



Expert Meeting on
**THE IMPACT OF ACCESS TO FINANCIAL SERVICES,
INCLUDING BY HIGHLIGHTING THE IMPACT ON REMITTANCES ON
DEVELOPMENT: ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH**
12-14 November 2014

**SESSION 2:
POLICIES AND REGULATION FOR FINANCIAL INCLUSION**

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Single-year Expert Meeting on the Impact of Access to Financial Services

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Development Research Group
Finance and Private Sector Development Team



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Why is Financial Inclusion important?

- Financial inclusion means that households and businesses have access and can effectively use appropriate financial services. Such services must be provided responsibly and sustainably in a well regulated environment.
- Financial inclusion can be a key driver of economic growth and poverty alleviation, as access to finance can boost job creation, reduce vulnerability to shocks and increase investments in human capital.
- Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs – and small enterprises must rely on their limited earnings to pursue promising growth opportunities.
- **Growing evidence that financial inclusion has significant beneficial effects for individuals.** Providing individuals access to savings instruments increases savings (Aportela, 1999; Ashraf et al., 2010a) female empowerment (Ashraf et al., 2010b) productive investment (Dupas and Robinson, 2009) consumption (Dupas and Robinson, 2009 and Ashraf et al., 2010b).



What is the impact on financial inclusion of moving from cash-based to digital payments?

- *Increasing women's economic empowerment* (Docquier, Lowell and Marfouk, 2009; Dupas and Robinson, 2009; Morawczynski and Pickens, 2009; Duflo, 2012)
- *Making payments more efficient by lowering the cost of disbursing and receiving payments* (Aker et al., 2013; CGAP, 2011b; Babatz, 2013; Lindert, et al., 2007)
- *Increasing individuals' risk management capacity* (Jack and Suri, 2011; Blumenstock et al., 2012)
- *Increasing the security, privacy and control over the funds received* (McKenzie and Yang, 2014; Ashraf, et al., 2014; Wright et al., 2014)
- *Increasing the transparency of the payment and thus making it less likely for there to be leakage between the sender and receiver* (Muralidharan et al., 2014)
- *Providing a first entry point into the formal financial system* (Allen et al., 2013; Li et al., 2014; Aportela, 1999; Prina, 2012; Masino and Nino-Zarazua, 2014; Batista and Vicente, 2013)





Who cares about Financial Inclusion?

Policymakers around the world are increasingly committed to promoting financial inclusion.

- At the G20 Summit in Seoul, the Leaders of the G20, recognizing financial inclusion as one of the main pillars of the global development agenda, endorsed the establishment of the Global Partnership for Financial Inclusion (GPFI); At their summit in St. Petersburg in Sept., 2013, the G20 leaders endorsed the “G20 Financial Inclusion Indicators” developed by the GPFI to track progress towards financial inclusion and to assess the state of financial inclusion by measuring access to, use, and quality of financial services
- The Alliance for Financial Inclusion (AFI), a network of financial policymakers that aim to increase access to appropriate financial services among the poor, drafted the “Maya Declaration”—a measurable set of commitments by developing country governments to expand financial inclusion—which has been signed by more than 80 countries
- The United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development (UNSGSA), Her Majesty Queen Máxima of the Netherlands, is working to ensure that access to financial services for households and SMEs is recognized as a key enabler of economic growth, poverty alleviation and development in the post 2015-development agenda
- According to a survey of bank regulators across 143 jurisdictions, 67 percent of regulators are charged with promoting financial inclusion
- WB President Kim announced a new initiative to provide universal financial access to all working-age adults by 2020



Who are Financially included?

- Financial Inclusion refers to ‘access’, ‘use’, and ‘quality’ of financial services

Who are the Excluded? (not mutually exclusive)

- *The Self-Excluded:* Adults or firms who truly don't need or choose not to use financial services, for reasons other than market failures
- *The Involuntarily Excluded:* Any individual or firm who does not use services due to barriers (such as distance, high-cost, etc.) that arise as a result of market failures (like inadequate contract environment, lack of market competition, etc.)

The role of policy is to broaden financial inclusion to reach those that are excluded due to market failures



SUPPLY SIDE

Financial Access Survey (FAS)

- Collects annual supply side data provided by country regulators to the IMF
- 182 economies participated in the 2012 FAS

Financial Consumer Protection Survey

- Launched February 2013 (WB/FinCoNet)
- Covers: regulatory framework, institutional arrangements & enforcement mechanisms, financial capability

Global Payments Systems Survey

- Biannual – 2nd survey underway

CGAP (2008 and 2009)

DEMAND SIDE

The Global Financial Inclusion (Global Findex)

- Measures the use of financial services by individuals through Gallup World Poll Survey
- Surveyed in 2011 over 150,000 individuals from 148 countries on payments, savings, credit and insurance

Enterprise Surveys

- Measure the use of financial services by small, medium, and large enterprises
- Firm-level surveys of a representative sample of an economy's private sector
- Surveyed over 130,000 companies in 135 economies

Financial Capability Surveys

NATIONAL DATA

- Country-led efforts to collect data on access to and use of financial services.
- Allows countries to tailor define financial inclusion and provide guidelines for data collection
- Countries may modify existing surveys or implement new financial surveys
- E.g. FinScope, EFiNA, etc.,



The Global Findex Database

- With funding from the Bill and Melinda Gates Foundation, the Global Financial Inclusion (Global Findex) Database Project was initiated to create and maintain a public, demand-side database that measures financial inclusion in a consistent manner over a broad range of countries over time.

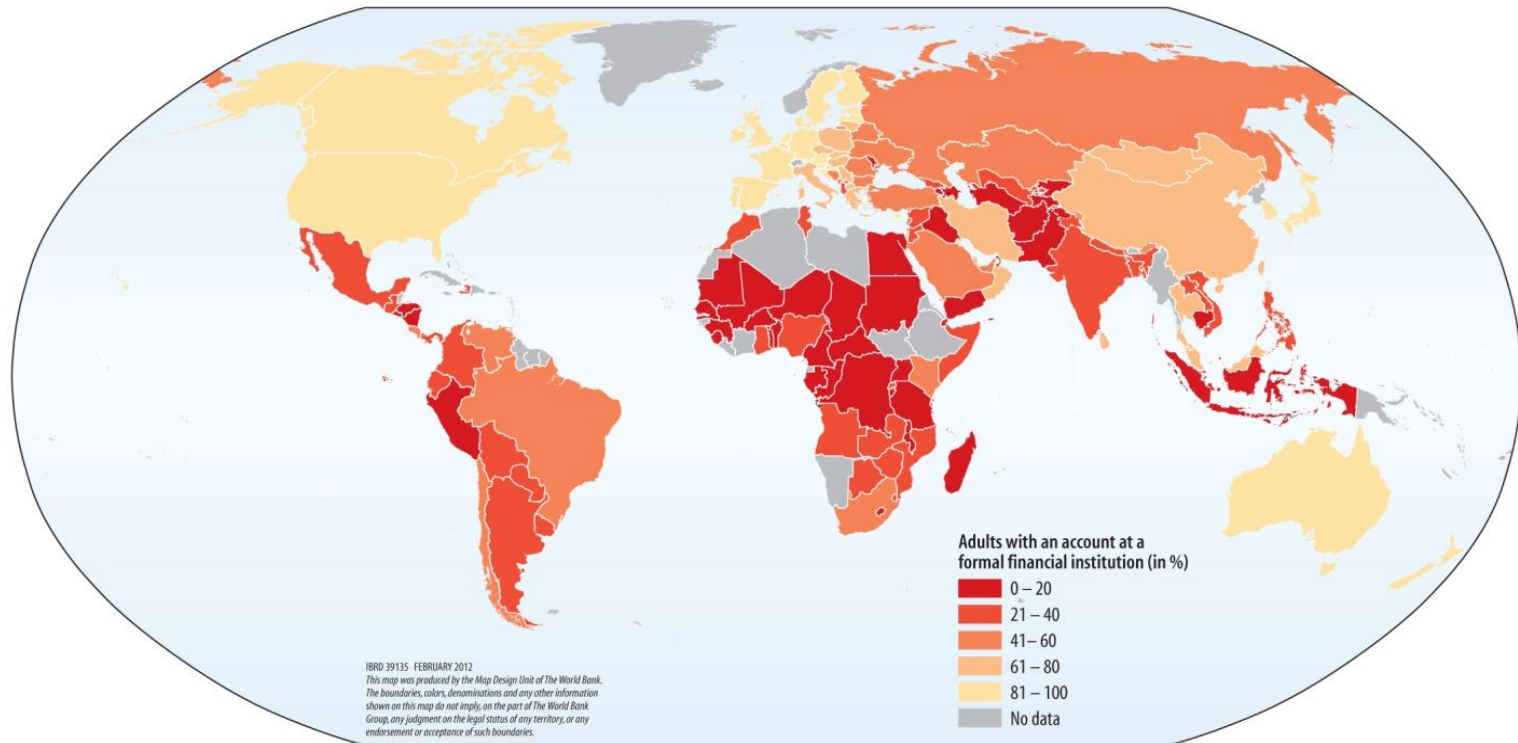
- Why a global, demand-side database on financial inclusion?
 - Facilitates a better understanding of how adults worldwide save, borrow, make payments, and manage risk – and how these behaviors fit together.
 - Measures the degree to which certain subgroups – such as the poor, women, and rural residents - are excluded from formal financial systems.
 - Can be used to track global policy and progress on improving access to financial services.
 - Encourages policymakers within countries to collect their own data.
 - Can be used to examine relationship between financial inclusion and other development outcomes (on individual or country level).



2011 Findex Data Collection

- 150,000+ interviews with adults in 148 economies over the 2011 calendar year
- Represents 97% of the world's adult population
- Target population: all non-institutionalized adults ages 15+ (some exceptions)
- Survey translated into 141 languages
- Face-to-face interviews in countries where telephone coverage represents less than 80% of population (126 out of 148 economies)
- Telephone interviews in 22 countries, using Random Digit Dialing
- Average response rate: 65%

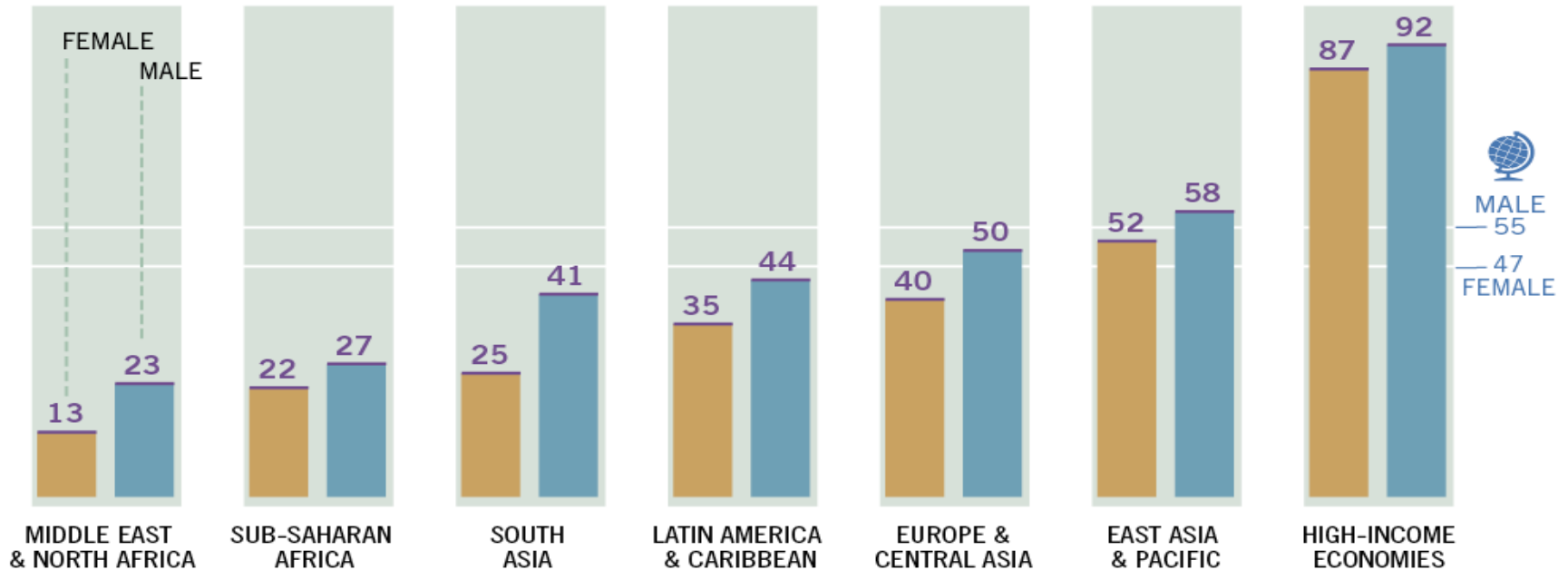
Published April 2012



- Over 2.5 billion adults do not have a formal account
- 41% of adults in developing countries are banked—compared to 89% of adults in high-income countries
- 37% of women in developing countries are banked—compared to 46% of men

Account penetration by gender

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

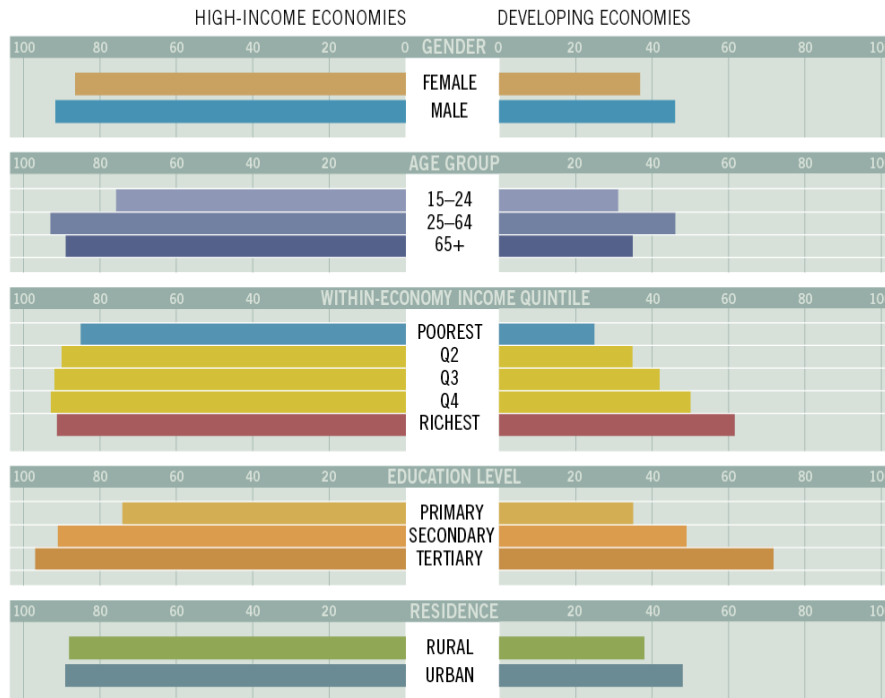


Source: Demirguc-Kunt and Klapper 2012.

- In every region, women have a lower account penetration compared to men
- The largest gender gap is in SA and MENA —where women are 40% less likely than men to own account
- In countries with differential treatment under the law or by custom, women are less likely than men to own an account and to save and borrow (Klapper & Singer, 2012)

Account penetration by individual characteristics

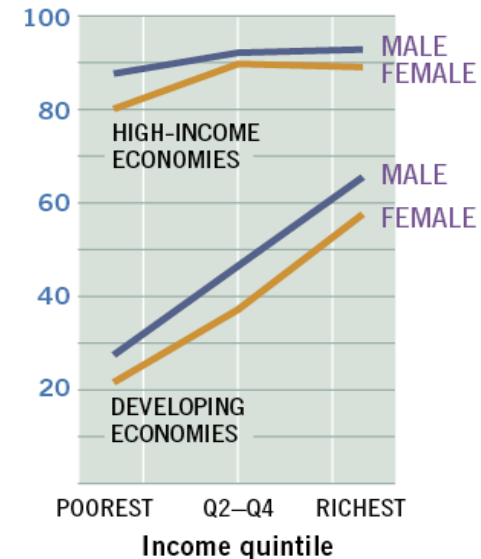
Adults with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper 2012.

Account penetration by gender across within-economy income quintiles

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

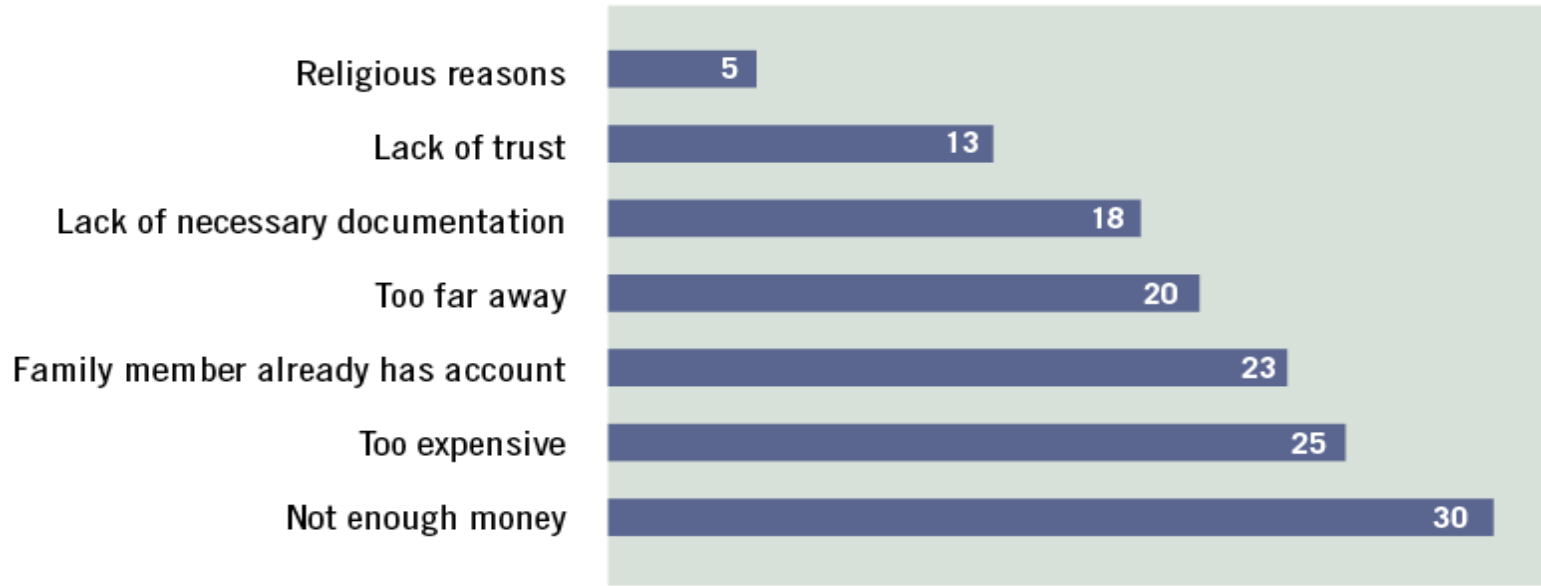


Source: Demirguc-Kunt and Klapper 2012.

- Globally, education and age are significantly related to account ownership after controlling for income—but not gender
- Adults in the poorest income quintile in developing countries are half as likely to be banked as adults in the richest quintile
- A 6-9 percentage points gender gap persists across income groups in developing countries

Self-reported barriers to use of formal accounts

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



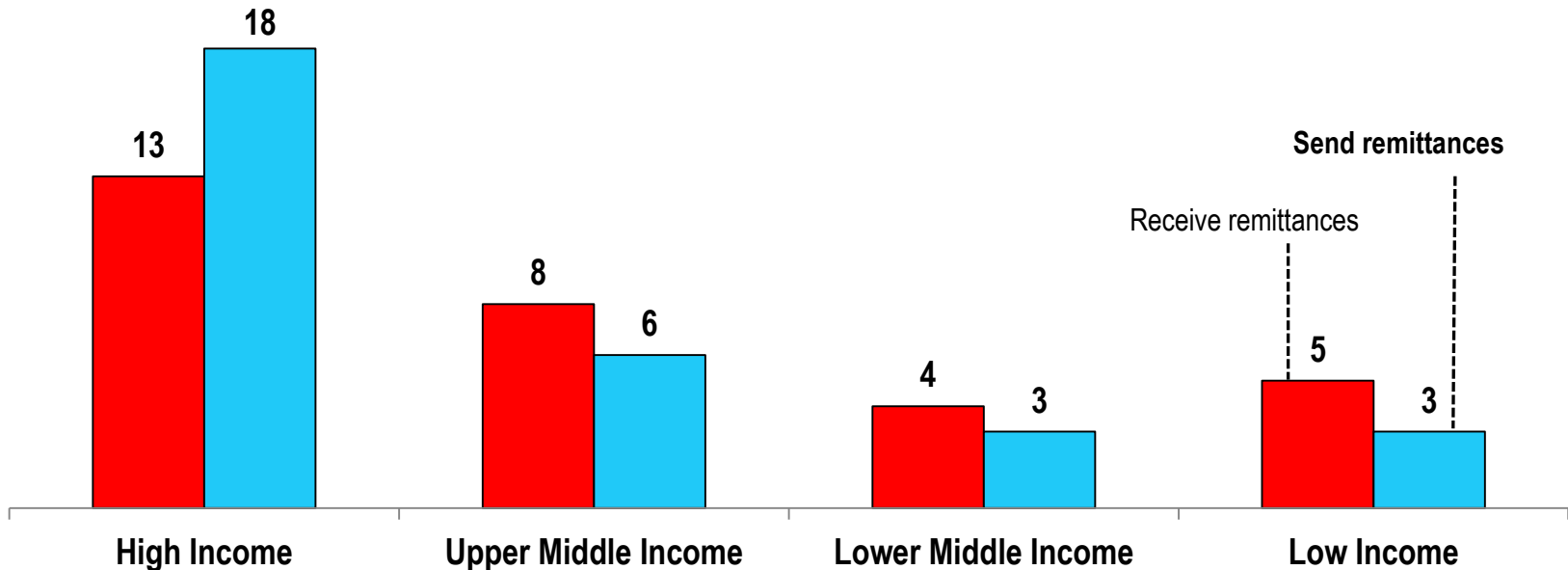
Note: Respondents could choose more than one reason. The data for “not enough money” refer to the percentage of adults who reported only this reason.

Source: Demirguc-Kunt and Klapper 2012.

- 66 percent of unbanked report “not enough money”
- 31 percent of unbanked in Sub-Saharan Africa choose “Too far away”
- 31 percent of unbanked in Europe and Central Asia choose “[I] don’t trust banks”
- 40 percent of unbanked in Latin America and the Caribbean choose “They are too expensive”

Use of accounts for family remittances

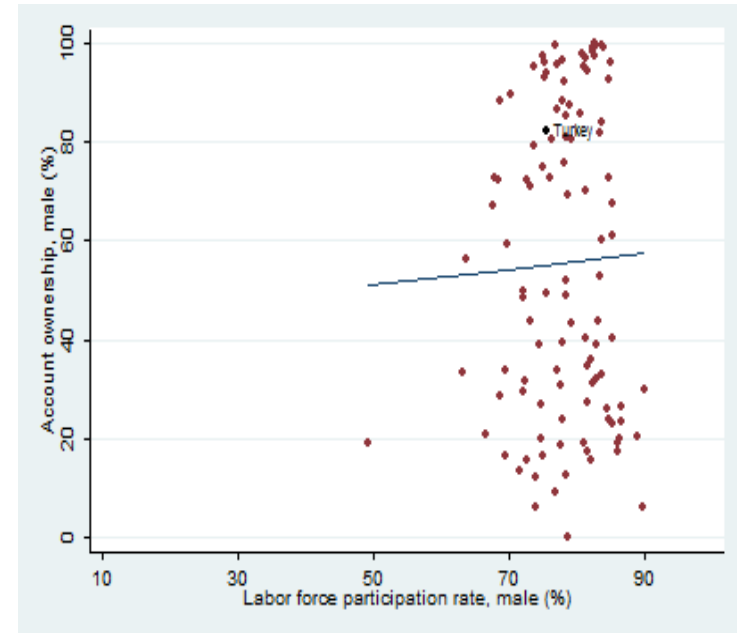
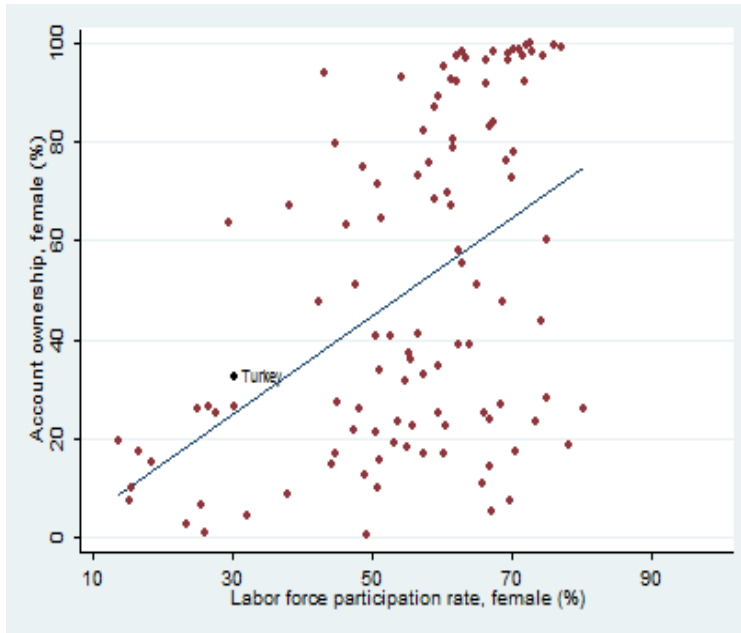
Adults using a formal account in the past year to transfer money to or from relatives living elsewhere (%)



Source: Demirguc-Kunt and Klapper 2012.

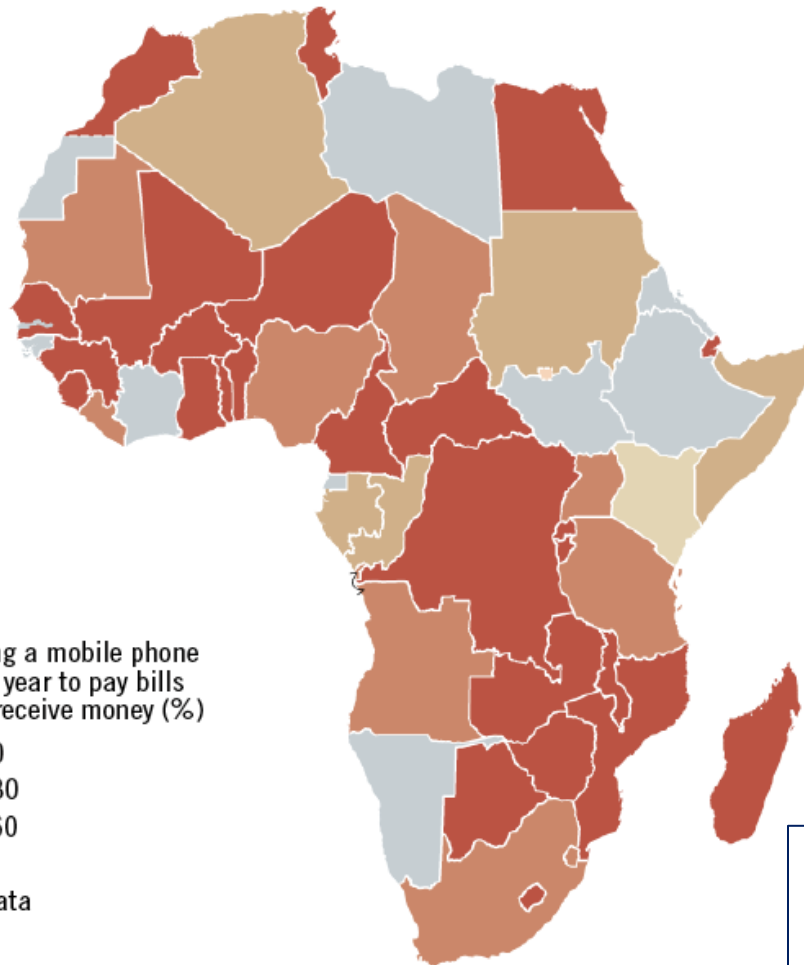
- 38% of account holders in SSA use their account to receive money from family living elsewhere
- 61% of account holders in ECA use their account to receive wages—compared to 34% of all account holders in developing economies and 56% of account holders in high-income economies
- 26% of account holders in LAC use their account to receive payments from the government—compared to 15% of all account holders in developing economies and 47% of account holders in high-income economies

Account ownership and labor force participation rates



Source: World Development Indicators 2012 and Demirguc-Kunt and Klapper 2012.

- Labor force participation of women and account ownership by women are highly correlated—but the same relationship does not hold among men
- Suggests a greater challenge in banking women out of the workforce



- 16 percent of adults in Sub-Saharan Africa report using a mobile phone to pay bills, send or receive money in the past 12 months
- 68 percent of adults in Kenya make mobile payments, driven by the early success of M-PESA
- 52 percent of adults in SSA that make mobile payments are otherwise unbanked
- Only 5 percent of adults in all developing economies use mobile money technology

2014 Findex includes a new module on domestic remittances, wage payments, government-to-person payments, utility payments, and payment cards



The role of policies in expanding financial inclusion

- 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



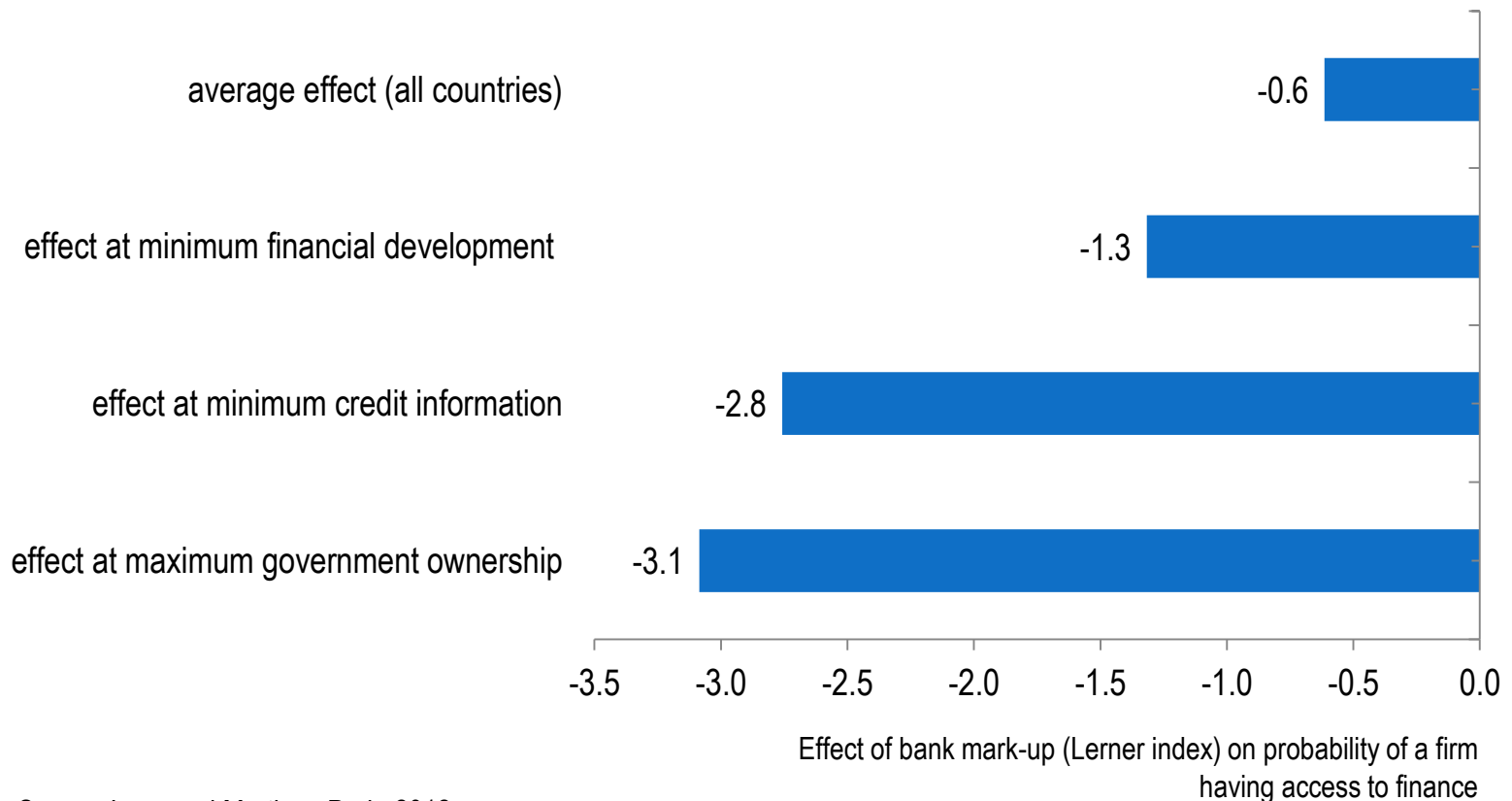
The role of policies in explaining variation in account use

- Using FINDEX data for 123 countries over 124,000 individuals, Allen, Demirguc-Kunt, Klapper, and Martinez-Peria (2013) try to understand the individual and country characteristics associated with the use of formal accounts and the policies that are effective among those most likely to be excluded: the poor and rural residents
- The likelihood of having an account, using it frequently, and saving in the account is lower among poorer, less educated, unemployed, and rural individuals
- Higher costs of bank accounts have a negative relationship with the likelihood of having and using bank accounts
- The presence of banks and the existence of deposit insurance and tax incentives schemes that promote savings are positively related to the likelihood of having an account
- Better institutions and lower political risks increase the likelihood of having an account, of using it frequently, and of saving in the account
- The impact of policies and other country characteristics varies across individuals
 - Account costs, KYC requirements, bank and correspondent presence, deposit insurance, consumer protection, G2P policies and the quality of institutions have a larger impact among rural individuals and individuals in the bottom income quintile



Competition policy is an important part of expanding access

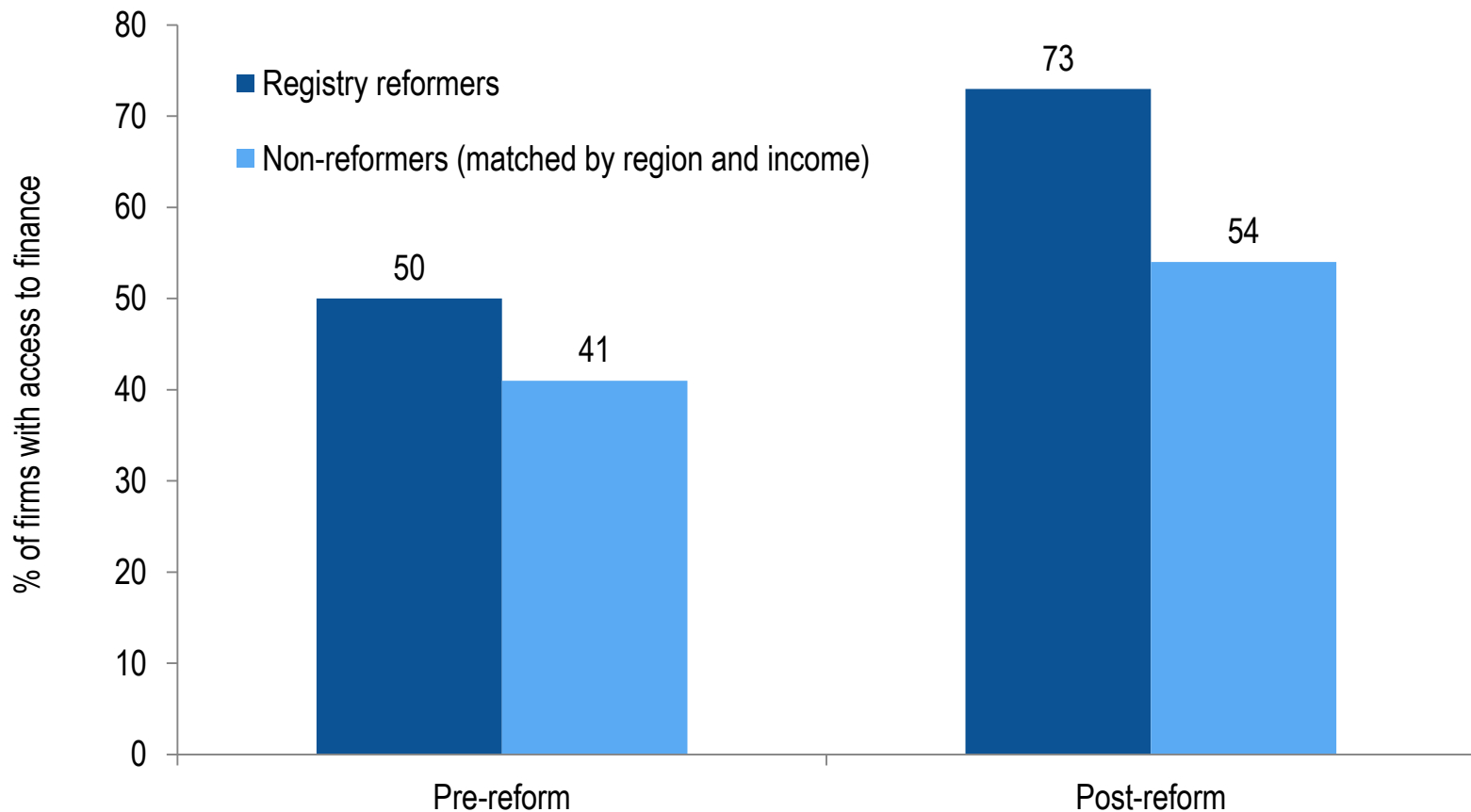
- Healthy competition among providers increases consumers' market power
- New evidence: lack of bank competition diminishes firms' access to finance



Source: Love and Martinez Peria 2012.

The role of the information environment in promoting inclusion

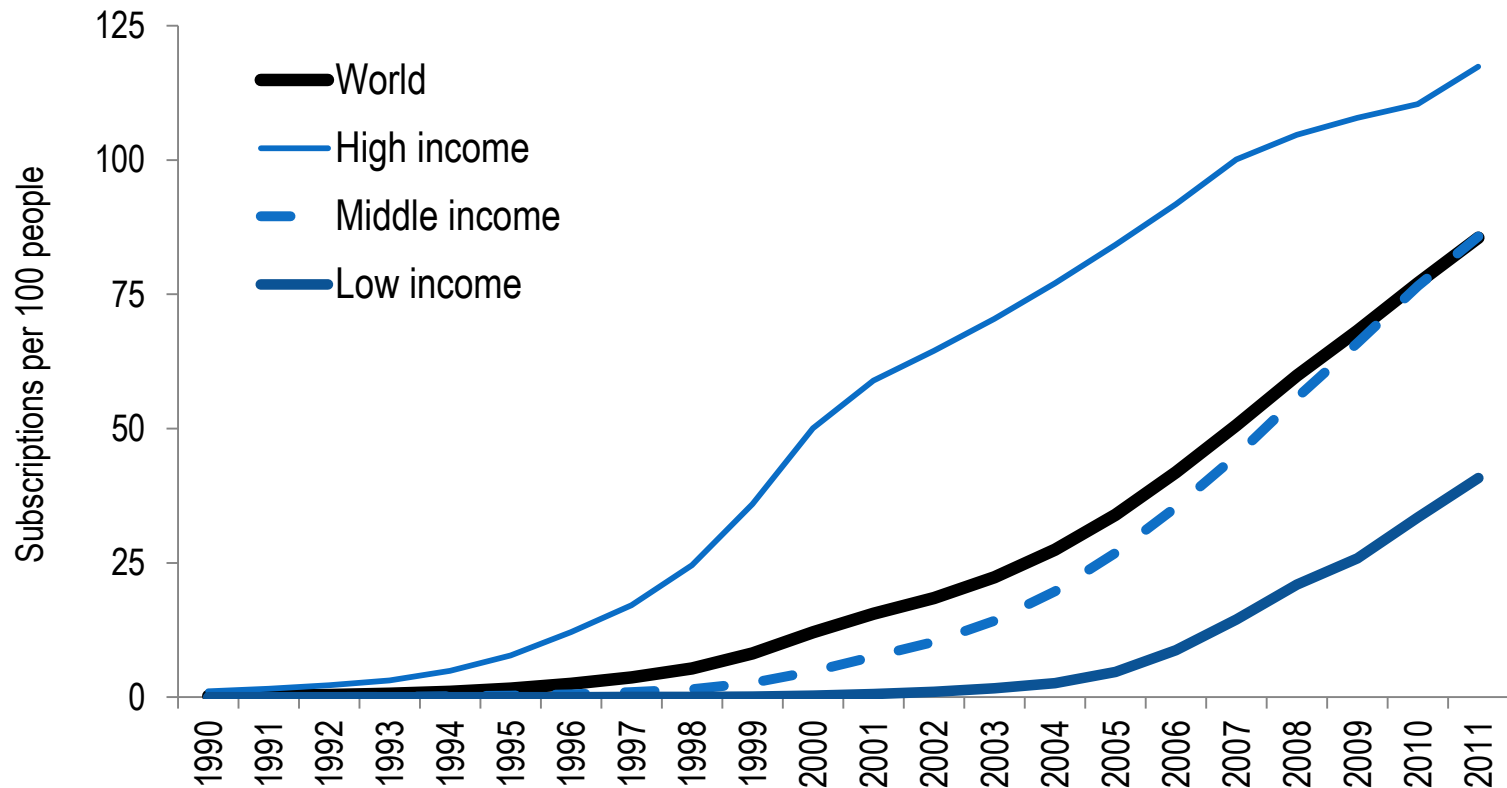
- Collateral registries can promote access



Source: Love, Martínez Pería, and Singh 2013.

The role of technology in promoting inclusion

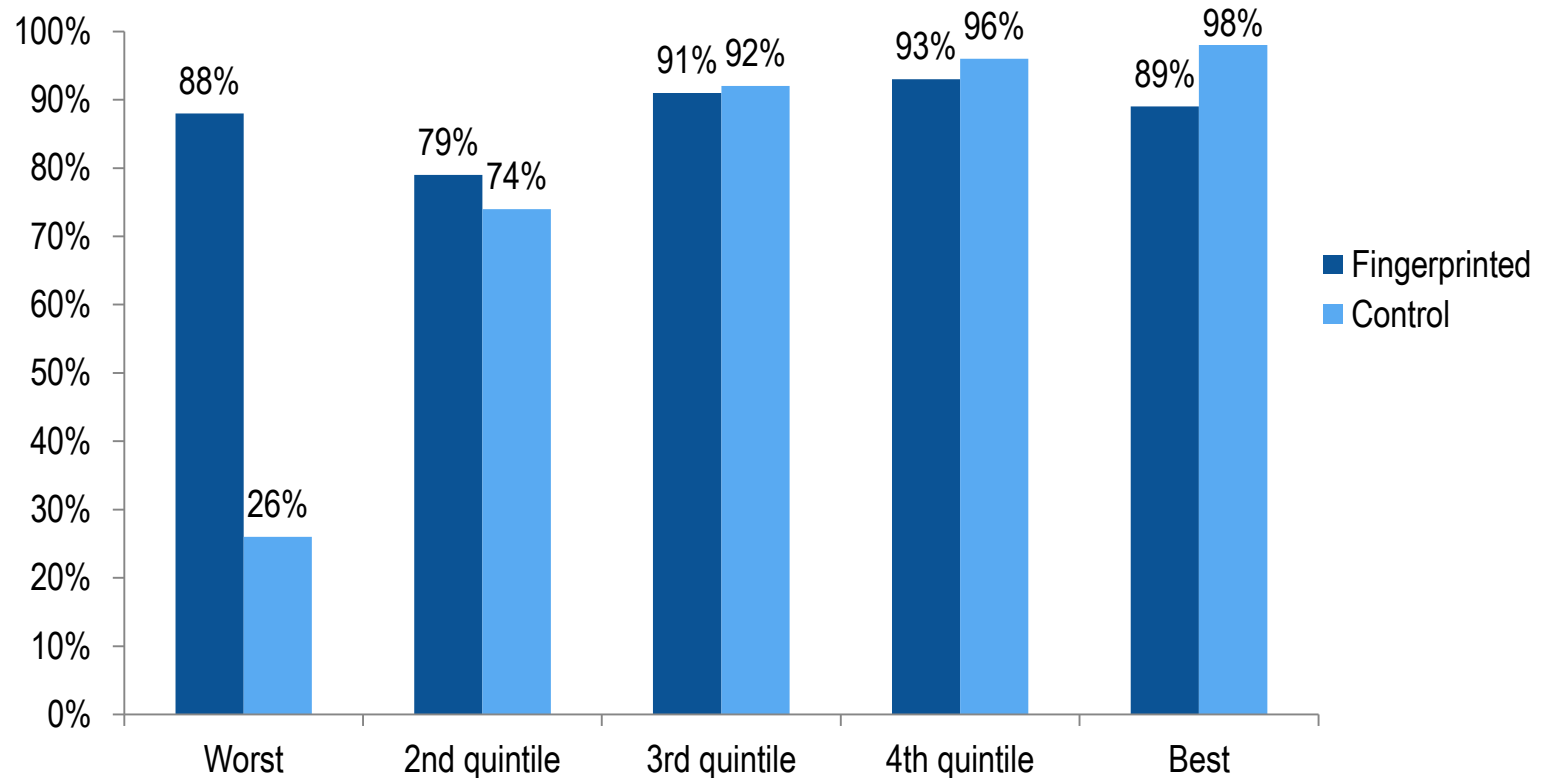
- Technological innovations reduce transaction costs, increase financial security
- Scope for scaling up, illustrated e.g. by growth in phone subscriptions



Source: World Development Indicators.

The role of technology in promoting inclusion

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



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

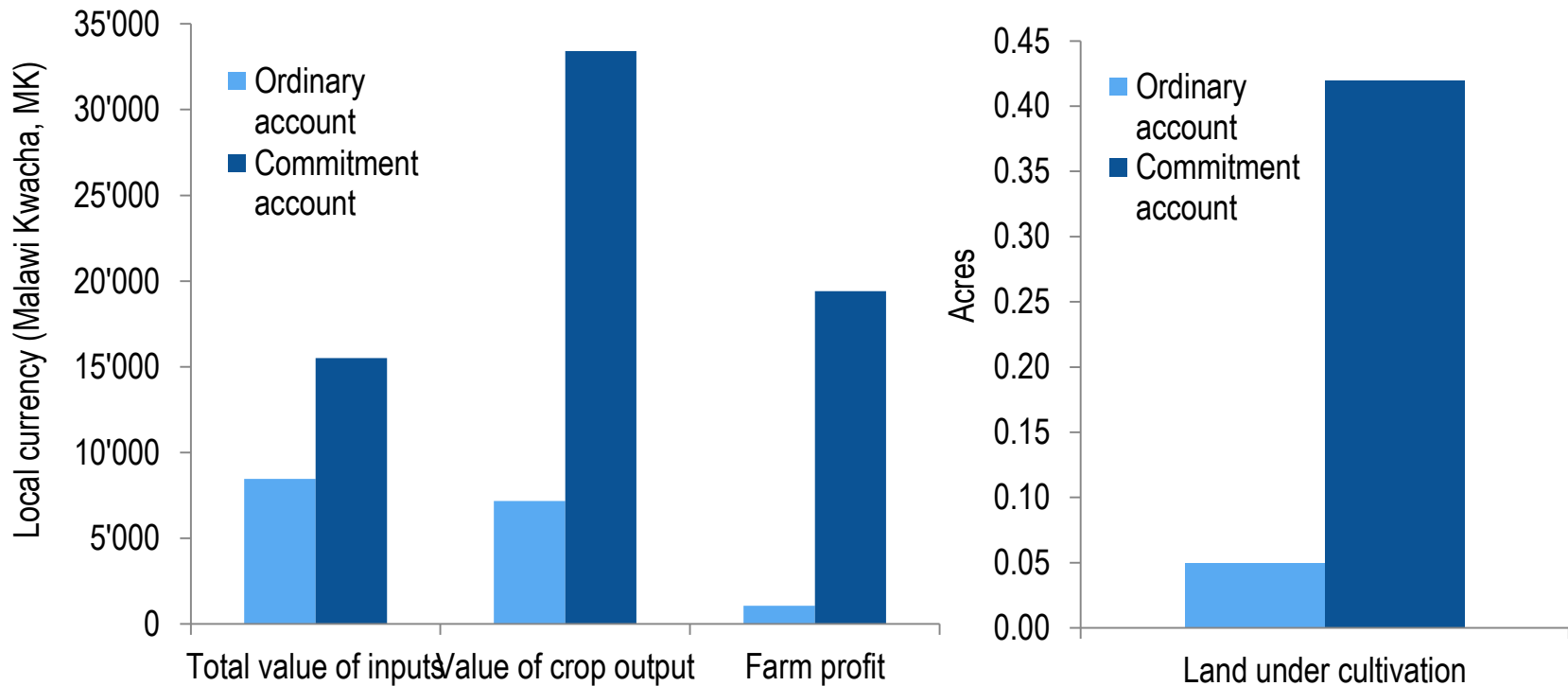


The role of technology in promoting inclusion

- 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.

The role of product design and business models in inclusion

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

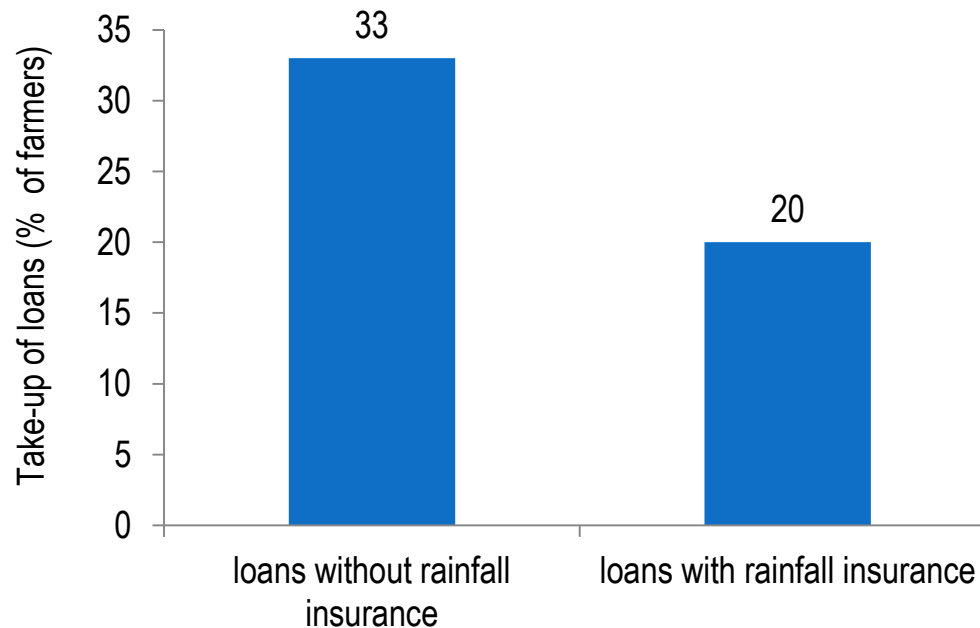


Note: The exchange rate was MK145/USD during the study period.

Source: Brune, Giné, and others 2011.

The role of product design and business models in inclusion

- Example 2: index insurance

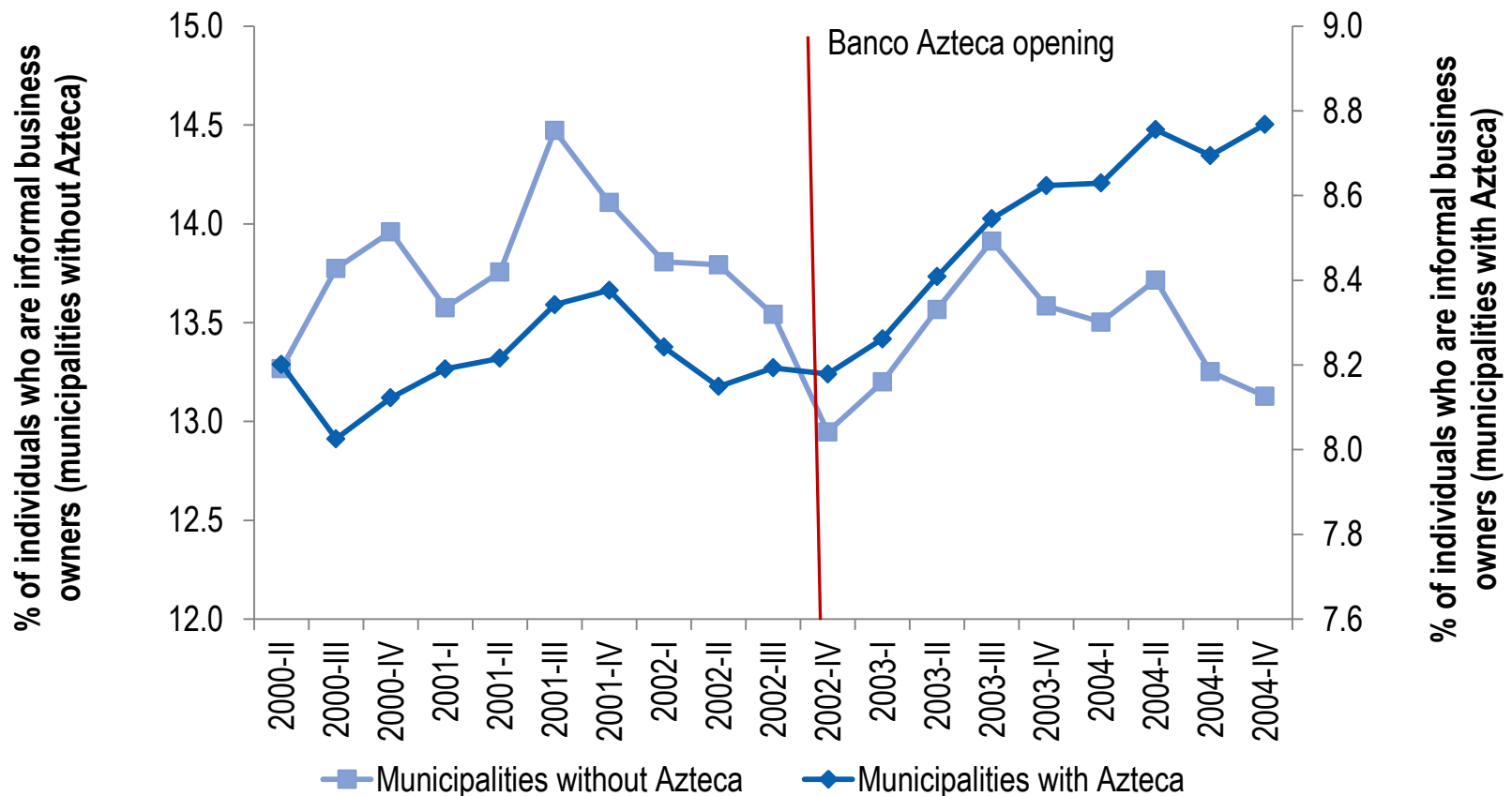


Source: Giné and Yang, 2009.

- 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

The role of product design and business models in inclusion

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



Source: Bruhn and Love (forthcoming).

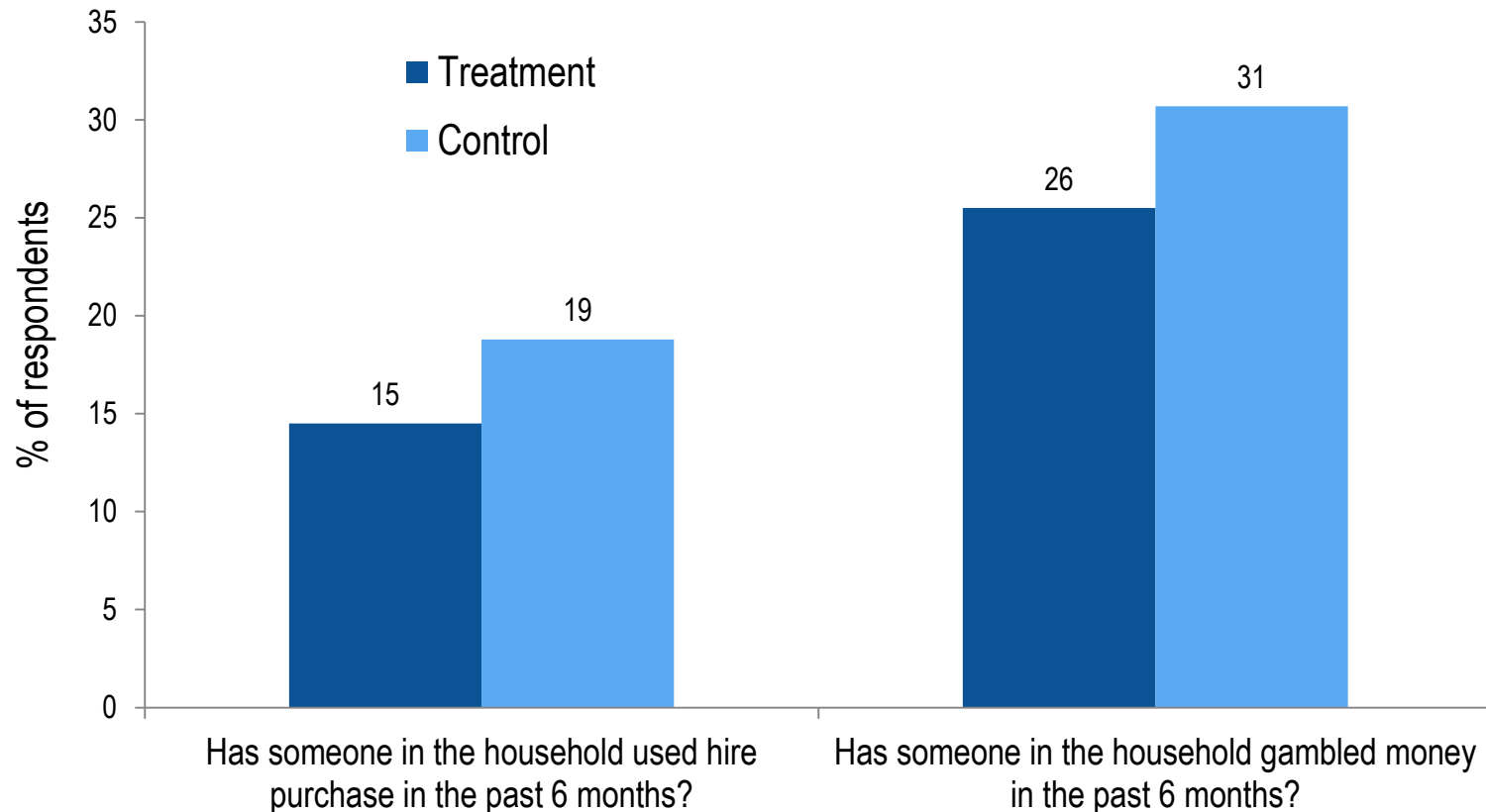
The role of financial capability in inclusion

- 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



The role of financial capability in inclusion

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



Source: Berg and Zia 2013.

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



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.