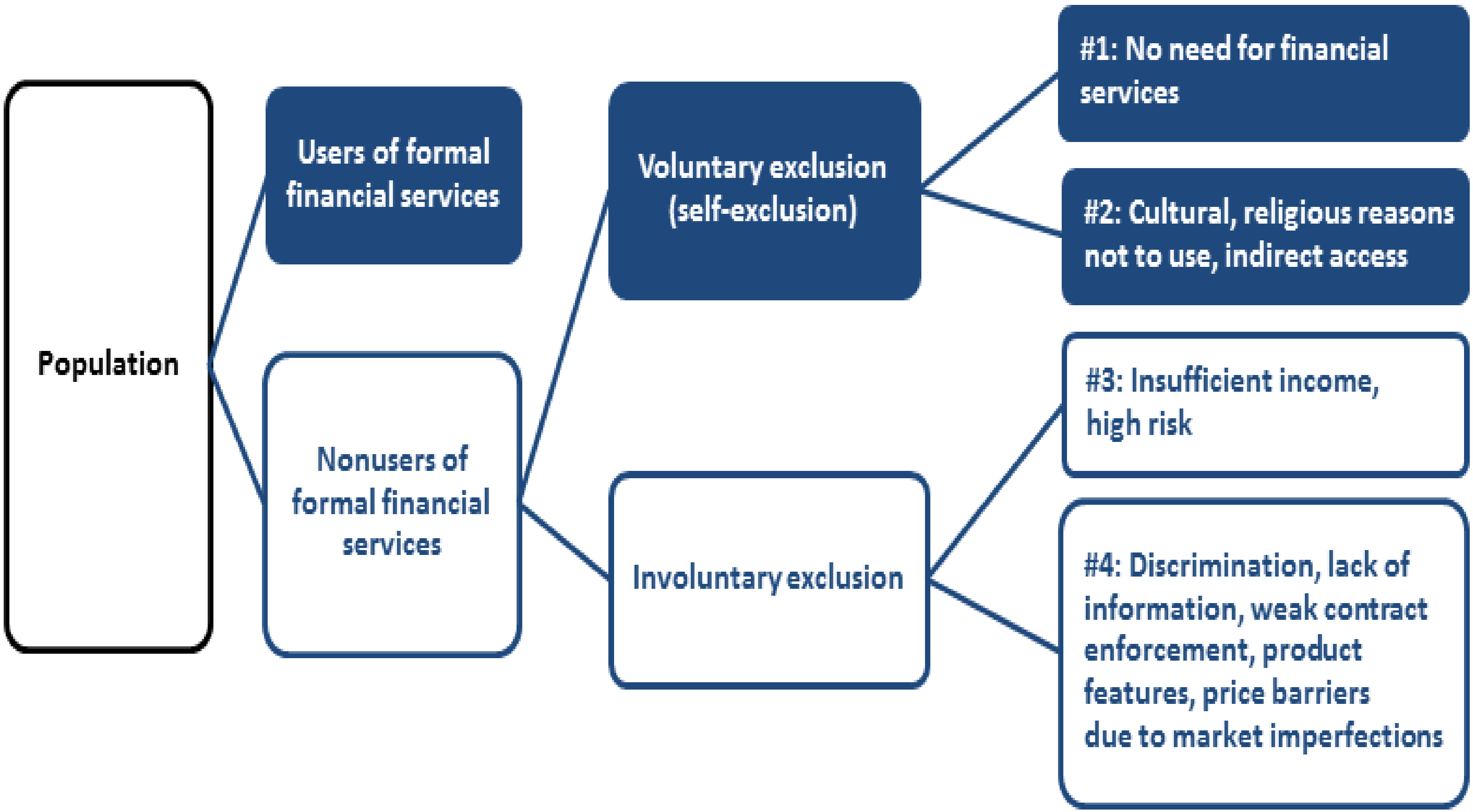
Asli Demirguc-Kunt
Director of Research
World Bank Group

Financial Inclusion

Why financial inclusion ?

- Increased policy interest
  - Over 50 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 empirical evidence on financial inclusion and its effects

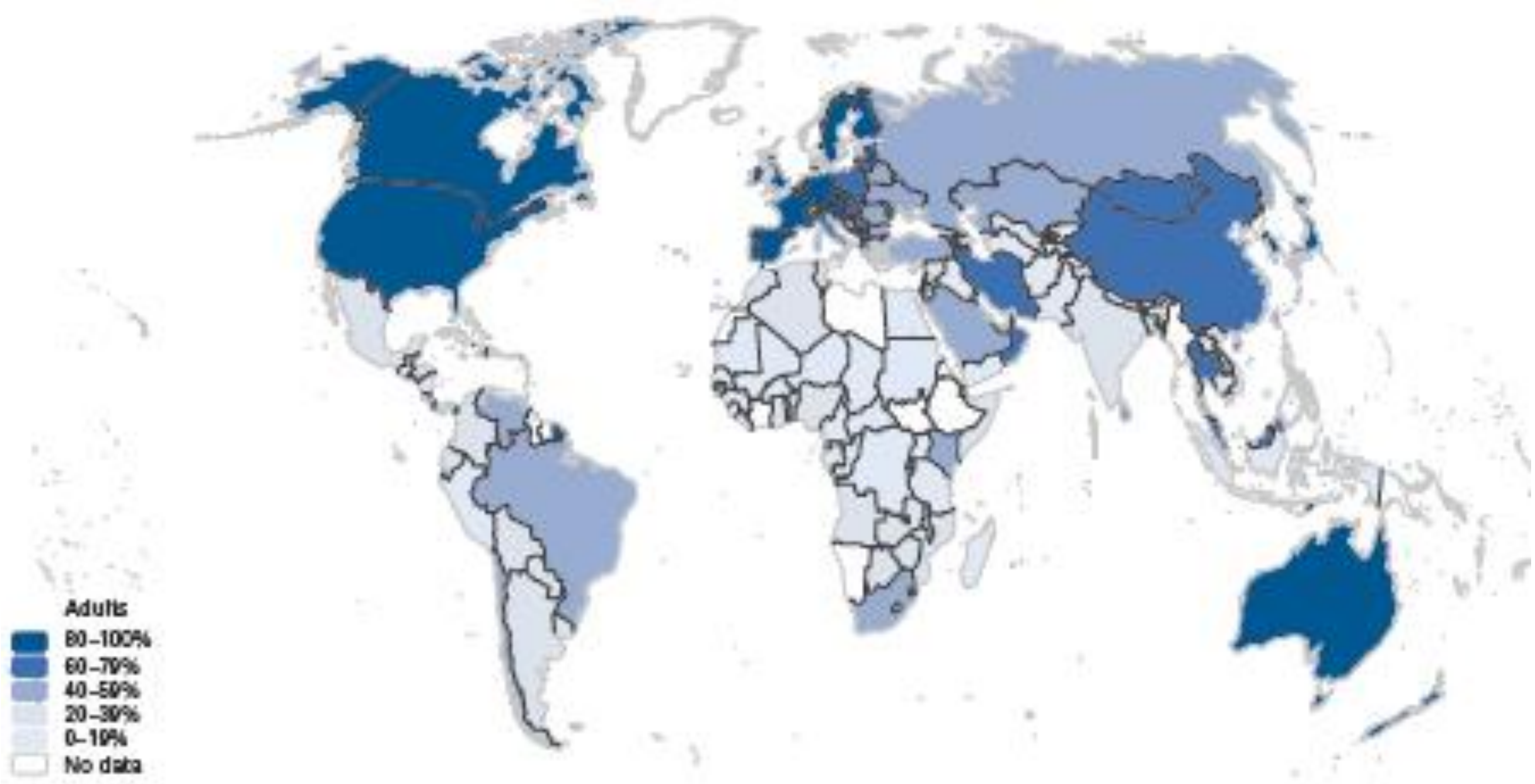
Defining financial inclusion



Measuring financial inclusion

- Globally, about 50 % of adults have a bank account
- The other 50 % (2.5 billion) remain "unbanked"

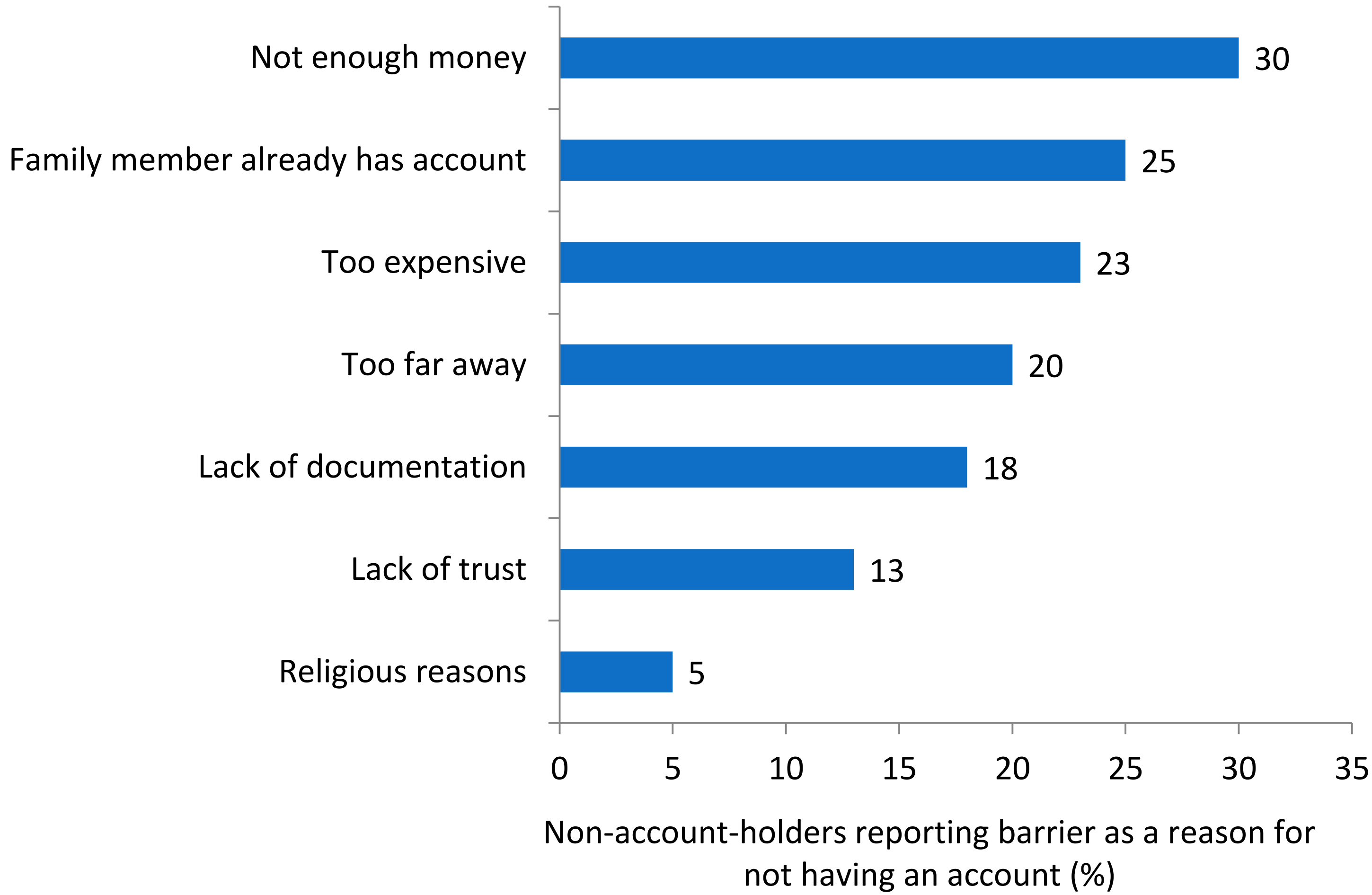
Adults with accounts at a formal financial institution



Source: Global Financial Inclusion (Global Findex) Database, worldbank.org/globalfindex

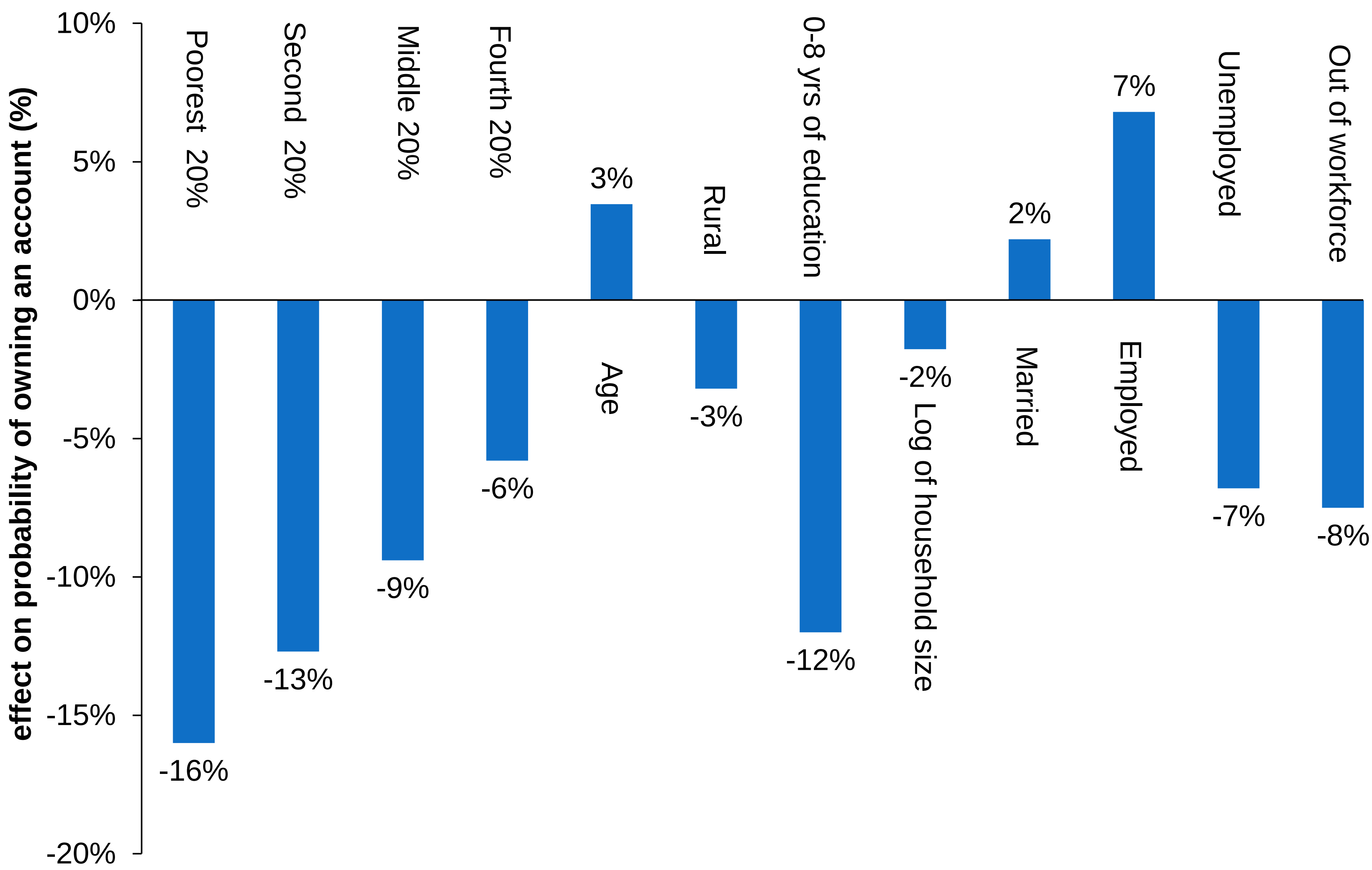
Measuring financial inclusion

- Not all "unbanked" need financial services, but barriers play a key role



Note: Respondents could choose more than one reason. The data for "not enough money" refer to the percentage of adults who reported only this reason. *Source:* Demirguc-Kunt and Klapper 2012.

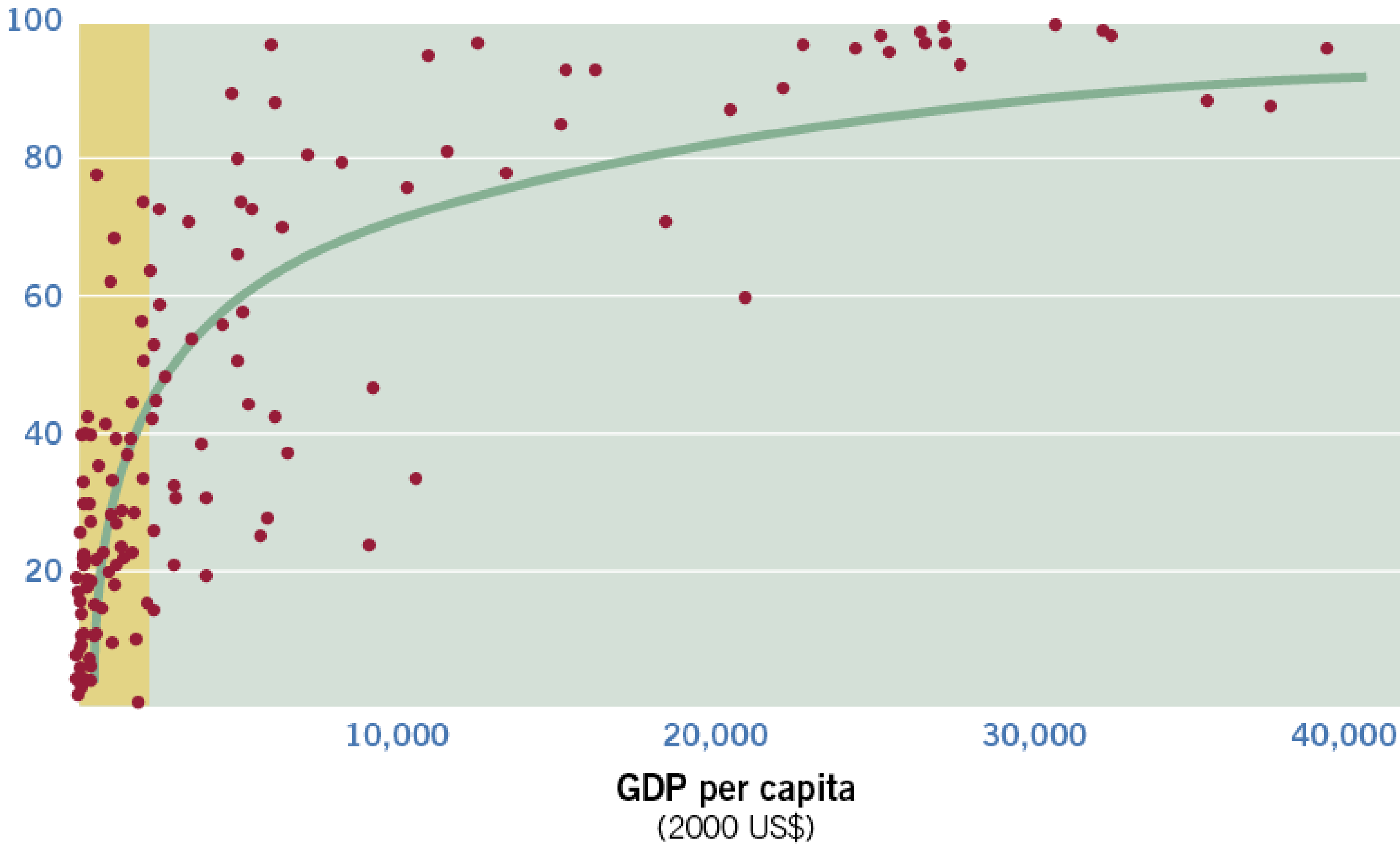
Correlates of financial inclusion



Source: Based on Allen, Demirguc-Kunt, and others (2012)

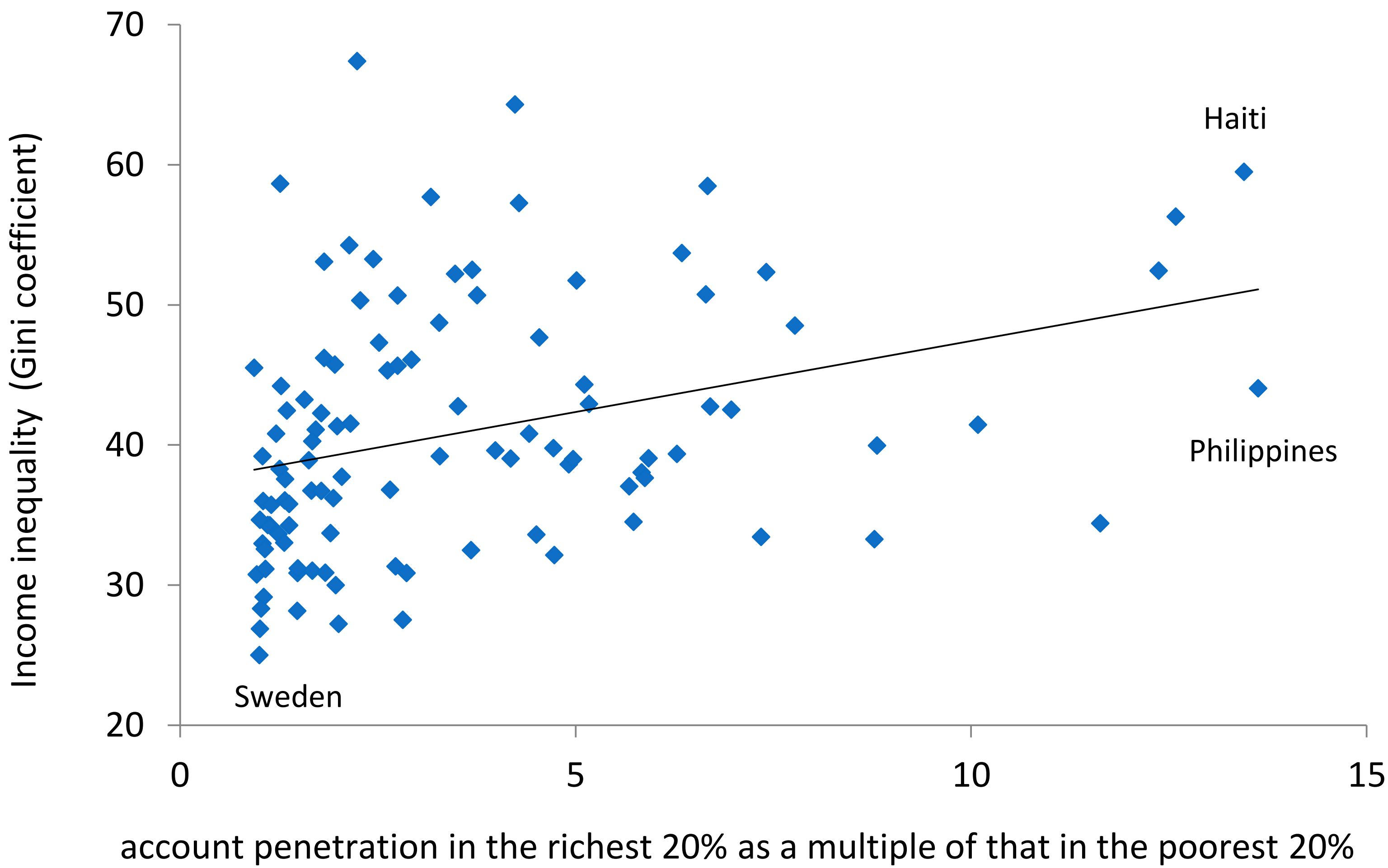
National income explains much of the variation in account penetration across all economies—but far less among lower-income ones

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



Note: GDP per capita data are for 2010.
Source: Demirguc-Kunt and Klapper 2012; World Bank, 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 impacts 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

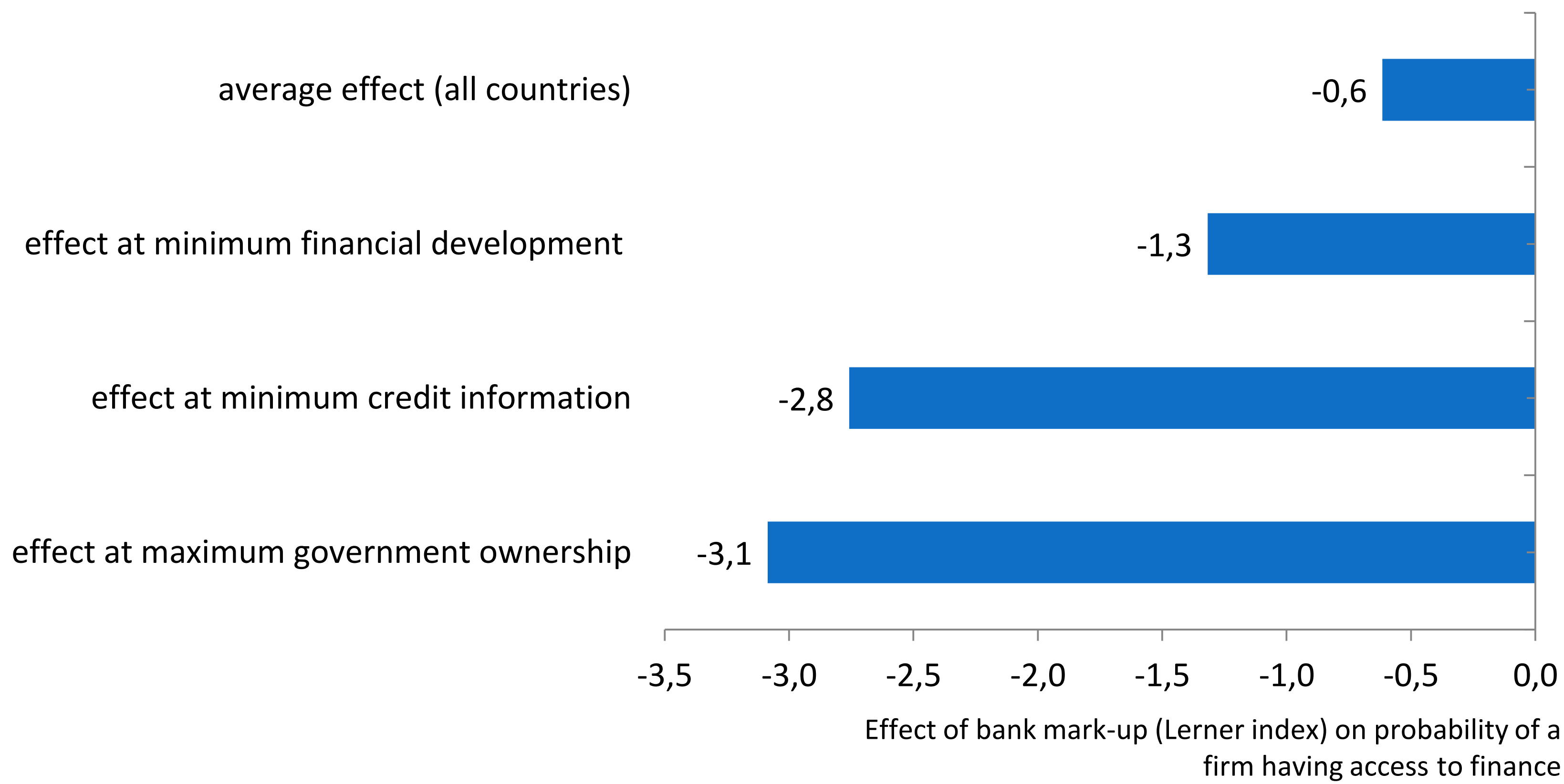
Financial inclusion policy – overall findings from research

- 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
  - Examples: protecting creditor rights, regulating business conduct, overseeing recourse mechanisms to protect consumers

Financial inclusion policy – overall findings from research

Competition policy: important part of consumer protection

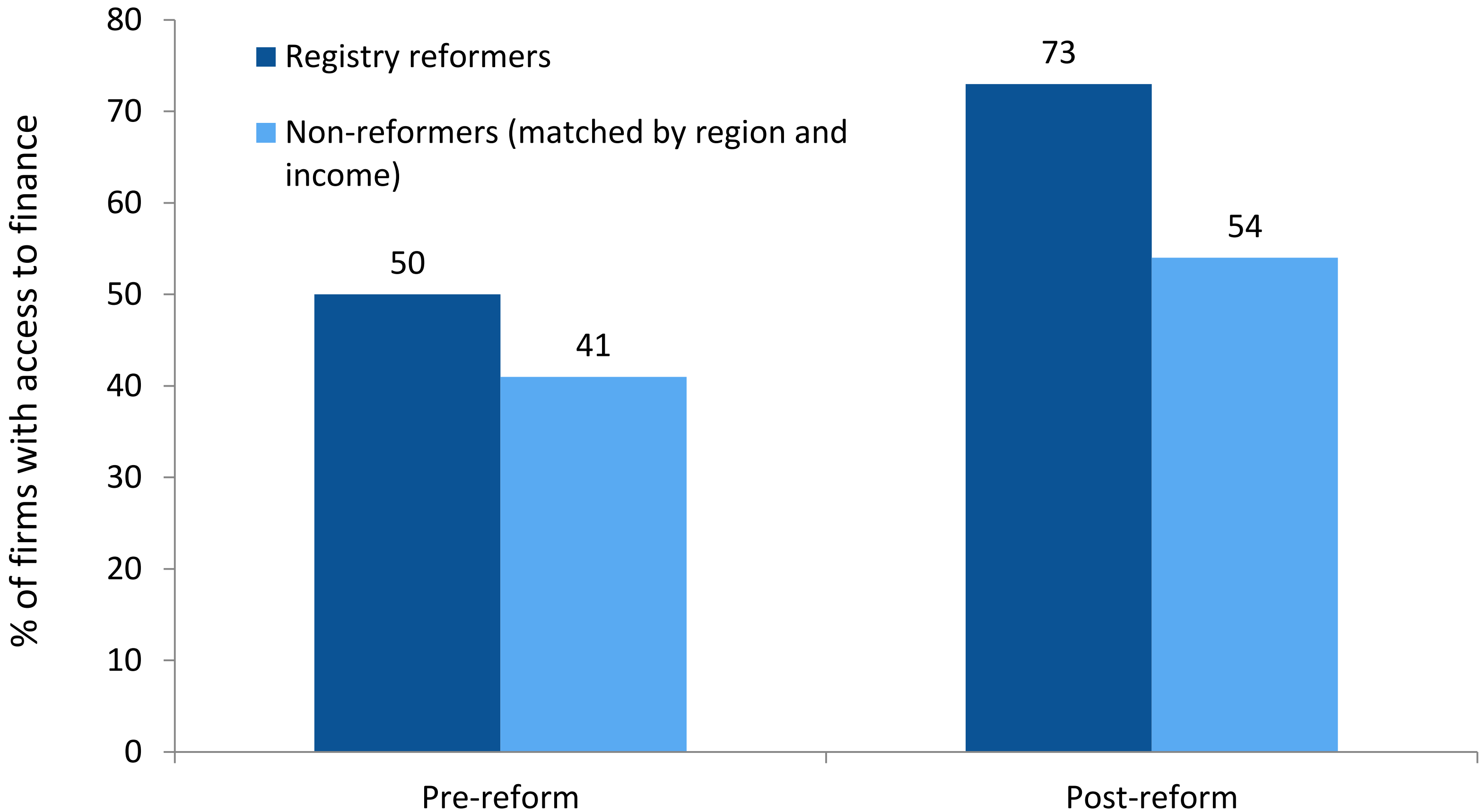
- Healthy competition among providers increases consumers’ market power
- New evidence: lack of bank competition diminishes firms’ access to finance



Source: Love and Martinez Peria 2012

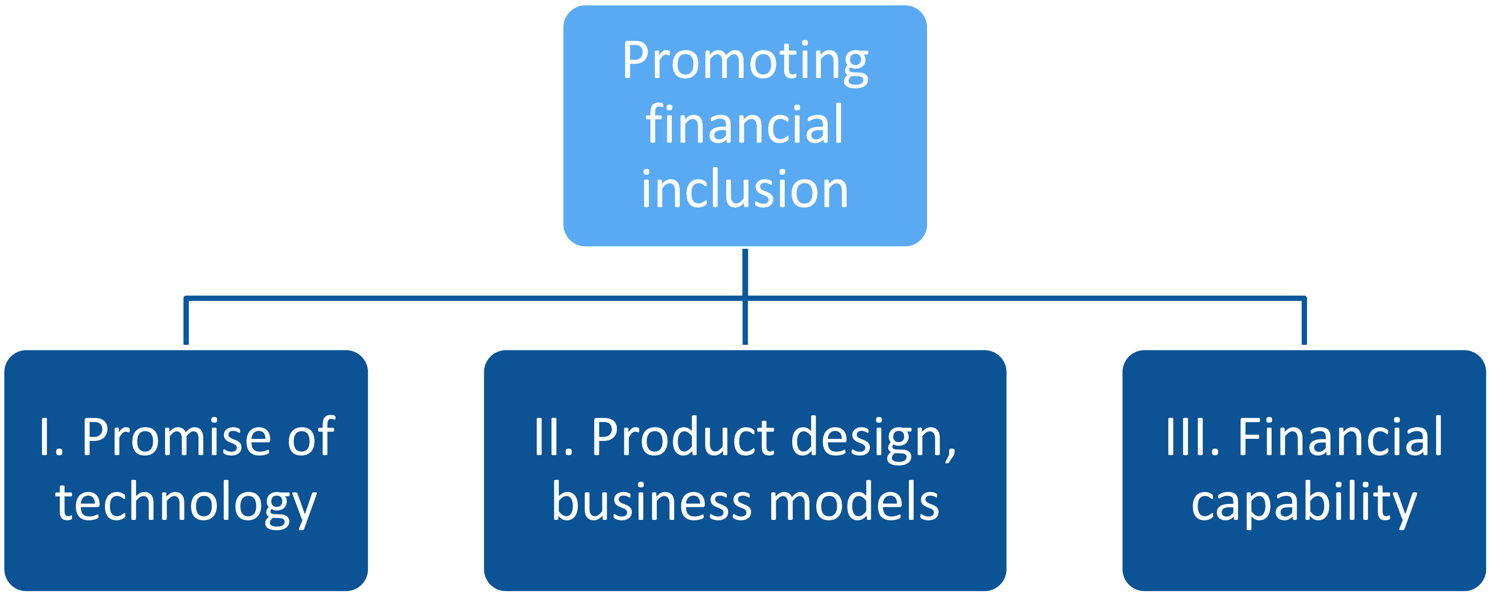
Financial inclusion policy – overall findings from research

- Role in supporting information environment (standards for disclosure, transparency, promoting credit bureaus, collateral registries)



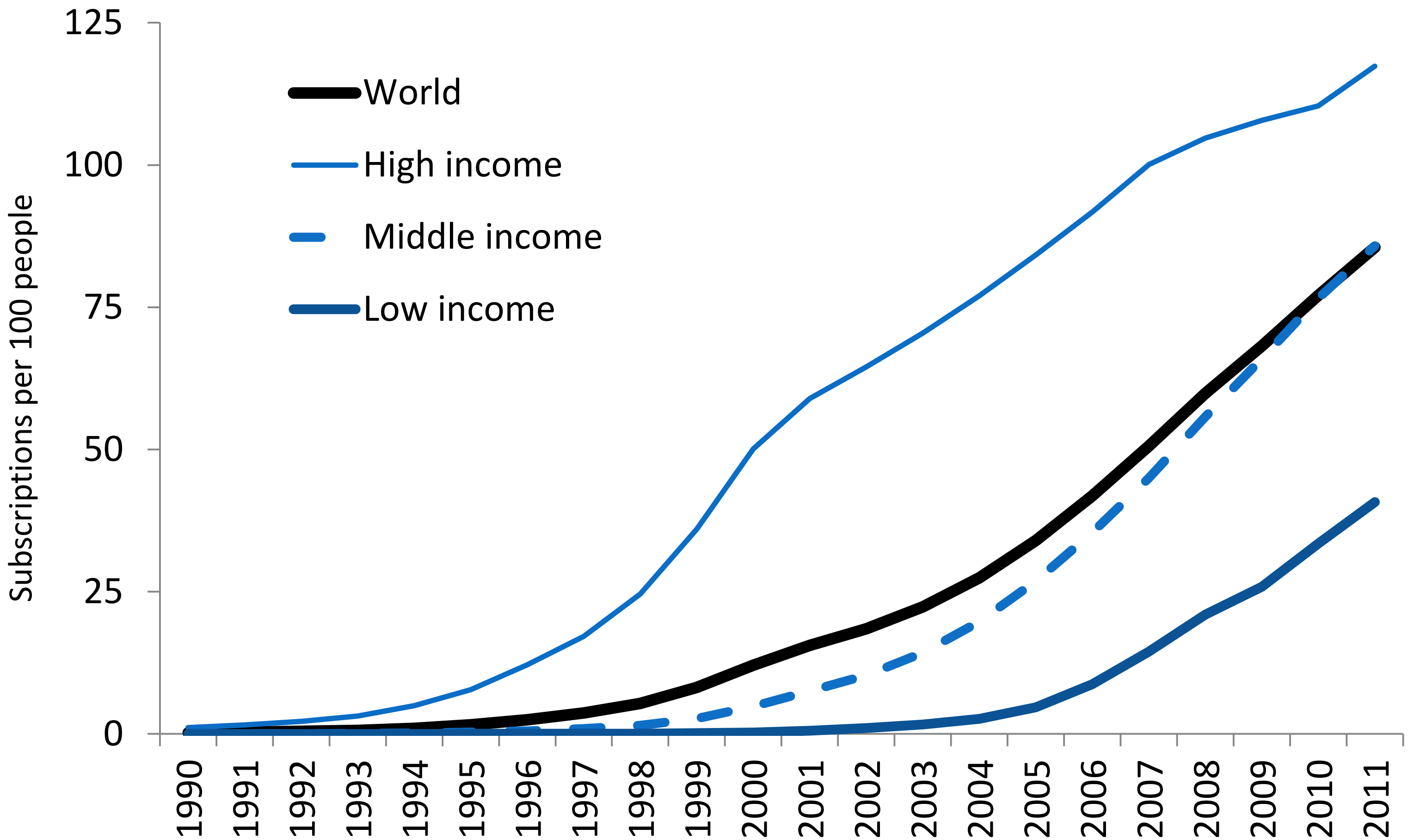
Source: Love, Martínez Pería, and Singh 2013.

Promoting financial inclusion: focus areas



I. Promise of technology

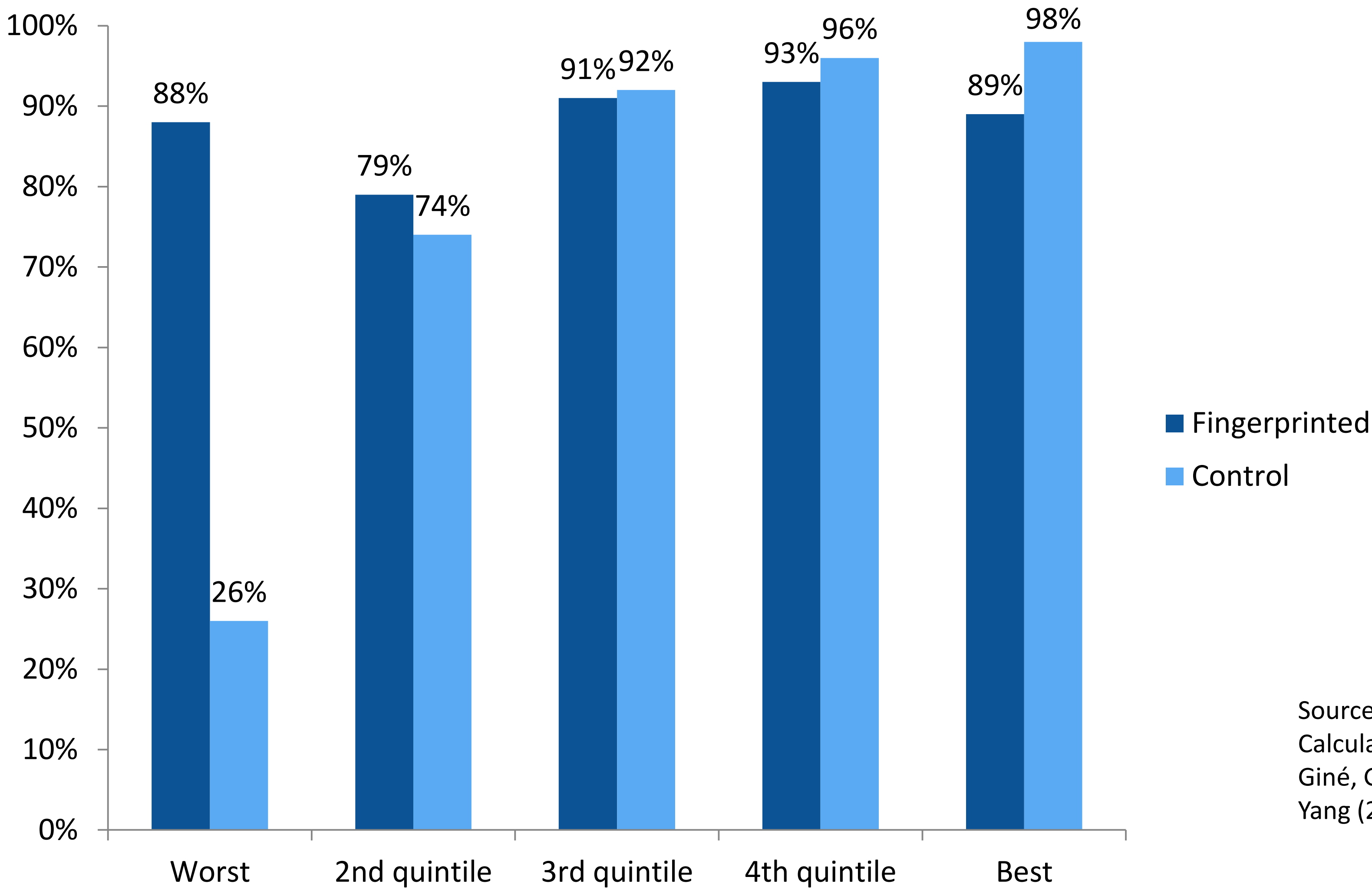
- Technological innovations reduce transaction costs, increase financial security
- Scope for scaling up, illustrated e.g. by growth in phone subscriptions



Source: World Development Indicators.

I. Promise of technology

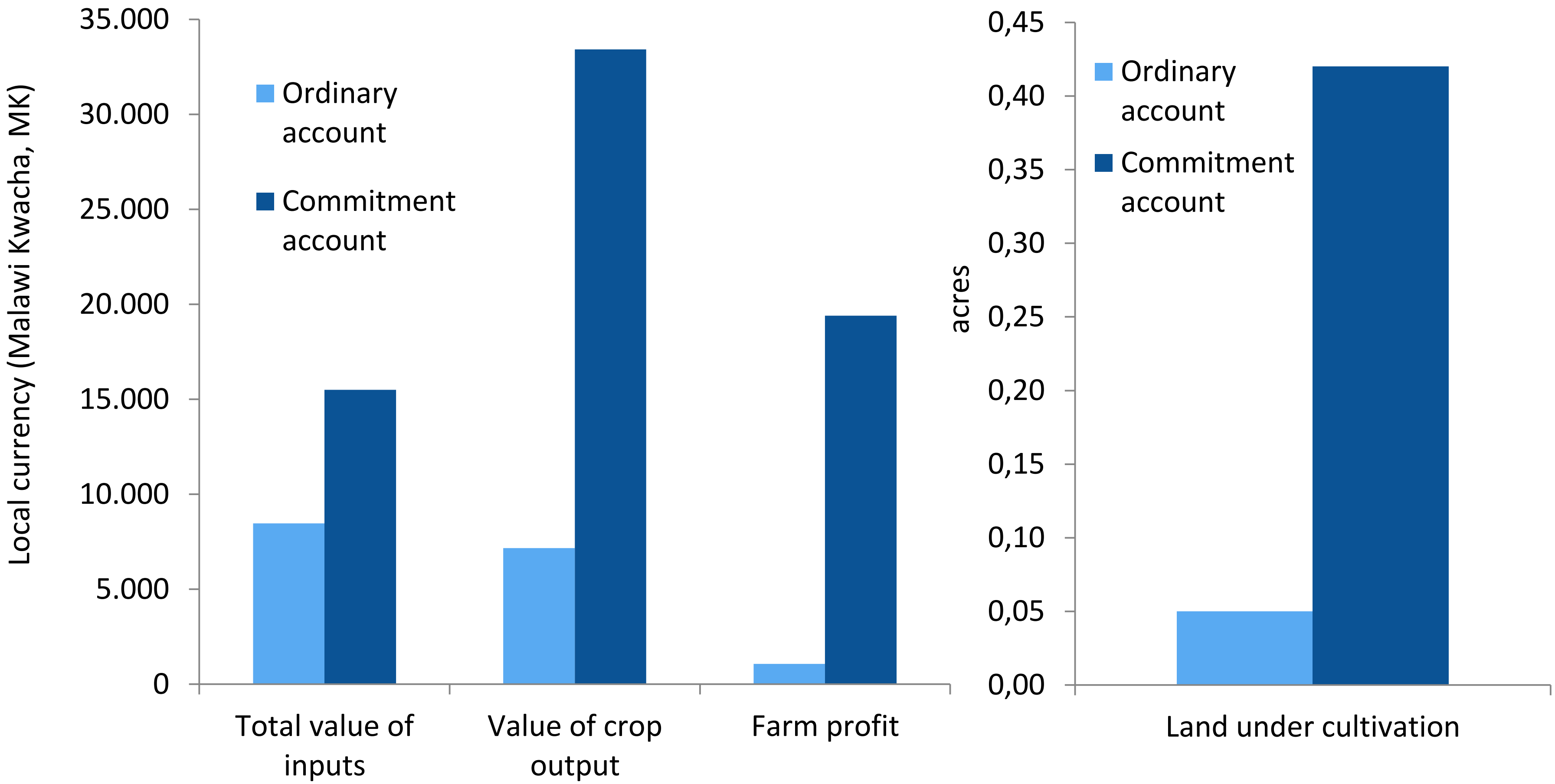
Example: fingerprinting in Malawi (% of balances repaid on time)



Source:
Calculations based on Giné, Goldberg, and Yang (2012).

II. Product design, business models

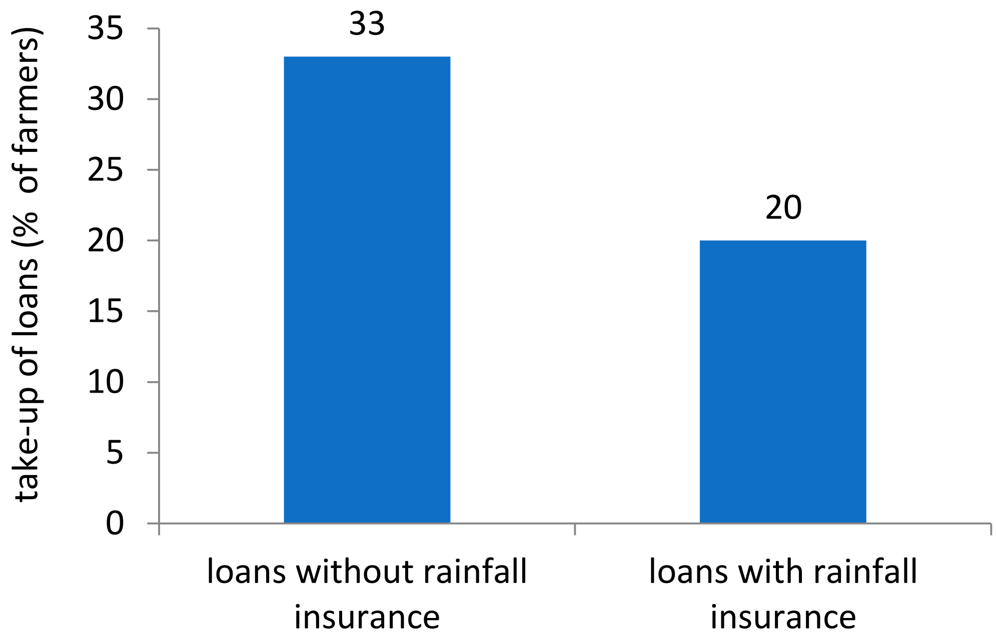
- Product design that addresses market failures, meets consumers' needs and overcomes behavioral problems can foster wider use of financial services
- Example 1: commitment accounts



Note: The exchange rate was MK145/USD during the study period.
Source: Brune, Giné, and others (2011).

II. Product design, business models

- Example 2: index insurance



Source: Giné and Yang, 2009

- New evidence: lack of trust, liquidity constraints constrain demand (field experiment in India by Cole and others, 2012)
- What helps: designing products to pay often and fast, an endorsement by a well-regarded institution, simplification and consumer education

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

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.