Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 8, July 2021: 3128-3137

International literature review on Financial Inclusion

Amit Kumar

[1]Assistant Prof, School of Management Centurion University of Technology and Management

Abstract

The Financial Inclusion sector has been witnessing a lot of progress with respect to opening zero frill account for all people, Introduction of DBT (Direct benefit transfer), in which money is directly being credited to the end customer account and hence eliminating the middle man and minimizing corruption. Apart from the coverage of the scheme for the households, there is a need to assess its impact on various socio economic indicators including livelihood opportunity, health, education and overall quality of life. To address the gap in assessing the impact of such a scheme on the income generation activities of the beneficiaries, worldwide many researches took place by different researchers.

Now many developed and developing countries have taken many initiative and reform in FI sector to bring meaningful impact to their people. It also acts as a main bridge line in alleviation of poverty by enhancing their income. Some country strategies have given successful results which can be outstanding lessons and learning for other countries to follow and expand their own horizon. This paper, through an extensive review of international research on financial inclusion, mainly focused on bringing best practices that can be borrowed from other nations to give thrust on financial inclusion sector in India

Keywords: Financial Inclusion, Direct benefit transfer, livelihood,

1. Introduction

Financial Inclusion is defined by Inclusion Matters: The Foundation for Shared Prosperity (World Bank. 2013), as "the process of improving the ability, opportunity and dignity of people disadvantaged on the basis of their identity to take part in society." Financial inclusion intends to provide financial services and products at economical prices like deposits, fund transfer, loan, insurance, payments service etc. It is quite imperative that while launching financial inclusion as one of the flagship program by government of India, there were very few researches done on the impact analysis on society as a whole. In India planning without consideration of villages is myth, starting business without village concept is bad bargain and providing service like financial inclusion without involving villages is a mockery. [1]

Y.Venogopal Reddy, (Ex Governer, Reserve bank of India) first time used the word “Financial Inclusion” in April 2005 in the annual Policy statement. Khan Committee in 2005 has shown deep concern on exclusion of major rural population from formal banking system. During those times it was difficult for banking sector to penetrate in rural areas and to provide basic financial services. It was difficult because opening branches in rural areas is not viable owning to financial constrain and non-profitability. Therefore to fill the gap, financial inclusion was started with the help of Bank, whereas Banks are free to appoint third party agency to penetrate in deep rural areas. [3]

2. International literature review

Geoghegan in 2008 focused on financial inclusion of older people. Here he suggested that being poor is very expensive. The old maybe cash-poor and hence making them aware of the financial options available to them is very important. About 10% of UK’s population is financially excluded. The old people may not be comfortable in dealing with the new-age technology-enabled banks and so may prefer to stash cash in the house. He highlights that adult financial education is compulsory.

Chima in 2010 observed that the sub-prime crisis that hit US and UK showed us how Financial Inclusion measures can fail when not supported by strong policy and regulatory measures. The sub-prime crisis brought to fore the fact that inclusion at higher than normal rates and indebtedness arising out of it, can’t be sustainable. [13]

Appleyard in 2011 studied the role of Community Development Finance institutions in certain geographical areas of US and UK in providing enterprise finance to SMEs. Community Development Finance institutions helps to overcome financial exclusion by providing local sources of loan finance to micro and small and medium-sized enterprises or social enterprises. Appleyard, inspite of laudable work done by CDFIs, due to policy initiatives, significant gaps in the market and uneven geographical coverage got created that ultimately leads to financial exclusion. [9]

Cohen and Nelson in 2011 presented the various faces of financial literacy. Depending on type of delivery channel –whether it will be a classroom face-to-face training or through print, mass media or digital technology, also it doesn’t matter whether it has been undertaken by financial institutions or informal institutions and their scope of coverage are important to building a financial literacy model. Success of the model can be determined, by the incremental number of accounts opened, or by the increased savings rate in accounts or by improved financial condition is also neatly explained in their research work. [3] [4] [5]

Demirgüç Kunt and Klapper in 2012, attempted to study FI in Africa through Global Findex 2011 data to understand the usage of formal account and credit, less than a quarter of adults use formal account. World Bank Enterprise Survey data was also analyzed by Demirgüç Kunt and Klapper to understand the usage of financial services in Africa by the help of SMEs as compared to other developing countries. Kunt and Klapper found that bank financing to SMEs is less than 8 percent. [18]

Diniz in 2012 conducted a case study of Autazes, a country in the Amazon region not often served by banks until 2002, and then a business correspondent started its ICT- based operations there. It results into socioeconomic development of the people due to government benefit transfers and other banking services delivering at their doorstep. Due to over-indebtedness, social exclusion practices and power asymmetries creates many bottlenecks. Diniz here concluded that the efforts need to be understood with proper financial education for maximum benefit. [21]

Aduda and Kalunda in 2012 access and usage of FI are supplementary to each other and it need to be assessed to measure FI. Study of FI in Kenya founds that Informal financial services can also be included in overall FI framework as they can play a big role in promoting FI in developing countries, instead of the formal banking models. [6]

Rhyne in 2012 found that number of accounts is not a true measure of FI. People using the accounts for transactions are more important. The purpose of FI is to make people capable of money management; it can be through traditional or mobile channels. Money tracking tools need to develop to not copy the model of middle class people in developed countries, but need to understand, how people in their respective countries or regions manage money today. Report of KPMG International Development Advisory Services in 2012 described in detail the model of M4P – Making Markets work for the Poor in Africa. The increasing amount of public capital coming into the sector suggested the need for a better understanding of what works to promote financial inclusion on the ground, and how to coordinate donor efforts to achieve sustainable results. Working with or without Government support, importance of synergy, value for money and measuring impact of the initiative are important feedback from this report. [20]

Yang and Seshan in 2012 also studied the transnational household finance management by migrant Indian workers in Qatar. It is a short, simple financial education initiative and it had identified large effects on financial behaviors. Here outcomes are one of the important key findings of their study. Hence financial literacy interventions have real potential to change migrant financial behaviors and also its efforts need to be multiplying to impart financial literacy to the migrant workers as well as their family in India. [28]

Kempson and Collard in 2012 reviewed United Kingdom progress towards financial inclusion. They developed an evidence-based vision analysis for achieving financial inclusion over a ten-year time frame. Here everyone should have access to, use and retain an appropriate account, or equivalent product, through which income is paid, and it can be held securely and accessed easily. They also included that everyone had the confidence and knowledge to make appropriate use of financial services for both day-to-day and periodic needs. They also need to developed appropriate accounts, insurance, credit, saving and consumer protection were some of the methods suggested by Kempson and Collard for realizing the vision. [27]

Owens in 2013 studied the various digital financial services to be offered globally, mainly in emerging economies for financial inclusion and lessons learnt from it. Mobiles are having wider adoption than financial products; mobile technology along with other digital services like electronic payments, fund transfers, smartcards, e-money, etc. can bring faster and sustainable low-cost financial inclusion. [26]

D'alcantara in 2013 suggested bank-post office partnership for promoting financial inclusion in rural areas, where the cost of setting up branches is very high. High presence of post offices in rural regions can be used to cross-sell financial products also economies of scale can be achieved by the partnership. It works best for countries like Brazil or India. [16]

According to Dancey in 2013 financial inclusion and social inclusion are part of the same effort. Poverty reduction is possible to some extent by social protection through cash transfers. Many agencies including government, delivering the cash transfers seeks the means to lower the processing costs, reduce fraud and leakage, as well as improve access for poor. There is a need for safety and control over the funds, convenient access and reliable payment methods. It is imperative to invest in a technologically sound government transfer program. A study carried out by Demirgüç-Kunt and Klapper in 2013 attempted to compare Financial Inclusion in 148 countries and it reveals that 50% of world population is still not banked. Variations amongst countries depend on the economic development and also on income levels in various countries. Half of all adults around the world who do not have access to banks, barriers to account use, like cost, distance, and documentation requirements, it shed light on potential market failures and provides guidance to policymakers in shaping FI policies. [18]

The Global Findex Database in 2014 revealed that 62% of world adult population has an account with a bank, financial institution or mobile money provider. Increase in account penetration has happened due to mobile money. There are bigger opportunities to be explored for increasing FI through women and marginal people. Governments and the private sector need to play an important role by delivering the payment of wages and government transfers from cash into their own accounts. [5]

Parker and Sachdev in 2014 found that FI is merely a CSR activity with banks, interested in short term profits and quarterly performances. Financial Inclusion must be considered as a long-term strategic opportunity and therefore banks need to focus on profit and loss to realize its true potential and design products and services based on it. For example GoMoney, a mobile banking platform by banks in Australia and New Zealand, makes a huge profit. [6]

According to Kundu (2015), demand side factors of FI are important in determining the success of financial inclusion. A study of the best FI practices the world over in Brazil, South Africa, Mexico, etc. has been done. The success of WalMart in Mexico and Grammen Bank in Bangladesh has been studied to realise that financial inclusion product basket needs to be diversified and not just be stripped down versions of mainstream products. Financial literacy and a bouquet of all financial products and services - savings, insurance, low cost credit, remittances and payments, low cost operations and delivery are the keys to achieve complete financial inclusion. [29]

Zhang in 2015 studied the law and regulation aspect of financial exclusion by comparing the study of UK and China. He states that, consumer protection laws need to be streamlined to gain the faith of the excluded segment. UK has strong legal norms but China is in nascent stage in this sphere. Lending is essential in economy and with proper credit regulation and governance can help in boosting financial inclusion. Fungacova et al. in 2015 studied financial inclusion in China by gauging its extent in China vis. a vis. other BRICS countries using the World Bank's Global Findex data. China's Financial Inclusion is far better when compared in terms of formal account holding, however it scores low on formal credit. Chinese have intention to borrow money from family or friends as tends to take less formal credit. [22] [23]

West (2015) studied the financial inclusion scenario in Nigeria and realized that the future is in hands of not banks but Mobile Money operators. This was drawn from Firstmonie, the mobile banking initiative of First Bank of Nigeria, reflected the digital financial inclusion initiatives in Nigeria. Also he mentioned that digital financial inclusion needs to be supported by strong government policies and regulatory norms to succeed and achieve the meaningful impact. Choudhury in 2015 stressed on the need of FI in the north-eastern rural region of Bangladesh. The poor meet minor risks in their lives through cash in hand and household savings. For medium risks they depend on borrowings from moneylender or friends. For huge risks like flood or drought they depend on government relief and donor funds. Financial Inclusion is considered to be a major external intervention that can stabilize the rural households and help mitigate risk. Also he pointed out that FI is not complete in the north east rural region and agent and mobile banking needs to be strengthened to uplift people's lives. [14]

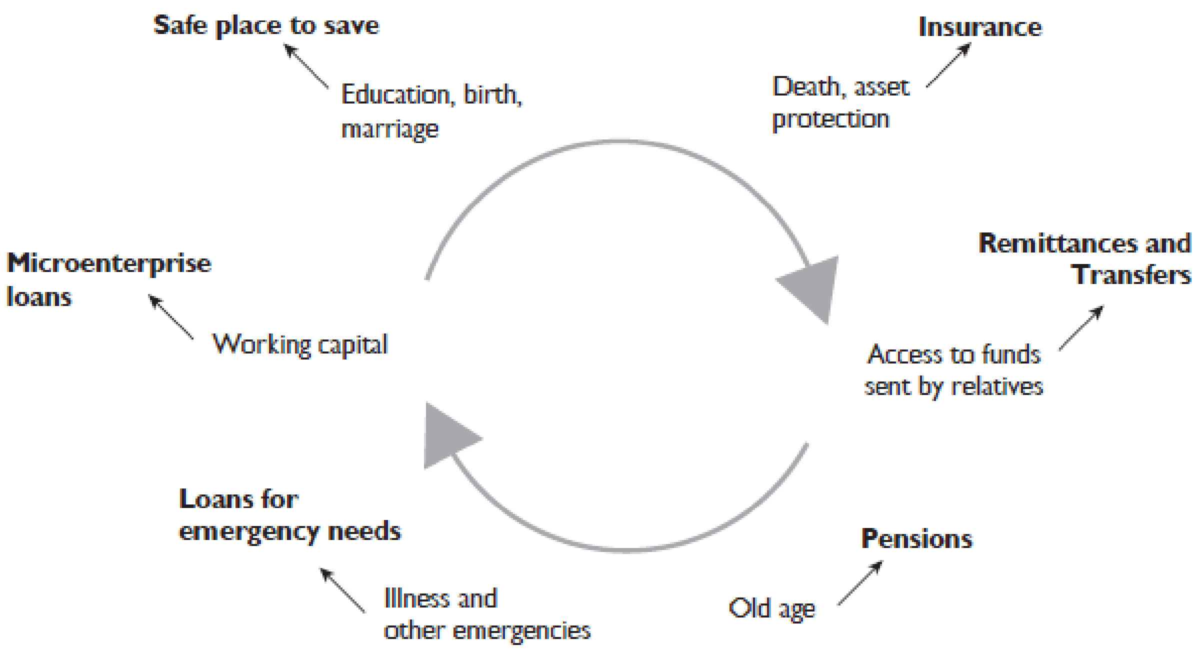
3. Objectives and Methodology

In past years, many developing countries have taken many initiatives to expand financial services for the poor. Few country strategies have given successful results which can be learning as a lesson for other countries to follow and expand financial inclusion. So the objective of this paper is to highlight and learn from other nation and boost our financial inclusion strategy in India. After secondary research and a review of existing available literature related to financial inclusion at international level has been kept as a major focus, objectives and findings of some major research works of academic researchers as well as practitioners. Sequential order of all research studies has been presented in this paper.

So let us dive deep and try to understand different aspects of Financial Inclusion. First thing which comes to my mind is about dimension of financial Inclusion given by Helms in 2006.

It is shown below as Fig 1. It depicts all three dimension of financial inclusion and there inter relation with each other in cyclic way.

Fig 1 – Dimension of Financial Inclusion (Helms 2006)



From the above figure we conclude that financial inclusion has three major dimensions. First dimension is all about serving basic needs of the society. It serves only basic Banking services. It includes deposit of cash and transfer of cash. This dimension has got maximum penetration and helps in binding the customer with basic goal setting. This dimension also acts as a base for providing next level integration of second dimension. Second dimension talks about the saving, once transaction is in place.

Second dimension is also called as protective service dimension as it offers short, medium and long term investment. It develops sense of security among them by balancing there expenditure and income. Major financial products of protective service includes pension (Long term), insurance (Against theft, accidents etc), various deposit instruments like fixed deposit, recurring deposits etc. (Short and Medium term). Like a first dimension, second dimension also provide the base for launching third dimension.

Third and final dimension is also called as promotional dimension. It is called as promotional dimension since it helps an individual to promote, like by availing loan facility on can start their own enterprise and can promote. So by this they are contributing or they are generating revenue or wealth for the society to function and grow. This dimension also completes the circle as it provide base to first dimension by adding more and more individuals who were excluded from the financial inclusion.

Next is the degree of financial services, which we are offering to end users. Now this degree is very important as the term ‘banked’ and ‘Unbanked’ is used largely to represent a section of society. If he or she comes in banked category and utilizes only one or two financial products than will it be wise to say that our objective of ‘banked’ category is satisfied. It is definitely no and in fact such misnomers are diluting our overall purpose. So it is very important here to clearly define the degree of financial services. It is also evident from the literature review that degree of freedom is not same everywhere and it changes with country to country and from people to people. Literature reviews to support this are Paxton and Regan in 2003, Whyley and Kempson in 1999 etc

Fig 2 mentioned below represent the schematic diagram of financial product and services, it was published in report on ‘Currency and Finance’ in the year 2008.

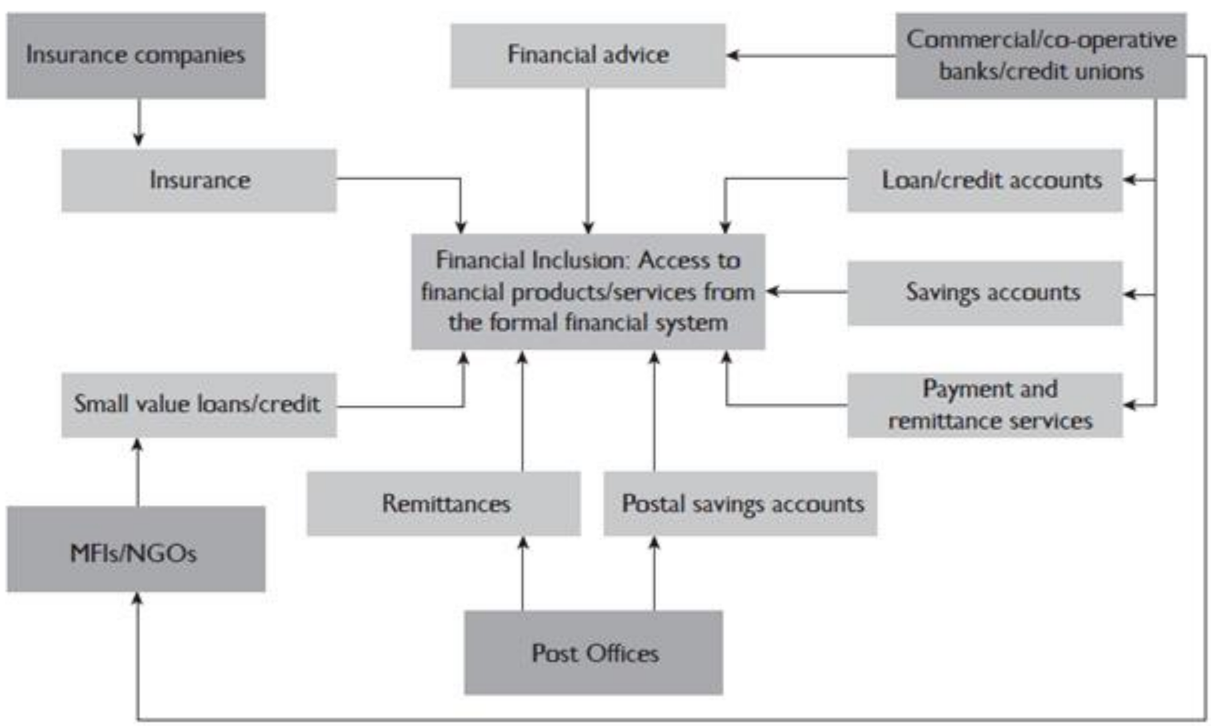


Figure above shows different financial products offered in financial inclusion, but there availability is influenced with different factors like gender, age, legal entity, place of living etc.

Let us look at how these factors affect the degree of financial service. So first is gender. Here we have seen that generally loan is given based on collateral like land or house and these things are under the name of male person. So women who are seeking for loan has to take any male member as there guarantee. Secondly for age generally lenders prefer younger one, who has potential to work. Third is legal entity, migrant's workers who keep on roaming in search of work, faces difficulty in producing legal identity such as birth certificate, identity cards and thus they were excluded in providing loans. Similar to this place of living is determine with population density, remote area or urban area and these factor influence in providing financial access to the entire population.

4. Conclusion

Here many researches have put their own thoughts and tries to dive deep into Financial Inclusion. Many different countries perspective is understood through different researchers like UK, China, USA, African countries such as Kenya, Nigeria and Ghana, Qatar, Brazil, El Salvador, Australia, New Zealand, Indonesia, China and Bangladesh. Also much cross- country comparison is done and new findings were developed. This all leads to the fact that financial Inclusion and digital improvement must go hand to hand. We cannot look both of them separately. Further Financial inclusion is the prime concern for both developing as well as developed nation. Financial inclusion is the right of every individual just like the other important aspects of life like food, clothes and shelter. To improve financial inclusion we need to improve on digitalization.

Financial Inclusion intention should not be just to touch every section of society but the major focus is to how to make it sustainable. Providing the platform to facilitate and to support people in their earning is actually a key to make it sustainable at community level.

Further stress should be laid more and more on degree of financial inclusion we are offering. Intensity of different financial products should be increased at grass root level. Development and growth of a nation will get tremendous boost if financial inclusion will be accepted in its true meaning.

5. References

5.1. Journal Article

[1] "World Bank. 2013. Inclusion Matters: The Foundation for Shared Prosperity. New Frontiers of Social Policy;. Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/16195 License: CC BY 3.0 IGO."

[2] Beck, T., Demirguc-Kunt, A., & Levine, R. (2007). ―Finance, inequality and the poor". Journal of Economic Growth, 12(1), 27–49

[3] Shahul Hameedu "Financial Inclusion - Issues in Measurement and Analysis", International Journal of Current Research and Academic Review, Vol.2, No.2, pp.116-124

[4] Bhoomika Garg "Financial Inclusion and Rural Development", Research journali's Journal of Commerce, Vol. 2, No.1, February 2014, pp.1-6

[5] (2014). Global Financial Development Report 2014: Financial Inclusion.

[6] Parker, A., & Sachdev, S. (2015). The commercial viability of financial inclusion, 9(3), 294–304.

[7] Aker J., & Wilson K. (2013). Can mobile money be used to promote savings? Evidence from preliminary research Northern Ghana, Swift institute working paper no. 2012-003 S.P. Bansal, and K. Jaswinder, "Ecotourism for Community Development: A Stakeholder's Perspective in Great Himalayan National Park." In Creating a Sustainable Ecology Using Technology-Driven Solutions, IGI Global, (2013) pp. 88-98.

[8] Anzoategui, D., Demirguc-Kunt, A. & Martinez Peria, M. S. (2014). Remittances and Financial Inclusion: Evidence from El Salvador. World Development, 54, 338–349. doi:10.1016/j.worlddev.2013.10.006

[9] Appleyard, L. (2011). Community Development Finance Institutions (CDFIs): Geographies of financial inclusion in the US and UK. Geoforum, 42(2), 250–258. doi:10.1016/j.geoforum.2010.09.004

[10] Bayero M. A. (2015).Effects of Cashless Economy Policy on financial inclusion in Nigeria: An exploratory study. Procedia - Social and Behavioral Sciences, 172, pp. 49 – 56. Retrieved from http://creativecommons.org/licenses/by-nc-nd/4.0/

[11] Bayero M. A. (2015).Effects of Cashless Economy Policy on financial inclusion in Nigeria: An exploratory study. Procedia - Social and Behavioral Sciences, 172, pp. 49 – 56. Retrieved from http://creativecommons.org/licenses/by-nc-nd/4.0/

[12] Cámara N. & Tuesta D. (2014). Measuring Financial Inclusion: A Multidimensional Index. A Working paper 14/26, Retrieved from www.bbvaresearch.com

[13] Chima O. (2010). The Democratisation of Finance : Financial Inclusion and Subprime in the UK and US. Ph. D thesis, University of Northumbria, Newcastle

[14] Choudhary, P. (2012). Financial Inclusion and Nationalised Banks Dhanbad District, Anusandhanika, IV (II), 177–181.

[15] Cohen M, & Candace N. (2011). Financial literacy: A step for clients towards financial inclusion. Paper presented at Global Microcredit Summit, 2011.

[16] D'alcantara, G., & Gautier, A. (2013). The Postal Sector as a Vector of Financial Inclusion. Annals of Public and Cooperative Economics, 84(2), 119–137. doi:10.1111/apce.12006

[17] Dancey, K. (2013). Why Payment Systems Matter to Financial Inclusion: Examining the Role of Social Cash Transfers. Journal of Payments Strategy & Systems, 7(2), 119–124. Retrieved from http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=89393987&site=ehost-live

[18] Demirguc-Kunt A., Klapper L., Singer D. & Oudheusden P.V. (2015). The Global Findex Database 2014, Measuring Financial Inclusion around the World. Policy Research Working Paper 7255, Development Research Group, Finance and Private Sector Development Team, April.

[19] Demirguc-Kunt, A. & Klapper L. (2012). Financial Inclusion in Africa: An Overview.Policy Research Working Paper, 6088, Washington, D.C.: World Bank, June.

[20] Rhyne E. (2012). Money Management, Financial Inclusion and Banking the Unbanked. Center for Financial Inclusion.

[21] Diniz, E., Birochi, R., & Pozzebon, M. (2012). Triggers and barriers to financial inclusion: The use of ICT-based branchless banking in an Amazon county. Electronic Commerce Research and Applications, 11(5), 484–494. doi:10.1016/j.elerap.2011.07.006

[22] Fungáčová, Z., & Weill, L. (2014). Understanding financial inclusion in China. China Economic Review, 34, 196–206. doi:10.1016/j.chieco.2014.12.004

[23] Zhang, M. (2015) Financial inclusion from the perspective of basic banking services and consumer credit.

[24] Hameedu, S.M. (2012). Financial Inclusion - Issues in Measurement and Analysis. International Journal of Current Research and Academic Review, 2(2), 116-124.

[25] Huefner F. & Bykere A. (2015). Financial Inclusion: A Financial Industry Perspective. Institute of International Finance, retrieved from www.iif.com

[26] Owens, J. (2013). Offering Digital Financial Services to Promote Financial Inclusion: Lessons We've Learned. Innovations, 8(1/2), 271–282.

[27] Kempson E. & and Collard S. (2012). Developing a vision for financial inclusion, Dorking, Surrey: Friends Provident Foundation.

[28] Seshan G., & Yang D. (2012). Trasnational Household Finance: A Field Experiment on the Cross-border Impacts of Financial Education for Migrant Workers
[29] Kundu, D. (2015). Addressing the Demand Side Factors of Financial Inclusion. Journal of Commerce & Management Thought, 6(3), 397–417.