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EXPLAINER

Busting the 10 Myths on Financial Inclusion

New digital technologies are a game changer for financial inclusion in Asia, opening up access to financial services for all sectors of society, and in the process helping dispel myths about financial inclusion.

Introduction

Financial inclusion matters to economic growth. Having access to financial services means that people can make payments, get credit, save and invest. This contributes to increased spending on goods and services and creates a virtuous cycle where more consumption translates into increased production, more jobs, higher incomes, and greater economic prosperity.

However, providing access to financial services involves much more than simply helping people open a bank account.

According to the 2016 Brookings Financial and Digital Inclusion report that looks at 26 emerging countries across the globe, countries must have these four dimensions to achieve real financial inclusion:

- Country commitment.
- Mobile capacity.
- Regulatory environment.
- Adoption of selected traditional and digital financial services.

Here are 10 myths on financial inclusion that need to be dispelled so opportunities for those who are financially excluded can be unlocked.

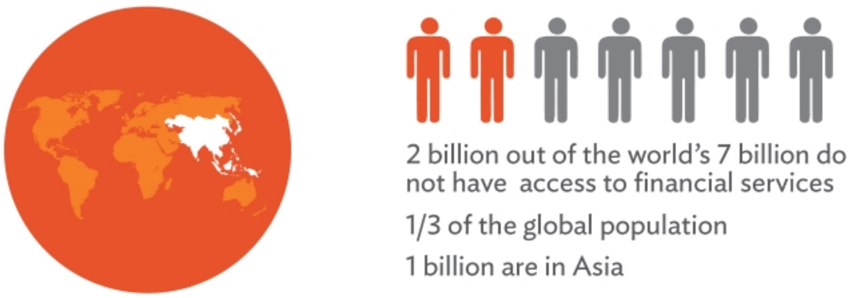
Myth No. 1

Being the most dynamic region in the world, Asia has the least number of people who are financially excluded or unbanked.

Fact

There are 2 billion adults globally who do not have access to formal financial services, representing a third of the global population. Of these, about 1 billion live in Asia.*

The Financially Excluded



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* The Global Findex Database 2014 Measuring Financial Inclusion around the World.

Myth No. 2

People who have bank accounts use financial products and services often.

Fact

About 62% of the global adult population own a bank account, yet only 27% save in banks, 18% use them to receive wages or to pay bills, and just 11% borrow from banks.*

* The Global Findex Database 2014 Measuring Financial Inclusion around the World.

Myth No. 3

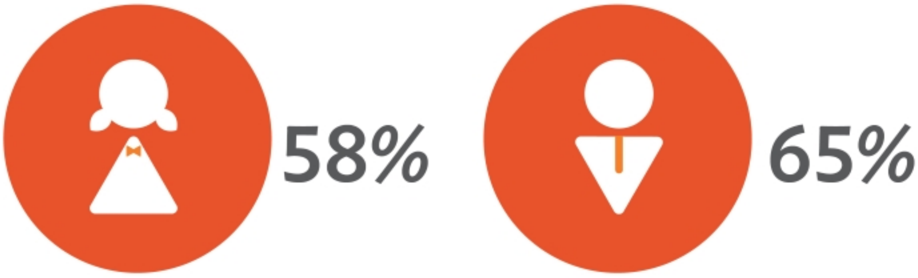
There are more women who own a bank account than men.

Fact

Globally, only 58% of women have a bank account, compared to 65% of men, and on a regional basis, the gender gap in account ownership is largest in South Asia (55% of men vs 37% of women).

There are a few country exceptions to this, including the Philippines.

Gender Gap



Myth No. 4

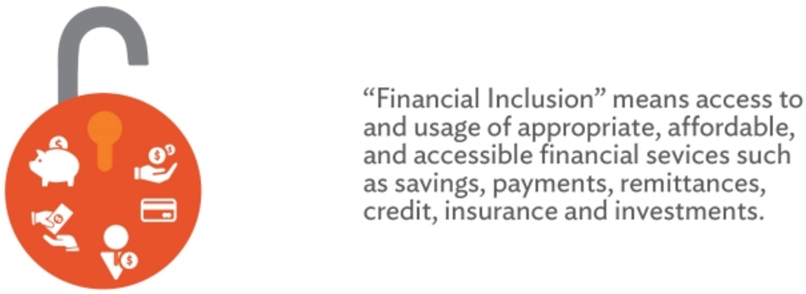
People need to own a bank account to be “banked” or financially included.

Fact

Broadly defined, “financial inclusion” means access to and usage of appropriate, affordable, and accessible financial services such as savings, payments, remittances, credit, insurance and investments.

Payments are a key entry point to supporting financial inclusion. Digital government-to-people (G2P) payments and remittance flows have, for example, created the initial momentum for electronic payments. This is the case for G2P payments in India and remittance flows in the Philippines.

New players can offer transactional financial accounts from a variety of licensed non-bank financial institutions such as payment banks in India, specialized banks in Cambodia as well as electronic money issuers such as in the Philippines where electronic banking started in 2001.



Myth No. 5

Digital technology benefits only the "banked" or the financially included as they can transact electronically through banks.

Fact

Technological innovations are revolutionizing the financial industry and with new digital applications there is now no need for a bank account, high-tech devices, or high levels of knowledge.

Myth No. 6

Digital technology is the “cure-all” solution for bringing financial services to people and business more conveniently and faster than in the past.

Fact

Technology is only good when people use it because it solves a specific problem for them. To reach the base of the pyramid—the last mile—financial service providers must first address the two barriers: Identity verification (demand side), and accessing financial services (supply side).

Myth No. 7

Without proof of identity, the "unbanked" cannot become financially included.

Fact

There are approximately 1.5 billion people globally—the majority of whom live in Asia and Africa—who cannot prove their official identity or lack official forms of identification. Not having an official identity cuts them off from basic services, including opening a bank account.

New technologies are helping to change the way financial service providers can gather information for identity verification. In India, for example, the Aadhaar identification system uses biometrics for customer verification. With the Aadhaar system, the number of people in India with national identification has reached over 1 billion.

Myth No. 8

People living in rural or remote areas where there is no access to ATMs or banks cannot be financially included.

Fact

With innovations in digital financial services, service providers can offer basic services through mobile phones, point-of-sale devices and agent networks, removing the need for bank branches and ATM access.

E-commerce businesses, in partnership with banks, are also driving financial inclusion in new ways. Examples include Alibaba.com in the People's Republic of China, and Southeast Asian-based company, Lazada.com.

Service providers can offer basic services through mobile phones, point-of-sale devices and agent networks, removing the need for bank branches and ATM access.

Myth No. 9

The "unbanked" cannot access credit because they do not have formal income, credit history, collateral or personal identification. This makes it difficult for lenders to understand their risk profile and assess their creditworthiness.

Fact

Digital technology enables clients to do financial transactions online, via for example, a mobile phone, and through the use of social networks. This also leaves digital footprints, which provide new ways to assess credit risk. Such information makes it possible for excluded potential borrowers to access formal credit.

An example is the millions of small and medium-sized enterprises who have access to near-instant credit from Ant Financial in China. This is done by utilizing analysis of e-commerce sales histories on Alibaba.com.

Digital technology enables clients to do financial transactions online

Myth No. 10

Digital finance makes the jobs of regulators difficult, as they lose control over the financial system.

Fact

New technology gives regulators access to more real-time financial data, helping them to carry out their supervisory role more effectively.

The Digital Finance Numbers Game

By 2025, the widespread use of digital finance can:

- Provide access to financial services for 1.6 billion people;
- Increase the volume of loans by $2.1 trillion;
- Increase deposits by $4.2 trillion;
- Reduce government leakage in public spending and tax collection by $110 billion per year. This is money that could be devoted to other priorities such as health and education;
- Boost annual GDP of all emerging economies by $3.7 trillion, a 6% increase; and
- Generate 95 million new jobs across all sectors.*

* "Digital Finance for all: Powering Inclusive Growth in Emerging Economies," McKinsey & Company, 2016

Resources

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Meet the expert

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She provides technical leadership on inclusive finance, finance sector development, and infrastructure finance; and in developing sector policies, strategies, operational plans, and directional papers. She leads innovative pilot projects using digital technologies. She was Director for International Economic Policy at the Swedish Ministry of Finance, a financial supervision and regulation expert at the Swedish Financial Supervisory Authority and central bank, and an IMF consultant.

Follow Lotte Schou-Zibell on

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