



STRATEGIC FRAMEWORK FOR RESPONSIBLE FINANCIAL INCLUSION

Rosamund Grady
Consultant, World Bank

July 14, 2013
Moscow



PRESENTATION OUTLINE

Contents

- 1 Towards responsible finance:
Why does access to finance need to be responsible?**
- 2 Case studies: Country commitments
to financial inclusion and responsible finance**
- 3 Supporting country-level commitments:
Introducing the Financial Inclusion Support Framework**

FINANCIAL INCLUSION

What does financial inclusion bring to individuals and SMEs?

“Financial inclusion is **universal access**, at a **reasonable cost**, to a **range of financial services**, for everyone needing them, provided by a diversity of **sound** and **sustainable** institutions.”

	Individuals & Micro-enterprises	Small & Medium Enterprises
Credit	Consumption smoothing + Investment in human development (health, education etc.)	Financing for working capital and for investment from financial institutions or through supply chain
Savings	Cushion in case of shocks + Low risk source of self-financing	Firms rely primarily on retained earnings (savings) for financing
Insurance	Risk management tool for managing shocks	Lowers risk of business activity
Payments*	Electronic/innovative retail payments + Government payments (including Conditional Cash Transfers) and remittances	Firms rely on payments for efficient, low cost, safe transactions

**Electronic payments have the advantage of greater speed, accessibility and security, and often lower costs, than cash payments.*

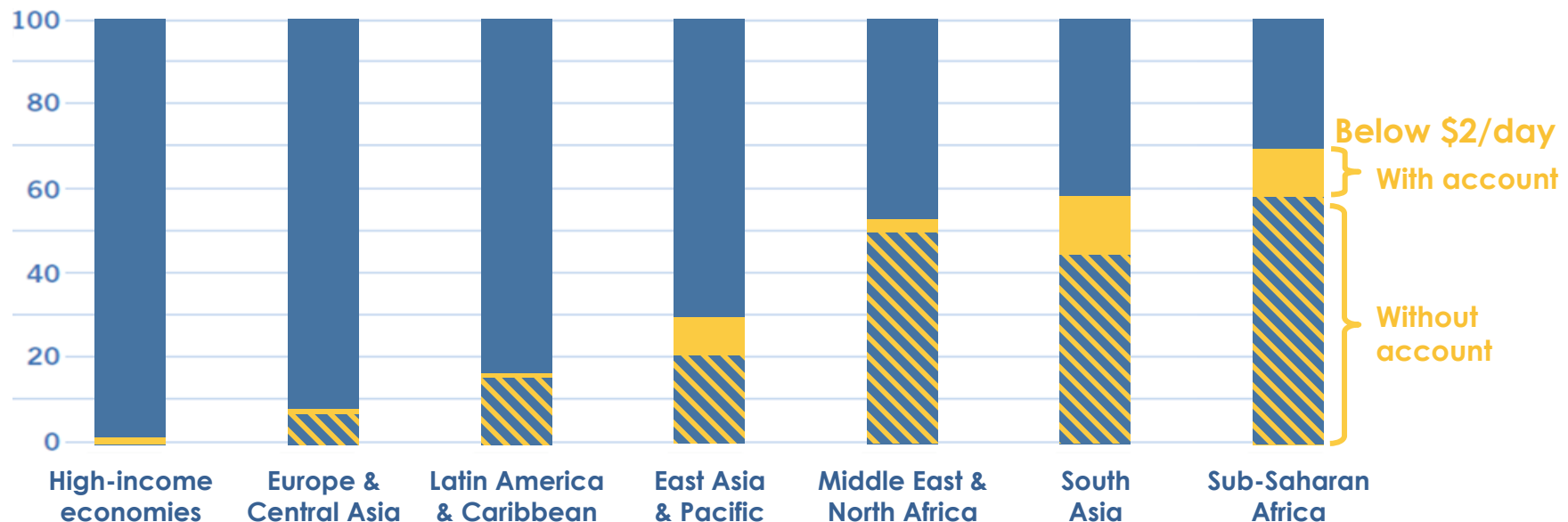
Evidence of impact:

- **Positive correlation for credit for SMEs/firms** but more **mixed results for individuals/households**.
- **Impact of other financial services likely positive** for both individuals and firms but more systematic evidence needs to be gathered—clearest positive link is for savings.
- **Further research needed** to establish causality on poverty and growth.

FINANCIAL INCLUSION

Yet still a challenge in every region, particularly for the poorest

- **2.5 billion people excluded** from formal financial services
- **59% of adults in developing economies do not have access to a formal account**, compared to 11% of adults in the developed world
- **77% of the poor** (less than \$2/day) do not have access to a formal account
- **22% of adults worldwide have saved formally** in the past year. In developing economies, **adults in the richest income quintile** are more than **three times as likely to save formally as those in the poorest**
- Less than **8% of adults** in lower and middle income economies had **a loan from a formal financial institution** in the past year, and only **17% paid for health insurance**
- **22% of SMEs have access to a loan or line of credit in low and middle economies**, compared to 50% in high income economies



TOWARDS RESPONSIBLE FINANCE

Access to financial services does not necessarily lead to beneficial usage

Consumers need to have the knowledge and confidence to be able to take advantage of improved access to financial services, and to be protected from misconduct and fraud.

In order to access and fully benefit from financial services, consumers need:

1 ACCESS

Knowledge and actions are only effective if suitable financial services are accessible.

2 AWARENESS

Information availability is dependent on disclosure, business practices, and transparency.

3 CAPABILITY

Financial capability encompasses knowledge (literacy), attitudes, skills, and behaviors.

4 PROTECTION

Financial consumer protection is achieved through regulation, enforcement (e.g. financial ombudsmen services, in addition to court systems), and supervision.

In addition to enabling consumers to benefit from their financial decisions, Consumer Protection and Financial Capability **build public confidence**, **contribute to financial stability**, and **raise demand** for financial services, and Disclosure/Transparency promotes financial inclusion, **lower risks**, and can **stimulate competition**.

TOWARDS RESPONSIBLE FINANCE

Combining inclusion with financial capability and consumer protection

FINANCIAL INCLUSION



FINANCIAL CAPABILITY AND CONSUMER PROTECTION

Example 1: Micro-credit

Individuals are able to obtain credit, but may not be able to understand its cost, repayment schedule, and/or terms.

Individuals obtain credit which meets their needs and objectives, which they can afford to repay, and which has terms & conditions they understand.

Example 2: Micro-insurance

A microenterprise is able to buy insurance, but may not understand the value or appropriateness of the product.

A microenterprise is able to **understand the cost** of the premium compared to the potential benefit, and **select the most appropriate product**.

Example 3: Basic bank accounts

A low-income household is able to open a 'no frills' account accessible via a mobile phone or ATMs, through which they can save, receive remittances, and make payments.

The household is able to select a bank account that meets its needs, **avoid any hidden charges** or fees, and potentially take up other financial services.

Example 4: Regulatory reforms

Regulators introduce reforms to promote innovation by financial institutions to serve lower income clients.

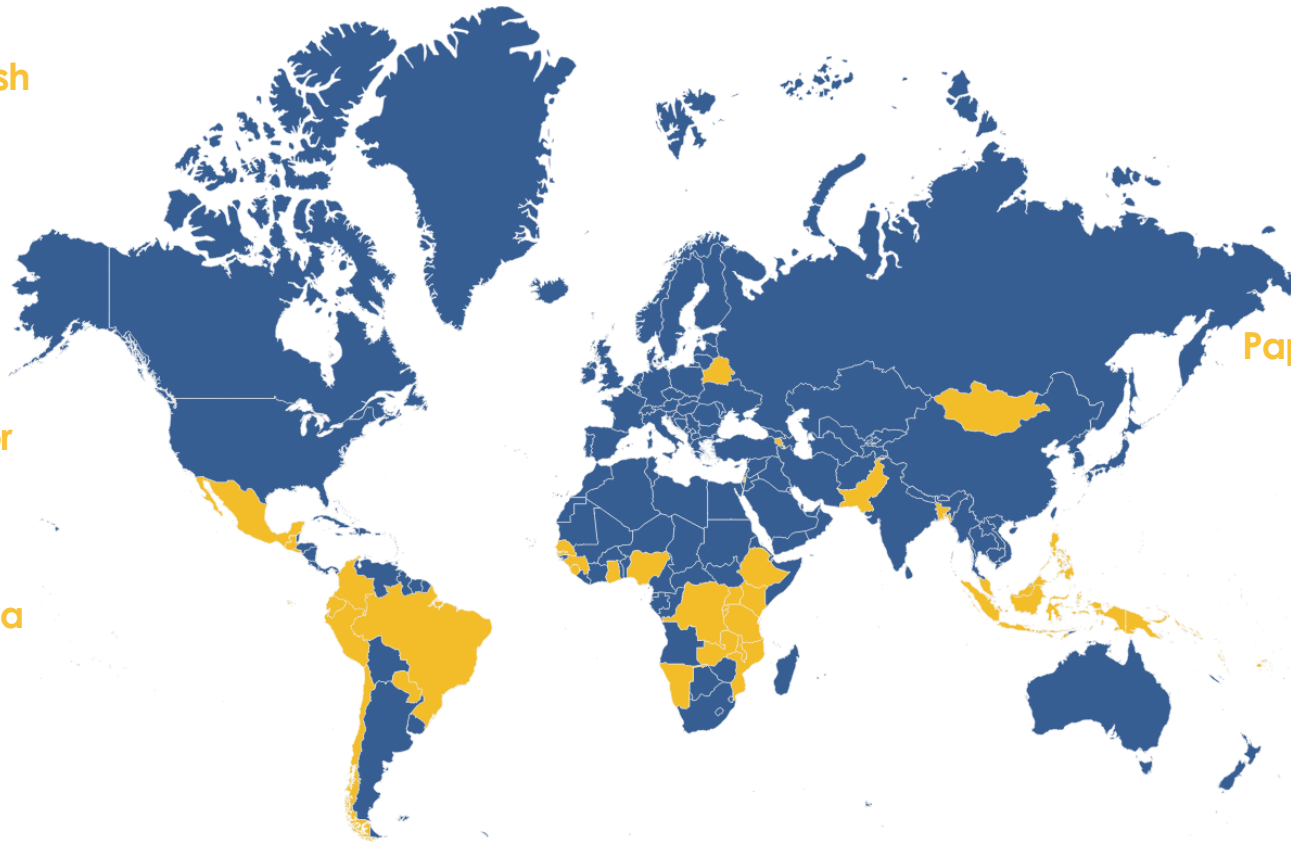
Regulators are also able to address barriers to uptake, and **reduce risks** for new consumers from products and delivery mechanisms.

COUNTRY EXAMPLES

Country commitments to financial inclusion

39 countries/regulators have committed to financial inclusion through the Maya Declaration.

Armenia
Bangladesh
Belarus
Brazil
Burundi
Chile
Colombia
Congo
Ecuador
El Salvador
Ethiopia
Fiji
Ghana
Guatemala
Guinea
Indonesia
Kenya
Malawi
Malaysia



Mexico
Mongolia
Mozambique
Namibia
Nigeria
Palestine
Pakistan
Papua New Guinea
Paraguay
Peru
Philippines
Rwanda
Samoa
Senegal
Sierra Leone
Solomon Islands
Tanzania
Uganda
Vanuatu
Zambia

*Of these, **29** have committed to Consumer Protection and Financial Capability initiatives.

COUNTRY EXAMPLES

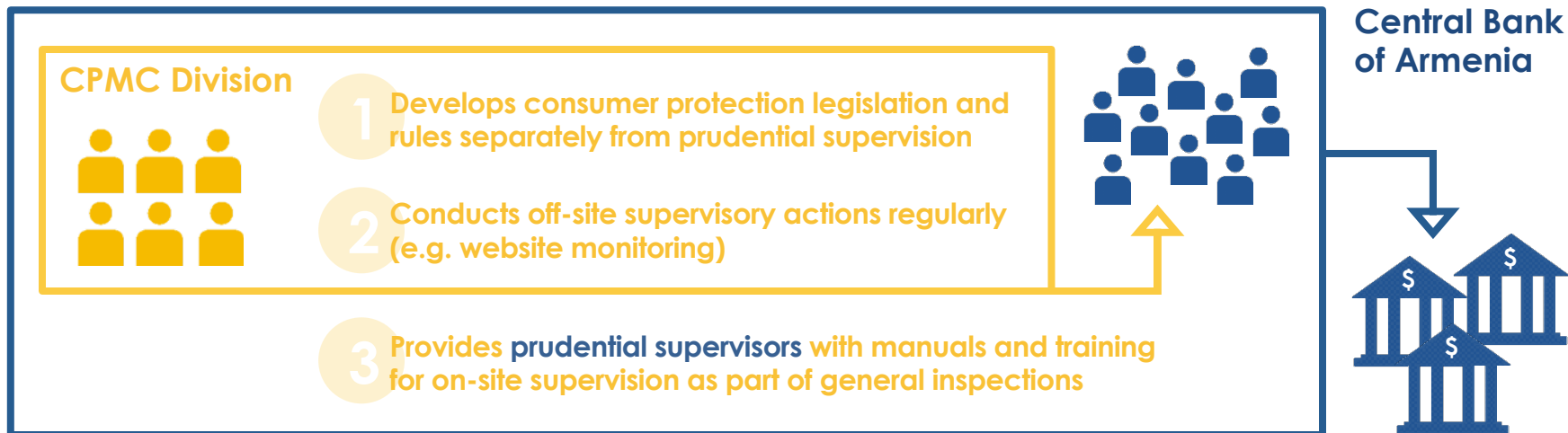
Case study 1: Armenia



Institutional arrangements for market conduct regulation and supervision vary. An emerging model is 'twin peaks', where there is a separate authority (outside of prudential regulation) responsible for market conduct supervision. The applicability of this model depends on the circumstances of each country, and some may lack the resources to establish a specialized authority with the required knowledge and expertise.

How can a relatively small country like Armenia ensure that market conduct regulation and supervision is developed **independently** from prudential supervision?

In 2007, the Central Bank of Armenia established the Consumer Protection and Market Conduct Division, staffed with 6 full-time employees. Given its limited resources, the CPMC Division:



In the case of Armenia, capacity and resource constraints required **a flexible and practical approach**.

COUNTRY EXAMPLES

Case study 2: Belarus



A comprehensive 5-year Action Plan was approved by Belarus to enhance the financial literacy levels of its population. Examples of these actions include:

1 Assessing the level of financial literacy of Belarusians

Conducting research to assess accessibility of financial services.
Monitoring of students' level of financial literacy.

2013
2015-2018

2 Communicating through mass media

Annual plans for communicating finance policy (monetary, budget, tax, etc.).
Holding a television quiz and a "Journalists for financial literacy" contest.

2013-2018
2014-2016

3 Enhancing financial literacy among target groups

Introduction of financial literacy classes and study guide for schoolchildren and youth.
Organizing campaigns for the unemployed at regional employment offices.

2014-2018
2013-2018

4 Enhancing financial literacy for specific sectors

Holding of a World Savings Day and National Bank Open Days.
Provision of insurance calculators on insurers' websites.

2014-2018
2013-2018

5 On-the job training

Specialized workshops for educators and influencers (journalists, servicemen).
Training of public administration officers and judges considering economic cases.

2013-2016
2014-2018

COUNTRY EXAMPLES

Case study 3: Brazil



A national financial inclusion strategy integrating financial education programs, regulatory reforms, and G2P delivery was launched in Brazil.



Impact evaluation financial education pilot

Large scale study (900 schools and 26,000 students) found improvements in financial proficiency scores for students and parents.

→ **Decision for national roll out based on positive impact.**



Financial inclusion enabling framework

Regulator actions, informed by survey data and analysis, permitted the use of correspondent banking agents, encouraged the provision of simplified current and savings accounts, and introduced consumer protection call centers.

→ **Dramatic expansion of access points, covering every municipality.**



Bolsa Familia grant delivery

Government accelerated financial inclusion through G2P payments, and converted Bolsa Familia cash payments to electronic payments.

→ **Significant savings: 82% reduction in cost of delivery.**

COUNTRY EXAMPLES

Case study 4: Indonesia



The case of Indonesia illustrates the complexity of addressing financial exclusion in a large, culturally diverse and geographically challenged country. In this case, the National Strategy for Financial Inclusion creates the necessary concerted and coordinated effort to do so, by:

1 Providing an enabling regulatory framework

- Supporting the emergence of branchless banking (based on a 2012 WB Regulatory Study).
- Improving the framework for retail payment services (e-money, remittances).
- Reviewing KYC rules for a more proportionate regulation.

2 Fostering more adequate services and more diverse providers

- Supporting the development of nonbank microfinance institutions and postal financial services.
- Creating a no-frills savings account (“Tabunganku”).
- Encouraging micro-insurance, remittances, Islamic finance, and SME finance products.

3 Empowering consumers and enhancing literacy

- Providing a financial identity to the unbanked (Single Identification Number).
- Adding financial education curriculum at the elementary and high school levels.
- Piloting financial education trainings for migrants.

4 Linking G2P payments to financial inclusion

- Distributing Indonesia’s conditional cash transfers through the Tanbunganku accounts.

SUPPORTING COUNTRY-LEVEL ACTIONS

The Financial Inclusion Support Framework (FISF)

As a critical complement to WBG investment, FISF is a comprehensive package of technical assistance, capacity building, and data/analysis, provided throughout different **phases of implementation** and **across sectors**.

Implementation phases:



Areas of support:



SUPPORTING COUNTRY-LEVEL ACTIONS

The Financial Inclusion Support Framework (FISF)

FISF interventions are deployed in four steps: (1) Country Selection, (2) Scoping Exercise, (3) Preparation Mission, and (4) Support Delivery.



SELECTION

Confirmation of country selection based on a number of defined criteria (conducive environment, potential for significant progress and impact, etc.)



SCOPING

Identification of country counterparts and any existing donor-supported programs. Assessment of the state of financial inclusion and definition of the scope of assistance.



PREPARATION

Elaboration and agreement of a Country Support Plan with country counterpart(s), including timeline, budget, and intermediate targets.



SUPPORT

Providing technical assistance and capacity building activities: (1) strengthening regulators and other counterparts, (2) advisory/technical inputs, and (3) further diagnostics.

What's new about FISF?

- Supports the G20 FI Peer Learning Program country commitments and the Maya Declaration.
- Country-level coordination across donors, government, private sector.
- Interface between public policy and private sector actions.
- Integrated approach to financial inclusion, capability and consumer protection.

CONCLUSION

Key Takeaways

- 1 Access to finance alone does not necessarily lead to beneficial usage.
- 2 29 countries are committing to Consumer Protection and Financial Capability.
- 3 The Financial Inclusion Support Framework can support countries to accelerate responsible financial inclusion.



THANK YOU!

For more information:

www.worldbank.org/financialinclusion
responsiblefinance.worldbank.org

