Research Paper

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An Outline of The Use of Financial Services Across Countries

Finance

KEYWORDS : Cluster Analysis, Ethical Finance, Financial Inclusion, Financial Services.

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ABSTRACT

Financial inclusion concerns access to, and use of, financial services to excluded people. It is an important objective in developing countries and a priority policy in industrialized countries. The aim of the paper is to summarize the financial inclusion focusing the attention on the use of financial services in the different countries. The research is developed analyzing data extrapolated from the Global Findex Database in 2011, and applying a Cluster Analysis that carries out clusters of countries which are homogeneous inside but heterogeneous between them. The results put in evidence a proximity among developing countries, which haven't an inclusive financial system, and industrialized countries that have an inclusive financial system.

1. Introduction

Financial inclusion is an important phenomenon developed in all the countries that can bring very significant benefits. The availability of appropriate and promising financial services has a direct positive impact on the welfare of the poor and, indirectly, reduces the levels of poverty and inequality.

The aim of the paper is to summarize the financial inclusion focusing the attention on the use of financial services in the different countries. Although the literature and data on financial inclusion are very wide, we emphasize that the paper can help to put in evidence in which countries further efforts could focus to yield benefits in terms of uses of financial services.

The research is developed analyzing data extrapolated from the Global Findex Database in 2011. Cluster Analysis is used to carry out some typologies of clusters of countries which are homogeneous inside but heterogeneous between them by the financial characteristics taken into consideration.

2. Literature review

Financial inclusion is the ability of an individual to access and/or use appropriate financial services and products (Anderloni, 2003). It should be directed towards overcoming technical and cultural barriers, and lack of confidence in financial intermediaries that often lead to population groups (immigrants, unemployed, young). Kempson and Whyley (1999) argued that the exclusion may relate to various people "who are refused all products, those who decide freely not to use them, and those who self-exclude because of the inappropriateness of current products to households in their financial circumstances" (p. 3).

The inaccessibility to financial services is called financial exclusion and it is documented by national and international literature since the 1990s.

Leyshon and Thrift (1995, p. 314) defined the financial exclusion as "processes that serve to prevent certain social groups and individuals from gaining access to the financial system", while European Commission (2008) as "a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong" (p. 9).

The importance of financial inclusion is documented also with regard to measures that can be used to analyze the financial inclusion phenomenon. Demirguc-Kunt and Klapper (2013) introduced Global Findex Database and Sarma (2008) presented a cross country analysis by using the Index of financial inclusion (IFI) to measure the inclusiveness of a country's financial system. Honohan (2008) measured financial services access for 160 countries observing the percentage of the adult population with access to an account with a financial intermediary.

3. Data and methodology

The study of the financial inclusion has been carried out by collecting and analyzing a data set extrapolated from the Global Findex Database. We observe all the countries included in the Database. For each country, we use a novel data set with regard to the financial characteristics of adults who used formal and informal financial services in 2011.

The research uses a Cluster Analysis to carry out some typologies of clusters of countries which are homogeneous inside but heterogeneous between them by means of the characteristics taken into consideration. The clustering strategy applied in our study, is a hierarchical classification which creates a hierarchy of partitions using the method of aggregation of Ward with an algorithm that is defined as the reciprocal neighbours, in which, the distance between the units decreases, if they have similar characteristics in relation to the variables taken into consideration, all this, gives rise to the different groups (Bolasco, 2004).

We chose 18 indicators that were not too correlated between them. They are account at a formal financial institution, account used to receive remittances, ATM is main mode of withdrawal, bank teller is main mode of deposit, debit card, retail store is main mode of deposit, zero deposits, checks used to make payments, electronic payments used to make payments, saved any money, saved at a financial institution, saved for emergencies, saved for future expenses, credit card, loan, loan from a financial institution, loan from family or friends, outstanding loan to purchase a home.

4. Cluster Analysis

Cluster Analysis identifies 6 groups of countries (Table 1).

Cluster 1, *High Financial Inclusion Countries*, is characterized by a considerable presence of adults who resort to formal financial institutions and use a lot of financial instruments (electronic payments, ATM, credit card, debit card). Some evidences show that the financial inclusion of these countries is favoured by the presence of laws which are designed to spread access to credit, and the availability of more credit information to facilitate lending decisions (Beck and Levine, 2005).

Cluster 2, *Middle High Financial Inclusion Countries*, is character-

ized by a large number of adults who use an account at a formal financial institution. Differently from the Cluster 1, this group doesn't distinguish itself by the indicator that points out the percentage of respondents who use checks to make payments on bills or to buy things using money from their accounts.

Cluster 3, *Limited Financial Inclusion Countries*, is characterized by the use of financial instruments, such as ATM, and by a low use of bank teller to make deposit and low savings at a financial institution.

Table 1 Distribution of countries in the clusters

Cluster 1				
Australia	Denmark	Hong Kong SAR, China	Netherlands	United Kingdom
Austria	Finland	Ireland	New Zealand	United States
Belgium	France	Korea, Rep.	Singapore	
Canada	Germany	Luxembourg	Sweden	
Cluster 2				
Cyprus	Jamaica	Mauritius	Slovak Republic	Thailand
Czech Republic	Japan	Mongolia	Slovenia	Trinidad and Tobago
Estonia	Kuwait	Oman	Spain	United Arab Emirates
Iran, Islamic Rep.	Malaysia	Portugal	Taiwan, China	
Israel	Malta	Qatar		
Cluster 3				
Albania	Brazil	Greece	Macedonia, FYR	Saudi Arabia
Argentina	Bulgaria	Hungary	Moldova	Serbia
Armenia	Chile	Italy	Montenegro	South Africa
Azerbaijan	Costa Rica	Kazakhstan	Paraguay	Turkey
Bahrain	Croatia	Kosovo	Poland	Ukraine
Belarus	Djibouti	Latvia	Romania	Uruguay
Bosnia and Herzegovina	Georgia	Lithuania	Russian Federation	Venezuela, RB
Cluster 4				
Angola	Dominican Republic	Liberia	Sierra Leone	Uganda
Bolivia	Ghana	Malawi	Sri Lanka	Zambia
Botswana	Indonesia	Mozambique	Swaziland	Zimbabwe
China	Kenya	Nigeria	Syrian Arab Republic	
Cameroon	Lao PDR	Philippines	Tanzania	
Cluster 5				
Afghanistan	Comoros	India	Morocco	Sudan
Algeria	Congo, Rep.	Iraq	Nepal	Togo
Bangladesh	Ecuador	Jordan	Nicaragua	Tunisia
Benin	Egypt, Arab Rep.	Kyrgyz Republic	Niger	Turkmenistan
Burkina Faso	El Salvador	Lebanon	Pakistan	Uzbekistan
Cambodia	Gabon	Lesotho	Panama	Vietnam
Central African Republic	Guatemala	Mali	Peru	West Bank and Gaza
Chad	Guinea	Mauritania	Rwanda	Yemen, Rep.
Colombia	Honduras	Mexico	Senegal	
Cluster 6				
Burundi	Haiti	Madagascar	Somalia	Tajikistan
Congo, Dem. Rep.				

This cluster includes a lot of countries with high and upper middle income and some countries which are generally taken into consideration with a lower middle income. Particularly, in these lower middle income countries, there is a large use of innovative payment instruments, such as, ATM, electronic payments, debit card, credit card, and a high percentage of adults who borrow some money from some sources as: a formal financial institution, a store by using installment credit, family or friends, employer, or another private lender.

Cluster 4, *Reduced Financial Exclusion Countries*, is characterized by countries in which people have some difficulties to accede to a formal financial system; in fact, the innovative instruments are not very used, such as, electronic payments, debit card, credit card, and this confirms the low financial inclusion of these countries. Financial inclusion in these countries is prevented by the difficult availability of more credit information. Asymmetric information and high transaction costs can create some problems that preclude the spread of financial services to a particular target of the population.The population cluster includes countries where even if there is an important percentage of people who maintain to borrow some money from a financial institution, there are other indicators that influence negatively the financial inclusion, such as loans from family and friends.

Cluster 5, *High Middle Financial Exclusion Countries*, is characterized by a considerable use of bank tellers to make deposit even if there is a low percentage of adults who obtain loans from a financial institution, and have low savings at a formal financial institution. These people show a low use of payment instruments, which confirm the low financial inclusion of these countries.

Cluster 6, *High Financial Exclusion Countries*, is characterized by countries in which people have a lot of difficulties to accede to a formal financial system; there is a very low use of account at a formal financial institution. The financial exclusion of these countries derives both from the low presence of laws, which are designed to spread access to credit, and from high illiteracy levels, which may prevent lots of people from getting benefit from financial inclusion efforts which are due to low awareness and comprehension of the financial services. Literature pointed out how apposite and favourable policies can be positive in improving financial inclusion (Hannig and Jansen, 2010).

7. Conclusions

Our study shows how it is possible to observe a certain proximity (with respect to some indicators) among countries which are always considered poor, or with a prevalent presence of not inclusive financial systems, and industrialized countries with inclusive financial systems.

In fact the paper confirms the findings of previous studies that show sharp disparities in the use of financial services between high-income countries and developing countries; in particular, it reinforce a lower use of formal financial services in developing countries.

Cluster Analysis puts in evidence some countries which are in-

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cluded in particular clusters. This might give rise to problems on which we could and should put more attention to increase the use and access of the financial services improving the financial inclusion in the world. It is known that the concept of the financial inclusion enters into a wider concept of social inclusion. The main objective is to facilitate the integration or reintegration of outcast persons. We can maintain that we find this social objective not only in the ethical finance. In this period, we are on the way to find and to confirm the social nature again in the whole finance. This isn't easy but, if the finance has a social nature, the financial inclusion will develop all over the world.

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