Financial Inclusion Ambassador Toolkit

A How-to Guide to Expanding Financial Inclusion for All in the EU

Financial Inclusion in European Union

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1.1 What is Financial Inclusion

What does financial inclusion really mean? It is about being included, not excluded. Being empowered. Having access, an ability to use financial services if and when needed.

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable.

Financial inclusion is the proportion of individuals and firms that use financial services[1]. 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. It can be determined differently for individuals and for enterprises.

It is important to distinguish between the use of and access to financial services. Actual use is easier to observe empirically. Some individuals and businesses may have access to, but choose not to use some financial services. Some may have indirect access, for example, by being able to use someone else's bank account. Others may not use financial services because they do not need them or because of cultural or religious reasons. The nonusers include individuals who prefer to deal in cash and firms without promising investment projects.

From a policy maker's viewpoint, nonusers do not constitute an issue because their non use is driven by lack of demand.

It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. Lack of access to financial services may exclude people from social and economic life: not having a credit card or bank account will exclude a person from making purchases online or reserving a hotel, receiving salary or paying the electricity bill Electronic payments are becoming a norm, and therefore universal access to basic banking and payment services is needed. This does not mean that everyone should have access to all financial services and not everyone will need the same range of services.

Greater financial inclusion is not necessarily good. For the most part, more extensive availability of financial services allows individuals and firms to take advantage of business opportunities, invest in education, save for retirement, and insure against risks. But not all financial services are appropriate for everyone, and—especially in case of credit— there is a risk of overextension leading to over-indebtedness.

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[1] World Bank. *2014*. Global Financial Development *Report*. *2014*: *Financial Inclusion*. Washington, DC: World Bank

1.2 Financial Inclusion Challenges in the EU

The population of unbanked and under-banked totals 93 million people in Western Europe alone[2].

In the EU 27's, drawing from two main databases[3] on financial inclusion, only 16%[4], , or 10%[5], of the population , do not have a current account at a formal financial institution. However, the data shows a high variability within the European context, From an almost total level of banking in countries such as Spain, France and Great Britain, there are very low values, around 44%, for Kosovo and Romania. Furthermore, should we consider financial inclusion as access and usage of a range of financial tools and not only as ownership of a current account, then data at European level show much greater levels of financial exclusion[6].

Other studies show that right now, only 31.9 percent of youth in Europe between the ages of 15 - 25 hold an account at formal financial institutions. This means that almost two thirds of Europe's youth are currently left out of the formal financial institution market.

According to an impact assessment by the European Commission from 2011, around 30 million people over 18 years living in the European Union do not have access to a basis payment account. The reasons for the refusal of a bank account are multifaceted. An area-wide access to bank branches or automatic teller machines (ATM) is not guaranteed in all Member States which prevents European citizens from having the chance to enjoy the benefits of financial services.

Furthermore, insolvency can be a reason for banks to refuse consumers the access to a basic payment account. Moreover, EU residents who are very mobile because of their jobs and activities as students, seasonal or posted workers can be hindered to open a bank account, for example if they need to prove residence in the respective Member State. Guaranteeing mobility within the European Union must remain a common objective of the Member States. The access to a bank account as a universal right for all citizens in the European Union, including vulnerable groups, constitutes a crucial contribution to this goal.

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[2] According to a newly made study by MasterCard

[3] A study at European level on retail payment services (*Special Eurobarometer 373*11*), based on 26,856* questionnaires submitted to consumers of the 27 member states, on September 2011, and the World Bank's FINDEX study.

[4] according to the Eurobarometer

[5] according to FINDEX

[6] http://www.cespi.it/INCLUSIONE%20finanziaria/Buone%20pratiche%20EN_def.pdf

The access to basic banking services and traditional means of payment, such as cash payments or paper-based transactions, must become a universal right. Recently, new means of payment, especially online-banking and various forms of electronic transactions, try to make payments faster and life easier. While they provide an opportunity to increase financial inclusion, special attention has to be given to vulnerable consumers who do not always have access to the necessary technologies for new payment methods. It is the task of politics and the business sector to prevent these consumers from further financial exclusion.

Here are some of the highlights of financial inclusion landscape in the EU:

- ✓ For the **financially excluded** – those that do not have access to formal banking facilities– the average age is 40. They are marginally more likely to be female (55%), and 51% of them are married. The largest group within the financially excluded segment (40%) have not received any form of payment, salary, welfare or otherwise, in the last three months. 35% of them have received wages of some sort in that timeframe. 81% have lived in their country all of their life.
- ✓ For the **financially underserved** – those that do not have access to any form of electronic payment – the average age is also 40 and again, 55% of them are female. This group is less likely to be married, at 37%. The largest group within the financially underserved segment (36%) has received social security within the last three months, while a third (33%) has received a salary of some kind. 83% have lived in their country all of their life.
- ✓ Both groups share the most popular reason for not having a bank account – one quarter of them says they don't have enough money. Other reasons were that they "don't want or need" a bank account, they aren't allowed one; or they don't like or trust banks.
- ✓ Instead of benefitting from bank account features like direct debits, internet banking or indeed the subsequent ability to buy discounted goods online, the bulk of these groups use cash to pay for rent (98%) and utilities (95%), and store their money in pots, boxes and secret hideaways at home.
- ✓ While two-thirds own a standard mobile phone (66%), the same number has not heard of mobile banking as an alternative to a full bank account. Access to PCs and laptops are limited for roughly a quarter of the financially excluded in Europe.
- ✓ In testing whether prepaid cards would be appealing to the unbanked, the research showed that 54% thought that prepaid cards were interesting and would like more information, and 39 % said that they thought prepaid cards were relevant for their financial needs.

People with very different life experiences can be financially excluded or at risk of exclusion for many and diverse reasons. The financially excluded are not a homogenous

group. Cash remains, by a very long way, the most important means for payment for the vulnerable and those living on the margin. **For many it is the only means available but the study results suggest that it is getting harder or more expensive to pay in cash as new payment methods spread.**

Some of the financially excluded do have a choice in principle between payment methods but their experience to date is that cash is better, more convenient, or more adapted to their needs than any other means.

1.3 Financial Inclusion Policy Agenda

The goals of financial inclusion policies are to create an environment where all citizens who need and desire to use financial services are able to do so. Policy agendas focus on some or all of the following dimensions of financial inclusion:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

Many countries, and increasingly regions and municipalities, adopt financial inclusion strategies.

The strategies contain several common policy areas with explicit commitments. These are as follows[7] :

- Improving financial literacy (63 % of all strategies);
- Modifying the regulatory framework to enhance financial access (61 %);
- Data collection and measurement (59 %);
- Increasing consumer protection (50 %), and;
- Expansion of mobile financial services (39 %).

There are also similarities in the institutional framework for financial inclusion. In 40 of the 56 countries (71 %), the strategy's lead agency is the respective central bank. The strategies generally involve other institutions, such as a ministry of finance or financial supervision agencies (when separate from the central bank). The central bank is more

[7] http://blogs.worldbank.org/allaboutfinance/analysis-national-financial-inclusion-strategies

likely to be a lead agency in jurisdictions where it is also an integrated financial sector supervisor.[8]

PRINCIPLES FOR INNOVATIVE FINANCIAL INCLUSION: G-20
1. Leadership. Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. Diversity. Implement policy approaches that promote competition and provide market-based incentives fordelivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, paymentsand transfers, insurance) as well as a diversity of service providers.
3. Innovation. Promote technological and institutional innovation as a means to expand financial system accessand usage, including addressing infrastructure weaknesses.
4. Protection. Encourage a comprehensive approach to consumer protection that recognizes the roles of government,providers, and consumers.
5. Empowerment. Develop financial literacy and financial capability.
6. Cooperation. Create an institutional environment with clear lines of accountability and coordination within government;and also encourage partnerships and direct consultation across government, business, and other stakeholders.
7. Knowledge. Utilize improved data to make evidence-based policy, measure progress, and consider an incremental"test and learn" approach by both regulators and service providers.
8. Proportionality. Build a policy and regulatory framework that is proportionate with the risks involved in suchinnovative products and services, and is based on an understanding of the gaps and barriers in existing regulation.
9. Framework. Consider the following in the regulatory framework, reflecting international standards, national circumstancesand support for a competitive landscape: an appropriate, flexible, risk-based AML/CFT regime; conditionsfor the use of agents as a customer interface; a clear regulatory regime for electronically stored value; andmarket-based incentives to achieve the long-term goal of broad interoperability and interconnection.

Source: http://www.afi-global.org/sites/default/files/afi%20g20%20principles.pdf

1.4 Key Stakeholders and Partners

Financial inclusion is a multi-dimensional issue that requires coordination of various stakeholders:

- Regulated financial institutions

[8] A useful resource on the subject of strategies is the Financial Inclusion Strategies Reference Framework.

- Professional financial sector associations such as banking association, insurance association, etc.
- Alternative financial institutions and special projects
- Development banks
- Social investment funds
- Financial regulators including central banks and regulatory agencies
- Relevant government ministries such as ministry of finance, ministry of economy, etc.
- Local governments
- Consumer protection groups
- Educators
- Enterprise support programs
- Financial planners and counselors
- Debt advisory organizations
- Mobile technology providers
- Non-profit organization dealing with marginalized and vulnerable individuals
- Regional development agencies

With this large number of stakeholders, it is clear that the advocacy program needs to make a selection which stakeholders are critical for the issue that is being discussed. Some of the selection criteria could include:

- Strategic importance of a stakeholder for the issue at hand
- Level of engagement (national, regional, local)
- Number of stakeholders to be consulted or engaged
- Length and/or intensity of consultations required from the stakeholders
- Type of engagement (active participation, consultations, promotional, advisory, etc.)

It is important to include all the relevant stakeholders while being mindful of the fact that a larger number of stakeholders may be difficult to contact, convene and manage, and a small number of stakeholders may leave out some of the partners which may weaken or jeopardize the effectiveness of the advocacy efforts.