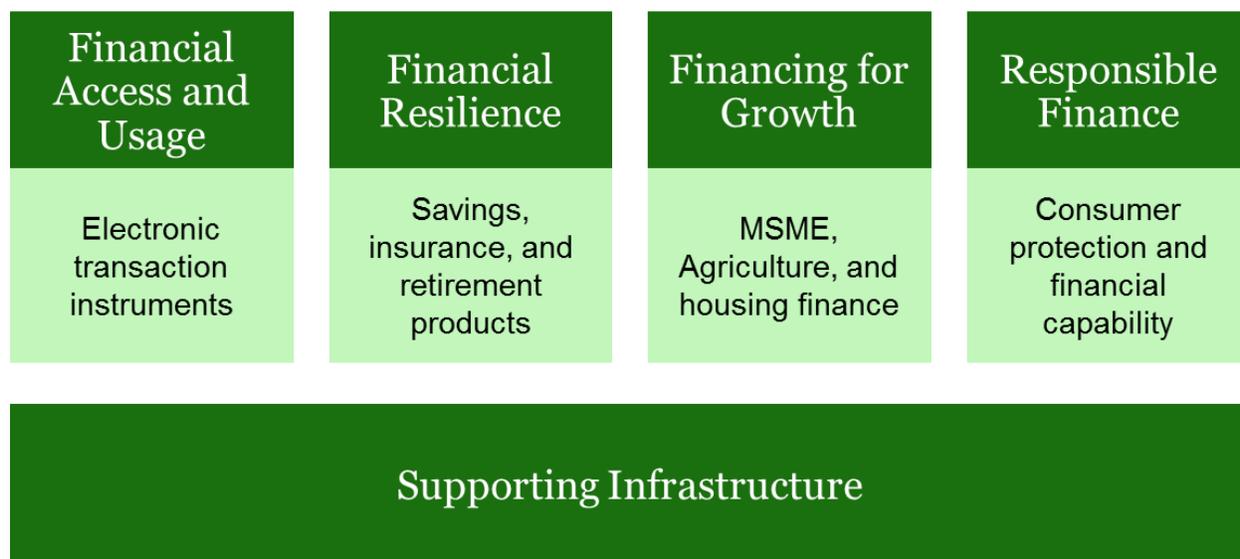
### **Key Policy Challenges**

- **There is no clear institutional and legal mandate for market conduct supervision for DTIs.**
- **There is no clear consumer complaint redress mechanism for consumers of financial services.**
- **There are gaps in the existing regulatory and supervisory framework with regards to adequate disclosure, and financial institutions’ business practices.**
- **There is no comprehensive nation-wide financial literacy strategy and programme, which defines a roadmap of financial literacy measures.**

## 4. Objectives Moving Forward

### 4.1. What Should Be Done

The Financial Inclusion Strategy is structured around four pillars, and a cross-cutting foundation, to address the challenges we previously identified.



1. The Financial Access and Usage pillar supports reforms that would facilitate increased usage of electronic payments, contributing to expanding the outreach of the financial sector.
2. The Financial Resilience pillar supports reforms that would contribute to increasing savings, insurance, and retirement accounts for the low-income and informal segment.
3. The Financing for Growth pillar supports measures that would enable eligible households, businesses and farms to access credit and alternative financing instruments that are currently lacking in the market.
4. The Responsible Finance pillar supports measures that would result in enhanced disclosure, adequate business practices and better informed consumers who can resolve conflicts in an efficient and low cost manner.
5. The cross-cutting foundation of Supporting Infrastructure is aimed at developing and enhancing the enabling environment for the provision of financial services. This will be done through the enhancement of the legal, regulatory and supervisory framework and more systematically coordinating and monitoring financial inclusion reforms. Our efforts to enhance the legal, regulatory, and supervisory framework for the financial sector will aim to strike a balance amongst safety and soundness, financial inclusion and financial integrity.

#### **Financial Access and Usage**

Encourage access to and usage of electronic transaction instruments

Under this first pillar, we aim to:

- Permit fair and open access to the domestic retail payments infrastructure, through having objective, risk-based, and publicly disclosed criteria for participation;
- Undertake a comprehensive overview of the regulatory framework for the appointment of agents to be followed by all providers – banks, remittance companies, non-bank payment service providers;
- Shift government payments (wages, welfare payments, and pensions) to electronic payment mechanisms, in order to bring unbanked beneficiaries into the formal financial system, while encouraging a reduction in administrative costs;<sup>17</sup>
- Implement a basic transaction account framework with graded KYC requirements to bring the unbanked in the formal system; and
- Design products linking remittance proceeds to bank accounts, payment cards, or other financial products.

### ***Financial Resilience***

Promote the development and use of appropriate savings, insurance, and retirement products, particularly for vulnerable segments of the population

Under this second pillar, we aim to:

- Develop a regulatory and supervisory framework for micro-insurance, with a proportionate approach to the level of risk;
- Support the development of viable insurance instruments for agriculture in coordination with and participation of relevant public entities;
- Encourage the development of savings and insurance products for underserved segments of the population; and
- Promote pension coverage through retirement products targeted especially at the low-income and informal segments of the population.

### ***Financing for Growth***

Encourage the development and use of credit and financing instruments that support economic growth

Under this third pillar, we focus on three main sectors that merit further deepening, given their potential for contribution to the development of our economy and the well-being of the Jamaican population.

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<sup>17</sup> It is estimated that a third of the Government's social payments are spent on administrative costs to disburse benefits due to the large volumes of checks and a larger number of paper pension vouchers. Under the PATH and NIS, only a small percentage of beneficiaries receive benefits using pre-paid cards since its introduction in 2009.

### *MSME Finance*

Our goal is to ensure that all MSMEs are prepared for and have access to finance through appropriately structured products, markets, and enabling environment, resulting in increased growth and employment. We aim to achieve this goal by:

- Reviewing and consolidating existing public support programmes to improve their efficiency and effectiveness, including revamping the partial credit guarantee scheme;
- Providing technical assistance to MSMEs to improve their bankability;
- Developing the legal, regulatory and tax framework to encourage the use of factoring, including determining the feasibility of an electronic factoring platform and establishing such platform;
- Removing legal ambiguities related to the development of leasing products and raise awareness around their use; and
- Enhancing the legal framework and infrastructure for the development of venture capital.

### *Agriculture Finance*

Our goal is to expand agricultural finance in a prudent and sustainable manner, with significant participation of private funding to support the growth of the agricultural sector and the diversification of incomes of the very small farms. We aim to achieve this goal by:

- Enhancing the regulation and supervision of financial institutions that lend to agriculture (NPCB, credit unions) and strengthening their financial performance;
- Enhancing the capacity of financial institutions (banks, credit unions, MFIs, NPCB) to finance agriculture, by assisting them to develop adequate lending technologies that serve both farms individually and farms operating within stable value chains;
- Reviewing and reforming the design and pricing of credit lines (including DBJ's agricultural credit lines) to maximize their impact and ensure sustainability;
- Addressing demand-side constraints, including by supporting agricultural firms, including aggregators and supply chain firms interested in expanding their operations to elaborate viable financing proposals;
- Reducing risks associated with agriculture finance by promoting investments to mitigate risks (e.g. irrigation schemes, greenhouses and security systems aimed at preventing praedial larceny), and exploring cost-effective options to support agriculture insurance; and
- Promoting the development of other innovative mechanisms, such as price hedging instruments and warehouse receipt systems.

### *Housing Finance*

Our goal is to improve access to housing solutions to the previously underserved segments of the population, in particular those with lower incomes and the informally employed. We aim to achieve this goal by:

- Designing and deploying housing finance solutions specifically targeting the lower income and the informally employed, including, for example, housing microfinance;

- Increasing use of mortgage insurance, and property catastrophic coverage for lower income and informal borrowers in high risk zones, which would result in lower down payments;
- Strengthening the funding of financial service providers that are currently serving these segments (i.e., credit unions); and
- Defining strategic goals in terms of affordability under the national housing policy.

### ***Responsible Finance***

Ensure that all consumers of financial services are adequately educated, protected, informed, fairly treated, and able to resolve conflicts in an effective and cost efficient manner.

Under this fourth pillar, we aim to:

- Ensure clarity of financial consumer protection supervision mandates amongst regulatory agencies and strengthen their capacity;
- Enhance the regulatory and supervisory framework for market conduct, including strengthening transparency and disclosure requirements for common financial services, including a disclosure regime for effective interest rates, mortgage lending activities, and fees and charges;
- Address fragmentation and inefficiencies in complaint handling and dispute resolution, through the implementation of effective and coordinated dispute resolution mechanisms for financial consumers; and
- Develop a comprehensive national programme of financial literacy, and implement public education campaigns with regards to specific product innovations, such as mobile banking, micro-insurance and others.

### ***Supporting Infrastructure***

Provide a solid foundation for the development of an inclusive financial system

In support of the four abovementioned pillars, we need to deploy a number of foundational and cross-cutting activities aimed at:

- Reviewing and revising the AML/CFT framework to ensure an adequate balance between financial inclusion and financial integrity;
- Adopting an adequate regulatory framework for credit unions and MFIs;
- Further strengthening the secured transactions framework;
- Strengthening the oversight framework for credit reporting and encouraging increased participation of data providers in the credit reporting system;
- Reducing informality and encouraging the formalization of land titling and ownership;
- Encouraging operators in the financial sector to develop their own financial inclusion plans; and
- Expanding data collection efforts for monitoring and evaluation purposes.

## 4.2. How We Should Do It

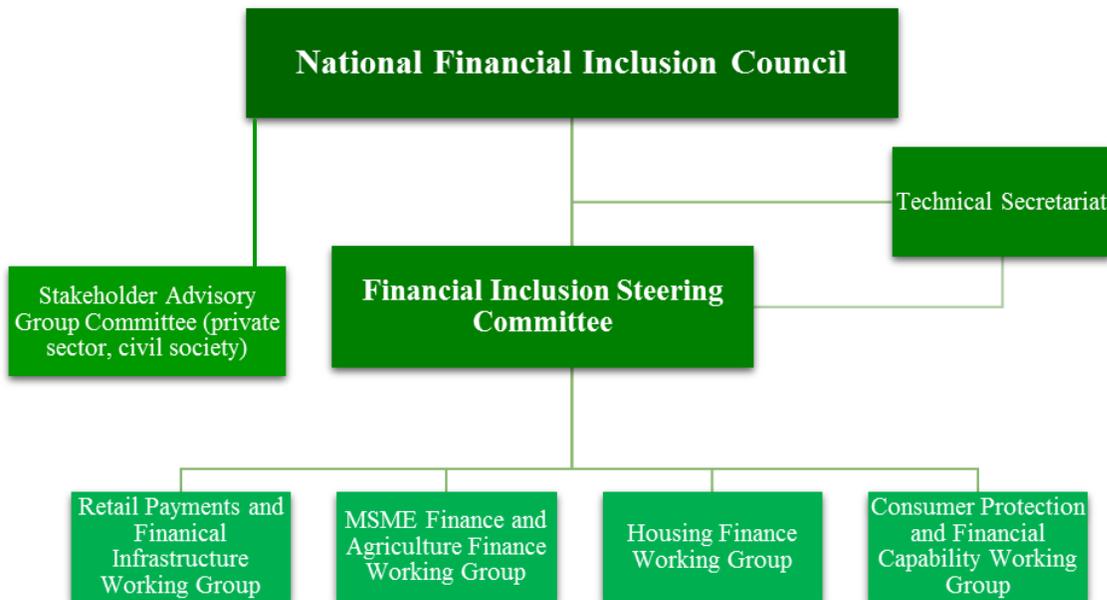
There are certain key conditions that need to be in place for the successful implementation of the strategy. These include, *inter alia*: i) the Government of Jamaica maintaining its high level of commitment to expanding financial inclusion; ii) a high level of coordination among stakeholders; iii) the private sector embracing the financial inclusion agenda; iv) other domestic and international stakeholders continuing to support financial inclusion in Jamaica; v) a favourable macroeconomic and market environment; vi) the absence of adverse external shocks; and vi) a stable political environment.

In order to undertake the ambitious roadmap of reforms set forth in this NFIS, we have put in place a number of tools that aim to:

- Coordinate actions among involved stakeholders and hold each one accountable for their specific roles and responsibilities (see National Leadership and Coordination in section 5);
- Systematically monitor progress and evaluate the effectiveness and impact of key reforms; (see Monitoring and Evaluation in section 6); and
- Set a sequenced and time-bound roadmap of prioritized actions with assigned responsibilities (see Action Plan in section 7).

## 5. National Leadership and Coordination

To ensure an effective and coordinated design and implementation of this NFIS, a National Financial Inclusion Council was established, consisting of a Financial Inclusion Steering Committee, which is supported by a Stakeholder Advisory Group (through ad hoc thematic working groups) and a Technical Secretariat.



### 5.1. The National Financial Inclusion Council

The National Financial Inclusion Council sets the overall policy and strategic direction of the NFIS. With support from the Steering Committee and the Technical Secretariat it oversees, the Council is responsible for convening stakeholder meetings, reviewing implementation progress and the Action Plan, ensuring the necessary budgetary and resource allocations for the implementation of the Action Plan and disseminating information related to the NFIS and financial inclusion in general.

The National Financial Inclusion Council is chaired by the Minister of Finance and Public Service, and includes high-level representatives of the following member institutions: [Bank of Jamaica; the Consumer Affairs Commission; the Development Bank of Jamaica; the Financial Services Commission; the Housing Agency of Jamaica; the Jamaica Deposit Insurance Corporation; the Jamaica Mortgage Bank; the National Housing Trust; the Planning Institute of Jamaica; the Statistical Institute of Jamaica; the Office of the Prime Minister, the Ministry of Industry, Commerce & Agriculture; the Ministry of Education, Youth and Information; the Ministry of Labour and Social Security and the Ministry of Energy, Science and Technology].

## **5.2. The Financial Inclusion Steering Committee**

The Financial Inclusion Steering Committee (FISC) is comprised of senior-level technical officials of the member institutions. The FISC is responsible for the development, review and implementation of the actions and policy reforms in the NFIS and facilitates stakeholder coordination and information sharing. The work of the FISC is carried out through thematic working groups, comprised of technical representatives from the public sector, the private sector, and from civil society, relevant to the thematic area.

Based on the activity of the working groups, the FISC will also compile periodic implementation progress reports to be submitted to the National Council.

## **5.3. The Technical Secretariat**

A Technical Secretariat has been established at the BOJ to provide permanent secretarial support to the National Financial Inclusion Council, the FISC, and the working groups. In particular, the Technical Secretariat calls for meetings, prepares the work plan, the budget, coordinates and implements the NFIS M&E system, including data collection and evaluations (see Section 6), regularly reports to the National Council and develops a communication strategy to present progress to all stakeholders.

## **6. *Monitoring and Evaluation***

The measurement of progress towards Jamaica's financial inclusion objectives requires a monitoring and evaluation system (M&E) that is well-resourced, well-coordinated and accepted amongst the full range of stakeholders. When these conditions are met, such an M&E system can be a powerful and effective tool for identifying obstacles, demonstrating results, and efficiently allocating resources.

The key objectives of the NFIS M&E system are to:

- Track the execution of NFIS actions to ensure that implementation is on track (section 6.1);
- Facilitate measurement of financial inclusion outcomes (section 6.2); and
- Coordinate and provide technical support for national-, institutional-, and programme-level financial inclusion data collection efforts; and
- Coordinate and provide technical support for evaluations of strategically important financial inclusion initiatives (section 6.3).

Overall responsibility for the monitoring and evaluation of the NFIS rests with the Technical Secretariat. An M&E officer will coordinate day-to-day execution of the M&E system and provide technical expertise to strengthen the internal M&E capabilities of institutions and partners engaged in the implementation of the NFIS. The M&E officer will be supported by data experts and analysts from institutions represented in the National Financial Inclusion Council. The M&E officer will convene a quarterly meeting of these representatives.

### **6.1. Tracking NFIS Implementation**

A key function of the M&E system is to ensure that the actions outlined in the NFIS Action Plan are being executed by the responsible entity according to the specified timeline. Thus, each participating institution will be responsible for reporting the implementation status (not yet initiated, initiated, completed), relevant obstacles for completion, and estimating completion dates on a biannual basis to the M&E officer. This information will then be consolidated into a biannual implementation report.

### **6.2. Monitoring and Evaluation Framework**

The goal of the M&E framework is to provide a structure for assessing national-level progress towards the objectives set forth in the NFIS, using defined indicators and targets. The indicators reflect the full range of available data resources produced by a range of involved stakeholders. The proposed indicators are closely aligned with the pillars of the NFIS as defined in section 4.

Indicators are presented at two levels. Impact indicators represent national-level targets that measure progress driven by a range of actions, including variables outside the scope of the NFIS, such as economic growth. Intermediate indicators represent intermediate outcomes that are more directly linked with specific NFIS actions.

The M&E framework will be coordinated and updated by the Technical Secretariat and the M&E officer. It is expected that the indicators and targets will be reviewed and updated annually.

### **6.3. Evaluation of Key Actions**

In addition to monitoring progress, it is critical that evaluations of key NFIS actions be conducted to assess their efficiency, impact and the degree to which they contribute to national-level NFIS objectives and targets. The exact scope of these evaluation activities will depend on the availability of resources, the precise output being evaluated, and the appropriate methodology for capturing the intent of the evaluation. A key role of the Technical Secretariat and M&E officer will be to coordinate, oversee, and mobilize resources for these evaluations. Key activities that have high potential for embedding an impact evaluation should be determined.

### National M&E Framework for Financial Inclusion

Pillar	#	IMPACT Indicator	Baseline 2015	Target 2020	Source	Reporting Frequency	Reporting Breakdown
FINANCIAL ACCESS AND USAGE	1	Per cent of adults owning a deposit or transaction account (with deposit-taking financial institution or third-party payment provider)	78	95	Global Findex / STATIN	Triennial (Findex)	Poor (lowest 40%), rural residents, women
		Number of deposit accounts with commercial banks per 1,000 adults	1152 *	1500	BOJ	Annual	
	2	Per cent of account holders with dormant account (no deposit/withdrawal in past year)	23	10	Global Findex / STATIN	Triennial (Findex)	Poor (lowest 40%), rural residents, women
		Unclaimed deposit (for 7 years or more) to total deposits (%) - DTIs	1.2	0.5	BOJ	Annual	Type of institution
	3	Per cent of adults making electronic payments (card, internet, mobile)	32	50	Global Findex / STATIN	Triennial (Findex)	Poor (lowest 40%), rural residents, women
		Number of electronic retail payments (via com banks) per capita per year*	33	50	BOJ	Annual	Type of institution
	4	Number of access points per 1,000 sq. km **	3,073	5,000		Annual	Type of access point (branch, ATM, PoS, etc)
		Number of access points per 10,000 adults **	136	240			
FINANCIAL RESILIENCE	5	Per cent of adults saving via a regulated financial institution	30	40	Global Findex / STATIN	Triennial (Findex)	Poor (lowest 40%), rural residents, women
	6	Individual Deposits (% GDP) - DTIs & Credit Unions	28	31	BOJ	Annual	By type of institution
FINANCING FOR GROWTH	7	Value of loans to MSMEs (as % of total private sector credit) - DTI's (Fiscal Year Basis)	11	12		Annual	By firm size, sector
	8	Value of loans to agricultural sector (as % of total lending) - DTIs + NPCB	2.4	4.0	BOJ, NPCB	Annual	By firm size

Pillar	#	IMPACT Indicator	Baseline 2015	Target 2020	Source	Reporting Frequency	Reporting Breakdown
RESPONSIBLE FINANCE	9	Per cent of adults with a mortgage	7	11	Global Findex / STATIN	Triennial (Findex)	Poor (lowest 40%), rural residents, women
		Value of outstanding residential mortgages – DTIs, Credit Unions and NHT (% GDP)	21	30	BOJ/NHT	Annual	
	10	Financial knowledge and behaviour score	56	65	Financial Literacy Survey (JDIC, BOJ, FSC, JSE with OECD/INFE)	Triennial	Poor (lowest 40%), rural residents, women
	11	Per cent of adults reporting confidence in financial institutions	51	65	Gallup World Poll/STATIN	Biennial	Poor (lowest 40%), rural residents, women

\* 2014

\*\* Branches, ATM, POS, Remittance locations, Cambio Locations, Bill Payment Providers

Pillar	#	INTERMEDIATE Indicators	Baseline 2015	Target 2020	Source	Reporting Frequency	Reporting Breakdown
FINANCIAL ACCESS AND USAGE	1	Per cent of direct benefit transfers payments transmitted via electronic retail payment products	11	28	Ministry of Labour and Social Security (MLSS)	Annual	By programme, disabled population
	2	Number of remittance agents	402	450	BOJ	Annual	
FINANCIAL RESILIENCE	3	Number of micro-insurance products	25	50	FSC	Annual	
FINANCING FOR GROWTH	4	Per cent adult population covered by credit bureaus	22	40	BOJ	Annual	
	5	Value of outstanding loans registered in the NSIPP registry (% GDP)	14	15	NSIPP	Annual	
	6	Per cent land plots registered	59	65	NLA	Annual	
	7	Per cent of NHT contributors accessing benefits through NHT	43	60		Annual	Income category
	8	Number of MSMEs supported by Partial Credit Guarantee (PCG) Programme	51	300	DBJ	Annual	By firm size, sector
RESPONSIBLE FINANCE	9	A: Per cent of financial consumer complaint cases resolved (of those received)	76	n/a	BOJ / CAC / FSC	Annual	Institution type
		B: Number of complaints received (via BOJ, FSC CAC)	214				Institution type

## 7. Action Plan

Note: “High Impact” actions are identified with an accompanying star [ ★ ].

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
FINANCIAL ACCESS AND USAGE	Access Points and Payments Infrastructure	★ Frame an access policy to facilitate a fair and open payments infrastructure	BOJ	Industry		High	2016-2017
		Enhance the regulatory framework for appointment of DTI agents to facilitate greater penetration	BOJ	Industry		High	2016-2017
		Promote competitive practices in payment services to increase access, market penetration, and competitive prices for consumers	BOJ			High	2017-2018
	Government Payments	★ Design a strategy to shift government payments, including direct benefit transfer schemes, wages, and supplier payments, from cheques to retail electronic payment products	MOFPS, AGD, MLSS	BOJ		High	2016-2017
	Basic Accounts	★ Evaluate, design and implement a policy framework for opening transaction accounts with graded KYC requirements.	BOJ	Industry	Completion of the National Risk Assessment	High	2016 – 2019*
	Remittances	★ Review and revise the regulatory framework to facilitate the development of financial products linked to remittances, including remittance-based payment cards	BOJ	Industry		High	2016-2017
FINANCIAL RESILIENCE	Savings, Insurance, Pensions	Develop a legal and regulatory framework for micro-insurance	FSC	MOFPS, MICAF, CAC, Industry		Medium	2017-2018
		Promote the development and use of more savings products, inclusive of commitment savings products, to respond to the needs of the low-income population.	BOJ	Industry		Medium	2017-2019

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
		Promote a retirement product for low-income and informally employed, with low fees and easy contributions, and a focus on payments infrastructure, product design and eligibility.	MOFPS	FSC, Industry, CAA, PFAJ, IAJ	Revised governance practices and legislative amendments, if necessary.	Medium	2017-2018
FINANCING FOR GROWTH	Agriculture Finance	★ Review the design and operation of credit lines to maximize usage and impact	MOFPS, DBJ, MICAF	Industry, CAA	A diagnostic of DBJ's programmes	High	2017
		★ Evaluate options for strengthening or restructuring the NPCB and enhance the regulation and supervision of the NPCB	MICAF	DBJ	A thorough diagnostic of NPBC	High	2017 - 2018
		Support banks, credit unions, NPCB and MFIs to develop lending programmes to sustainably serve the agricultural sector	Interested private entities, MICAF	DBJ		Medium	2017 - 2018
		Explore cost-effective options for the government to support agriculture insurance	MICAF, MOFPS		A thorough diagnostic of risks	Medium	2017 - 2020
		★ Promote the private financing of risk-coping investments (water harvesting, ponds, greenhouses)	MICAF	DBJ	Provide financial service providers with orientation about costs / profitability of such investments	High	2017-2018
		Explore potential for price hedging instruments and information on price and production	MICAF	DBJ		Medium	2017-2018
		Evaluate the viability of a warehouse receipt system; if viable define appropriate legislation, regulatory and supervisory oversight	MICAF	MOFPS, BOJ	Assess current warehouse infrastructure and legal framework	Medium	2017
		Provide technical assistance (including for marketing) for farmers and agro-processors and support agricultural firms interested in expanding their operations to elaborate viable financing proposals	MICAF	DBJ, MICAF	Evaluate current experiences	Medium	2017 - 2018

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
	Housing Finance	Design and deploy housing finance solutions for lower and informal income households, e.g. housing microfinance	NHT, MEGAJC	Industry	Mortgage insurance sector strengthening, established links between NHT and credit unions, actualization of the informal and irregular land ownership situation	Medium	2016-2020
		Secure cabinet approval for, and table in parliament, the National Housing Policy.	MEGAJC			Medium	2017
		Enhance mortgage and real estate market database to inform lenders, regulators and other stakeholders	BOJ	MEGAJC, NHT, STATIN		Medium	2016-2018
		★ Review and strengthen NHT's role in providing liquidity to lenders, including credit unions	NHT	BOJ		High	2016-2018
		★ Undertake a feasibility assessment of mortgage insurance and property catastrophic coverage for lower/informal income borrowers	NHT, JMB	FSC		High	2017-2018
		Assess the size and operations of the mortgage insurance fund, and determine need for resources	JMB			High	2017

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
	<b>MSME Finance</b>	★ Revamp the PCG scheme to provide adequate incentives for lenders to participate	DBJ	MOFPS, BOJ		High	2016-2017
		Evaluate, design and implement a policy framework for opening transaction accounts with graded KYC requirements for MSMEs	BOJ	MOFPS, NAMLAC	Completion of National Risk Assessment	Medium	2016-2019*
		Consolidate public programmes for MSME finance (through DBJ, Exim bank, Self-Start Fund, MIDA) to improve efficiency and effectiveness	MOFPS, MICAF			High	2017-2018
		★ Review/revise the legal, regulatory, and tax framework for assignment of receivables	DBJ	BOJ, MOFPS, Industry, MICAF		High	2016-18
		★ Conduct a feasibility assessment of an electronic factoring platform, and establish the platform	DBJ	MOFPS, MICAF		High	2016-2018
		Review/revise the legislative framework and/or develop leasing law as necessary	DBJ	BOJ, MOFPS, MICAF, Industry		Medium	2017-2018
		Conduct awareness raising for financial institutions and SMEs on the utilization of factoring and leasing	DBJ	MOFPS, MICAF, Industry		Medium	2017-2018
		Develop the legal, regulatory framework, and infrastructure for the development of venture capital	DBJ, FSC	MOFPS, MICAF	1. FSC regulations about pension funds investments in private equity and venture capital need to be fast-tracked. 2. Tax Working Group finalising process for receiving and approving Approved Venture Capital Companies' applications is a short-term fix. For the longer term, further amendments to the	High	2016-2019

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
					Income Tax Act will be required. 3. BoJ to be approached about Pension Funds investing is USD in VC Funds. The Funds will be investing USD in Jamaican companies.		
		Provide capacity building to SMEs to improve their bankability	MICAF, JBDC, Business associations	DBJ, Industry		High	2017-2020
RESPONSIBLE FINANCE	Consumer Protection	★ Ensure the appropriate legal framework and mechanisms for market conduct supervision of DTIs, Credit unions and microfinance institutions;  Strengthen FSC's capacity for market conduct supervision of the insurance, pension and securities sectors	BOJ, FSC	MOFPS	Detailed assessment of agencies' mandates/capacity  Relevant supervisory remit for microfinance sector	High	2017-2018
		★ Enhance the legal and regulatory framework to ensure fair business practices, including disclosure, for all types of financial institutions	BOJ, FSC, CAC	MOFPS, MICAF		High	2016-2019
		Compile and widely disseminate information periodically on fees and charges levied by banks and nonbanks	BOJ, CAC	FSC, MOFPS	Legislative amendments to allow for disclosure of fees, where necessary	High	2016 and ongoing
		★ Establish an independent dispute resolution scheme for consumers of DTIs, credit unions and microfinance institutions	BOJ, CAC	MOFPS		High	2017-2018
		Strengthen FSC's existing complaints handling and dispute resolution mechanisms	FSC		Assessment of current dispute resolution mechanisms	High	2017-2018
		Adopt a Data Protection Law	MEST	CAC		Medium	2017

Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
	<b>Financial Capability</b>	★ Develop a comprehensive National Financial Literacy Action Plan	MOEYI, MOFPS, BOJ	FSC, JDIC, CAC, JSE, Junior Achievement Consumer Organization, Industry	Mapping of financial education initiatives	High	2016–2018
<b>SUPPORTING INFRASTRUCTURE</b>	<b>AML/CFT</b>	★ Review and revise AML/CFT framework to ensure an adequate balance between financial inclusion and financial integrity	Ministry of National Security, FSC, MOFPS, BOJ	NAMLAC,		High	2017-2019*
	<b>Secured Transactions</b>	Review and enhance as necessary collateral registry regulations	Collateral registry (Companies Office of Jamaica), MICAF			High	2017
		★ Review and enhance the prudential framework regarding provisioning for SIPPA registered collateral and amend SIPPA to ensure certainty of priority ownership, valuation, etc.	BOJ, MICAF			High	2017
		★ Promote the development of a secondary market for repossessed assets, including the establishment of a centralized registry of repossessed assets	MICAF			High	2017-2018
	<b>Credit Reporting</b>	Encourage increased participation of data providers in the credit reporting system by reviewing legislation and enhancing the framework for consumer complaints and dispute resolution.	BOJ			High	2016-2018
	<b>Enabling regulatory</b>	★ Adopt:	BOJ, MOFPS, MICAF	DBJ		High	2016 – 17

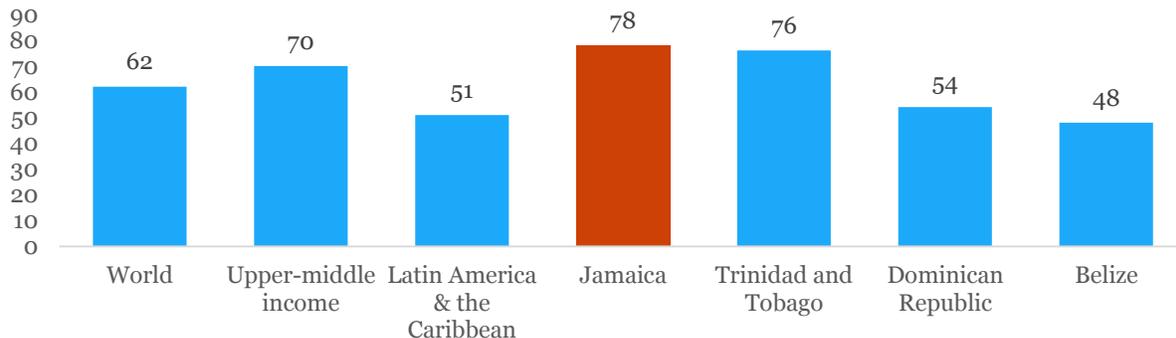
Pillar	Theme	Action	Implementing Entities		Pre-conditions	Priority	Timeframe
			Primary entities	Secondary entities			
	<b>and supervisory framework</b>	(a) the Micro-Credit Act; and (b) proposed Credit Unions' regulations					
	<b>Informality</b>	Undertake an assessment of measures needed to reduce informality	MICAF	PIOJ		Medium	2017-2020
	<b>Land registration and titling</b>	★ Accelerate land titling efforts and measures to facilitate the use of land tenure rights and other agricultural assets as collateral	MEGAJC, NLA, MOFPS, Municipalities	NHT, credit unions	Conduct detailed assessment of land ownership situation in each parish (Municipality)	High	2017-2018
	<b>Financial Sector's financial inclusion plans</b>	Encourage DTI's and other financial institutions to develop individual financial inclusion plans.	BOJ	FSC, Industry		Medium	2016-2017
	<b>Monitoring and Evaluation</b>	Establish regular national demand-side measurement of financial inclusion (including financial capability) through STATIN surveys (stand-alone or embedded modules)	STATIN	Secretariat (M&E officer) FSC, BOJ, PIOJ, MOFP		High	2017-2018
		Issue annual financial inclusion report on NFIS implementation status, including actions and M&E framework	Secretariat (M&E officer)			Medium	2017-2020
		Embed impact evaluations into strategically important initiatives and programmes to understand the precise impacts of key interventions	Secretariat (M&E officer)			Medium	2017-2020
		Collect comprehensive data on the MSME sector and conduct a demand survey on business finance	MICAF, STATIN			High	2017-2018

## Annex 1. Diagnostic of Financial Inclusion in Jamaica

Jamaica has the highest proportion of formally banked adults among middle income countries in Latin America and the Caribbean (LAC). According to the 2014 Global Findex survey, 78 per cent of Jamaican adults report owning an account at regulated financial institution.<sup>18</sup> Using account penetration as a proxy for financial inclusion, this places Jamaica above the average for the Latin American and Caribbean region and for the group of upper-middle income economies.<sup>19</sup> Ownership of an account is also more common among Jamaican adults than it is among their counterparts in Belize (48 per cent), Dominican Republic (54 per cent), and Trinidad and Tobago (76 per cent). The 2014 value of account penetration also represents growth from 2011, when 71 per cent of adults reported owning an account.

**Figure 1: Account Ownership**

*% of adults ages 15+ with an account at a regulated financial institution or mobile money provider*



Source: Global Findex, 2014.

Note: Data for Trinidad and Tobago is for 2011.

The distribution of access to basic savings and payment services is also relatively equitable across Jamaica, with the exception of socioeconomic categories where there remains a persistent gap. Account ownership among the poorest 40 per cent of earners in Jamaica falls to 70 per cent, as compared to 84 per cent among the richest 60 per cent. There is no sign of a gender gap in account ownership, with 79 per cent of men report owning an account compared to 78 per cent of women, a difference that is not statistically significant. There is also not a large urban-rural divide, as 76 per cent of rural residents report owning an account.

Yet many Jamaicans do not actively use their accounts, with self-reported account inactivity rates higher than that of adults in peer countries. Twenty-three per cent of Jamaican account holders report not having made a deposit into or withdrawal from their account in the past year, suggesting that the costs and convenience associated with active usage may not align with the day-to-day needs of Jamaicans. This rate of account inactivity is higher than the average in the LAC region or upper-middle income country group, both at 11 per cent. Further, 47 per cent of Jamaican account holders report not making a deposit in a typical month, and 44 per cent report not making withdrawals, a rate that is substantially higher than for country peers. Jamaicans also tend to rely

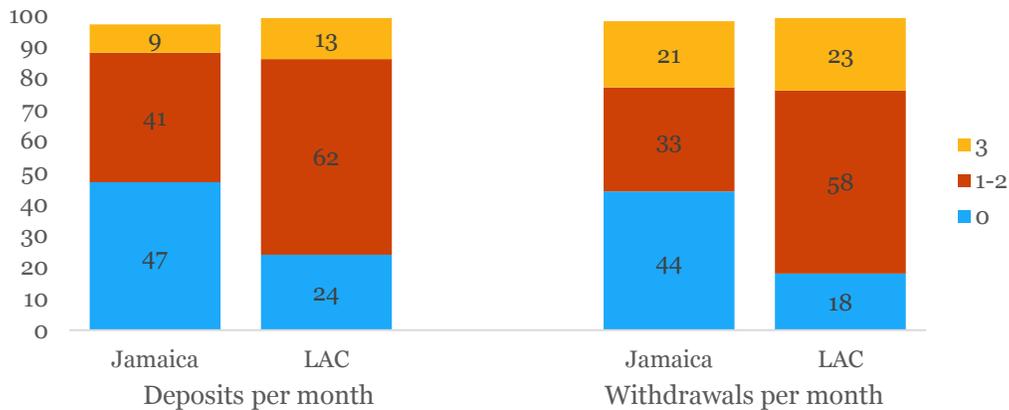
<sup>18</sup> The 2014 Global Findex data for Jamaica is based on face-to-face interviews with 504 randomly selected and nationally representative adults. The interviews were conducted between October 17 and November 8, 2014 as part of the Gallup World Poll.

<sup>19</sup> Defined by the World Bank as economies with GNI per capita between \$4,126 and \$12,745.

on over-the-counter withdrawals at banks more than their counterparts in other countries: 41 per cent of Jamaicans report typically using bank tellers for withdrawals, as compared to 23 per cent in LAC. Fifty per cent of Jamaicans report typically using ATMs for withdrawals.

**Figure 2: Account usage**

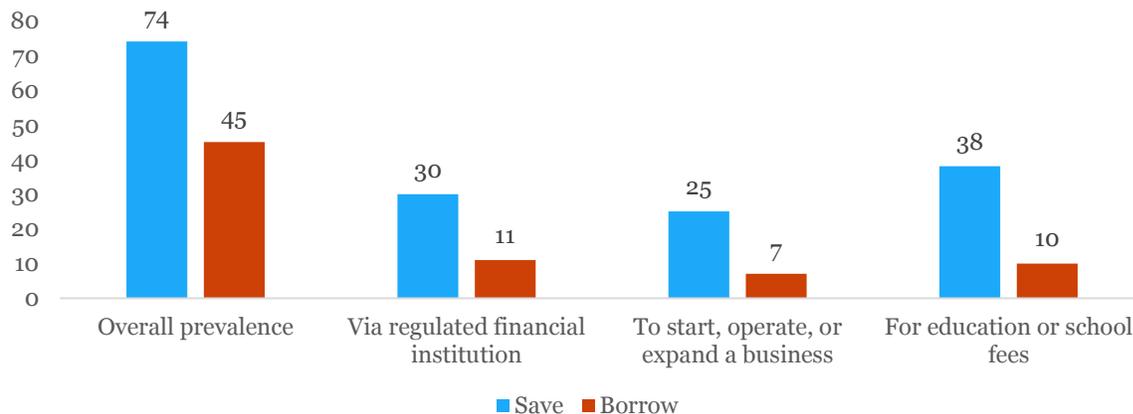
*% of account holders reporting typical number of deposits into or withdrawal from account each month*



Jamaicans save mostly outside the formal financial sector. Seventy-four per cent of Jamaicans report having saved or set aside money in the past year, although only a third report having done so via a regulated financial institution.

**Figure 3: Saving and Borrowing**

*% of adults ages 15+ saving or borrowing*

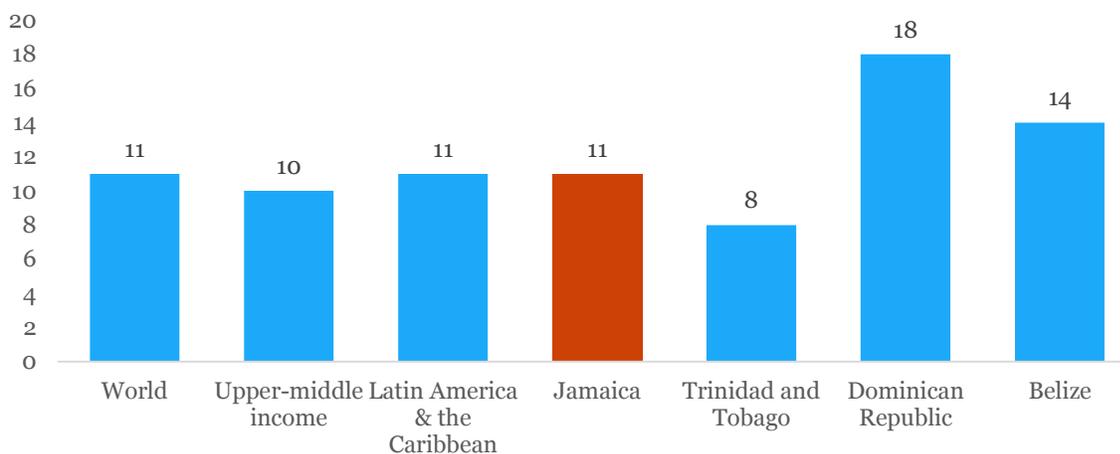


Source: Global Findex

Although Jamaica has a high proportion of formally banked adults, 11 per cent of adults report having borrowed from a formal financial institution in the past year (although the in line with the prevalence of formal borrowing in peer countries), and 7 per cent have outstanding mortgage

loans.<sup>20</sup> Lack of access to credit is especially prevalent among low income households and rural areas.

**Figure 4: Borrowing from formal FIs, Jamaica and peer countries**



Source: Global Findex

Note: Data for Trinidad and Tobago is for 2011.

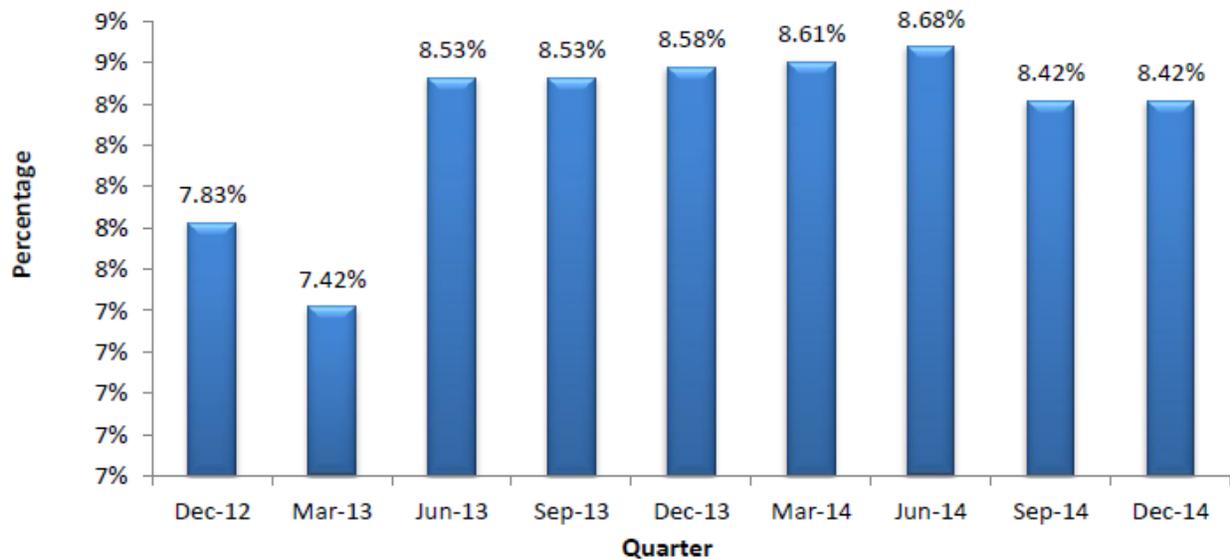
With regards to insurance, market penetration remains relatively low, with premiums remaining relatively stable in the range 4.0 – 5.0 per cent of GDP between 2012 and 2014. Micro insurance is underdeveloped, with three micro insurance products in the market, and a few private companies have started to offer weather indexed insurance policies to farms and rural dwellers on commercial basis.

With regards to pensions, private pension plans as of end 2014 covered only 8.4 per cent of the Jamaican employed labour force. Superannuation funds accounted for approximately 97 per cent of the number (416) of active plans and 96 per cent of total assets, while there were 13 retirement schemes representing 4 per cent of total assets.

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<sup>20</sup> Forty-four per cent of Jamaicans report having borrowed money in the past year. Borrowing from family and friends was reported by 30 per cent of adults, and borrowing from informal private lenders was reported by two per cent. For mortgages: lower than the average value in LAC (10 per cent), upper-middle income economies (9 per cent), as well as in Belize (13 per cent) and the Dominican Republic (14 per cent).

**Figure 5: Private Pension Coverage as a Percentage of the Employed Labour Force**



Source: FSC

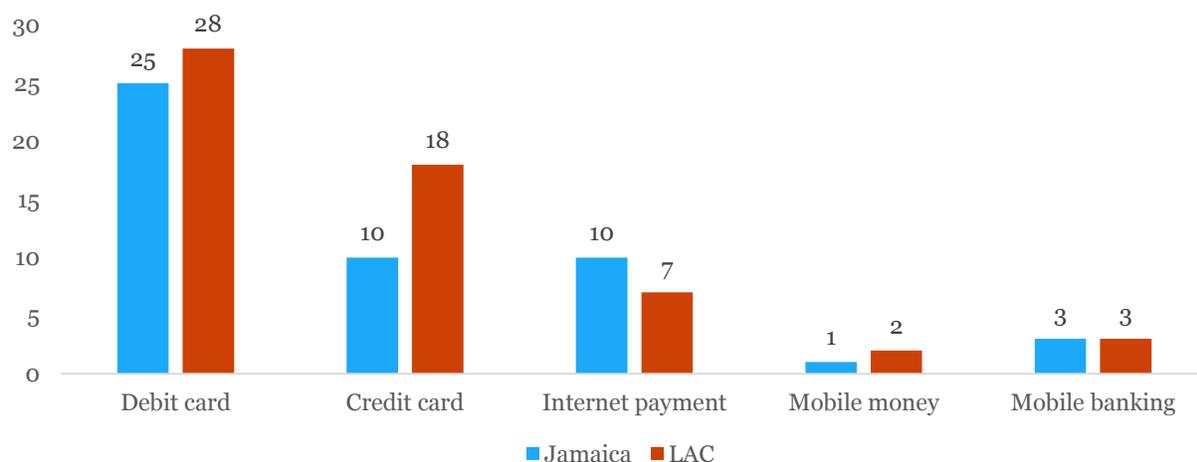
### Retail Payments

Although there is a range of retail electronic payments available and increasing, cheques remain the most widely used non-cash payment instrument. Use of digital payment instruments, including card-, mobile-, and internet-based, remains low in Jamaica.<sup>21</sup> While 65 per cent of Jamaicans report owning a debit card, just 25 per cent report having used it in the past year. The penetration of distribution channels, be it electronic or through mobile technology, remains scarce.

### Figure 6: Payment Instruments

*% of adults ages 15+ reporting use of payment instrument in past year*

<sup>21</sup> Further, just three per cent of adults report using 'mobile banking', defined as a mobile platform for making transactions from an account at a financial institution. Use of mobile money wallets, including CONEC Mobile Wallet, are similarly report by just one per cent of adults – though this is to be expected given that these products are still in the pilot stage. Ten per cent report having used the internet to pay bills or make purchases in the past year. These trends do not differ markedly from the rest of the region, though mobile money products have achieved relative success in several countries, including Paraguay and Haiti.



Source: Global Findex

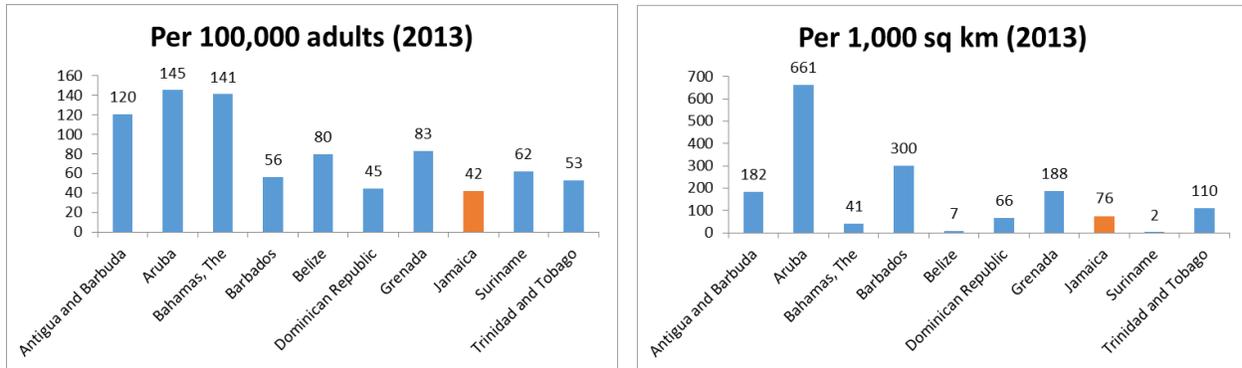
Note: 42 per cent of adults report *owning* a debit card in their own name and 14 per cent of adults report *owning* a credit card.

Cash is still king when it comes to wage payments, government-to-person payments, domestic remittances, and agricultural payments. Among wage earners, 65 per cent report receiving these wages primarily in cash, as opposed to 36 per cent who report receiving wages through an account at a financial institution. The receipt of wages appears to be a driver of financial inclusion: 19 of adults receiving wages into an account report that the account is their first. However, 15 per cent of cashless wage recipients withdraw it their wages right away, and 81 per cent withdraw it over time as needed.

Of those who report sending or receiving domestic remittances, 35 per cent report using their account at a financial institution to do so, 28 per cent report using an over-the-counter transaction (e.g. Western Union) and 37 report doing so exclusively via cash. Among the 11 per cent of Jamaicans who report having received a social transfer from the government in the past year, 34 per cent report that this payment was made in cash. Finally, agriculture-related payments (reported by 15 per cent of the population) are made overwhelmingly in cash: 91 per cent of adults who report receiving an agriculture-related payment report that these payments are made primarily with cash.

Penetration of traditional access points (e.g. commercial bank branches, cooperatives branches, ATMs) appears relatively low. With 42 access points per 100,000 adults and almost 5,000 POS terminals per million inhabitants in Jamaica, penetration is well behind countries like Bahamas, Belize, and Grenada. In terms of geographical penetration, Jamaica has 76 access points per 1,000 km<sup>2</sup> – which is higher than Bahamas (41) and Belize (7), though lower than Trinidad and Tobago (110). Despite the low penetration of traditional access points relative to peer countries, only 3 per cent of unbanked adults reported distance as a barrier in 2011.

**Figure 7: Access points in Jamaica and Peer Countries**



Source: IMF Financial Access Survey, 2013

The Automated Clearing House (ACH) handles the clearing and settlement of JMD denominated cheques, credit transfers and debit transfers. Access to the ACH is however restricted to the seven commercial banks. Other significant players in the retail payments arena such as building societies, credit unions and remittance companies do not have any direct access to the ACH. This to a significant extent has hampered their ability to provide various electronic retail payment products to their customers.

In order to facilitate financial inclusion and provide an impetus to the use of retail electronic payments, the BOJ issued “Guidelines for Electronic Retail Payment Services” in 2013. The Guidelines permit both non-banks and banks to provide retail electronic payment services through agents. Further, to provide greater access to retail electronic payments, simplified KYC requirements have been prescribed for users to avail services from non-bank service providers in the Guidelines.

The Government has implemented a Centralized Treasury Management system (CTMS) in 2012. Under this system, the multiple accounts of the various ministries, departments and agencies (MDAs) of the government have been consolidated into a single treasury account within the BOJ. Government benefit transfers are not part of the CTMS and continue to be paper based and need to be migrated to retail electronic payments.

The Ministry of Labour and Social Security administers the Programme of Advancement through Health and Education (PATH) which provides cash grants to various needier sections of society. PATH payments are made by way of cheques drawn on a commercial bank which the beneficiaries encash at local Post Offices. It is estimated that approximately 700,000 cheques are issued per annum to more than 120,000 beneficiaries. In addition, the Ministry also administers the National Insurance Scheme (NIS) which is a compulsory contributory funded social security scheme. Pensions are paid through pension vouchers which can be encashed at the post office selected by the pensioner or at any branch of the National Commercial Bank (NCB), with each voucher representing payment for two weeks.

A small beginning in using pre-paid cards for PATH payments has been made but the progress has been limited. The beneficiaries can also receive their welfare payments through KeyCash card (a branded pre-paid card of the NCB). To date only 15,000 beneficiaries are using pre-paid cards. Some of the inhibiting factors for the slow offtake are: (i) the time taken in the approval

process for a beneficiary to obtain a KeyCash card; (ii) the lack of adequate number of cash-out points such as ATMs and agents in rural areas. In addition, other major impediments are: (i) the beneficiaries not being able to comply with KYC requirements for opening a bank account to receive direct credits, and (ii) banks levying charges if the minimum balance is not maintained in the account.

Cross-border inward remittances are a very important source of income for the economy of Jamaica. At end-2013, remittances constituted about 13 per cent of Jamaica's GDP. Remittance transfers come mainly from the US, the UK, and Canada. The remittances are largely small value in nature with the average value of a remittance being US\$200.00.

The bulk of remittance inflows into Jamaica are received through the remittance companies. Jamaica has 8 remittance companies which have 444 remittance locations across the country. Remittance companies and their sub-agents are licensed by BOJ under Section 22 of the BOJ Act.

The average percentage costs of sending remittances into Jamaica by the Jamaican diaspora are significantly higher than the global average percentage costs. This is on account of exclusivity arrangements being put in place by the overseas service provider on primary agents and by primary agents on their sub-agents. This has resulted in stifling market competitiveness and resulted in de facto monopolies with higher remittance costs.

## **Housing Finance**

Jamaica has a relatively sophisticated mortgage market, which predominantly serves middle-income or formally employed borrowers. Lending is traditionally concentrated in three private building societies and a public savings and loan agency (National Housing Trust, NHT), while credit unions and insurance companies have been active in recent years. Lending practices are quite standard across commercial banks and building societies. Legal framework of housing finance is well developed, including the process of mortgage establishment and foreclosure, possibility of mortgage transfer, property appraisal, etc.

At the same time regulatory framework of the sector is fragmented - Bank of Jamaica (BOJ) supervises commercial banks and the building societies (credit unions may fall under BOJ supervisory purview in the near future) while Financial Services Commission (FSC) regulates insurers, and NHT is overseen by the Office of the Prime Minister. Furthermore, the mortgage insurance (MI) sector overall and the sole actor – Jamaica Mortgage Bank (JMB) - are not regulated by the FSC.

Mortgage portfolio represents over \$250B in 50,000 loans and constitutes 7 per cent of GDP, 28 per cent of all loans, and 40 per cent of all retail lending. Prevailing origination practices are prudent and portfolio performance is reasonable with delinquency ratio around 5 per cent. Low-cost funding for long term mortgages is obtained from deposits (banks and building societies) or mandatory payroll deductions (NHT); capital market funding channels are absent. The use of mortgage insurance is not mandatory, unlike in some countries where MI must be purchased by borrowers if they want to provide a small down payment amount.

A typical Jamaican mortgage is long term (up to 40 years) with lender-discretionary fixed rate, in local currency, with prudent down payment requirements. Average loans from private lenders allow borrowers to purchase a 2-3 bedroom house in the \$6-7 Million range. Mortgages from NHT suffice for a modest starter home (\$4.5 Million) or a \$1-3 Million land plot. In fact, formally employed Jamaicans with average or higher salary can afford a mortgage from existing lenders.

At the same time, informal and low income borrowers have little access to housing loans. Only NHT offers “affordability” products with low down payment requirements and below-market interest rates. While all formal employees are NHT contributors, self-employed people can make voluntary NHT contributions and subsequently borrow at these preferred conditions. Broadly, the informal segment of the population is excluded from the mortgage infrastructure regardless of income as they are not members of the savings and loans institutions and have only limited access to finance via the credit unions. Stringent “Know Your Customer” (KYC) requirements for banks and building societies contribute to challenges informal borrowers face when seeking housing finance.

Jamaica also faces a significant housing supply shortage and a particular problem of some 400,000 land parcels lacking title. The land administration system is well-functional, but the high cost of obtaining and transferring title discourages lower income households from registering ownership and being able to obtain housing finance with land as collateral. Subdivision of “family owned” plots is a challenge as well. This is important for lower and informal income households, as current de-facto owners lack access to financial resources they could have obtained had they used their property rights as collateral.

There are a number of initiatives to support titling for the lower income households, including via the Housing Agency of Jamaica (HAJ) in the form of a subsidy. Housing completions during the last 5 years were on average around 3,500 units (compared with estimated need of 20,000 units), over 75 per cent of which over are financed by primarily NHT and HAJ.

In summary, the key challenge for the Jamaican housing finance industry is in deepening the market by including lower and particularly informal borrowers – and doing so in a prudent and sustainable manner – to balance the risks for the lenders with proper consumer protection.

## **MSME Finance**

Similarly to households, almost all formal MSMEs<sup>22</sup> in Jamaica have access to checking or saving accounts, but the financial sector is scarcely used to finance their investments. MSMEs are expected to contribute significantly to the country’s employment and the economy. However, they face access to finance constraints that limit their ability to invest, grow, create jobs, and contribute to the economy. According to the 2010 World Bank Enterprise Surveys, almost all formal SMEs have access to checking or saving accounts, but only about 27 per cent have a bank loan or line of credit, well below the average of 48 per cent in LAC. More than 40 per cent of firms in Jamaica consider access to finance as a major constraint, but especially small enterprises (47 per cent, compared to the average of 32 per cent in LAC). The top three business environment constraints in 2010 in Jamaica were tax rates, electricity, and access to finance. As a result, investments are mostly financed with own funds, delaying decisions and eroding productivity, competitiveness and growth. The lack of funding for the SME sector, or its high cost, has a negative impact on entrepreneurship and business profitability and stability through the business life-cycle, having a particularly negative effect on employment.

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<sup>22</sup> A national definition for MSMEs in Jamaica was established in 2011 under the Ministry of Industry, Investment and Commerce’s “MSME & Entrepreneurship Policy”. Microenterprises are defined as enterprises employing 5 persons or less and have an annual turnover not exceeding \$10 million. Small enterprises employ between 6 and 20 people and have an annual turnover between \$10 and \$50 million. Medium-sized enterprises employ between 21 and 50 persons and have an annual turnover between \$50 and \$150 million.

High interest rates and low penetration of credit to low income households and MSMEs are driven by high credit risk, as a result of high information asymmetries, as well as insufficient competition in the banking sector. Lending rates average about 18 per cent per annum and are twice as high for micro-entrepreneurs as for medium-sized firms. Credit unions and MFIs charge rates of above 50 per cent annually for microenterprise loans. While three credit bureaus have been established recently, financial institutions still lack proper credit risk assessment tools. Thus, credit activity is scarce, interest rates are high, and traditional collateral requirements are high. Furthermore, the informal economy (estimated at 40 per cent of GDP)<sup>23</sup> has only access to credit unions and MFIs.

There are several factors that have constrained bank lending to MSMEs. These factors include, *inter alia*: (i) traditionally banks have not saturated lending in the retail segment due to investment opportunities in low-risk Government securities and have not felt the need to diversify into other segments; (ii) lending to the MSME segment has been perceived as high risk due to significant information asymmetries that exist in the market (lack of credit reporting systems) and the high level of informality, especially of micro-entrepreneurs, resulting in higher interest rates for this segment or refusal of credit; (iii) lack of adequate traditional collateral owned by MSMEs as required by banks, focused mostly on real estate or motor vehicles; (iv) lack of bank strategies, processes, lending methodologies, and financial instruments to lend to this segment, although banks have started to develop such methodologies; and (v) lack of reliable financial statements for MSMEs that makes it difficult for banks to assess risks.

In addition, the supply of formal nonbank sources of finance is limited, especially for micro-entrepreneurs, with credit unions providing mostly consumer finance and an underdeveloped microfinance sector. Credit unions' assets represent less than 5 per cent of GDP and they provide mostly consumer finance (9 per cent of the loan portfolio is provided to micro-entrepreneurs).<sup>24</sup> The current regulatory framework for credit unions is being revised and supervision will be undertaken by Bank of Jamaica (BOJ). In addition, the microfinance sector is small and remains largely unregulated. The absence of a regulatory framework over the activities of microfinance may hinder the growth of the sector. The authorities aim to develop a Micro-Credit Act to make it mandatory for MIFs to register, and to create a regulatory authority to oversee MFIs. The regulatory environment for microfinance should provide a level playing field amongst financial institutions providing microfinance. The regulatory framework for credit unions should take into account the specific characteristics of the sector, and BOJ should have overall responsibility for supervising and regulating all the lenders in the market, including credit unions and MFIs (non-prudential supervision of MFIs), in order to avoid regulatory arbitrage and other market distortions.

Beyond credit, the supply of alternative sources of finance for MSMEs is limited. Factoring is not developed, and leasing is scarcely used due to lack of tax incentives. As a result, working capital is funded exclusively with credit lines at high rates, representing a significant obstacle for the development of the private sector. Also in terms of equity, source of alternative finance are limited in the market. Venture capital is not developed, and there are only 22 companies listed in the Jamaican Stock Exchange for SMEs (Junior Stock Market) with low liquidity and turnover ratios. Alternative sources of finance that are particularly valuable for SMEs, such as factoring, leasing, and venture capital should be developed and promoted.<sup>25</sup> Similarly, specific instruments to

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<sup>23</sup> The Informal Sector in Jamaica, Inter-American Development Bank (IDB), 2006.

<sup>24</sup> Bank of Jamaica (BOJ) data.

<sup>25</sup> In recent years, the authorities have undertaken efforts to encourage the development of the venture capital ecosystem.

facilitate access to finance for micro-entrepreneurs and farmers should be designed, such as micro-insurance.

## **Agriculture Finance**

More than half of the population lives in rural areas and has limited access to finance. The agriculture sector contributes to about 6.5 per cent of GDP and employs about 17 per cent of the labour force. The availability of financial services in rural areas, especially for lower income households, small-scale farmers and entrepreneurs, is limited, becoming a bottleneck for generating economic activities and improving the livelihood of the rural population.

Agriculture is a key sector in Jamaica accounting for 20 per cent of the country's employed labour force and 39 per cent of exports, the sector is affected by high production and market risks and a weak integration into efficient value chains.<sup>26</sup> Agriculture's contribution to Jamaica's gross domestic product (GDP) has however steadily declined over the past two decades, accounting today for 6.7 per cent of GDP. The agricultural economy comprises a total of 228,000 farms, of which about 400 are larger commercial farms that produce mainly for the export market, and over 150,000 small-scale farms (average size 0.3 ha) that produce for household subsistence and the domestic market using a farming system based on inter-cropping. Extreme climate events such as hurricanes, floods, landslides, droughts and heavy winds have a significant negative impact on the agriculture sector. While some agricultural products such as sugar or poultry are well integrated in well-organized value chains, other products such as yams, vegetables or some incipient export crops cannot achieve their potential due to deficiencies in the marketing and processing structures.

In spite of the high penetration of financial services in rural Jamaica,<sup>27</sup> agriculture credit is limited and below the importance of the sector for the economy. Agriculture accounts for 6.7 per cent<sup>28</sup> of GDP but only for 4.3 per cent of local and 2.5 per cent of foreign currency business loans of banks. It can be estimated that less than 10 per cent of farmers have access to credit.<sup>29</sup> Banks provide mainly loans to large farms in the so-called traditional sectors (poultry, sugar cane, coffee, etc.) and well-established agro-processors; National People's Cooperative Bank of Jamaica (NPCB) is the main provider of medium sized loans. Small loans are granted by MFIs and Credit Unions mainly funded with own resources. Part of the loans granted by NPCB, MFIs and Credit Unions is financed by Development Bank of Jamaica (DBJ), which imposes interest rate caps on sub-loans and undertakes in the case of some institutions a detailed assessment of each loan.

The financial performance of NPCB is hampered by past losses, and the Government is currently developing a plan for restructuring NPCB. In addition, credit unions and MFIs, which are not yet under the oversight of BOJ report an uneven performance of their agricultural loan portfolios. This situation, combined with the relatively small size of most financial service providers and the lack of knowledge about agriculture and agricultural lending limits their capacity to grow their loan portfolios to farms. In spite of this, efforts are being undertaken by some providers that are exploring tripartite arrangements including agro-processors as a way to grow a sustainable agriculture portfolio.

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<sup>26</sup> Source: Center for International Development Atlas. Food and beverage exports of 484 million USD, 77 million USD vegetable product exports, 25 million USD of livestock exports.

<sup>27</sup> 76 per cent of rural adults have an account at financial institution.

<sup>28</sup> Source: World Bank, World Development Indicators, 2012.

<sup>29</sup> Estimation based on data from DBJ, NPCB and JCCUL.

In summary, access of farms to finance is limited by the high actual risks related to agricultural production and markets, the high level of fragmentation of the farming sector, as well as from the weaknesses and lack of know-how of the financial service providers in regards to agricultural finance. These factors are compounded by existing difficulties to provide farmland as collateral and the almost inexistence of agricultural insurance.

## **Financial Consumer Protection and Financial Capability**

The authorities have embarked upon some initiatives to strengthen the legal and regulatory framework for both prudential supervision and consumer protection supervision of financial services. The most important new law is the Banking Services Act, approved by Parliament in June 2014, which consolidates prudential supervision of the major deposit-taking institutions under the Bank of Jamaica and provides a valuable first step in strengthening consumer protection supervision of deposit-taking institutions through the establishment of an enforceable code of conduct. Non-bank credit providers, such as payday lenders and microfinance institutions, will be regulated by a “proposed new Micro Credit Act”, under which all non-bank consumer lenders will be required to register with the Ministry of Finance and Public Service. At the same time, usury limits will be eliminated, creating room for competition in the marketplace to set interest rates for borrowers. “Retail repos” are being phased out and the underlying government securities transferred to a master trust, under which individual investors’ claims to the securities will be identified. At the same time, the existing Unit Trusts Act will be replaced by the Securities (Collective Investment Schemes) Regulations, 2013 that strengthen consumer protection for retail investors in collective investment schemes. In addition, recent legislative changes in the anti-fraud framework will help protect both depositors and retail investors.

The resulting framework for financial consumer protection still has gaps, with limited consumer protection supervision of many types of financial institutions. The 2001 Financial Services Commission Act clearly specifies investor protection as part of the Commission’s core mandate. As a result, insurance, securities and private pensions services all have a consumer protection regulator and supervisor with a clear focus on measures to strengthen consumer protection. However, for banks and building societies, the scope of the Bank of Jamaica’s work on consumer protection is limited, since the Bank of Jamaica Act does not specifically refer to consumer protection as part of its statutory mandate.

In addition, some types of financial institutions have virtually no consumer protection supervision. For example, “friendly societies” fall under the Department of Co-operatives and Friendly Societies (DCFS), an agency within the Ministry of Industry, Commerce & Agriculture and are registered by the Registrar of the DCFS. However, they have no financial supervisor reviewing their treatment of their customers. Similarly, retailers that provide instalment credit for the purchase of appliances and other major consumer goods are regulated by the 1974 Hire Purchase Act and come under no financial supervisory agency. In addition, credit unions, payday lenders, and microfinance institutions have no clear consumer protection supervisor. For these institutions, the only consumer protection supervisors are the Fair Trading Commission (whose authority is limited to issues of misleading advertising and tied selling) and the Consumer Affairs Commission (for which financial services represent only a small portion of the Commission’s work and just one per cent of complaints received from consumers). The work of government supervisors, BoJ, FSC, FTC and CAC, on financial consumer protection can benefit from more effective coordination.

Consumer complaints provide a wealth of information about weaknesses in the consumer protection framework. In the banking sector, most complaints focus on: (1) fees for use of

automated teller machines, overdrafts, penalties and dormant accounts; (2) interest charges on outstanding balances, credit cards and loan accounts; (3) payments posted to incorrect accounts or in incorrect amounts; (4) ATMs not issuing cash and (5) stolen debit and credit cards and unauthorized deductions. Consumer complaints relative to other financial services relate to: (1) calculation of insurance coverage, (2) reduction in pension pay-outs when a partial pay-out has already been commuted to cash, and (3) loss in value for market investments, such as retail repos, that some lower-income consumers treat as a bank deposit, even though the products are investment securities. Borrowers from microfinance lenders complain of high interest rates and aggressive debt collection practices. In sum, all the complaints point to the need for improved business practices from all financial service providers and enhanced consumer disclosure – and better programmes of financial education. Jamaican consumers do not often complain but when they do, they write to five different government agencies.

Early initiatives on a National Financial Literacy Programme have been helpful but they were insufficient to have a measurable impact on consumer levels of financial literacy. Well-educated financial consumers are best able to protect themselves from unfair treatment by financial institutions. Several key government agencies (including the Financial Services Commission and the Jamaica Deposit Insurance Corporation) were active participants in the previous National Financial Literacy Programme, which was launched with the release of the financial literacy survey in 2010. The Financial Services Commission has pursued its own financial education programme related to insurance, securities and private pensions. The Deposit Insurance Corporation has similarly continued its financial education campaign to ensure that depositors are aware of insurance on their personal deposits. However, the efforts would be far more effective if they were coordinated as part of a government-wide national programme led at the highest level of government and supported by industry associations and civil society.

## Annex 2. Data Sources

High-quality data is the foundation of a robust M&E system. It is therefore worthwhile to define the universe of financial inclusion data which can support M&E activities as they relate to the NFIS. These include both the regular update of the M&E Framework as well as in-depth analyses into specific trends and obstacles. The table below outlines the available data as of the time of the publication of the NFIS. The M&E officer will be responsible for the continuous updating of this resource. The NFIS devotes several activities under the Action Plan (see Section 6) to strengthening the data landscape to better monitor and evaluate financial inclusion, as shown below. A key gap is the lack of a regular demand-side measurement, addressed in the first action of the Monitoring and Evaluation section of the Action Plan.

### Data Sources for Financial Inclusion M&E

Data Source	Demand- or supply-side	Target population	Sample size / coverage	Year (most recent)	Frequency	Topics covered	Responsible institution
<b>Jamaican</b>							
Survey of Living Conditions	Demand	All households	2,720	2014	Annual	Consumption, education, housing, health, housing , social protection	STATIN / PIOJ
Labour Force Survey	Demand	All adults ages 14+	8,128	2014 Q4	Quarterly	Labour force participation	STATIN
Establishment Survey	Demand	All formally registered firms employing 10+	1,028	2015	Quarterly & annually	Employment, earnings, production ,income & expenditure	STATIN
Financial Literacy Survey	Demand	All households	1,000	2012	-	Financial knowledge, attitudes, behaviours	JDIC, BOJ, FSC, JSE (with OECD/INFE)
Survey on Credit Conditions	Supply	Commercial banks, building societies, near banks, credit unions, development banks	TBD	2014 Q4	Quarterly	Lending volumes, credit terms	BOJ
BOJ Annual Study of Fees and Charges	Supply	Commercial banks, building societies, near banks, credit unions, development banks	TBD	2014 (TBC)	Annual (TBC)	Service fees and charges, JBA Code of Conduct adoption	BOJ
BOJ Supervision Database	Supply	Financial institutions (banks only)	All	TBC	TBC	% of agriculture and agro-processing in total lending portfolio	BOJ

<b>International Organizations</b>							
<b>Global Findex</b>	Demand	Adults ages 15+	1,000 per country; 140+ countries	2011	2014, 2017	Savings, Credit, Payments, Insurance; Rural / urban breakdown	World Bank
<b>Enterprise Surveys</b>	Demand	Enterprises with 5+ employees	Varies by country; 135 countries	2010 (Jamaica)	-	Access to Finance	World Bank
<b>Financial Access Survey</b>	Supply	n/a	n/a	2014	Annual	Product uptake, branch/ATM/agent penetration	International Monetary Fund
<b>Global Payment System Survey</b>	Supply	Central Banks	136	2012	Biennial	Regulation and supervision, financial infrastructure	World Bank
<b>Remittance Prices Worldwide</b>	Supply	Remittance providers	226 country corridors	2015 Q2	Quarterly	Pricing data on remittance transfers	World Bank