

Box 7: Financial Inclusion

Financial inclusion has been established as a universal mean to deliver a suite of useful, cost effective and quality financial services to unbanked individuals and businesses in order to meet their needs of transactions, savings, payments, credit and insurance etc. The concept of financial inclusion has evolved over the time. It goes beyond the simple concept of opening new banking accounts to having access to a full suite of quality financial services.

Enhancing the breadth and depth of financial services can significantly contribute in poverty alleviation, uplifting living standards, reduce income inequality and provide resilience to absorb financial shocks. Despite the integral part of financial inclusion in grass root development, majority of people have either no or limited access to quality financial services especially in developing countries.

In order to reap the aforementioned benefits, policy makers focus on increasing access, usage and quality of financial services by providing enabling prudential and legal framework to the practitioners.

Policymakers to enhance financial inclusion broadly focus on three key areas i.e. Access, Usage and Quality.

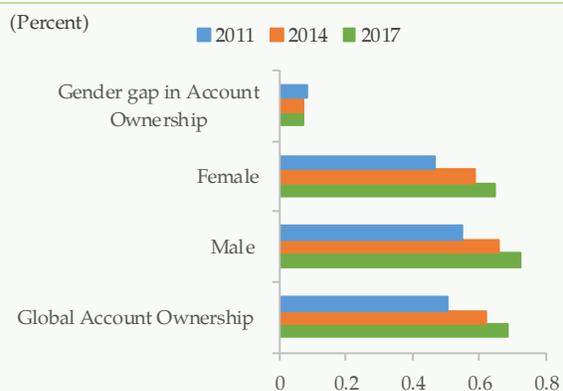
Access....

According to Findex database 2017, 1.2 billion people have gotten formal access to a financial account since 2011. Of this more than half a billion people have gained access in the last three years.

Though there are tangible gains in financial inclusion over the last few years (**Chart 1**), however, almost

one-third of the global adult population i.e. 1.7 billion adults, still do not have a formal bank account.²⁵¹ The identified reasons for low financial inclusion includes mistrust of people on financial institutions, capacity and ambition of financial services provider to reach large scale.²⁵²

Chart 1: Global account ownership



Source: Findex data, 2017

Access to a basic transaction account is considered a gateway to broader financial inclusion since it allows people to come in contact with financial services like sending, receiving and storing of money. It is more likely that people will use other financial services like insurance and credit once they become accountholders.

Technology and rapid innovation in digital financial services have been great drivers of access and inclusion. GSMA calculates that around 1.3 billion dollars' worth transactions are processed through mobile phones in 90 countries every day.²⁵³ The extensive use and capabilities of mobile phones and access points have transformed the concept from requiring people to physically accessing financial

²⁵¹ "Global Financial Inclusion (Global Findex) Database." | Data Catalog, 19 Apr. 2018, datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database.

²⁵² "Pakistan Enigma: Why Is Financial Inclusion Happening So Slowly?" CGAP, www.cgap.org/blog/pakistan-enigma-why-financial-inclusion-happening-so-slowly.

²⁵³ "State of the Industry Report - Mobile for Development." Mobile for Development, www.gsma.com/r/state-of-the-industry-report/.

institution into bringing financial access to their doorsteps.

Usage...

A head start on access to financial services is a good step in the first place, however, it is not enough to contribute positively to the financial capability of the poor. Using a financial account is different from only having it. Findex, 2017 data shows that globally around one-fifth of the accounts remained inactive, no deposit or withdrawal were made, during the past 12 months. Countries like China, Thailand and Kenya have expanded their financial access to more than 80 percent. However, with increased focus on the financial access an even greater focus is needed on the usage of these accounts.

The introduction and usage of digital technologies has increased financial inclusion as it lowered the costs of initiating and maintaining financial relationships for both institutions and consumers. Overcoming challenges such as digitizing the government to person transfers and wages can help in improving the access and usage of the accounts.

Quality...

Customization and development of financial products and services to cater to the needs of the poor and the first time users is another important dimension integral, for improvement in financial inclusion. Targeting segments like women and poor living in the rural areas with quality and tailored financial products can augment the access and usage of the financial inclusion.

Financial capability is the knowing and understanding of how to use the available financial service that plays an important role in building a wholesome financial inclusion experience. Products based on technology ideally should be simple, convenient, reliable, and friendly. Coupling the provision of quality and customized products with

increasing the financial capability of the customer can lead to better financial inclusion impacts.