Financial Inclusion
Why financial inclusion?

• Increased policy interest
  – Over 60 countries: formal targets and strategies for financial inclusion
  – WBG President: has called for achieving universal financial access by 2020

• Critical role in reducing poverty, boosting shared prosperity

• Enables poor people to save and borrow, allowing them to build assets, invest in education and entrepreneurial ventures, thus improving their livelihoods

• New data and empirical evidence on financial inclusion and its impact
Global views: Financial Development Barometer

What is the role of new technologies in expanding access to finance?

- Very important: 35%
- Somewhat important: 25%
- Not very important: 24%
- Not sure: 16%

What is the most effective policy to improve access to finance among low-income borrowers?

- Financial education: 32%
- Better legal framework and credit information: 27%
- More microfinance: 8%
- More competition: 8%
- Promote new lending technologies: 17%
- More state banking: 8%

Source: Financial Development Barometer (poll of financial sector officials and experts from 21 developed and 54 developing economies).
Financial inclusion = share of individuals and firms that use financial services

... does not mean finance for all at all costs

Some have no demand or need for financial services

But for many, the use of financial services is constrained by market and government failures

That is why it is important to measure not only actual use of financial services, but also the barriers to access
Defining financial inclusion

- Users of formal financial services
- Nonusers of formal financial services
- Voluntary exclusion (self-exclusion)

Focus Areas:

#1: No need for financial services
#2: Cultural, religious reasons not to use, indirect access
#3: Insufficient income, high risk
#4: Discrimination, lack of information, weak contract enforcement, product features, price barriers due to market imperfections
Measuring financial inclusion – Global Findex

- Global Findex dataset is based on interviews with almost 150,000 adults in over 140 countries worldwide, 97% of world’s population.

- First launched in 2011 with funding from the Bill & Melinda Gates Foundation – and collected in partnership with Gallup, Inc. – the Global Financial Inclusion (Global Findex) Database Project was initiated to create and maintain a public, user-side database that measures financial inclusion in a consistent manner over a broad range of countries over time.

- Why a global, user database on financial inclusion?
  - Facilitates a better understanding of how adults worldwide save, borrow, make payments, and manage risk – and how these behaviors fit together.
  - Measures the degree to which certain subgroups – such as the poor, women, and rural residents - are excluded from formal financial systems.
  - Can be used to track global policy and progress on improving access to financial services.
  - Can be used to examine relationship between financial inclusion and other development outcomes (on individual or country level).
  - Complements provider and country-owned financial inclusion data
Globally, about 62% of adults have a bank account
The other 2 Billion remain “unbanked”
There has been significant growth in financial inclusion
Adults with an account (%), 2014

- Globally, account ownership is 62% in 2014, up from 51% in 2011.
- Globally, the number of unbanked adults fell to 2 billion, down from 2.5 billion in 2011.
- Globally, only 2% of adults have mobile money account – and only 1% has a mobile money account only
Examples include Mexico, Brazil, India, China, Tanzania, and Indonesia

Still, There Are Opportunities to Expand Financial Inclusion, Particularly among Women and the Poor

Globally, the gender gap remains unchanged. And the gender gap in developing countries remains a steady 9 percentage points.

- 59% of men have an account
- 50% of women have an account

Regionally, the gender gap in account ownership is largest in South Asia.

- 55% of men in South Asia have an account
- 37% of women in South Asia have an account

Among the world’s poor, financial inclusion is improving, but not enough.

In Sub-Saharan Africa, Mobile Money Account Ownership Is Driving a Huge Expansion of Financial Inclusion

Worldwide, only 2% of adults have a mobile money account. 12% of adults in Sub-Saharan Africa have a mobile money account – 45% of them have only a mobile money account.

In 5 of these 13 countries, more adults have a mobile money account than an account at a financial institution.

Where do the unbanked live?

Self-reported Barriers to Use of an Account at a Financial Institution

Adults without an account reporting barrier as a reason for not having one (%), 2014

Note: Respondents could choose more than one reason
National Income Explains Much of the Variation in Account Penetration across All Economies—but Far Less among Lower-income Ones

Adults with an account at a formal financial institution (%)

*Note: GDP per capita data are for 2010*

*Source: Dermiguc-Kunt and Klapper 2010; World Development Indicators database*
Financial inequality and economic inequality

Source: Calculations based on Demirgüç-Kunt and Klapper 2012; World Development Indicators database, World Bank.
Note: Higher values of Gini mean more inequality. Data on Gini are for 2009 or the latest available year. Account penetration is share of adults who had an account at a formal financial institution in 2011.
Evidence on impact of financial inclusion

- Empirical evidence on impact varies by the type of financial services.
- Basic payments, savings: strong evidence on benefits, especially for the poor.
- Insurance products: also some evidence of a positive impact.
- Access to credit: mixed picture.
  - firms: a positive effect on growth, especially start ups, small and medium enterprises.
  - microenterprises and individuals: evidence on benefits for smoothing consumption, but not always for entrepreneurial ventures.
Financial inclusion policy – overall findings from research

• Policy should focus on addressing market and government failures

• Not on promoting financial inclusion for inclusion’s sake, and certainly not on making everybody borrow

• Direct government interventions in credit markets tend to be politicized and less successful, particularly in weak institutional environments

• Role for government in creating legal and regulatory framework and competition policy
  – Examples: protecting creditor rights, regulating business conduct, ensuring a competitive environment among financial service providers, improving information systems (credit bureaus, collateral registries), overseeing recourse mechanisms to protect consumers
Financial inclusion policy – overall findings from research

• **Allen, Demirguc-Kunt, Klapper and Martinez Peria (JFI, 2016)** explores the individual and country characteristics associated with financial inclusion and the policies that are effective among those most likely to be excluded: poor, rural, female or the young.

• Using global findex data results show:
  
  – Likelihood of owning/using an account is higher among richer, older, educated, urban, employed and married men.
  
  – Greater financial inclusion is associated with lower account costs, greater proximity to financial intermediaries (branch and ATM penetration), stronger legal rights, and more politically stable environments
Financial inclusion policy – overall findings from research

Findings on policies:

• Policies such as offering basic or low-fee accounts, granting exemptions from KYC requirements, strong consumer protection and encouraging the use of bank accounts for government payments, practice of agent/correspondent banking increase the likelihood of owning/using a bank account among rural residents.
• Correspondent banking is especially important to increase use of accounts by the poorest.
• Women and youth are somewhat harder to entice
• Studying barriers and focusing on financially excluded individuals who report “not having enough money” as their only barrier:
  – Presence of basic or low-fee accounts, correspondent banking, consumer protection, accounts to receive G2P payments lower the likelihood that these individuals cite lack of funds as a barrier
In Developing Countries, Moving Away from Cash Can Significantly Increase Financial Inclusion

**Source:** Global Findex Database, World Bank, Washington, DC. http://www.worldbank.org/globalfindex
But What Really Matters Is Whether People Actually Use their Accounts

Financial Inclusion Helps Families Weather Emergencies

Having a safe place to save money can prevent people from falling into extreme poverty when disaster strikes.

74% of adults in developing countries can come up with emergency funds equal to 5% of average annual income in local currency.

28% of adults in developing countries would use their savings for emergencies.

56% of these adults are not saving at a financial institution.

Keeping these emergency reserves in cash presents a real risk that money won’t be there when needed. There is a large opportunity to design formal savings products to keep savings safe and accessible in the case of an emergency.

Promoting financial inclusion: focus areas

I. Promise of technology
II. Product design, business models
III. Financial capability
I. Promise of technology

- Technological innovations reduce transaction costs, increase financial security
- Scope for scaling up, illustrated e.g. by growth in phone subscriptions

**Source:** World Development Indicators
I. Promise of technology

Example: fingerprinting in Malawi (% of balances repaid on time)

![Bar chart showing percentage of balances repaid on time by quintile for fingerprinted and control groups.]

Source: Calculations based on Gine, Goldberg, and Yang (AER, 2012).
I. Promise of technology

• To harness the promise of new technologies...

• .... regulators need to allow competing financial service providers and consumers to take advantage of technological innovations...

• ...coupled with strong prudential regulation and supervision to prevent overextension.
II. Product design, business models

- Product design that addresses market failures, meets consumers’ needs and overcomes behavioral problems can foster wider use of financial services
- Example 1: commitment accounts

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<th>Focus Areas</th>
<th>Main Messages</th>
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Note: The exchange rate was MK145/USD during the study period.
Source: Brune, Giné, and others (EDCC, 2016).
II. Product design, business models

- Example 2: index insurance

- New evidence: lack of trust, liquidity constraints constrain demand (field experiment in India by Cole and others - RFS, 2017; AEJ, 2013)

- What helps: designing products to pay often and fast, an endorsement by a well-regarded institution, simplification and consumer education
II. Product design, business models

- Example of an innovative business model: Banco Azteca, Mexico
- Improved access can be achieved by leveraging existing relationships

Source: Bruhn and Love (JF, 2014)
III. Financial capability

- Classroom-based financial education for general population do not work
- Financial literacy can be increased by well-designed, targeted interventions
- More likely to work in “teachable moments” (e.g., new job, new mortgage)
- Especially beneficial for people with limited financial skills
- It helps to leverage social networks (e.g., involve both parents and children)
- “Rule of thumb” training helps by avoiding information overload
- New delivery channels show promise—example: messages in soap operas
III. Financial capability

- Financial literacy messages seem to have a real-world effect...

- ... but the effect is short-lived – need to repeat / reinforce

Source: Berg and Zia (JEEA, 2017)
Main messages

• Financial inclusion: critical role in sustainable development, reducing poverty, boosting shared prosperity

• Financial inclusion varies widely around the world; poor people and young and small firms face the greatest barriers

• Innovative technologies, services, business models, and delivery channels hold much promise for increasing financial inclusion

• The role of policy is to address market and government failures, not to increase inclusion for inclusion’s sake

• Key areas: strengthening regulations, improving information environment, ensuring competition among providers, educating & protecting customers; so that the private sector has the incentive to embrace new technologies and products

• Direct interventions (government banks, subsidies, bailing out borrowers..) tend not to work in sustainably increasing inclusion

• Offering basic low-fee accounts, reducing onerous documentation requirements, correspondent/agent banking, digitalization – receiving government payments into bank accounts can increase inclusion
Thank you!

Global Financial Development Report (GFDR) on Financial Inclusion:

www.worldbank.org/financialdevelopment

Global Findex Data and Papers:


www.worldbank.org/globalfindex