



Global Financial Inclusion: Challenges and Opportunities

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ABSTRACT

Financial inclusion is the requirement of modern era to face the crisis that the world has pass through recently It refers to availability and access of financial services to all members of an economy. Financial inclusion is a requirement of not only developing countries but also developed countries. Global Financial Inclusion is not merely a concept but has actually been acted upon in every corner of the world. In India Financial Inclusion has evolved as a need which was much before identified and initiated at global level. This paper analyses various models adopted all over the world and also an initiative taken by World Bank for Global Financial Incusion Index (Findex). It summarises the present scenario of Global financial inclusion and challenges faced and opportunities identified from the past experiences of models adopted throughout the world.

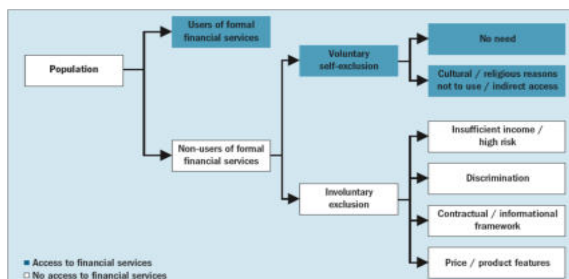
Keywords : Financial Inclusion, Global Financial Inclusion, Findex, Mzansi Account, Business Correspondent, M-Kesho

Introduction

Poverty anywhere is threat to prosperity everywhere."World-wide approximately 2.5billion people do not have formal account at financial Institution. Access to financial service might help to overcome poverty, may reduce income disparities, and may result in to increasing economic growth. The stark reality is that most poor people in the world still lack access to sustainable financial services. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector," said Kofi Annan, then the Secretary General of the United Nations, declaring 2005 as the International Year of Microcredit.

Financial Inclusion

Financial Inclusion refers to delivery of financial system of an economy to its members. It also refers to access of basic financial services by whole population of an economy. At the Millennium Development Goals Summit 2010, Financial inclusion was defined as "universal access, at reasonable cost, to a wide range of financial services, provided by a diversity of sound and sustainable institutions."



Source: World Bank (2008). Finance for All? Policies and Pitfalls in Expanding Access

To put further it is not limited to access and availability of financial services but it is also about usage as well. As case may be in Developed countries even though availability and access is not question but usage of financial system is at stake. To achieve inclusive financial growth apart from access

and usage financial literacy is one more factor which is very essential. Especially in Developing countries where education achievement itself is a question.

This is very well depicted in the report published by World Bank as shown in this graph.(refer graph 1)

Global Financial Inclusion

Financial Inclusion at Global level is a huge task not only for developing or under developed countries but also for the Developed countries. At Global level, Financial Inclusion is a multidimensional phenomenon. Every country's view point to achieve financial inclusion varies depending upon the requirement of particular country. Although financial development and economy growth are closely related but many of the developed countries financial systems have not achieved all inclusive growth where a section of population remain outside the formal financial system. To address this issue a conceptual framework is being developed on the actions taken by some of the countries all over the globe as far as reach and usage of financial system to all sections of the population is concern.

Global Financial inclusion Index (Findex)

Global Financial Index is a massive task taken up by World Bank and Bill and Melinda gates Foundation. Global Financial Index is basically the first public database of indicators . Global index can also be considered as a tool which facilitates understanding of how individuals around the world save, borrow and make payment. To Gauge this idea some statistics are collected by World Bank to understand inclusive growth worldwide and to calculate Global Financial Index. Some of them are:

- Around 55 % of adults in developing countries are unbanked.
- 77% adults earning less than 2\$ a day
- 11 % in high income economies do not have an account with financial institution.
- 55% of borrowers in developing economies use only informal source of credit.

(Source: Demirgoc-Kunt, Asli and Leora Klapper,2012"

Measuring Financial inclusion: The Global Index Database)

Indicators

The indicators in the Global Financial Inclusion (Global Findex) Database are collected from survey data covering more than 150,000 people in 148 economies—representing more than 97 percent of the world's population. Some of the data on few of the indicators can be observed from below table.

(Year 2011, in %)

Region (Developing only)	Account at a formal financial institution (age 15+)	Loan from a financial institution in the past year (age 15+)	Mobile phone used to pay bills (age 15+)	Saved any money in the past year (age 15+)	0 deposits in a typical month (with an account, age 15+)
East Asia and Pacific	54.9	8.6	1.3	39.8	19.1
Europe & Central Asia	44.9	7.7	3	20.4	6.5
Latin America & Caribbean	39.3	7.9	1.8	26	
Middle East and North Africa	17.7	8.7	2	21.3	11.7
Sub Saharan Africa	24	4.8	3	40.2	6.3
South Asia	33	8.7	2	21.3	11.7

(Source: World Bank Database for Findex 2012)

Financial Inclusion: Global Experiences

All over the globe different models, strategies and mechanisms have been adopted to achieve aim of inclusive financial systems glimpse of same has been presented here,

South Africa: Mzansi Account

In early 2000s South Africa's financial institutions faced pressure because of lack of access to financial services. South Africa had introduced Mzansi Account in the year 2002 which is a National Bank Account Product (NBA). It is basically product which is card based and provides limited services to customers at a very attractive price. Access to this account is provided through Bank branches and existing service points such as ATMs, Selected self devices and post offices. All the banks are participants of this drive and has also achieved attractive preposition.

Brazil: Business Correspondents

Brazil has implemented Branchless Banking model to achieve financial inclusion Even though BCs had existed in Brazil since the 1970s, the real boost came a little more than a decade ago when the regulation broadened the range of services that can be offered by BCs and eased several other restrictions. This model has grown rapidly as world's largest such network having 1, 50,000 BCs account for about 62 percent of the total number of points of service in the financial system.

Kenya: M-Pesa, M-Kesho

To achieve financial inclusion, in Kenya Mobile technology has been tapped. In 2007 Safaricom-Vodafone launched M-PESA with a motive to create parallel banking system which has got very good response. Further it also ventured in providing deposit facility by collaborating with equity bank. M-Kesho was also launched by Vodafone which facilitates M-Pesa customer's micro savings, micro credits and micro insurance. It can also be accessed from a customer's mobile phone.

Mexico: Micro Finance Institutions, Mobile banking

Since Financial Inclusion is availability of financial services to all in an economy Mexico has identified and adopted MFI driven model which is considered as the most effective model throughout the world.

Canada-Debit card

A pilot project of issuing debit cards to some clients without bank accounts has proved to be such a success that the Canada will make this option permanent. It will be the first program of its type in Canada. The debit cards work like a regular bank card - the monthly income support payment is credited to the card and can be withdrawn as needed. The card can also be used at stores for direct payment.

Dubai-Prepaid cards & credit cards

Dubai has taken lead amongst developed countries to implement unique system. In order to have financial inclusive system, prosperous and developed country like Dubai has also taken certain initiative. Dubai e-government and National Bank of Abu Dhabi have launched Prepaid Card which offers a convenient, flexible and a safe alternative to do transactions without the necessity of opening a bank account. It is backed by visa international. Recharge facility for prepaid card is available at any National Bank of Abu Dhabi branch without a bank account, any security deposit, income requirements, and monthly repayments. They have also launched Credit Cards in Classis, Gold and Corporate card which gives add on benefits like discount at over 1,700 outlets in UAE, Visa Application services, Free road side assistance, purchase assistance and also SMS alert services.

California: Pay Card

California is one of the states where highest amount of immigrants take shelter. To have inclusive system which takes care of immigrants also California has launched a pay card which provides financial services to people without bank accounts. It has mainly focused immigrants as main customers who regularly send money transfers to relatives in other countries. The pay card gives cost saving benefit by eliminating payment for check cashing and money transferes.

UK: 'now let's talk money' Campaign

"Now let's talk money" IS a government campaign to support people living on low income on money management. This campaign is funded from the UK Government's Financial Inclusion Fund. It gives advices on how to manage money better. To tackle the financial exclusion UK government has initiated this 'now let's talk money' campaign which is a great way of engaging people with banking, affordable credit and advice services. This campaign is divided in two phases.

Phase 1 of the campaign will help build awareness of financial exclusion among organizations that have regular contact with people on low incomes, such as local authorities, housing associations and charitable and voluntary organizations.

Phase 2, will encourage financially excluded individuals to find out about and take advantage of the financial advice, products and services available.

Opportunities

As far as Global Financial Inclusion is concerned from the above citations it can be observed that in each corner of the world need for financial inclusion has been identified and acted upon, further some of the untapped opportunities are sum-

marized below specifically for developing countries.

In most of the developing countries thrust is given to opening of a bank account only which is required but side by side innovative way to reach people should not be ignored such as prepaid cards which can facilitate day to day transactions.

Reach of financial service should not be limited to only bank account but other financial services should be bundled like insurance, saving schemes, credit facilities etc.

Majority of the models discussed in this paper considers financial institutions as the main body to implement financial inclusion however other channels may also be considered to achieve good market penetration.

Challenge

The biggest challenge for total financial inclusion all over the world is financial literacy irrespective of the developed or developing countries which should be taken care of.

Key message and Conclusion

The path to achieve financial inclusion is well understood worldwide and the outlook is also encouraging. Although barriers to progress are significant but scaling efficient design of models to overcome these barriers have already started all over the globe. These models are basically focusing to deliver more value at significant lower cost and to achieve both beneficial social impact and economic sustainability.

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