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Financial Inclusion in The World

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Abstract

Access to financial products is constrained by several factors which include lack of awareness about the financial products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. The task of covering world population with banking services is gigantic. Financial inclusion is well recognized that there are supply side and demand side factors driving inclusive growth. Banks and other financial services players are largely expected to mitigate the supply side constraints that prevent poor and disadvantaged groups from gaining access to the financial system.

Keywords:

Financial Inclusion & Exclusion, Commercial Banks, Deposits, Loans

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Introduction

Financial exclusion at the wider level of the society and the nation, leads to social exclusion, poverty as well as all other associated economic and social evils. The problem of financial exclusion is found even in several advanced countries. These countries have also initiated exact measures and followed more or less a similar approach to bring financially excluded people within the fold of the banking system. An interesting feature which emerges from the international practice is that the more developed a society is, the greater is the thrust on empowerment of the common person and low-income groups.

The mainstream financial institutions like banks have an important role to play in helping overcome this constraint, not as a social obligation, but as a business proposition. The major barriers cited to constrain extension of appropriate services to poor by financial service providers are the lack of reach, higher cost of transactions and time taken in providing those services, apart from attitudinal issues. In this regard, major barriers to financial inclusion require to be identified.

i) Demand side barriers are (a) Low literacy levels, lack of awareness and/or knowledge/understanding of financial products; (b) Irregular income; frequent micro-transactions; (c) Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values).

ii) Supply side barriers are (a) Outreach (low density areas and low income populations are not attractive for the provision of financial services and are not financially sustainable under traditional banking business models); (b) Regulation (frameworks are not always adapted to local contexts), (c) Business models (mostly with high fixed costs); Service Providers (limited number and types of financial service providers) (d) Services (non-adapted products and services for low income populations and the informal economy); (e) Age Factor (Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers. There are hardly any policies or schemes for the younger lot or the old people who have retired, as the banks do not see any business from them); (f) Bank charges (In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income). Hence every nation concentrates with specific and own models to achieve financial inclusion.

United States of America

A civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate income neighbourhoods. The CRA imposes an affirmative and continuing obligation on banks to serve the needs for credit and banking services of all the communities in which they are chartered. The US Community Development Financial Institution (CDFI) Fund uses Federal resources to invest in and build the capacity of CDFIs to provide capital and financial services to under-served people and communities. The Federal Reserve System is dovetail to increase the use of Federal Reserve educational materials and promote financial education in the classroom. It provides easy access to free educational materials, a resource search engine for teachers, and games for various ages and knowledge levels.

Table - 1 Selected Indicators on Financial Inclusion

Selected Indicators on Financial Inclusion	USA	
	2005	2011
ATMs per 1,000 km	43.2	NA
ATMs per 100,000 adults	168.6	NA
Commercial bank branches per 1,000 km	8.5	9.6
Commercial bank branches per 100,000 adults	33.1	35.4
Outstanding deposits with commercial banks(Percent of GDP)	48.0	57.8
Outstanding loans from commercial banks (Percent of GDP)	48.9	46.8

Source: IMF's Financial Inclusion Survey July 2012. NA: Not Available

The Table – 1, gives that the selected indicators on Financial Inclusion in USA. The location of ATMs per 1,000 km and 100,000 adults were (43.2) & (168.6) in 2005. Commercial bank branches per 1,000 km and 100,000 adults were increased by (9.6) & (35.4) in 2011, Outstanding deposits with commercial banks (Percent of GDP) have been increased by (57.8) and Outstanding deposits from commercial banks (Percent of GDP) have been decreased to (46.8) in 2011.

United Kingdom

The Government of UK has been tackling financial exclusion since 1997. The Social Exclusion Unit's Policy Action Team 14 (PAT 14) recommended the creation of basic bank accounts in 1999. The Government worked successfully with the 17 provider banks. Since 2006, the Financial Inclusion Fund (FIF) has provided Growth Funding of £42 million for third sector lenders. A Post Office Card Account (POCA) has been created and this enables cash withdrawals but does not offer an overdraft facility. The Government is also piloting Savings Gateway's schemes in which those on low-income employment will receive £1 from the state for every £1 they invested, up to a maximum of £25 per annum. The forthcoming Child Trust Fund (CTF), which will offer all households a fixed sum for long-term investment at the birth of their children, is hoped to be most beneficial in lower income households. Initiatives to promote financial inclusion have not been restricted to just the urban centres. As part of the Commission for Rural Communities' (CRC) work to tackle difficulty in rural areas, some good and enterprising practices in rural financial inclusion includes the NatWest's mobile bank, Cumbrian Debt Rescue and Financial Advice, Ely Citizens Advice Bureau, Farm Crisis Network and many others.

Table - 2 Selected Indicators on Financial Inclusion in UK

Selected Indicators on Financial Inclusion	UK	
	2005	2011
ATMs per 1,000 km	240.9	NA
ATMs per 100,000 adults	117.9	NA
Commercial bank branches per 1,000 km	58.0	NA
Commercial bank branches per 100,000 adults	28.4	NA
Outstanding deposits with commercial banks(Percent of GDP)	356.5	422.8
Outstanding loans from commercial banks (Percent of GDP)	377.6	460.0

Source: IMF's Financial Inclusion Survey July 2012. NA: Not Available

The Table – 2, shows that the selected indicators on Financial Inclusion in UK. The survey registered ATMs and Commercial bank branches per 1,000 km are (240.9) & (58.0), and as per 100,000 adults are (117.9) & (28.4) in 2006 respectively. The outstanding deposits (422.8) and outstanding loans (460.0) have been raised with / from commercial banks (Percent of GDP) in 2011.

Singapore

A sophisticated example of global payments network operating via postal banks is the Singapore Post which deals with payments and remittance services, an important catalyst for enhancing financial inclusion. Singapore Post's remittance services, in partnership with banks and other financial entities in a number of countries, provides consumer loan services, insurance and investment products on behalf of banks and finance companies, offices and investment managers to Singapore residents including workers from overseas.

Brazil

In 1997, banks and regulators in Brazil created a network of "correspondents bancarios" or "banking correspondents", small outlets with extended working hours that offered basic banking services. At that time, 40 out of the 68 million economically active Brazilians had no access to formal financial services. Today, an additional 4 million have begun using banks for the first time through 27,000 banking correspondents. Under this arrangement, banks are permitted to appoint a wide variety of institutions/entities as correspondents/ agents, which are easily accessible to people, e.g., drug stores, petrol pumps, super markets, small stores in neighbourhood, post offices and even lottery shops. The Brazilian model is largely technology driven. The agents use kiosks or automated teller machines to accept payment, open accounts, without a cheque book facility, take small deposits, provide micro credits, and sell savings bonds and insurance.

Table - 3 Selected Indicators on Financial Inclusion

Selected Indicators on Financial Inclusion	*Brazil*	
	2005	*2011*
ATMs per 1,000 km	17.4	20.6
ATMs per 100,000 adults	108.9	119.6
Commercial bank branches per 1,000 km	NA	7.9
Commercial bank branches per 100,000 adults	NA	46.2
Deposit accounts with commercial banks per 1,000 adults	705.7	1032.7
Household loan accounts with commercial banks per 1,000 adults	NA	747.4
Loan accounts with commercial banks per 1,000 adults	NA	853.7
Outstanding deposits with commercial banks(Percent of GDP)	34.0	53.3
Outstanding loans from commercial banks (Percent of GDP)	21.2	40.3

Source: IMF's Financial Inclusion Survey July 2012. NA: Not Available

The Table – 3, shows that the select indicators on Financial Inclusion in Brazil. The ATMs per 1,000 km & 100,000 adults, Commercial bank branches per 1,000 km & 100,000 adults, Deposit accounts, Household loan accounts and Loan accounts with commercial banks per 1,000 adults, and outstanding deposits and loans with / from commercial banks (Percent of GDP) have been increased by (20.6) & (119.6), (7.9) & (46.2), (1032.7), (747.4) and (853.7), and (53.3) / (40.3) respectively.

South Africa

The Financial Sector Charter in South Africa led to the establishment of the 'Mzansi' account; a National no frills Bank Account (NBA). In its first year of operation itself, it garnered nearly 2 million accounts. Access to the affordable card based product is provided through a combination of existing service point outlets and physical branch outlets including own and shared ATMs, Post Offices, and merchant PoS devices. There is a money transfer service associated with the Mzansi account which makes it possible to transfer money between un-banked/banked customers from any participating bank or South Africa Post Office. All banks in South Africa are participants in this unique venture. As it is a technology intensive product, the transaction costs are very low and thus, what was thought to be as 'too costly to serve areas and people' has become an attractive proposition.

Philippines

In 2004, BSP, the central bank of Philippines sanctioned two e-money products. The first was 'Smart Money', product of a major commercial bank and the second was 'G-cash', a non-bank product whose provider was ultimately licensed as a remittance agent. The impact of these e-money products has been substantial. Some 8 million people use one or other of the two products, while the number of banks involved has grown rapidly. Apart from the larger commercial banks, increasing number of small rural banks has also participated in these products. Some banks have lowered interest rates, by up to 50bps/month, on microfinance loans administered via the phone repayment platform. Lower cost remittance channels have seen remittance costs fall markedly. These advances have increased financial inclusion in the country with the convergence of e-money, mobile technology and the traditional brick-and-mortar networks of financial institutions.

Bangladesh

The Grameen Bank (GB) in Bangladesh has reversed conventional banking practice by obviating the need for collateral. It has created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. It offers credit for creating self-employment, income-generating activities and housing for the poor, as opposed to consumption, and provides service at the doorsteps of the poor. In order to obtain loans, a borrower must join a group of borrowers. The repayment responsibility solely rests on the individual borrower and there is no form of joint liability. Loans can be received in a continuous sequence. New loan becomes available to a borrower if his/her previous loan is repaid. All loans are to be paid back in instalments (weekly or bi-weekly). GB's success can also be gauged from the fact that it has 7.46 million borrowers in Bangladesh alone and has grown into over 2 dozen enterprises represented by the Grameen Family of Enterprises. Grameen Foundation not only provides microloans in the USA itself but also supports microfinance institutions in Asia-Pacific, America and Africa.

Kenya

Recent international experience indicates that micro savings are as important as micro credit. Moving in this direction, Equity Building Society in Kenya has developed the Jijenge Savings Account, a contractual savings product with an emergency loan facility. The client defines the length of the contract and the periodicity of the deposits, which could be weekly or monthly. A premium interest rate is offered to those who take out longer term contracts and there are significant penalties for premature withdrawals. All Jijenge savings account holders have guaranteed immediate access to an emergency loan of 90 percent of the amount in their Jijenge savings account. As well as providing a disciplined way to save, this product allows clients to meet their "illiquidity" preference and protects their savings against the demands of petty spending or "marauding relatives". The account is already proving extremely popular with existing as well as new clients. Commercial Bank of Africa in conjunction with local mobile operator Safaricom has enabled mobile subscribers to make micro payments from mobile phones. The majority of the people in Kenya do not hold bank accounts but purchase prepaid mobile refill cards. The technology allows settlement of bills by building up credit balance on the mobile phone and sending text message to make payments.

India

The Financial Inclusion Fund with corpus of Rs.500 crore for meeting the cost of developmental and promotional interventions and a Financial Inclusion Technology Fund with corpus of Rs.500 crore to meet the cost of technology adoption has been created with NABARD to bring into the institutional credit fold new farmers thereby widening the ambit of formal financial system. The initial amount for these funds is to be contributed by GoI, RBI and NABARD. The National Rural Financial Inclusion Plan (NRFIP) aims to provide comprehensive financial services to 50% (55.77 million) of the excluded rural cultivator/non-cultivator households by 2012 through rural/semi-urban branches of commercial banks and RRBs. The remaining households are to be covered by 2015.

Table - 4 Selected Indicators on Financial Inclusion

Selected Indicators on Financial Inclusion	*India*	
	2005	*2011*
ATMs per 1,000 km	NA	25.4
ATMs per 100,000 adults	NA	8.9
Commercial bank branches per 1,000 km	23.2	30.4
Commercial bank branches per 100,000 adults	9.0	10.6
Deposit accounts with commercial banks per 1,000 adults	607.3	953.1
Household deposit accounts with commercial banks per 1,000 adults	576.6	853.0
Household loan accounts with commercial banks per 1,000 adults	7.4	20.6
Loan accounts with commercial banks per 1,000 adults	100.4	142.0
Outstanding deposits with commercial banks(Percent of GDP)	47.3	68.4
Outstanding loans from commercial banks (Percent of GDP)	31.2	51.8

Source: IMF's Financial Inclusion Survey July 2012. NA: Not Available

The Table – 4, shows that the select indicators on Financial Inclusion in India. The ATMs per 1,000 km & 100,000 adults, Commercial bank branches per 1,000 km & 100,000 adults, Deposit accounts, Household deposit accounts, Household loan accounts and Loan accounts with commercial banks per 1,000 adults, and outstanding deposits and loans with / from commercial banks (Percent of GDP) were increased to (25.4) & (8.9), (30.4) & (10.6), (953.1), (853.0), (20.6) and (142.0), and (68.4) / (51.8) respectively.

Conclusion

Challenges of financial exclusion are faced by most countries globally and each country has to develop its own customized solutions drawing upon its own experiences and those of its peers across the globe. The issue of increasing the geographical and demographic reach poses challenges from the viability perspectives. Financial literacy and level of awareness continue to remain an issue and the ICT Based BC Model is also taking time to stabilize. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. Financial inclusion needs concepts, policies, delivery models, other initiatives and implementation processes to change the focus of present information systems of banking business from traditional accounting model to customer centric business model. Suitable business models are still evolving and various delivery mechanisms are being experimented with.

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