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FINANCIAL INCLUSION: AN OVERVIEW OF ITS VARIOUS DIMENSIONS AND THE INITIATIVES TO ENHANCE ITS CURRENT LEVEL

by Professor Christos Vl. Gortsos

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Financial Inclusion: An overview of its various dimensions and the initiatives to enhance its current level*

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January 2016

Abstract

The present working paper provides an introduction to the topic of financial inclusion (and exclusion) in five Sections:

(i) The main concepts and characteristics as well as some statistical data are set out in Section 1.

(ii) Section 2, on the policy aspects related to financial inclusion, deals with the interaction of financial inclusion with monetary policy, financial stability and anti-money laundering/terrorist financing preventive measures.

(iii) In Section 3 the correlation between financial literacy and financial inclusion is analysed.

(iv) The case for coordinated efforts to enhance financial inclusion at international, EU and national level is presented in Section 4.

(v) Finally, Section 5 presents briefly the link between technology and financial inclusion.

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Introductory remarks

(a) There is no doubt that financial inclusion presents differentiations from country to country. Other factors contribute to financial exclusion in India, for example, and other factors in Italy. This is due to the different structure of the financial system in each country and also other country-specific characteristics. Developing countries have, for example, lower levels of financial literacy.

On a state-level, besides the central government, policies of financial literacy need to be implemented also by Central Banks, Ministries of Finance or other government authorities and bodies. The establishment of a dedicated agency with the objective to enhance penetration of financial services in remote areas could also be a good example in this context.

Apart from the above, in order to undertake a coordinated approach to dealing with financial exclusion, it would also be necessary to seek the involvement of non-governmental organizations and the private sector. Furthermore, initiatives to reasonably ease the regulatory burden imposed by *Know Your Customer* regulations, as well as providing incentives to financial institutions to enlarge their branch-network in remote and rural areas are also necessary.

(b) The present working paper provides an introduction to the topic of financial inclusion (and exclusion) in five Sections:

(i) The main concepts and characteristics as well as some statistical data are set out in **Section 1**.

(ii) **Section 2**, on the policy aspects related to financial inclusion, deals with the interaction of financial inclusion with monetary policy, financial stability and anti-money laundering/terrorist financing preventive measures.

(iii) In **Section 3** the correlation between financial literacy and financial inclusion is analysed.

(iv) The case for coordinated efforts to enhance financial inclusion at international, EU and national level is presented in **Section 4**.

(v) Finally, **Section 5** presents briefly the link between technology and financial inclusion.

1. Concepts, main characteristics and data[1]

1.1 Definition and content

(a) Financial inclusion is defined as the process of ensuring affordable, prompt and adequate access to a wide range of financial products and services, as well as proliferation of their use in all parts of society with a special focus on vulnerable groups, through the implementation of existing and innovative approaches, such as financial literacy programmes. A wide range of products and services can be incorporated in this definition, including: savings, investment products, remittance and payment facilities, credit, and insurance.[2]

The United Nations[3] defines the goals of financial inclusion as follows:

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

Financial inclusion is assessed both on individual and household level, as well as with regard to firms, especially small- and medium-sized enterprises.

(b) Access to specific products can be seen as one component of financial inclusion. For example, the OECD uses:

- the term 'unbanked' to describe individuals without a bank account at a deposit institution, and
- the term 'unserved' for those who rarely use their account, or do not know how to use it.

The types of transactions that can be linked to an account are receiving regular (electronic) payment of funds such as wages, pensions or social assistance, converting cheques or vouchers into cash, storing money safely until it needs to be withdrawn, paying for goods and services other than in cash, paying bills electronically, and making remittances.[4]

(c) Conversely, the opposite of financial inclusion, i.e. financial exclusion, refers to the difficulties faced by individuals or groups of the population as regards their access to the financial system. It can be either *voluntary* or *involuntary,* as financial exclusion could be either the result of circumstances that impede a person's access to the financial system or the result of personal preference due to a number of reasons.

[1] For a detailed overview see **World Bank (2014)**.

[2] See **OECD (2005)**.

[3] See **United Nations Capital Development Fund (2006)**.

[4] See **European Commission (2008)**.

1.2 Typical indicators for the measurement of financial inclusion

Financial inclusion is measured on the basis of three (3) parameters:[5] level of credit institutions' outreach, level of usage of financial products and services, and quality of the products and services.

(a) Indicators depicting credit institutions' outreach (demographic and geographic penetration) include the number of branches per square kilometre (1,000 m^2), the number of Automated Teller Machines (ATMs) per square kilometre (1,000 m^2), and the number of branches per one thousand (1,000) individuals.

(b) Indicators regarding the usage of financial services/products are the percentages of loans and deposit accounts in the population, the number of transactions per deposit account, and the number of electronic payments.

(c) Finally, indicators regarding the quality of services/products include the cost of usage, and the level of financial literacy.[6]

However, a concrete measurement of financial inclusion is far from simple as it concerns a multidimensional phenomenon that is difficult to assess. Furthermore, there is always the risk that measurements do not accurately depict reality in such instances where, for example, an individual holds more than one accounts. This is a common occurrence in developed countries which, however, obscures conclusions pertaining to the level of inclusion within the general population.

1.3 Causes of financial exclusion: involuntary and voluntary exclusion

(a) According to the World Bank,[7] *involuntary* financial exclusion might stem from either efficiency criteria (e.g. inadequate income, high credit risk), or market or government failure (e.g. discriminatory practices, lack of information, high costs). In particular:

(i) Regulatory restrictions: it has been shown that often a new regulation benefits exclusively the existing users of financial services without further promoting financial inclusion of the remaining population.[8]

(ii) Restrictive market practices: quite often, providers of financial services use practices that exclude parts of the population either indirectly, by favouring specific groups, or directly, by applying special conditions to the use of a service (i.e. high minimum balances) or by setting charges for specific services (e.g. withdrawal costs). Such exclusory practices can be sometimes attributed to providers' perception that some population groups are unprofitable or entail high risk. Furthermore, financial services are designed, as a general rule, to address the needs of the average consumer. As a result, individuals in a vulnerable position are practically excluded (e.g. vulnerable groups, persons with a low level of financial literacy).

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[5] On this aspect see **Ambarkhane, Singh, and Venkataramani (2014)**, **Cámara and Tuesta (2014)**, and **Demirguc-Kunt, Klapper, Singer and Van Oudheusden (2015)**.

[6] See on this below, under 3.

[7] See **World Bank (2014)**.

[8] For example, if a new unreasonable obligation is added within the framework of "Know Your Customer" rules, certain segments of society (such as young persons or migrants) would be irrevocably excluded.

(iii) Insufficient infrastructure: some groups within the population might face exclusion from the financial system due to factors such as lack of access to electricity or the Internet. In such circumstances, individuals residing in areas with insufficient infrastructures cannot obtain the necessary information in order to gain access to financial services.

(b) On the other hand, *voluntary* financial exclusion is mainly attributed to personal reasons such as lack of resources, unemployment, economic and labour informality,[9] cultural and religious needs and beliefs,[10] a low level of financial literacy, the inability to use new technology (e.g. ATMs or the Internet) and possible language barriers (e.g. in the case of migrants). This latter category also encompasses cases where the use of financial services and, more particularly, of the banking system is intentionally avoided in order to escape state control (thus accentuating phenomena such as tax evasion). Another common example of such practices is the choice on the part of over-indebted individuals to receive their wages, whenever possible, in cash rather than in a dedicated bank account in order to avoid the risk of having their income withheld or seized by their creditors.

1.4 Statistical data

1.4.1 Level of financial inclusion internationally and in the EU

(a) Currently, it is estimated that 2 billion working adults worldwide do not hold an account with a credit institution. According to the World Bank database, in 2014 the global percentage of individuals over 15 years old who have an account with a bank reached 62%. Out of those 27% have deposit accounts and 11% have taken out a loan.

(b) In the European Union (the **'EU'**), the level of financial inclusion is higher than the worldwide average, however due to the economic crisis of the past few years, a large share of the population faces an increased risk of financial exclusion. More specifically, it has been noted that lower levels of financial inclusion (based on the number of bank accounts) are more common among countries with a lower *per capita* income, such as Poland or Bulgaria, and in countries confronted with a fiscal crisis, such as Greece.[11]

According to the results of the Household Finance and Consumption Survey for the year 2014, in the European continent, 11.6% of households do not have a credit card and 8.2% have either applied for a loan and their application was rejected or was discouraged from filling one in the first place. However, it is also worth noting that, in economically developed countries, 1.3 billion adult account holders pay their utility bills with cash instead of using their accounts (to make an electronic payment) as an easier, faster and safer means of payment.[12]

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[9] See **Committee on Payments and Market Infrastructures - World Bank Group (2015)**, pp. 8-9.

[10] *Ibid.*, p. 9.

[11] On the current Greek fiscal crisis see, by mere indication, **Stephanou (2013)**, **Kazakos (2014)** and **Zimmermann (2015)**.

[12] On enterprises' access to finance in the euro area, which currently is partly also linked to financial exclusion, see **European Banking Authority (2014)**.

1.4.2 Social groups with the lowest levels of financial inclusion (based on specific criteria)

(a) *Income*: Lower-income segments of society do not easily have access to financial services. The same applies to unemployed individuals whose access to the financial system is rendered difficult due to a lack of financial means.

(b) *Place of residence*: Lower levels of financial inclusion are observable in rural or isolated areas. In countries where financial service providers do not have an adequate infrastructure, individuals and firms removed from urban centres are objectively unable to make use of respective services. Furthermore, in cases where an individual is not familiar enough with technology so as to exploit electronic applications, access to financial services is rendered even more difficult.

(c) *Sex*: Especially in developing counties, there are fewer women users of financial services than men. This observation is explained by the fact that women are generally accorded fewer rights and are usually unemployed. Worldwide, the percentage of women that hold an account with a financial institution is estimated at 58% against 65% for men.

(d) *Place of origin*: Migrants rarely make use of financial services. Illegal immigrants, especially, cannot easily present the necessary documentation prescribed by the *Know Your Customer* rules and procedures.

(e) *Education*: The level of education is positively correlated with the usage of financial services (lower levels of education correspond to more restricted usage of financial services).

(f) *Age*: Younger generations usually have a lower level of financial literacy compared to older generations and often misuse the financial means available to them. As a result, they expose themselves to a higher risk of future financial exclusion.

Furthermore, over the past few years and mainly due to the economic crisis, an increased number of young adults leave their parents' home at a later stage in their lives than in the past. For as long as these persons still live within the family and, especially, if they are not employed, they lack the incentive to open a bank account on their own.

2. Policy aspects related to financial inclusion[13]

2.1 Interaction with monetary policy

(a) Undoubtedly, financial inclusion has the potential to contribute to curbing poverty and enhancing prosperity, especially in regions with a low standard of living, by making payments easier and by offering a channel for safe and legal financing, when necessary. Furthermore, financial inclusion is conducive to smooth consumption and monetary stability.

For this reason, this issue is of particular interest to central banks worldwide. More specifically an increase in financial inclusion interacts with monetary policy in two ways:

- it helps consumers smooth their consumption over time, which may influence fundamental monetary policy choices, including the choice of targeted price index, and
- it encourages consumers to shift their savings away from physical assets and cash into deposits, which may have implications for monetary policy operations and the role of intermediate policy targets.[14]

(b) Financial inclusion facilitates ‘consumption smoothing’, as households are able to adjust their saving and borrowing in response to interest rate changes and unexpected economic developments. Constraints on the ability to smooth consumption due to financial exclusion have been shown to affect monetary policy along three (3) dimensions:

(i) The first concerns the size of the interest rate response to shocks. One outcome from this line of research is that the larger the share of financially excluded households, the stronger the policy response required to stabilise aggregate demand and inflation following a shock. That said, as always, this result is sensitive to assumptions about how the economy works.

(ii) The second dimension relates to the trade-off between output and inflation volatility. **Mehrotra and Yetman (2014)** show that, as financial inclusion increases, the ratio of output volatility to inflation volatility should also rise if the central bank cares about both indexes and sets monetary policy to optimise their trade-off. The intuition behind this result is that financially included consumers are in a better position than excluded consumers to adjust their saving and investment decisions to partially insulate their consumption from output volatility. Thus, as the level of financial inclusion rises, central banks can focus more on stabilising inflation.

(iii) The third dimension along which financial inclusion can affect monetary policy is the choice of the price index used to define the inflation objective. In some economies, central banks pay attention to “core inflation”, a measure of price changes that excludes the most volatile components of consumer prices (typically food and energy).

(c) **Anand and Prasad (2012)** argue that inflation measures excluding food prices may be a poor guide to policy for economies with low levels of financial inclusion. In part, this is because financial inclusion is often lower in rural, agriculture-dependent areas, where food products represent the main source of income. When food prices rise, financially excluded rural households, lacking access to the financial sector, do not save their extra income, but rather increase consumption. This leads to higher aggregate

[13] On the issue whether financial inclusion can meet multiple macroeconomic goals see **Sahay, Čihak, N’Diaye, Barajas, Mitra, Kyobe, Mooi and Yousefi (2015)**.

[14] See **Mehrotra and Yetman (2014)** and **(2015)**.

demand and inflationary pressures. And when food prices fall, the process works in reverse. In such an economy, where the producers of food are also disproportionately financially excluded, it could be difficult for the central bank to stabilise overall inflation (and the economy more generally), if food prices are ignored. Thus the case for focusing on headline inflation may be stronger, the lower the level of financial inclusion.

(d) Greater financial inclusion also strengthens the case for using interest rates as the primary policy tool. When financial inclusion is low, a large share of the money stock is typically accounted for by currency in circulation, with many households saving in cash "under the mattress". As inclusion increases, a growing share of broad money is likely to be made up of interest-bearing bank deposits. Furthermore, financial inclusion of a larger number of the population would correspond to a shift in the ratio of depositors and borrowers which would be conducive to a greater level of financial stability.

2.2 Interaction with financial stability

There are several reasons why increased financial inclusion may support the central bank's task of safeguarding financial stability:[15]

(a) First, consumers gaining access to the formal financial system are likely to increase aggregate savings and diversify the banks' depositor base. An increase in savings has the potential to improve the resilience of financial institutions, given the stability of deposit funding, especially when they are backed by an effective deposit insurance scheme. Furthermore, there is evidence that aggregate balances in the accounts of low-income customers move only gradually and are not prone to sudden month-to-month swings. This resilience could be especially relevant during crises, Indeed, during the recent (2007-2009) international financial crisis,[16] the fall in total deposits was slighter in economies where the degree of financial inclusion was higher in terms of bank deposits, especially for middle-income countries, even after accounting for other factors.

(b) Second, financial inclusion, by improving firms' access to credit, can help financial institutions diversify their loan portfolios. Moreover, lending to firms that were previously financially excluded may also lower the average credit risk of loan portfolios. One study finds that an increased number of borrowers from small- and medium-sized enterprises (SMEs) are associated with a reduction in non-performing loans and a lower probability of default by financial institutions. However, increased financial inclusion is no guarantee of improved financial stability. If financial inclusion is associated with excessive credit growth or the rapid expansion of unregulated parts of the financial sector, financial risks may still rise.

2.3 Interaction with anti-money laundering and terrorist financing preventive measures

(a) The goal of financial inclusion is to ensure fair and transparent access to financial services and, as such, it could be said that it is an objective of anti-money laundering and combating the financing of terrorism (the **'AML/CFT'**) measures as

[15] On this aspect see **Khan (2011)**, **GPFI (2012)**, **Han and Melecky (2013)**, **Morgan and Pontines (2014)**, **Rahman (2014)**, **Basel Committee on Banking Supervision (2015)**, and **Dema (2015)**.

[16] On this crisis see **Gortsos (2012)**, pp. 127-129, with extensive further references.

well. Both of those policy objectives aim further to ensure the integrity and soundness of the financial system. Furthermore, low levels of financial inclusion would imply that consumers and firms would resort to unofficial and unregulated providers of financing. This development, in turn, renders transactional transparency and efforts to tackle illegal activities significantly harder to achieve. In that regard, financial inclusion is conducive to anti-money laundering endeavours as it leads to the restriction of the "invisible finance" sector of the economy.

(b) However, there are also areas of conflict between these two policy objectives. Particularly stringent identification requirements imposed in order to prevent money laundering, to some extent, also become an obstacle to accessing the financial system. In the same vein, the applicable regulatory framework for the prevention of money laundering is often considered cumbersome and costly by firms, which are hence discouraged from using the regulated financial sector for their transactions.

According to relevant surveys in countries such as Kenya, Pakistan and Indonesia, the conclusion to be drawn from the above considerations is that, when AML/CFT measures are particularly demanding, access to financial services is also affected negatively. Accordingly, it is important to ensure that relevant measures are indeed proportionate and necessary to achieve their intended purpose.[17]

[17] See on this aspect **FATF (2013)** and **Shehu (2012)**, as well as below, **under 4.1 (c)**.

3. Correlation between financial literacy and financial inclusion

3.1 The objectives of financial literacy and its perimeter

(a) Financial literacy aims to ensure that consumers of financial services and investors in capital markets understand the function of financial products, the opportunities that are made available to them through their use, as well as any potential risk that such products might involve, through the provision of proper advice, information and education.[18] An international survey conducted in 2011 with the participation of 301 providers of financial services confirmed that a low level of financial literacy is considered an important obstacle to financial inclusion.

Accordingly, financial literacy plays an important part in dealing with the *causes* of financial exclusion. Moreover, financial inclusion of financially illiterate users would imply that said users would be vulnerable and would even pose a greater risk for the financial system (e.g. due to exposure to over-indebtedness and (hence usually) higher levels of non-performing loans).[19]

(b) In this context, the main objective of financial literacy, which **Ramakrishnan (2011)** labels as *"the demand side of financial inclusion"*, and **Lusardi (2014)** as *"knowing the ABCs of finance"*, is to change the attitude of those potential users of financial services who have not made any use thereof so far. The categories of population targeted through a financial literacy initiative with the aim to achieve a greater level of financial inclusion include:

- persons not using any financial products whatsoever,
- persons only using a very restricted range of financial products,[20] and
- new users not yet familiar with financial products.[21]

It is also considered that increased financial literacy can contribute to sustainable economic growth.[22]

(c) Financial literacy and, in general, all relevant efforts with an aim to inform and educate are addressed to those segments of the general population that are excluded from the financial system, due to either ignorance or lack of trust. If exclusion is due to non-personal factors, such as the current regulatory framework or market practices, financial literacy is not conducive to the achievement of financial inclusion.

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[18] On financial education see in particular just below, **under 3.2**. On why *financial* advice cannot substitute for financial literacy see **Debbich (2015)**. On financial literacy and retirement planning see **Lusardi and Mitchell (2006a)** and **(2006b)**. On the role of banks' information policies on financial literacy and households' financial assets see **Fort, Manaresi and Trucchi (2014)**.

[19] On the link between financial literacy and mortgage credit see **Geraldi, Goette and Meier (2010)**, **Lusardi and Scheresberg (2013)**, **Ooijen and Rooij (2014)**, **Agarwal, Chomsisengphet and Zhang (2015)**, and **An, Bostic, and Yao (2015)**. On whether financial literacy leads to smarter financial decision see **Tew and Tew (2014)**.

[20] It is worth noting that knowledge of available financial products is an important prerequisite to financial inclusion. Several current surveys have shown that persons who are aware of at least five (5) financial products, regardless of whether they make use of those, have attained a higher level of financial literacy in comparison to others knowing fewer products.

[21] See on this **Samy, Tawfik, Huang and Nagar (2005)**, **Lusardi, Mitchell and Curto (2009)**, and **Atkinson and Messy (2015)**.

[22] See on this **Tetangco (2014)** and **Mitchell and Lusardi (2015)**.

3.2 In particular: financial education

Financial literacy enhances the confidence of users formerly excluded from the system and enables them to make informed choices by comparing available financial products from different providers and by being aware of their respective rights and obligations. It is achieved through the provision of appropriate financial education.[23] Sources of financial education include friends and family, the state, school, the media, as well as consumer rights organisations.[24]

On the other hand, according to a recent survey in the USA,[25] financial education may also entail the risk of users making the wrong choices on available financial means, if they overestimate their abilities. This may be explained by the fact that even though financial education might enhance a user's confidence, it will not necessarily improve his/her abilities. It should also be noted that, any effort to support financial literacy would be incomplete without a robust consumer protection framework also being in effect.[26]

[23] According to the **OECD (2005)**, financial education is commonly understood as the process through which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice develop the skills and confidence to become more aware of (financial) risks and opportunities to make informed choices, know where to seek assistance, and take other effective actions to improve their financial well-being.

[24] On the various aspects of financial education see **Palmer, Goetz and Chatterjee (2009)**, **Wentzel (2013)**, **Ambuehl, Bernheim and Lusardi (2014a)** and **(2014b)**, **Gerrans and Heaney (2014)**, **Brugiavini, Cavapozzi, Padula and Pettinicchi (2015)**, and **Neuberger (2015)**.

[25] See **Ambuehl, Bernheim and Lusardi (2014)**.

[26] See details in **OECD (2013a)**, **OECD (2013b)** and **Tetangco (2014)**.

4. The case for coordinated efforts to enhance financial inclusion

4.1 International initiatives

(a) In 2008, the Alliance for Financial Inclusion (the **'AFI'**) was founded as the first global knowledge-sharing network designed exclusively for financial inclusion policymakers from developing countries. AFI member institutions are central banks and other financial regulatory institutions from more than 90 economically developing countries, which have developed innovative financial inclusion policies while taking into account the stability and safety of the financial system.[27]

(b) At the **G20 Toronto Summit**, in June 2010,[28] the G20 leaders reiterated their commitment to improve access to financial services for the poor. They endorsed a set of "Principles for Innovative Financial Inclusion", aimed at forming the basis of a concrete and pragmatic action plan for improving access to financial services amongst the poor.[29] In addition, apart from approving the "Financial Inclusion Action Plan", they also launched the 'Global Partnership for Financial Inclusion' (the **'GPFI'**) to provide a systematic coordination and implementation structure for this action plan.[30]

BOX: The G-20 "Principles for Innovative Financial Inclusion"

These principles for innovative financial inclusion are derived from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries:

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 for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.

3. *Innovation:* Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.

4. *Protection:* Encourage a comprehensive approach to consumer protection that recognises 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:* Utilise improved data to make evidence-based policy, measure progress, and consider an incremental "test-and-learn" approach acceptable to both regulator and service provider.

8. *Proportionality:* Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative 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, international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime reflecting for electronically stored value; and market-based.

[27] On the AFI's work see at: http://www.afi-global.org.

[28] See at: http://www.g20.utoronto.ca.

[29] These principles are available at: http://www.g20.utoronto.ca/2010/to-principles.html. See also the **BOX** below.

[30] On this forum's work (http://www.gpfi.org) see, by mere indication, **GPFI (2012)** and **(2014)**.

(c) In 2011, the World Bank Group launched the so-called "Project Greenback". This is an initiative aiming at increasing efficiency in the market for remittances by promoting change inspired by the real needs of the ultimate beneficiaries of international money transfers (i.e. the migrants and their families at home). In this particular project, the following guiding principles apply:

- remittance champion cities are selected,
- the World Bank is working toward implementing initiatives, which aim at increasing transparency and efficiency in the market for remittance services,
- the main focus is on migrants and their needs, and
- cooperation between the stakeholders involved (i.e. migrants, remittance service providers and public authorities) is considered vital for the achievement of its objectives.[31]

(d) In 2013, the Financial Action Task Force (the **'FATF'**) issued its Guidance on: *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*.[32] Under this, if a natural or legal person only occasionally and infrequently engages in a specific activity and, hence, there is a low risk of money laundering, its Member States have the discretion to provide for an exemption as regards the observance of AML/CFT requirements. The FATF has also issued a set of forty (40) Recommendations (the **'FATF Recommendations 2012'**),[33] according to which every country, bearing in mind its specific economic and social circumstances, may adopt AML measures that do not unnecessarily hinder financial inclusion ('domestication of measures'), rejecting thus the "one-size-fits-all" approaches.

(e) Furthermore, given that migrants are an important part of the economy of both the country where they reside, as well as their country of origin, the European Bank for Reconstruction and Development (the **'EBRD'**) provides financial education to the recipients of remittances (usually family members who have stayed behind).[34] Relevant estimations in countries where recipients of such remittances reside show a large increase in the use of bank accounts.

(f) Several initiatives have also been developed by the Organization for Economic Cooperation and Development (the **'OECD'**) and its International Network on Financial Education (the **'INFE'**), which provide a unique policy forum for national governments to exchange views and experience on this particular issue. Typical examples include:

- the OECD' Council 2005 Recommendation on Principles and Good Practices on Financial Education and Awareness,[35]
- the OECD/INFE cross-country and by gender survey on financial literacy and inclusion,[36]

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[31] Additional information on this project can be found at: http://remittanceprices.worldbank.org/en/project-greenback-20-remittances-champion-cities.

[32] See **FATF (2013)**.

[33] These are available at: http://www.fatf-gafi.org/publications/fatfrecommendations.

[34] See on this at: http://www.ebrd.com/what-we-do/financial-inclusion.html.

[35] See **OECD (2005)**.

[36] See on this **OECD (2013a)**.

- the Programme for International Student Assessment (the **'PISA'**), which evaluates education systems worldwide by testing the financial skills and knowledge of young students,[37] and
- the Policy Guidance on addressing women's and girls' needs for financial awareness and education by tackling the barriers pertaining to gender differences in financial literacy, as well as by financially empowering them.[38]

(g) Finally, on 21 December 2015, the Basel Committee on Banking Supervision issued a consultative document for the regulation and supervision of institutions relevant to financial inclusion.[39] This document builds on the Committee's 2012 "Core principles for effective banking supervision"[40] and its 2015 Report entitled: "Range of practice in the regulation and supervision of institutions relevant to financial inclusion".[41] It provides guidance in the application of the Committee's Core principles to the regulation and supervision of financial institutions engaged in serving the financially unserved and underserved.[42]

4.2 Initiatives relevant to financial inclusion at EU level

Even though the level of financial inclusion in the EU is generally high, due to the recent (2007-2009) international financial crisis and then the fiscal crisis in the euro area there is a tangible and immediate risk of financial exclusion for a large share of the population. In order to avoid this development and to further enhance the current level of inclusion, measures of regulatory compliance were considered as necessary. Financial inclusion objectives are consistent with measures aimed at achieving a higher degree of European integration.[43] In this regard, two are the most important regulatory/ self-regulatory developments:

(a) Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 "on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features"[44] ensures access to a

[37] See on this **OECD (2013b)**, **Mancebon, Ximenez-de-Embun and Gomez-Sancho (2015)**, and at: http://www.oecd.org/pisa.

[38] See on this at: http://www.oecd.org/daf/fin/financial-education/financialeducationandwomen.htm.

[39] **Basel Committee on Banking Supervision (2015)**: "Guidance in the application of the Core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion", Consultative Document, December, available at: http://www.bis.org/press/p151221.htm.

[40] **Basel Committee on Banking Supervision (2012)**: "Core principles for effective banking supervision" September, available at: http://www.bis.org/publ/bcbs230.htm.

[41] See in the secondary sources **Basel Committee on Banking Supervision (2015)**.

[42] On the role of the Basel Committee (and the other international fora which are based in Basel under the auspices of the Bank for International Settlements (the **'Basel Process'**)) in financial literacy, see **Caruana (2012)**.

[43] See **Gómez (2015)**.

[44] OJ L 257, 28.8.2014, pp. 214-246. It is noteworthy that this Directive was adopted on the basis of Article 114 of the Treaty on the Functioning of the European Union (the 'TFEU') on the approximation of laws and not of Article 14 TFEU on 'services of general economic interest'. See on this **Ponce (2015)**.

payment account with basic features for all EU citizens without discrimination.[45] In that regard, **Article 15** of this Directive, which must be transposed into the Member States' national law by 18 September 2016,[46] provides the following:

(i) Member States must ensure that credit institutions do not discriminate against consumers legally resident in the EU by reason of their nationality or place of residence or by reason of any other ground as referred to in **Article 21 of the Charter of Fundamental Rights of the European Union**,[47] when those consumers apply for or access a payment account within the EU.

(ii) In addition, the conditions applicable to holding a payment account with basic features may, in no way, be discriminatory.

> Of relevance are also **recitals 7, 34** and **35** which read as follows: *"Moreover, since some prospective customers do not open payment accounts, either because they are denied them or because they are not offered adequate products, the potential demand for payment account services in the Union is currently not fully exploited. Wider consumer participation in the internal market would further incentivise payment service providers to enter new markets. Also, creating the conditions to allow all consumers to access a payment account is a necessary means of fostering their participation in the internal market and of allowing them to reap the benefits the internal market has brought about."*
>
> *"Member States should guarantee that consumers who intend to open a payment account are not discriminated against on the basis of their nationality or place of residence. While it is important for credit institutions to ensure that their customers are not using the financial system for illegal purposes such as fraud, money laundering or terrorism financing, they should not impose barriers to consumers who want to benefit from the advantages of the internal market by opening and using payment accounts on a cross-border basis. Therefore, the provisions of Directive 2005/60/EC of the European Parliament and of the Council should not be used as a pretext for rejecting commercially less attractive consumers."*
>
> *"Consumers who are legally resident in the EU should not be discriminated against by reason of their nationality or place of residence, or on any other ground referred to in Article 21 of the Charter of Fundamental Rights of the European Union (the 'Charter') when applying for, or accessing, a payment account within the EU. Furthermore, access to payment accounts with basic features should be ensured by Member States irrespective of the consumers' financial circumstances, such as their employment status, level of income, credit history or personal bankruptcy."*

(b) Another ambitious initiative was the establishment of the Single Euro Payments Area (the **'SEPA'**),[48] which was launched by the European banking and payments industry and is supported by EU governments, the European Commission, the Eurosystem and other key stakeholders. Its aim is to overcome technical and market barriers between countries in order to create a single market of retail payments in euro. The transition towards the SEPA was completed in August 2014.

Since then, existing national euro credit transfer and direct debit schemes have been replaced with SEPA instruments, thus providing the basis for an integrated euro retail payments market characterised by a harmonised set of basic payment instruments, transparent rules and standards. This development is expected to enable the entities

[45] This Directive is the by-product of a European Commission's Report (see **European Commission (2008)**) and a Consultation Document (see **European Commission (2009)**).

[46] **Directive 2014/92/EU**, Article 29(1).

[47] OJ C 326, 26.10.2012, pp. 391-407.

[48] On the SEPA see at: http://ec.europa.eu/finance/payments/sepa/index_en.htm, and at: http://www.ecb.europa.eu/paym/retpaym/paymint/html/index.en.html.

involved in retail payments to realise economies of scale and to compete in terms of the quality of their services, and henceforth foster financial inclusion.[49]

4.3 National initiatives

Target-groups for national initiatives, mainly, comprise low-income groups, residents of remote regions, SMEs, the younger generation and women. Some initiatives also target senior citizens, migrants or ethnic minorities, as all these categories are considered vulnerable to financial exclusion. By mere indication:[50]

(a) In the *Philippines*, targeting younger persons and university students, a programme titled "Be a wise saver" is being implemented. This programme aspires to encourage younger persons to become acquainted with banking services and also be cautious and only engage in transactions with authorised institutions.

(b) *Mexico*, in an effort to support women interested in founding their own business, has created in 2006 the "Servicios Financieros Alternativos Foundation" (the **'SEFIA'**). This foundation is being implemented at community level and, among other activities, also provides financial education and technical assistance to both businesses and their customers.

(c) In *Uganda* since 2009, certain savings products have been especially designed for younger persons. An additional measure in this context is that lending can be made available to persons having saved money within the system for at least one (1) year.

(d) In *Australia* an educational initiative (the **'ASIC'**) has been implemented in 2011 targeting migrants of a different cultural and linguistic background. Experience gained from its implementation shows that the use of audiovisual channels can be very effective in reaching consumers that are not native English speakers. The main issues addressed through this programme is the frequent lack of knowledge exhibited by migrants, as regards the managing of their financial situation and their comprehension of their rights and obligations as consumers, as well as their tendency to resort to unofficial (usury) lending.

(e) In *India,* within the context of the National Action Plan, an effort is being made to establish bank branches in areas where at least two thousand (2,000) persons are resident and also to support actively the use of technology, where the physical representation of the financial system remains difficult. The Reserve Bank of India's decision to allow individuals to open bank accounts with a permanent address is expected to provide a boost to the process of financial inclusion (relaxation of KYC norms). This will not only bring migrant workers, but also students and persons with a transferable job into the banking fold.

(f) Of significance in this context is finally the UK Financial Inclusion Commission's 2015 Report on: *Financial Inclusion, Improving the Financial Health of the Nation*.[51]

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[49] See **Committee on Payments and Market Infrastructures - World Bank Group (2015)**, p. 36.

[50] See on this **Van den Bergh (2012)**.

[51] See **Financial Inclusion Commission (2015)**.

5. Technology and financial inclusion

As regards rural and remote regions, the use of technological means offers a solution against financial exclusion and, in most cases, may even be the only solution. Technology can prove beneficial also in those cases where a lack of confidence is being observed in relation to the safety of transactions due to cyber-crime and fraud (identity theft).

Taking into consideration that the vast majority of the global population uses the Internet and mobile phones, there is already a good background for the development of time-and-money saving applications which would enable users to safely keep track of their financial products and receive information on new services.[52] However, new technologies cannot equally benefit everyone. According to a 2013 survey conducted in five (5) EU member states, the most vulnerable social groups show a preference for traditional transactional channels and refuse to avail themselves of new possibilities, either out of ignorance or out of distrust.

[52] See on this **Ambarkhane, Singh and Venkataramani (2014)**, **Financial Stability Institute (2014)**, **Dhar (2015)** and **Chakraborti and Sanyal (2015)**.

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