Financial Inclusion: A Literature Review of International Research

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Abstract: Banking services should be available to the entire population of the economy without discrimination. However, in India, banks have not been able to cover many segments of our population since long. Financial inclusion is delivering financial services at affordable costs to disadvantaged and low income segments of society. The Indian Government has been making hard efforts to expand financial inclusion. Though many improvements have been made in areas related to financial viability, profitability and competitiveness, still vast segments, especially the underprivileged sections of the society, have not accessed basic banking services.

In recent years, many developing countries have taken initiatives to expand financial services for the poor. Some country strategies have given successful results which can be lessons and learning for other countries to emulate and expand financial inclusion. This paper, through an extensive review of international research on financial inclusion, highlights the best practices that can be borrowed from these nations to boost financial inclusion in India.

Keywords: Financial inclusion, banks and financial inclusion, international research on financial inclusion

I. INTRODUCTION

Financial inclusion includes the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (Thorat, 2008).

Issues related to financial inclusion are one of the major challenges on the agendas of international institutions, policymakers, central banks, financial institutions and governments. Studies show that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk and absorb financial shocks (Kunt, Klapper, Singer & Oudheusden, 2015). Access to accounts and savings and payment mechanisms increases savings, empowers women, and boosts productive investment and consumption. Access to credit also has positive effects on consumption—as well as on employment status and income and on some aspects of mental health and outlook. Greater access to financial services for both individuals and firms may help reduce income inequality and accelerate economic growth. Thus, financial inclusion can provide fiscal fuel for economic growth and is significant for achieving inclusive growth.

A review of financial inclusion at the global level brings to light the fact that 2.5 billion people, i.e. about 40% of adult population remains without a bank account, according to the World Bank Global Financial Inclusion (Global Findex, 2014) database. Access to financial services varies widely by a country’s level of development as well as individual’s income, education and gender. For example in high-income economies 94% adults are financially included, as compared to 54% in developing economies. There are also enormous disparities among developing regions, where account penetration ranges from 14 percent in the Middle East to 69 percent in East Asia and the Pacific.

Objectives and Methodology

In recent years, many developing countries have taken many initiatives to expand financial services for the poor. Some country strategies have given successful results which can be lessons and learning for other countries to emulate and expand financial inclusion. Thus the objective of this paper is to highlight and learn what best practices can be borrowed from these nations to boost financial inclusion in India. The author, after secondary research and a review of existing available literature related to financial inclusion at international level has described the focus, objectives and findings of some major research works of academic researchers as well as practitioners. All these research studies have been presented in a sequential order.

II. LITERATURE REVIEW OF INTERNATIONAL RESEARCH

Geoghegan (2008) focused on financial inclusion of older people by suggesting that being poor is very expensive. The old maybe cash-poor by asset-rich and hence making them aware of the financial options available to them is crucial. About 10% of UK’s population is financially excluded. The old may not be comfortable dealing with the new-age technology-enabled banks and so may prefer to stash cash in the house. He highlighted that adult financial education is imperative.
Chima (2010) observed that the sub-prime crisis that hit US and UK showed how FI measures can fail when not backed by strong policy and regulatory measures. The sub-prime crisis brought to fore the fact that inclusion at higher than normal rates and indebtedness arising out of it, cannot be sustainable.

Appleyard (2011) studied the role of Community Development Finance institutions (CDFIs) in certain geographical areas of US and UK in providing enterprise finance to SMEs. CDFIs help overcome financial exclusion by providing local sources of loan finance to micro, small-and-medium-sized enterprises and social enterprises. According to Appleyard, inspite of laudable work done by CDFIs, due to policy initiatives, significant gaps in the market and uneven geographical coverage got created that has led to financial exclusion.

Cohen and Nelson (2011) presented the various facets of financial literacy. Determining the type of delivery channel –whether it will be a classroom face-to-face training or through print, mass media or digital technology; whether it should be undertaken by financial institutions or informal institutions and their scope of coverage are important to building a financial literacy model. How to evaluate the success of the model, whether by the incremental number of accounts opened, or by the increased savings rate in accounts or by improved financial condition is also explained in their research work.

According to Demirgüç-Kunt and Klapper (2012) who attempted to study FI in Africa using Global Findex 2011 data to understand the usage of formal account and credit, less than a quarter of adults use formal account. World Bank Enterprise Survey data was also analysed by them to understand the usage of financial services in Africa by SMEs as compared to other developing countries. According to Kunt and Klapper, bank financing to SMEs is less than 8%.

Diniz (2012) conducted a case study of Autazes, a country in the Amazon region not served by banks until 2002, when a business correspondent started its ICT- based operations there. It resulted into socio-economic development of the people due to government benefit transfers and other banking services delivered at their doorstep. However over-indebtedness, social exclusion practices and power asymmetries created many bottlenecks. Diniz concluded that the efforts need to be complemented with proper financial education for maximum benefit.

According to Aduda and Kalunda (2012) both access and usage of FI are supplementary to each other and both need to be assessed to measure FI. Their study of FI in Kenya found that Informal financial services should also be included in overall FI framework as they play a big role in promoting FI in developing countries, apart from the formal banking models.

According to Rhyne (2012) number of accounts is not a true measure of FI. Whether people use the accounts for transacting is more important. In fact, the purpose of FI is to make people capable of money-management, either through traditional or mobile channels. The money tracking tools developed need not copy the model of middle class people in developed countries, but need to reckon with how people in their respective countries or regions manage money today.

A report of KPMG International Development Advisory Services (IDAS) (2012) described in detail the model of M4P – Making Markets work for the Poor in Africa based on their two multi-donor FI Programme - the Financial Sector Deepening Trust in Kenya and Access to Finance Rwanda. The increasing amount of public capital coming into the sector suggested the need for a better understanding of what works to promote financial inclusion on the ground, and how to coordinate donor efforts to achieve sustainable results. Working with, and not for the Government, importance of synergy, value for money and measuring impact are some of the important lessons from this report.

Yang and Seshan (2012) studied the transnational household finance management by migrant Indian workers in Qatar. The fact that a short, simple financial education initiative had identifiable and large effects on financial behaviours and outcomes is one of the key findings of their study. Thus financial literacy interventions have real potential to change migrant financial behaviours and efforts need to be increased to impart financial literacy to the migrant workers as well as their wives in India.

Kempson and Collard (2012) reviewed UK’s progress towards financial inclusion, and developed an evidence-based vision for achieving financial inclusion over a ten-year timeframe. Their vision was that everyone should have access to, use and retain an appropriate account, or equivalent product, into which income is paid, and that can be held securely and accessed easily. It also included that everyone had the confidence and knowledge to make appropriate use of financial services for both day-to-day and periodic needs. Developing appropriate accounts, insurance, credit, saving and consumer protection were some of the methods recommended by Kempson and Collard for realising the vision.

Owens (2013) attempted to study the various digital financial services offered globally, especially in emerging economies for financial inclusion and lessons learnt from it. While mobiles are having wider adoption than financial products, mobile technology along with other digital services like electronic payments/ fund transfers, smartcards, virtual cards, e-money, institutional partnerships, etc. can bring about faster and sustainable low-cost financial inclusion.

D’alcantara (2013) suggested bank-post office partnership for promoting financial inclusion in rural areas, where the cost of setting up branches may be high. According to him, the already high presence of post
offices in rural regions can be used to cross-sell financial products and thus economies of scale can be achieved by the partnership. This is the best model for countries like Brazil or India.

According to Dancey (2013) financial inclusion and social inclusion are part of the same effort. Poverty reduction is possible to some extent by social protection through cash transfers. Government agencies delivering the cash transfers seek the means to lower the processing costs, reduce fraud and leakage, as well as improve access for the financially underserved. For the recipient, there is a need for safety and control over the funds, convenient access and reliable payment methods. Hence it is imperative to invest in a technologically sound government transfer program.

An important study carried out by Demirgûç-Kunt and Klapper (2013) attempted to compare FI in 148 countries and found that 50% of world population is still unbanked. The variations amongst countries depend on the economic development and income levels in various countries. For half of all adults around the world who remain unbanked, barriers to account use, such as cost, distance, and documentation requirements, shed light on potential market failures and provide guidance to policymakers in shaping financial inclusion policies.

According to Aker (2013) who conducted a research in Northern Ghana to evaluate the effectiveness of mobile money in promoting savings, while people were enthusiastic about adopting e-money where almost 100% got themselves registered, only 10-25% used it and too after money transfers were made in the account. However the author concluded that the low usage could be due to poor mobile connectivity and lack of people’s trust in mobile money.

The Global Findex Database (2014) revealed that 62% world adult population has an account with a bank, financial institution or mobile money provider. The increase in account penetration has happened due to innovations like mobile money. However there are still bigger opportunities to be explored for increasing financial inclusion amongst women and poor people. Governments and the private sector can play a pivotal role by shifting the payment of wages and government transfers from cash into accounts.

Parker and Sachdev (2014) observed that FI is merely a CSR activity with banks, interested in short-term profits and quarterly performances. FI should be considered a long-term strategic opportunity and so banks need to focus on Market Level P/L (Profit/Loss) to appreciate its true potential and design products and services based on this approach. Taking an example of goMoney, a mobilebanking platform by banks in Australia and New Zealand, a Market level profit model was proposed by the researchers.

Bayero (2014) conducted a study to analyse the effects of the Cashless Economy Policy on Financial Inclusion in Nigeria. The regression and other analyses proved that awareness, customer value proposition and infrastructure have a significant effect on financial inclusion and Business Models of financial service providers did not have a significant relationship with FI.

Anzoategui (2014) analysed the impact of remittances on financial inclusion. Household survey data of El Salvador was used to study if remittances had any role to play in people going for deposit account or bank credit. It was revealed that while remittances had a positive effect on savings account penetration, they did not have any significant impact on credit from financial institution.

Schutts (2014) evaluated the role played by traditional retailers in FI in Indonesia. According to him, the retailers are the link between the well-banked suppliers and the financially excluded customers, and their transition from cash to electronic payments will pave the way for financial inclusion. When they start paying their suppliers electronically, they will be incentivised to push their customers to pay electronically, thus creating a chain value reaction that percolates through the entire supply chain system.

Taking an innovative approach, Robles (2014) emphasised the role of family learning for promoting financial literacy. Learning of financial concepts developed around the commonly known games like Bingo or Housie involving entire families can ensure that learning is absorbed in a practical manner. Introducing such programs during festivals can attract the attention and participation of all families and boost financial literacy.

Siddik (2014) studied the behavioural aspects of consumers towards mobile banking in Bangladesh and realised that high internet and sms cost, security related beliefs, unawareness of all financial and non-financial transactions possible through mobile banking are the factors responsible for less use of mobile banking in the country. The results can be useful to banks and policymakers to encourage use of mobile banking.

An important work was carried out by Câmara and Tuesta (2014) who developed a multi-dimensional index to measure the level of FI in 82 countries. The degree of financial inclusion is determined by three dimensions: usage, barriers and access to financial inclusion. It was found that the degree of financial inclusion is highly correlated with some macroeconomic variables such as GDP per capita, education, efficiency of a financial system and financial stability.

Adalíesssosi and Kaya (2015) who attempted to study the level of financial inclusion in 41 African countries found that 27 countries have low level of financial inclusion. These are majorly low-income countries. Discriminant model analysis was performed with variables taken as number of adults with outstanding mortgage, using a formal account and account from a formal financial institution. This study can become the basis for measuring FI in other economies.
Zhang (2015) studied the law and regulation aspect of financial exclusion in a comparative study of UK and China. According to him, consumer protection laws need to be streamlined to gain the trust of the excluded segment. While UK has strong legal norms, China is still in nascent stage in this sphere. Subprime lending is essential to economy and with proper credit regulation and governance can help in boosting financial inclusion.

Fungacova et al. (2015) studied financial inclusion in China by gauging its extent in China vis. a vis. other BRICS countries using the World Bank’s Global Findex data. While China’s FI is comparatively better when compared in terms of formal account holding, it scores low on formal credit. Chinese prefer to borrow from family/friends as compared to taking formal credit. A male who is well educated, has better income and who is older is most likely to use formal financial services.

West (2015) studied the financial inclusion scenario in Nigeria and realised that the future is in hands of not banks but MMOs (Mobile Money operators). The experiences drawn from Firstmono, the mobile banking initiative of First Bank of Nigeria, reflected the digital financial inclusion (DFI) initiatives in Nigeria. However he mentioned that DFI needs to be backed by strong government policies and regulatory norms to succeed and achieve the desired impact.

Choudhary (2015) emphasised the need of FI in the north-eastern rural region of Bangladesh. The poor meet minor risks in their lives through cash in hand and household savings. For intermediate risks they depend on borrowings from moneylender or friends. For major risks like flood or drought they depend on government relief and donor funds. FI is considered a major external intervention that can stabilise the rural households and help mitigate risk. However he pointed out that FI is not complete in the north east rural region and agent and mobile banking needs to be strengthened to uplift people’s lives.

Goldstein (2015) discussed the project of JoMoPay undertaken by Central bank of Jordan which resolved all the inoperability issues and further allowed money transfers to be recorded and documented, giving the country a deep insight, and overall control of the financial transactions that take place on a daily basis. The benefits of mobile payment services to all stakeholders – the citizens, banks, central banks and mobile service providers have been evaluated by him. It’s a model that many other central banks of the world can emulate.

Bourreau and Valletti (2015) suggested improvement in digital financial inclusion by improving interoperability and competition amongst mobile service providers. According to them, costs can be considerably reduced when innovations in mobile services especially for savings and insurance pick up scale. The M-Pesa story of Kenya is a case of monopoly wherein there is not enough incentive for the operator to innovate because of the risk called “replacement effect.” For an emerging technology such as mobile money, a phase of experimentation by market forces is crucial: firms need to experiment different modes of cooperation and different business models. This suggests to let the competition “for the market” take place, and therefore to limit regulation to a minimum.

Huefner and Bykere (2015) shared a completely different perspective on FI. While FI is largely considered a developing countries’ issue, there are many lessons for the developed economies. With innovative FI technology and retail correspondents and mobile-money, developing economies have shown how FI can be achieved at a cheaper rate. In emerging economies, for every 10,000 people there is one bank branch but 5,100 mobile phones. Electronic banking has created credit history and helped banks identify the financial needs of the underbanked.

According to Kundu (2015), demand side factors of FI are important in determining the success of financial inclusion. A study of the best FI practices the world over in Brazil, South Africa, Mexico, etc. has been done. The success of WalMart in Mexico and Grammen Bank in Bangladesh has been studied to realise that financial inclusion product basket needs to be diversified and not just be stripped down versions of mainstream products. Financial literacy and a bouquet of all financial products and services - savings, insurance, low cost credit, remittances and payments, low cost operations and delivery are the keys to achieve complete financial inclusion.

III. CONCLUSION

Thus to summarise, the researcher has highlighted findings of various studies carried out by researchers across the world. Many research studies in the field on financial inclusion as well as digital financial inclusion have been undertaken in US, UK, African countries such as Kenya, Nigeria and Ghana, Qatar, Brazil, El Salvador, Australia, New Zealand, Indonesia, China and Bangladesh. Even many cross-country comparative studies have been done by researchers. This leads to the fact that financial inclusion is a prime concern not only in developing or emerging economies but even in developed nations. To be financially included is every citizen’s right and government of a nation needs to take special efforts to promote financial inclusion. Moreover it also establishes that digitalisation and financial literacy efforts can boost up financial inclusion.

IV. REFERENCES


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