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

- Population
  - Users of formal financial services
  - Nonusers of formal financial services
  - Voluntary exclusion (self-exclusion)
    - #1: No need for financial services
    - #2: Cultural, religious reasons not to use, indirect access
  - Involuntary exclusion
    - #3: Insufficient income, high risk
    - #4: Discrimination, lack of information, weak contract enforcement, product features, price barriers due to market imperfections

Main Messages:
- #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

- 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

Non-account-holders reporting barrier as a reason for not having an account (%)

- Not enough money: 30%
- Family member already has account: 25%
- Too expensive: 23%
- Too far away: 20%
- Lack of documentation: 18%
- Lack of trust: 13%
- Religious reasons: 5%

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)

Promoting financial inclusion: focus areas

1. Promise of technology
2. Product design, business models
3. 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)

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

- 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.