

**Summary**  
**Study of Financial Inclusion in Palestine**  
**2016**

## Foreword

Financial inclusion has recently garnered significant attention from decision-makers around the globe. In Palestine, the Palestine Monetary Authority (PMA), the Palestine Capital Market Authority (PCMA), and other stakeholders have transposed this attention into an ambitious national project for which the present study lays the foundation stone by being an initial effort towards advancing financial inclusion. This study provides a unique knowledge database that will help Palestinian decision-makers in designing the policies and procedures necessary for building up financial literacy and capabilities among Palestinians, particularly vulnerable social segments.

The findings of the study are expected to consolidate the efforts related to our theme – with the PMA and the PCMA at the forefront – towards fostering financial inclusion which will in turn accrue various socio-economic benefits to the Palestinian society, most importantly driving economic growth and reducing poverty. This could be achieved through numerous initiatives: improving access to financial services and credit for all segments; stimulating micro and small enterprises; and enhancing and safeguarding the rights of financial products and services' consumers.

On behalf of the PMA and the PCMA, we would like to deliver our sincere gratitude to the Palestine Economic Policy Research Institute (MAS), the Palestinian Central Bureau of Statistics (PCBS), and the Financial Inclusion Management Unit for their contribution to this study. We would also like to express our thanks to the other stakeholders: the Palestinian private, public, and civil sectors, as well as our international partners and supporters, especially the Alliance for Financial Inclusion (AFI) and the German Society for International Cooperation (GIZ).



## الشمول المالي في فلسطين Financial Inclusion in Palestine

Chairman of the Board of the PCMA  
Nabeel Kassis

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## Executive Summary

The financial sector –banking and non- banking – has played an increasing role in the growth of modern economies. Financial products and services have developed rapidly in terms of their diversity, delivery methods, use and accessibility. International experience has proven that improving the quality of financial services and increasing the access of individuals and institutions to them can promote equal opportunities and increase the economy's potential. It has also shown that the market mechanism failed to deliver financial services and products to the poor and remote areas in developed and developing countries alike. To this end, financial regulatory institutions adopted policies which compel and motivate financial service providers to deliver their products and services to all people and regions without exception. They also carried out outreach campaigns to attract and encourage the poor, especially women and youth, to use financial products and services. The past four decades have witnessed turbulent developments across the financial sector, with the introduction of many innovative and first-class financial products which require better financial knowledge, literacy and risk-management. Hence the need for financial education, especially for lower-income groups and small investors, in order to introduce the risks and benefits of new financial products and services to them, and raise their awareness on how to effectively select, use, and manage the necessary financing for low-income households and small and medium enterprises.

In the wake of the 2007/2008 global financial crisis, regulatory institutions became more aware of the need for financial inclusion. To this end, they committed to implementing programs and policies which promote and facilitate access to financial services for all segments, and allow for their proper and effective use. They also urged all suppliers of financial products and services to provide diverse, innovative and affordable services to the poor. The Group of Twenty (G-20) defined financial inclusion as a key goal in its economic, financial, and development agendas. According to the World Bank, financial inclusion and access to financial services play a key role in combating unemployment and poverty, improving living conditions, and increasing the citizens' choices and ability to seize opportunities and establish their small businesses.

In Palestine, financial inclusion received a severe blow when the Israeli occupation authorities closed all banks immediately after the June 5, 1967 aggression and restricted investments in all finance sub-sectors. These measures thwarted the access of the Palestinian economy and citizens to financial products and services for almost three decades (1967-1994) with the exception of NIS/JOD exchange services, some mandatory insurances such as car insurance, and the use of current accounts by the commercial elite at Israeli Banks which opened a few branches in the occupied territories. The Palestinian financial sector was therefore faced with a wide multidimensional gap when the Palestinian National Authority was established. This gap included the absence of an appropriate updated legal and regulatory frameworks and the lack of banking human resources. Citizens were also unfamiliar with financial products and services which developed and became more diverse as a result of the technological revolution in the seventies.

Tremendous efforts had to be made to bridge this gap and meet the needs for banking products and services. These needs have grown significantly after the establishment of the Palestinian National Authority and the flow of foreign aid to finance the reconstruction process and build institutions. Moreover, local and foreign private Palestinian investments increased when the Occupying Power no longer had the responsibility to register land within the National Authority's jurisdiction, register companies and grant building licenses on one hand, and optimism prevailed after the signing of the interim phase agreements between the Palestinian Liberation Organization and the occupation government on the other.

This gap has been bridged by great efforts: regulatory institutions and a regulatory framework were established and companies to supply financial products and services were created. Banks and financial companies recruited foreign experts who played a major role in speeding up the establishment of regulatory institutions and their capacity building to regulate and monitor financial companies and their activities. The Palestine Monetary Authority was established in 1995, the Capital Market Authority in 2004, and the PMA Law, Banks Law, PCMA Law, and the Insurance Law were all adopted. The Palestinian Financial Market was also established as a private company in 1996, and licenses were granted to several insurance companies, brokerage firms, specialized lending institutions, money changers, mortgage companies, and financial leasing institutions. These institutions built capacities and expertise and started providing diversified modern financial products

and services to companies and citizens. They promoted Palestinian financial inclusion to levels beyond those of many Arab and developing countries.

Today, fifteen banks operate in Palestine through 285 branches/offices, and their total assets were estimated at USD 12,599.9 million by the end of 2015. The financial sector also includes 9 formal insurance companies which provide services through 116 branches/offices across Palestinian governorates, and their total assets are estimated at USD 383.0 million. Furthermore, 6 formal specialized lending institutions operate through 63 branches, and provide an estimated USD 136.7 million in facilities. The number of authorized money changers reached 280 and their total assets are estimated at USD 66.8 million. In the last two decades, 49 companies were listed on the Palestine Stock Exchange (PEX), and last year 175.2 million shares were traded (with a value of USD 320.4 million). Financial leasing is an emerging sector which started with a great momentum in 2014 when the President approved Law No. (6) of 2014 on Financial Leasing and there are currently 11 companies operating with an estimated investment of USD 64 million.

The financial sector has gone a long way in the past two decades and the wide multidimensional gap which grew deeper over the years was finally bridged. Nevertheless, the macroeconomic expectations of regulators and their partners remain greater than the current achievements. They believe that financial inclusion plays a major role in promoting comprehensive economic growth and development for the poor, and remote and marginalized areas while stressing the importance of integrating women and youth. As a result of the growing need for raising awareness, financially educating Palestinian consumers of financial products, as well as integrating them and ensuring an easy access to financial services and products, the PMA and PCMA have taken initiatives to promote financial inclusion. These initiatives have led to a shift from fragmented programs to a National Strategy on Financial Inclusion in Palestine with the participation of all stakeholders. It is based on a common vision and realistic programs which respond to needs and priorities such as knowing the local realities and benefitting from best practices of countries which have successfully devised and implemented financial inclusion models. It is also based on the principles of the G-20, World Bank, AFI, and the OECD's High-level Principles on National Strategies for Financial Education.

This study<sup>1</sup>, the first of its kind in Palestine, is the first stage in the preparation of a Palestinian National Strategy on Financial Inclusion. It aims at providing detailed proposals and recommendations based on facts and evidence to devise a National Strategy on Financial Inclusion, in line with accurate knowledge of financial inclusion strengths, weaknesses, opportunities and challenges facing the providers of financial products and services to adult individuals at the national and governorate levels according to variables such as gender, income, type of locality, source of income and others.

## Access and Use

In terms of the geographical distribution of financial services and product suppliers, the study revealed the need for more branches and ATMs, especially in the Gaza Strip, rural areas and West Bank camps. It also showed that the distribution of microfinance institutions was inconsistent, and brokerage and financial leasing companies were limited to some cities in the West Bank.

With regard to the use of banking and financial products by the adult population in the State of Palestine in 2015, the study showed that 22.7 percent own a current account, 7.8 percent use bank checks service, 9.2 percent have a savings account, 5.1 percent have been granted bank loans, 1.1 percent benefit from bank

<sup>1</sup> The 2016 study of financial inclusion in Palestine was conducted for the benefit of Palestine Capital Market Authority (PCMA) and Palestine Monetary Authority (PMA) by the Palestinian Economic Policy Research Institute (MAS), in cooperation with the Palestinian Central Bureau of Statistics (PCBS). This study is funded by GIZ through the Global Alliance for Financial Inclusion (AFI).

deposit services, 4.4 percent have credit cards, and only 0.5 percent have received Murabaha or Mudaraba financing. Moreover, 0.2 percent of the adult population have deposits in Islamic banks, and 2.9 percent have been granted loans from microfinance institutions. As for the use of non-banking financial services in Palestine, the study revealed a very low percentage compared to the use of banking financial products. In fact, the rate of ownership/use of non-banking services and products studied did not exceed 5 percent. Moreover, insurance policies (excluding health insurance) are the most used non-banking financial service (at 4 percent) by the adult population in Palestine.

In terms of accessing/using financial services, large gaps exist between West Bank and Gaza Strip adult populations on one hand, and between males and females on the other. The percentage of current account holders in the West Bank is 1.6 times that of Gaza; but Gaza residents are 1.3 times more likely to be granted bank loans than the residents of the West Bank. The same goes for adult camp residents: the number of current account holders in camps is 3.6 percent lower than that of the rural population and 4.2 percent lower than that of urban communities. In this vein, it is worth noting that insurance services in Gaza and Palestinian camps are virtually non-existent. The similarities between Gaza and Palestinian camps are due to the fact that approximately 60 percent of Gaza residents live in camps.

The percentage of women using banking financial services and products does not exceed one third (1/3) of the percentage of men. The use of non-banking financial services and products is not any better. In fact, the percentage of men using these services and products is always higher or at best similar to that of women. For example, 6 percent of the male population have an insurance policy compared to only 1.7 percent of the female population. Likewise, 3.5 percent of the male population have a pension compared to only 0.9 percent of the female population.

Findings show a positive relationship between the level of education of an individual and having an insurance policy. In fact, 21.5 percent of postgraduate degree holders have an insurance policy, whereas only 1.5 percent of illiterates do. The percentage of insurance policy holders (excluding health insurance) was high among the adult population whose monthly household income ranges between NIS 4,000 to 8,000 at 9.6 percent. Contrarily, only 1.5 percent of individuals whose income does not exceed NIS 2,000 have an insurance policy. Adult individuals from households which relied on investments and real estate as a main source of income were more likely to have insurance policies (excluding health insurance), 10.2 percent of all individuals in that category, whereas 4 percent of salary/wage earners have an insurance policy.

As for the use of financial services and products by age groups, there is an inverted U-shaped relationship between age and use of products and services, with middle age groups being the point of separation. Before middle age, the older the individual, the more they use financial services and products. Once beyond middle age, the older the individual, the less they use financial services and products. Moreover, there was a positive relationship between the level of education of an adult individual and their use of financial services and products. For example, 46.9 percent of individuals who hold a bachelor's degree own a current account, compared to 82.5 percent of Master's degree holders and only 4.5 percent of uneducated individuals.

Administrative data from service providers show different results than data from the field survey, due to repetition of clientele information in the databases of providers. This requires a special program which does not allow repetition of information on the same person in the same or different bank. This can be achieved by using a special code for every individual (e.g. ID number) who uses/owns financial products and services. This approach can help in providing accurate data for the financial inclusion and any other future studies. In addition to saving time and effort and ensuring accurate financial inclusion data, such an approach enables regulators to periodically monitor the evolution of financial inclusion, and helps in controlling all banking operations of legal and natural persons to prevent any fraud or money laundering. In the same vein, administrative data differed from field survey data because the information was collected on the number of health insurance policies instead of the number of people insured. It is therefore better for insurance companies to collect/provide data about the number of people insured instead of the number of insurance policies provided to companies and individuals.

## Financial Capability

A large part of the adult population remains unable or unwilling to use financial services and products. This is coupled with a large literacy gap among the adult population, including high-school and university graduates. One can therefore assume that service providers will have promising horizontal expansion opportunities once this gap is bridged.

According to the survey, a large percentage of the Palestinian adult population rely on friends and relatives to obtain information on the financial products and services they use. They resort less to information provided by financial institutions and their branches. The best way to access financial services and products was visiting the nearest institution branch and/or its headquarters. The religious factor played the most important role in influencing customers' choice of financial products and services, followed by the extent to which they meet the needs of individuals, and the cost of their use. On another side, the provider's reputation played the most important role in influencing customers' choice of their financial product and service provider, followed by the type of facilities offered, and quality of the product/service. As for the reasons behind the refrain from using bank accounts, the majority of the adult population did not need this service because they do not have additional funds, and religious beliefs prohibited its use.

The survey also revealed humble financial literacy at all levels of the Palestinian society, even though the male population was more knowledgeable than the female population. In fact, more than half of the West Bank population have poor financial literacy. The situation is not any better in the Gaza Strip where two thirds of the adult population have poor to no financial literacy. Moreover, individuals are rarely aware of financial regulators, especially in the non-banking financial sector.

Almost one third of the adult population in the survey resort to financial management in their households, and the vast majority of households do not have savings. More than 50 percent of Palestinians have financial goals, but 40 percent do not have an income management plan. Adult individuals resort to different ways to achieve their financial goals. For example, they devise plans, raise their credit card limit, save money, look for other jobs or cut spending. But the majority of them cut spending to achieve their financial goals.

There is a clear disparity between Gaza and the West Bank in terms of generating post-retirement income. But in general, Palestinians rely heavily on their children or family members. The average age for preparing a post-retirement plan is 40 years old.

In Gaza, almost 75 percent of the adult population are unable to cover their daily expenses, so they borrow from a relative or a friend, or reduce their spending. The financial situation of Palestinian households is very fragile, especially in Gaza and camps. This becomes clearer as families can only cover their expenses for a short period of time before borrowing from banks.

The vast majority of the adult population in Palestine prefers to file a complaint directly to service providers, but some people also submit their complaints to bodies regulating the sector. Moreover, the majority of adult individuals are unaware of their rights and obligations when it comes to the use of financial products and services and only 20 percent are aware of their right to obtain a copy of credit reports on financial products and services.

## Financial Inclusion indicators in Palestine according to the field study results:

Figure 1: Financial inclusion Strands among adults.



Financial Inclusion Composition among adults

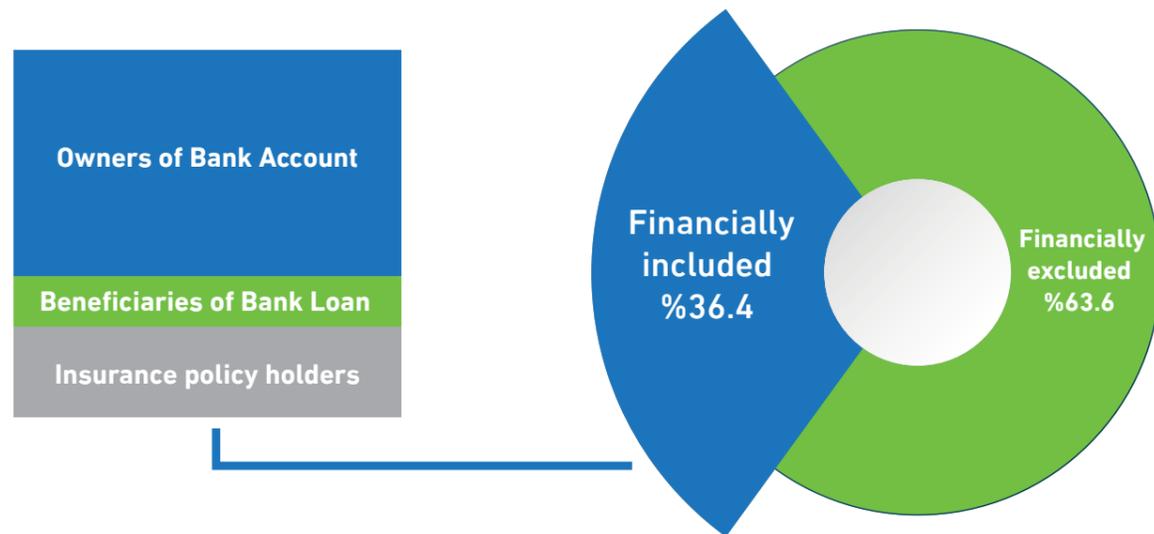
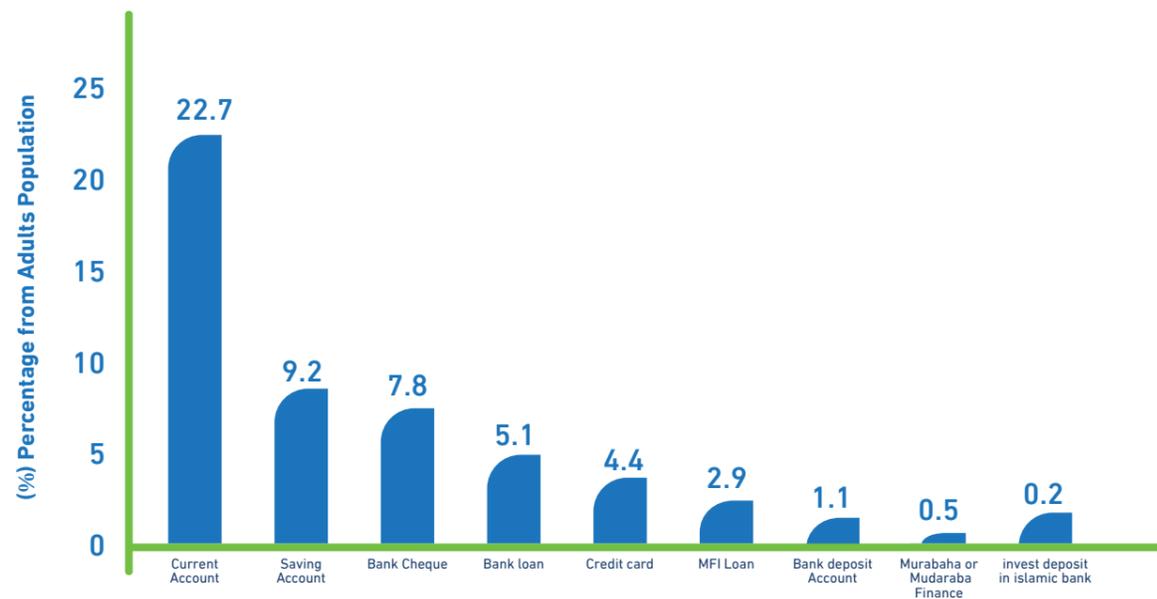
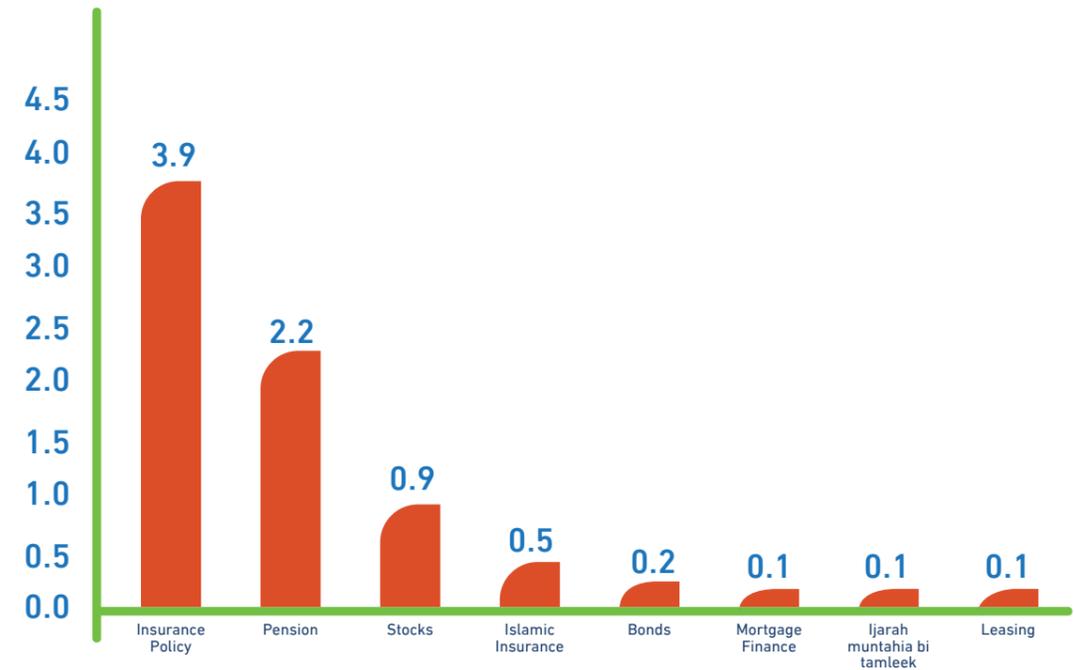


Figure 2: Rates of banking services and products used by adult individuals (18 years and above) in the Palestinian Territories for 2015



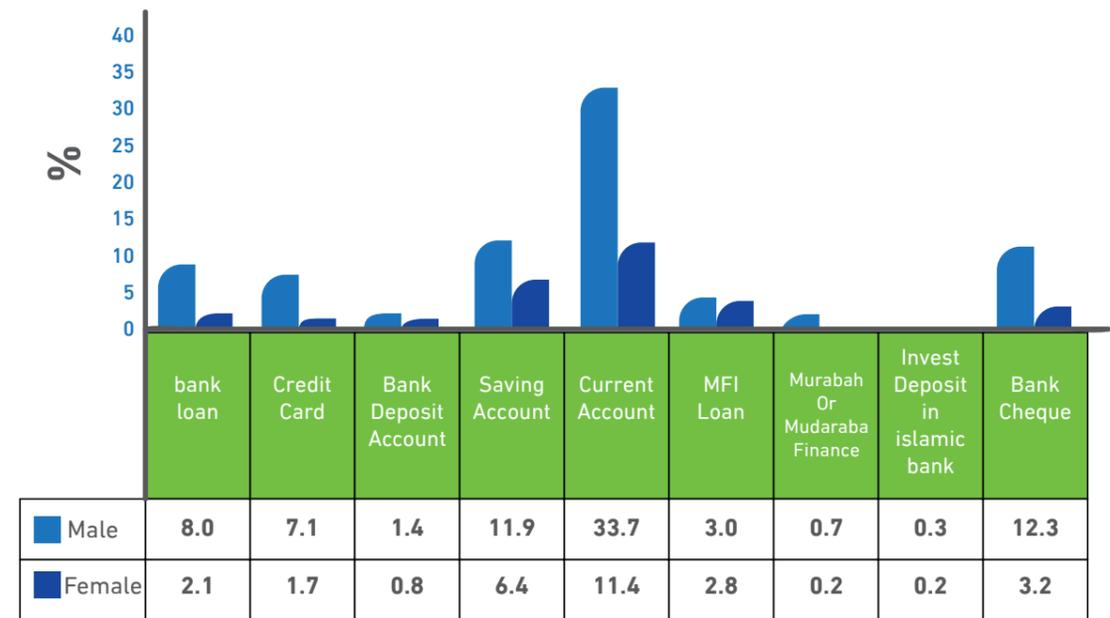
Source: Financial Inclusion Survey, 2015.

Figure 3: Percentage of adult individuals (18 years and above) benefitting from non-banking financial services in the Palestinian Territories for 2015



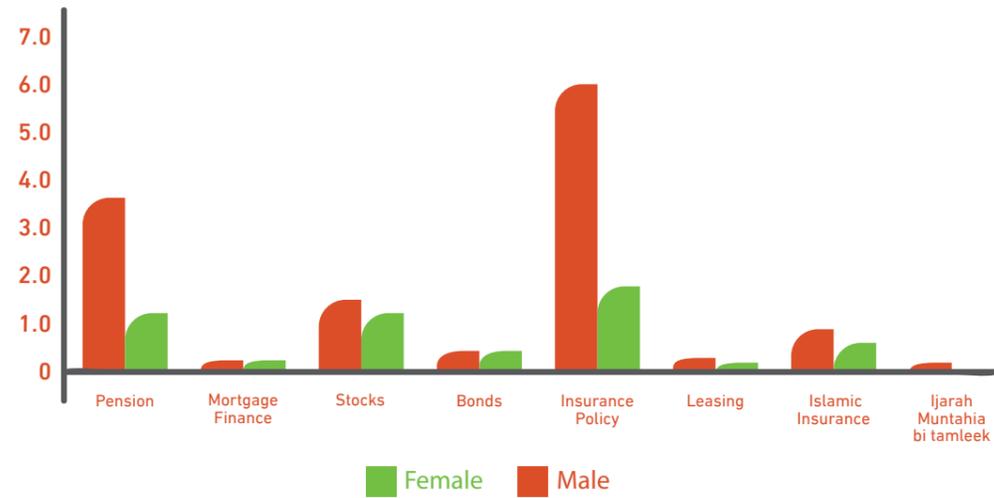
Source: Financial Inclusion Survey, 2015.

Figure 4: Percentages of use of banking products and services among adult individuals (18 years and older) by gender for 2015



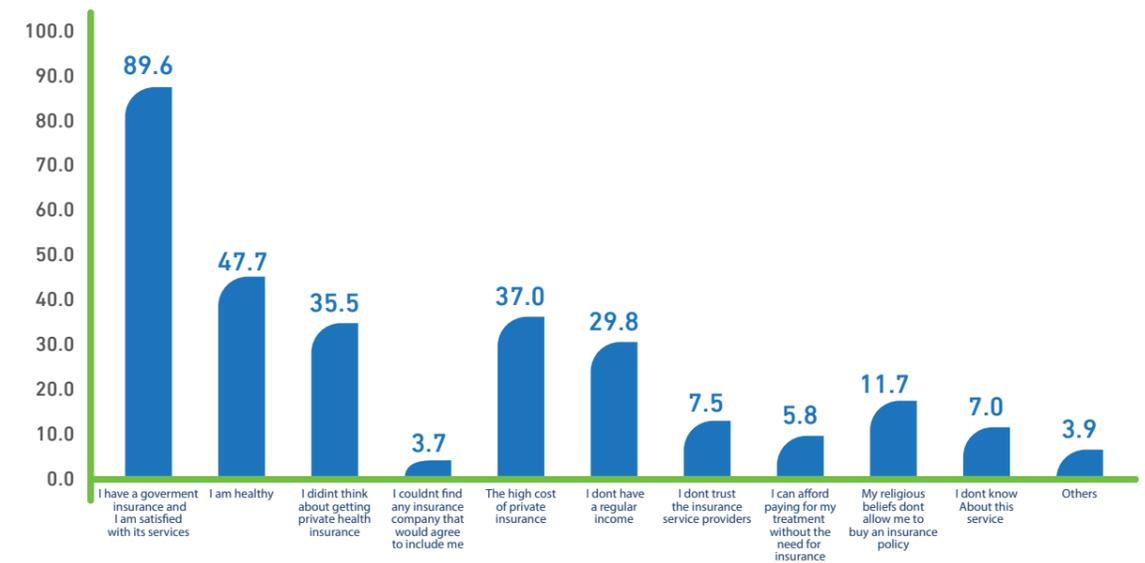
Source: Financial Inclusion Survey, 2015.

**Figure 5: Financial inclusion for non-banking financial products and services by gender for 2015**



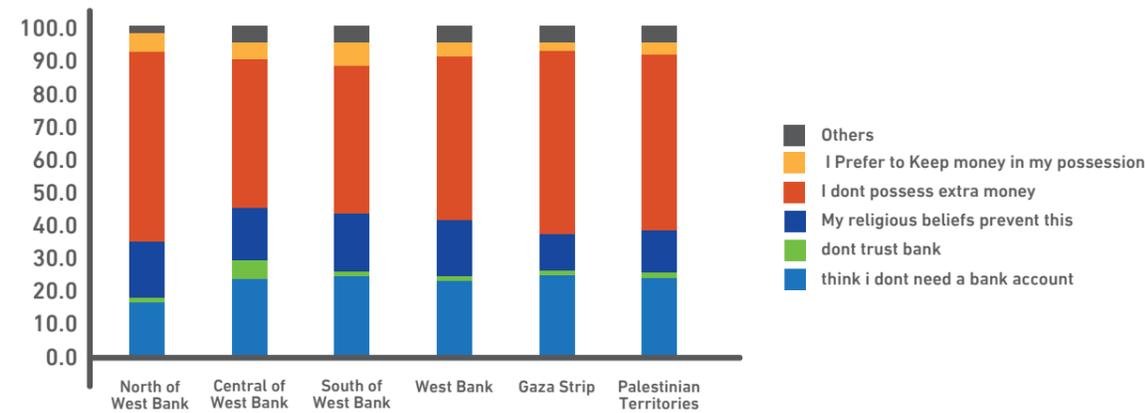
Source: Financial Inclusion Survey, 2015.

**Figure 7: Reasons to refrain from owning a private health insurance policy or an UNRWA insurance policy**



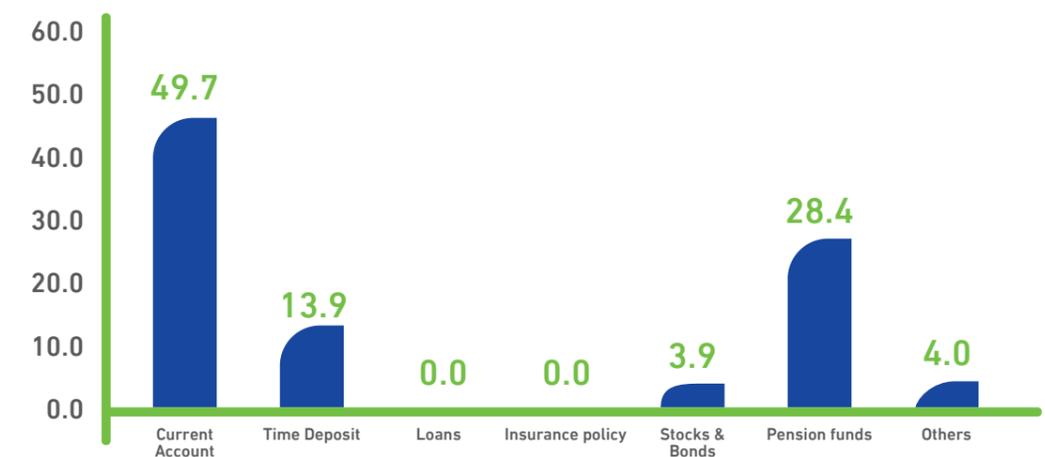
Source: Financial Inclusion Survey, 2015.

**Figure 6: Relative distribution of adult individuals (18 years and older) who do not own a bank account by reason and locality**



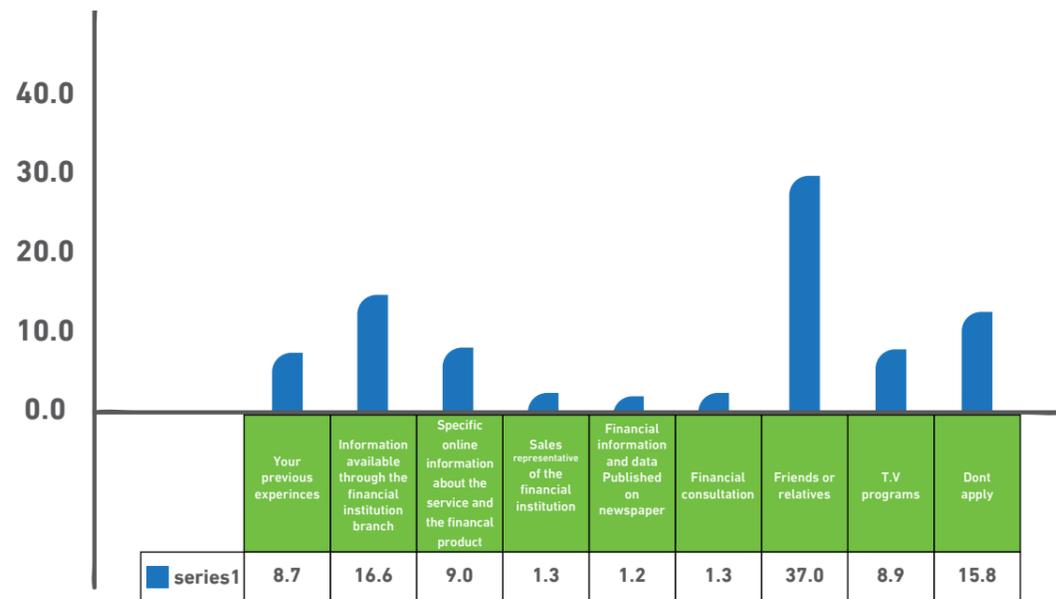
Source: Financial Inclusion Survey, 2015.

**Figure 8: Relative distribution of adult individuals who own products and services provided by foreign financial institutions by type of service and product**



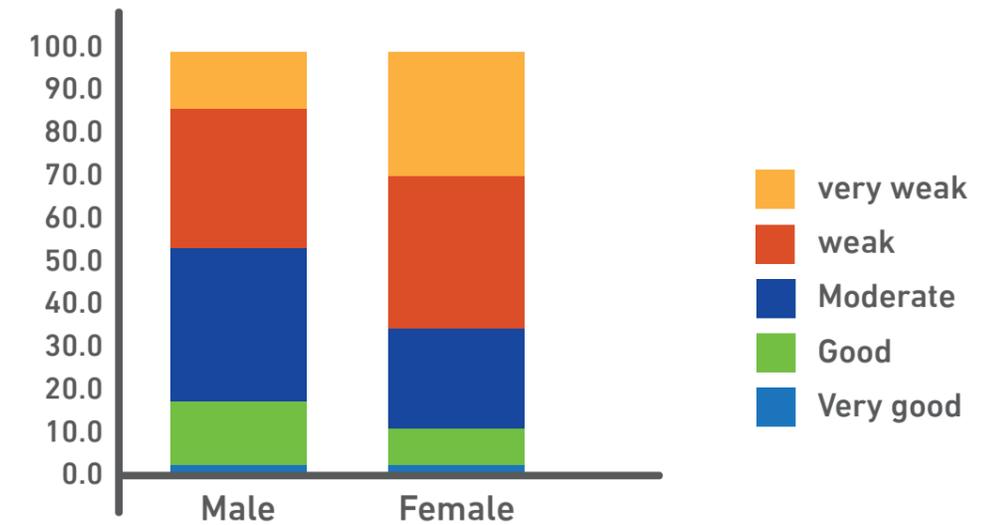
Source: Financial Inclusion Survey, 2015.

**Figure 9: Relative distribution of individuals according to the most important source to obtain information related to financial products and services**



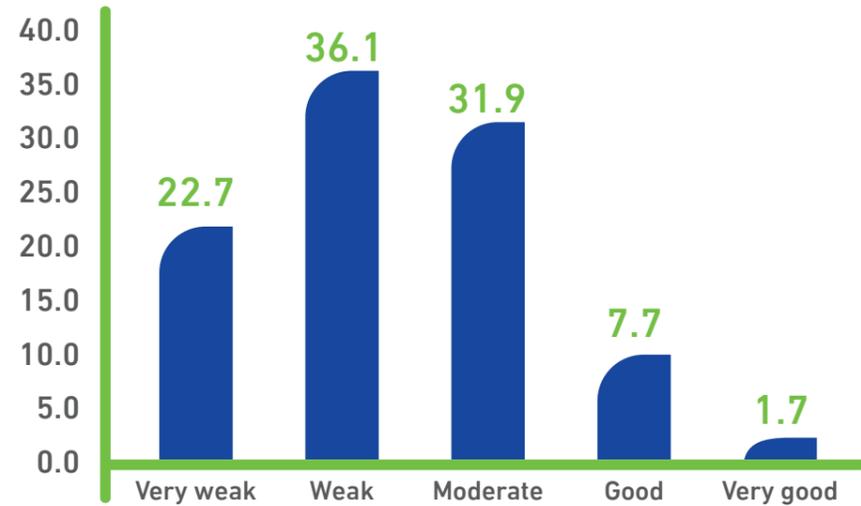
Source: Financial Inclusion Survey, 2015.

**Figure 11: Level of financial literacy among adult individuals by gender**



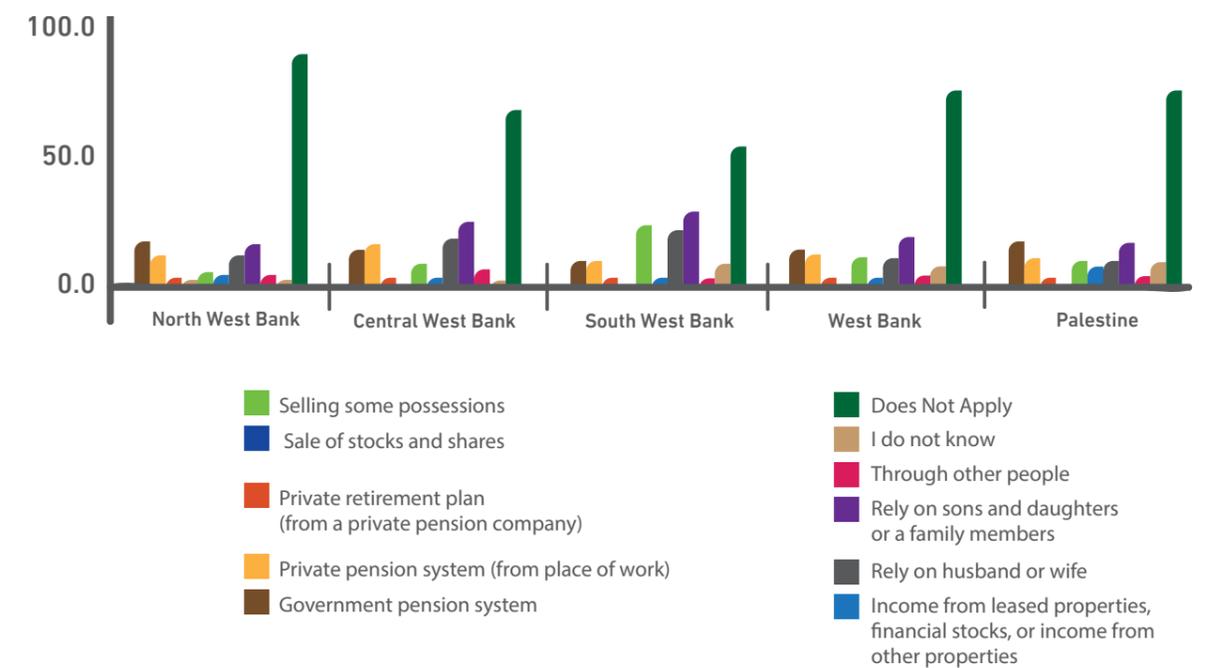
Source: Financial Inclusion Survey, 2015.

**Figure 10: Level of financial literacy among the adult population in Palestine**



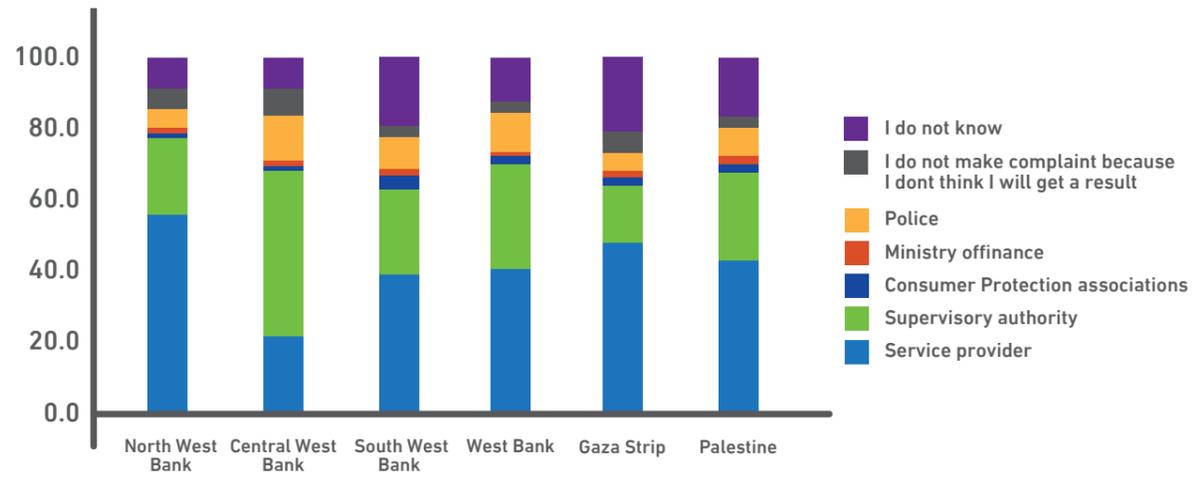
Source: Financial Inclusion Survey, 2015.

**Figure 12: Sources to cover the needs of individuals after retirement by area**



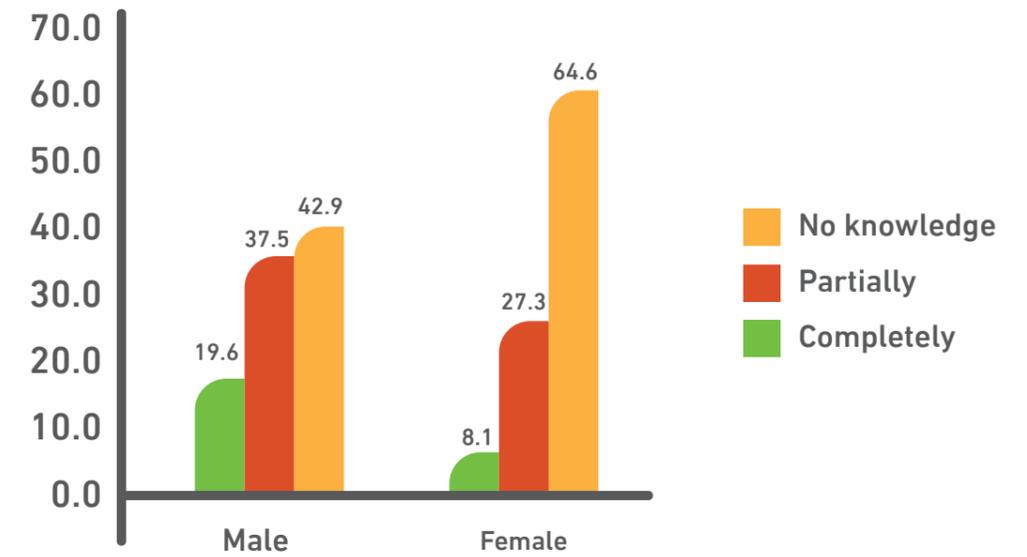
Source: Financial Inclusion Survey, 2015.

**Figure 13: Relative distribution of adult individuals by preferred entity to file a complaint with and by area**



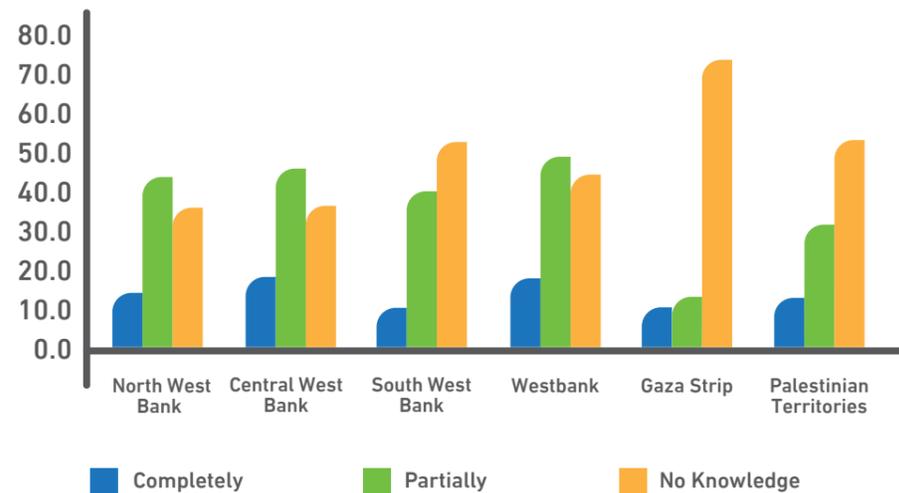
Source: Financial Inclusion Survey, 2015.

**Figure 15: Average knowledge of adult individuals of the rights and obligations associated with financial products and services by gender**



Source: Financial Inclusion Survey, 2015.

**Figure 14: Average knowledge of individuals about the rights and obligations associated with financial products and services by area**



Source: Financial Inclusion Survey, 2015.

**The Study of Financial Inclusion in Palestine is available on:**

Financial Inclusion website	Palestine Monetary Authority website	Palestine Capital Market Authority website
<a href="http://www.financialinclusion.ps">www.financialinclusion.ps</a> ( Under construction )	<a href="http://www.pma.ps">www.pma.ps</a>	<a href="http://www.pcma.ps">www.pcma.ps</a>