The importance of financial inclusion and secure remittances

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Outline

- Foreword
- Financial Inclusion: Importance, key facts and drivers
- Key dimensions of financial Inclusion
- Remittances, technology and financial inclusion
- Last but not least

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Foreword

Full financial inclusion is a state in which all people who can use them have access to a full range of quality

- financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.
- Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, and rural populations.

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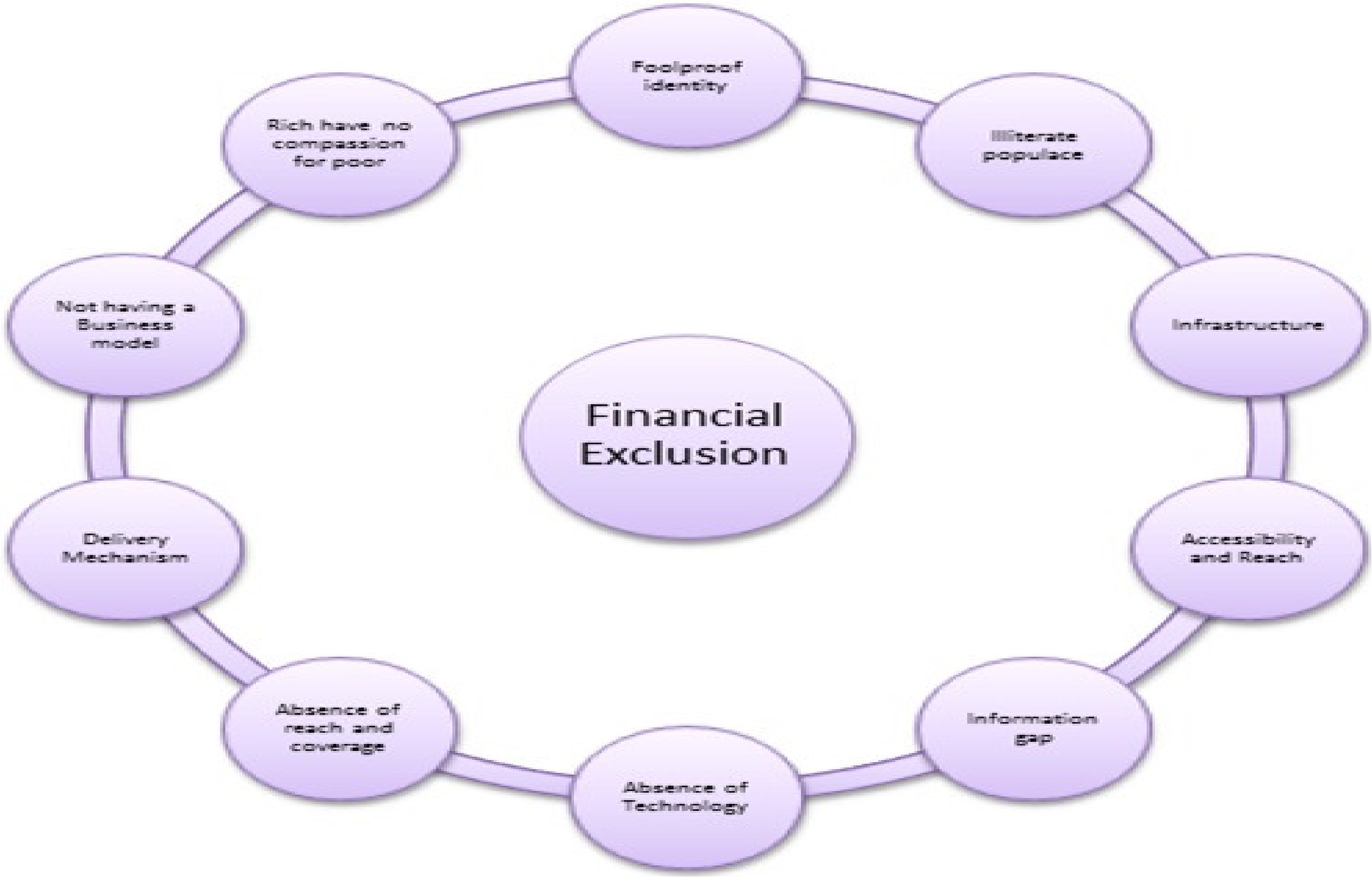
Financial Exclusion
Foolproof identity
Illiterate populace
Infrastructure
Accessibility and Reach
Information gap
Absence of Technology
Absence of reach and coverage
Delivery Mechanism
Not having a Business model
Rich have no compassion for poor

Foreword

Of the 7 billion people alive on the planet, 1.1 Billion subsist below the internationally accepted extreme- poverty line of €0.90 a day.

The economist

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Foreword

Financial inclusion has moved up the global reform agenda and has become a major subject of great interest for policy makers, regulators, researchers, market practitioners, and other financial stakeholders.

- **Many countries, for example, have recently adopted explicit financial inclusion strategies with targets for financial inclusion.**

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Foreword

Financial inclusion is the proportion of individuals and firms that use financial services.

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“A well functioning payments and remittance ecosystem has the potential to enhance financial inclusion by playing a critical role in supporting financial systems and real economies”

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- There is growing awareness among policy makers of the many ways that financial inclusion can benefit their countries and citizens.

  This includes new evidence on the correlations between financial inclusion and economic growth, the potential role of new financial delivery channels.

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Financial Inclusion: importance, key facts and drivers

It has a multitude of dimensions, reflecting the variety of possible financial services, from payments and savings accounts to credit, insurance, pensions, and securities markets.

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Financial Inclusion: importance, key facts and drivers 2

It is important to distinguish between the use of and access to financial services.

- Some individuals and firms may have access to, but choose not to use financial services.
- Some may have indirect access, for example, by being able to use someone else's bank account.
- Some may not use any because they do not need them or because of cultural or religious reasons.

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The key issue is the degree to which the lack of inclusion derives from a lack of demand for financial services

or

from barriers that impede individuals and firms from accessing the services

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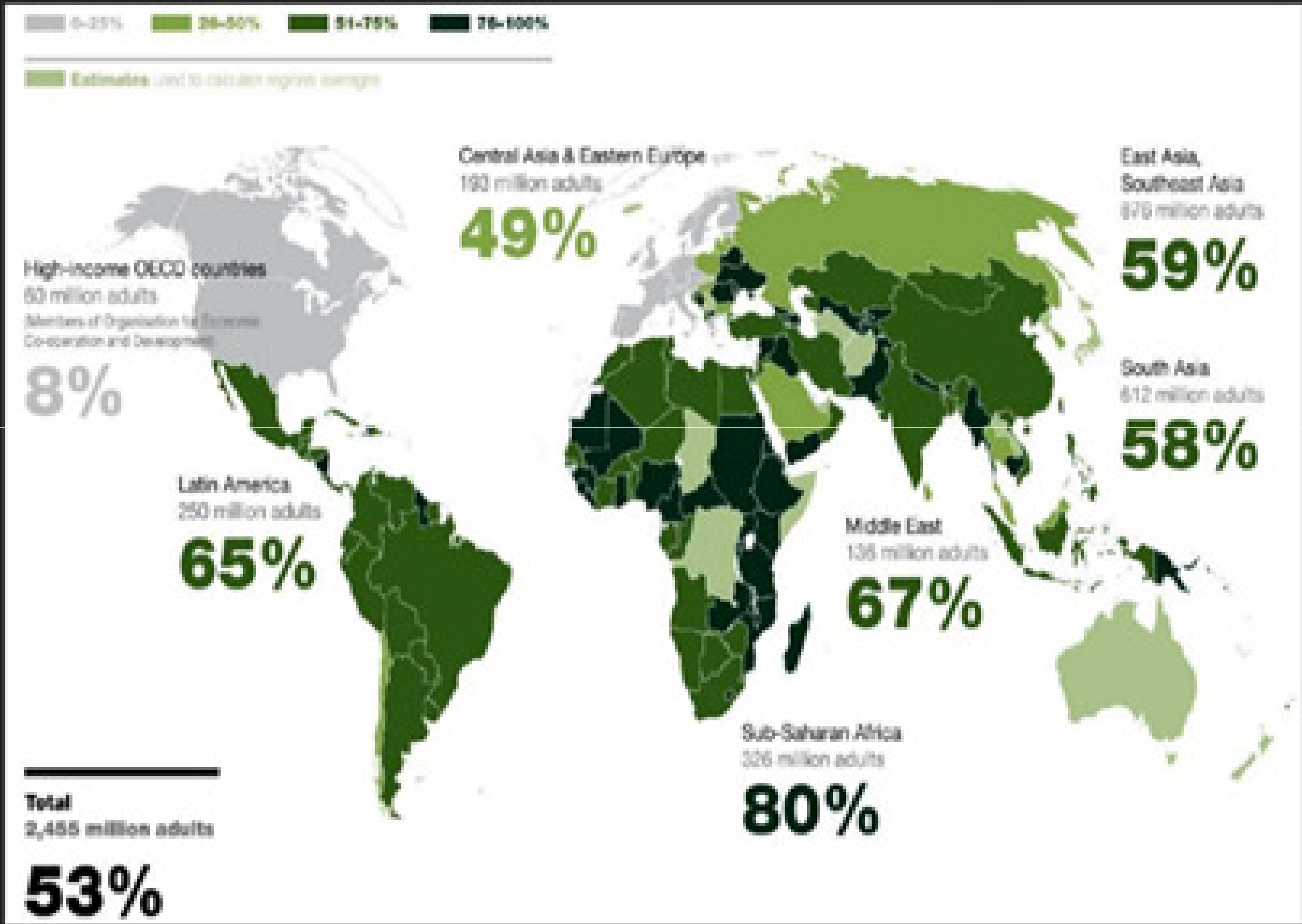
Adult population with NO USE OF formal or semiformal FINANCIAL SERVICES



in Finance

Financial Inclusion: importance, key facts and drivers 4

The focus of public policy should be on addressing market failures which cause the constraints.

- Costs
- Unavailability of services due to regulatory barriers
- Legal hurdles
- Assortment of market and cultural issues

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Financial Inclusion: importance, key facts and drivers 5

Financial systems are far from inclusive. Half of the world's adults have no bank account.

- Policymakers should provide an environment of strong laws and regulations, good information, and healthy competition.

- This will encourage financial service providers to embrace new technologies (e.g., mobile banking, biometric identification) and products.

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Financial Inclusion: importance, key facts and drivers 6

The increasing leadership of policy makers in countries with large underserved populations has helped to encourage—and has been encouraged by—broad engagement from international bodies and global advocates.

- Bangladesh is a role model!

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Financial Inclusion: importance, key facts and drivers 7

TABLE B.1 Countries and Their Level of Financial Inclusion, 2011 *(continued)*

	Individuals				Firms (formal sector)				Providers
Economy	Account at a formal financial institution (%, age 15+)	Loan from a financial institution in the past year (%, age 15+)	Electronic payments used to make payments (%, age 15+)	Debit card (%, age 15+)	Firms with a checking or savings account (%)	Firms with a bank loan/ line of credit (%)	Firms using banks to finance investments (%)	Firms using banks to finance working capital (%)	Bank branches per 100,000 adults

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Financial Inclusion: importance, key facts and drivers

Macedonia	73.7	10.6	14.1	36.3	96.8	61.1	47.0		24.3
Albania	28.3	7.5	3.2	21.1	92.4	42.2	12.4	33.3	22.2
Bulgaria	52.8	7.8	4.6	45.8	96.8	40.2	34.7		58.6
Croatia	88.4	14.4	17.3	74.8	99.8	67.3	60.0	63.2	34.8
Czech Republic	80.7	9.5	44.7	61.0	98.1	46.6	33.4		23.1
Greece	77.9	7.9	7.7	34.0			25.9	26.3	38.7

Financial Inclusion: importance, key facts and drivers

Countries and Their Level of Financial Inclusion, 2011

Economy	Individuals: Account at a formal financial institution (%, age 15+)	Individuals: Loan from a financial institution in the past year (%, age 15+)	Individuals: Electronic payments used to make payments (%, age 15+)	Individuals: Debit card (%, age 15+)	Firms (formal sector): Firms with a checking or savings account (%)	Firms (formal sector): Firms with a bank loan/ line of credit (%)	Firms (formal sector): Firms using banks to finance investments (%)	Firms (formal sector): Firms using banks to finance working capital (%)	Providers: Bank branches per 100,000 adults
Slovak Republic	79.6	11.4	43.4	68.3	18.0	42.4	33.5		25.8
Montenegro	50.4					49.6	75.8		39.6
Hungary	72.7	9.4	28.7	62.4	97.7	43.0	48.7		15.7
Ukraine	41.3	8.1	6.4	33.6	90.2	31.8	32.1		1.6
Turkey	57.6	4.6	11.1	56.6	90.6	56.8	51.9		18.3
Netherlands	98.7	12.6	80.2	97.6					21.5

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Key dimensions of financial inclusion

PRODUCTS	FEATURES	CHANNELS
• **payments** (ATM/debit cards, government payments, remittances, e-payments) • **savings** (savings account, checking/current account, pensions, youth savings, program savings) • **insurance** (life, health, property, microinsurance, agriculture) • **credit** (personal, consumer, credit card, education, mortgage, home improvement, microenterprise) beyond credit	• **affordability** (costs, minimum requiremens, fees) • **availability and convenience** (days to complete transaction, documents required, physical proximity) • **quality** (consumer protection including price transparency, fair disclosure, responsible finance practices, risk management and assessment with inclusive credit information systems)	• **access points:** banking beyond branches • **financial inflastructure:** payment and settlement systems, credit reporting, collateral registries • **institutions:** banks/nonbanks, insurance companies, pension funds, credit cooperatives, MFIs • **clients:** everyone who has the demand for the services, including the excuded and underserved poor

Key dimensions of financial inclusion 2

1. The Basel Committee on Banking Supervision,
2. . FATF,
3. The Committee on Payment and Settlement Systems,
4. The International Association of Deposit Insurers,
5. The International Association of Insurance Supervisors [IAIS])

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Key dimensions of financial inclusion 3

Thanks to those pioneers and
the five global standard-setting bodies
the concept of financial inclusion policy as a
fundamental development principle
has gained ever greater acceptance!

Key dimensions of financial inclusion 4

As new solutions are found to deliver financial products and services to the poor,

and as these systems become more integrated in the overall financial system,

policy and legal frameworks will need to adapt so that governments can play their appropriate role as facilitators of financial services for the poor.

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Remittances, technology and financial inclusion

To reap the overall economic benefits of the migrant workers` remittances, financial inclusion of rural people is vital for the:

- Safe receive of remittances,
- Better uses of the hard earned remittances,
- Improvement of the migrant workers family,

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- More savings opportunities,
- More business opportunity,
- Better service.

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Economic effect of the remittances

In microeconomic terms:

- Make an important welfare contribution to the receiving household;
- Tend to increase during an economic downturn or following natural disasters;

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Remittances, technology and financial inclusion 4

- Improve the standard of living through funds that are typically invested in human and social capital (e.g., health care, nutrition, education) and in building assets (e.g., real estate, Business, savings);
- and increase consumption and encourage domestic production;

Remittances, technology and financial inclusion 5

Economic effect of the remittances:

In macroeconomic terms:

- Provide a stable flow of funds that is often counter-cyclical;
- Important source of foreign exchange; and exert upward pressure on the value of the local.

Remittances, technology and financial inclusion 6

Migrant workers` remittances' play a vital role for developing economies

- Still a large number of remittances are sent and received through unofficial channel or out of banking channel.
- It happens because of lack of easy accessibility in formal financial institutions in remote areas of the countries,

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- Lack of confidence in the conventional banks,
- Lack of Financial Literacy,
- Lack of efficient automated banking infrastructure
- Lack of adapting technologies for remittances

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Last but not least

“Financial literacy and inclusion do matter not only for individual choices, but also for collective public choices, indirectly affecting individual wellbeing and the society”

Elsa Fornero

Minister of Labor, Social Policies and gender Equalities in the Monti cabinet from November 2011 to April 2013

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Thank you

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