

POSITION PAPER



Financial inclusion: how do we make it happen?

WSBI views and proposals

October 2010



WSBI

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Executive Summary

With the political momentum around the issue of financial inclusion, WSBI presents some ideas, views and proposals on how to make it happen, with a specific focus on emerging and developing economies:

- Financial inclusion has to rank high on the priority list of global banking and financial standard-setting bodies and policy institutions, and come as the result of coordinated actions between interested stakeholders at national level, across sectors (financial/banking and social welfare/development/education etc);
- Financial inclusion involves giving access to an entire range of affordable, safe, accessible, adapted and usable financial services and products (credit, savings, remittances, insurance etc);
- Financial inclusion calls for the development of innovative financial services techniques, not only related to the delivery modes (branchless banking), but also to the design of products and the business partnerships;
- Financial inclusion requires a diversity of sound and efficient financial services providers operating in a level playing field.

The international community should support the development of inclusive financial sectors, through a number of policy actions:

- Developing enabling and proportionate regulatory and supervisory frameworks conducive to financial inclusion, ie with the right balance between the risk to mitigate and the implementation costs;
- Defining supportive frameworks to encourage the opportunities that technology solutions, such as mobile phone banking and more broadly branchless banking, bring to expand access to finance;
- Underlining the importance of financial literacy efforts, especially for children and the young population, and consider introducing financial education as part of schools curricula;
- Ensuring an appropriate level of consumer protection, as a core element to build long-term relationships, based on trust and confidence.

1. The context: Global policy support towards financial inclusion

At the recent G20 Summits, Heads of States and Governments heavily focused on measures to support economic recovery and to reform the financial system, in the aftermath of the crisis¹. As part of their master plan, they recognised the “*mutually reinforcing policy objectives of financial stability, financial integrity, financial inclusion and consumer protection*”. It is a significant step that in the eyes of the most developed economies of the world, the global financial sector not only needs to be sound, stable, efficient and competitive, but it must also secure access to all, including the most vulnerable parts of the population and small entrepreneurs. This is a major achievement towards the development of fully inclusive financial sectors, worldwide. WSBI welcomes this approach.

Awareness is indeed growing that access to a wide set of financial tools provides low-income people with much greater capacity to increase or stabilize their income, or build assets, or foster their resilience to economic shocks. The importance of financial access was also strongly underlined at the occasion of the recent review of the Millennium Development Goals, as a key accelerator to meet the UN human development objectives and particularly the alleviation of poverty². There was a general agreement that bringing relevant financial services to people in need in emerging and developing countries can be a highly effective tool to lift people out of poverty, financially empower them and offer them genuine opportunities for personal development and education. This commitment will be a core milestone for the emergence of more socially-efficient financial systems that progressively drive the developing economies towards a sustainable, stable, balanced and fair growth path.

Given this political momentum around the issue of financial inclusion, WSBI presents some ideas, views and proposals on how to make it happen, with a specific focus on emerging and developing economies.

2. Facilitate coordinated efforts, across sectors and across regions

WSBI strongly believes that financial inclusion should no longer be the exclusive responsibility of social cohesion bodies, development agencies and poverty alleviation organisations. As stated by the G20, it has to rank high on the priority list of global banking and financial standard-setting bodies and policy institutions. The Basel Committee on Banking Supervision has recently paved the way with its consultation on the application of the core principles for effective banking supervision to microfinance activities³. This experience should drive further global efforts, but proper tools and mechanisms should be in place to secure that non G20 countries are actively involved in the discussion and fully on board with the recommendations and decisions made. AFI, the Alliance for Financial Inclusion⁴, would be a useful channel to reach this objective.

Coordination should also be enhanced at national level, to make sure that Central banks, Ministers of finance and banking supervisors work hand in hand with national authorities and bodies in charge of non financial areas, which play a crucial role to achieve financial inclusion, either because they work with the targeted groups of unserved people (eg. social welfare, migration etc), or in business sectors for which specific financial services are needed (eg. agriculture, health etc), or on the infrastructure aspects (eg. telecommunications).

¹ <http://www.pittsburghsummit.gov/mediacenter/129639.htm>;
http://www.g20.org/Documents/g20_declaration_en.pdf

² <http://www.un.org/en/mdg/summit2010/>

³ <http://www.bis.org/publ/bcbs167.htm>

⁴ <http://www.afi-global.org/>

Finally, the successful examples of inclusive finance implemented in emerging and developing countries, such as microfinance, branchless banking, the use of technology and particularly mobile phones, can serve as useful references. There is a unique opportunity to engage with emerging and developing countries policymakers and stakeholders, as knowledgeable peers, and learn from their experience and expertise, having in mind of course the need to take into account the different market contexts. Priorities for action and the levers for progress, as well as the measures of success, should be differentiated from one region and one country to the other, and tailored to the specific regional/national challenges. This cooperation would be of mutual benefit, and lead to fruitful exchanges to improve further the development of sustainable models, as well as the required technology and innovation to access the poor.

3. Give access to a wide range of usable financial services and products

The access to finance debate has strongly focused over the past years on the provision of credit. But there seems to be a shift lately, with a number of stakeholders and policy-makers “rediscovering” the benefits and the crucial role of savings, as a core basic banking service. This is undoubtedly connected to the crisis context, and the value of building a safety net to be used in case of extreme need. It is also linked to the fast expansion of microcredit, and the evidence that to reach its full effectiveness, microcredit has to be accompanied by microsavings, as a key enabler to finance productive activities.

WSBI welcomes the growing consensus according to which financial access should not be looked at from a purely credit perspective, and should equally focus on the saving needs and abilities of individuals. WSBI member institutions have indeed an historic experience in giving access to safe deposit-taking services to the low-end of the market, all over the world, which clearly evidences the demand for convenient and accessible small savings products. It is clear that, contrary to what one could think, low income and poor people can and are willing to save⁵. In this respect, the international community’s support to encourage the promotion of a savings culture, especially for households and young people, and the development of an enabling framework for the collection of low-value, unpredictable and irregular savings in formal institutions is still needed.

More generally, poor people in the developing world – just like wealthier people in developed countries – have diversified financial needs and should get access to an entire range of affordable financial services. This includes access to credit and to savings accounts, but also to payment services, insurance products and the ability to send and receive money cheaply through remittances.

WSBI and its member institutions view remittances as a major gateway to financial services and believe that for remittances to deliver maximum benefits both to the individuals concerned (i.e. the remitting migrants, and their families and communities in their country of origin) and at macro-economic level, it is essential that remittance flows become fully included in the formal financial space. WSBI also believes that a paradigm change is required for financial institutions to acknowledge the migration value chain, the importance of different communities within this chain, and leverage the confidence and trust which is gradually accrued to move remittances away from cash to a range of supported financial products. Such a systematic approach to the migration value chain requires deeper co-operation between financial institutions in both emigration and immigration countries, notably in the areas of information, education, product design and management, referral services, account history, and transfer of know how⁶.

⁵ Perspectives 56 *Who are the clients of savings banks ?*

[http://www.wsbi.org/uploadedFiles/Publications_and_Research_\(ESBG_only\)/Perspectives%2056%20screen%20view.pdf](http://www.wsbi.org/uploadedFiles/Publications_and_Research_(ESBG_only)/Perspectives%2056%20screen%20view.pdf)

⁶ For WSBI international remittances *Switch* initiative, see <http://www.wsbi.org/template/content.aspx?id=4364>

Finally, WSBI is convinced that financial inclusion should not only be about reaching high numbers of unbanked or underserved groups. It should equally be about the provision of quality financial services and products. This means that access to safe, adapted, accessible, affordable and usable financial services and products should be offered. In this respect, usability should not be confused with usage as far as savings are concerned. Many poor clients deliberately put aside savings so as not to use them except in extreme need. More important is to be able to access an unused account at short notice without material loss to the original value of savings put aside.

4. Support innovative products, services and business partnerships

WSBI fully supports the ongoing initiatives to optimize the potential of innovation for the delivery of financial services to the most vulnerable parts of the population. The opportunities offered by technology, and in particular mobile phones and the development of branchless banking solutions, mainly through retailers, are promising routes to provide competitive and adapted services to clients and enlarge the outreach to the unbanked and underserved segments.

For WSBI banking institutions, the use of new technologies and the development of partnerships with non bank agents come as an addition to the physical network of branches, not only to improve accessibility for existing customers, but more importantly to reach new groups of people⁷. Branchless banking outlets come as extensions of the physical branches for a greater banking penetration, and not as substitutes to the local coverage. This is a key pillar of the proximity banking model of savings banks, which has proved its effectiveness for the development of relationships customer/bank based on long-term trust and confidence.

WSBI is also of the opinion that innovation can and does extend beyond the mere delivery channels. Some pioneering initiatives have proved their efficiency to bank the still unbanked, for example in the fields of:

- business models, eg. partnerships with informal savings groups, microcredit institutions, mobile phone operators;
- product design and development, e.g. introduction of basic transaction accounts, package of entry-level, simple services customised for low income people;
- account-based public transactions, e.g. Government to Persons Payments; savings-linked Conditional Cash Transfers;
- marketing approaches, “social” marketing, e.g. SMS to incentivise people to save.

In any case, the innovative models, business practices and pro-poor approaches which WSBI is interested pursue “bancarisation” objectives and aim at the long-term integration of target groups in the formal banking system.

⁷ “*Banking beyond bank branches*” approach, cf. Alexandre Claire, Mas Ignacio and Radcliffe Daniel, Regulating New Banking Models That Can Bring Financial Services To All (August 1, 2010). Available at SSRN: <http://ssrn.com/abstract=1664644>

WSBI is definitely supportive of innovative solutions to enlarge financial access. Nevertheless, in the current market environment, it is a collective responsibility of all actors involved to acknowledge and to take into serious consideration that financial innovation can also present large adverse systemic impacts in a context of deficient regulatory, supervisory and corporate governance practices. Financial innovation should be brought to the developing world, at the pace of the markets, in an orderly and organised manner, following relevant disclosure and transparency guidelines, supporting real economy initiatives, and with the ultimate objective of serving the long term interests of society's neediest people.

5. Encourage the diversity of sound financial services providers

WSBI is convinced that the diversity of financial services providers with different business models, different scopes, different sizes, different geographic coverage, different delivery modes and different client groups is a core element for the development of stable, sound and inclusive banking markets. In the current context, the coexistence of different banking structures has proved a key element to confine the extension of the financial crisis.

Promoting pluralistic retail financial markets will give space to different types of providers interested in serving different types of clients, including the most remote ones and the less sophisticated. All of them should operate in a level playing field on the basis of the core principle "same business, same risks, same rules". No institution should be discriminated on the basis of its legal form or the way it uses its profits. Equally, non bank players offering banking services should be subject to a similar level of obligations as banking players, when providing a similar service.

WSBI also wishes to stress the importance of postal networks to foster financial inclusion. A number of experiences have proved successful to reach unbanked people⁸, taking advantage of the broad proximity networks and of the low operational costs to achieve geographical and financial outreach. WSBI argues that one of the conditions to unleash the potential of postal networks involves strengthening the efficiency and the quality of service offered. In its view, this requires institutional changes, based on legal and financial autonomy for postal banking entities, the introduction of strong corporate governance principles and oversight by the national banking supervisory authorities⁹.

In addition, in an increasingly competitive market, WSBI strongly encourages the development of synergies and strategic partnerships between postal banking networks and organizations which have complementary skills and expertise, such as banks, microfinance institutions, money transfer operators, mobile phone companies, or retailers. Based on the core assets which postal banks could bring to these joint ventures -their experience at collecting small deposits, their proximity network, the confidence which people have in them -, WSBI believes that such alliances will strengthen the pro-poor banking offer, diversify the variety of financial products and services and the distribution channels.

6. Action-oriented recommendations for further progress

WSBI is convinced that the international community, and policy-makers at national and at regional level, should support the development of inclusive financial sectors, through a number of policy actions:

⁸ <http://postfi.files.wordpress.com/2010/06/betweenfinancialinclusionandpostalbankingv221.pdf>

⁹ http://www.wsbi.org/uploadedFiles/Position_papers/0620PositionPaperEN.pdf

a) Developing enabling and proportionate regulatory and supervisory frameworks conducive to financial inclusion

WSBI calls upon policymakers and decision-makers to facilitate access to finance by:

- ensuring that rules and regulations are practical and do not impair access to financial services by taking into account the peculiarities of reaching out to underserved communities;
- developing country or region specific frameworks, which take account of the profile of the target groups and of the current financial infrastructure, as well as of the economic and social context. There is no “one size fits all” approach;
- defining rules proportionate to the expected benefits, with the right balance between the risk to mitigate and the implementation costs. Appropriate capacities to ensure efficient supervision should also be available.

WSBI would like to mention two areas which illustrate the need for adapted and proportionate rules, and for which possible solutions are being defined:

- The implementation of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regulations derived from FATF Recommendations in low capacity countries has in a number of cases impaired access to bank accounts or services. WSBI is convinced that financial inclusion and AML/CFT rules pursue mutually supportive and complementary objectives: the definition of measures which enable more citizens to use formal financial services increase the reach and the effectiveness of AML/CFT controls. However, Customer Due Diligence (CDD) obligations, as requested by the FATF provisions can prove difficult in countries with a lack of formal identification register and address system.

WSBI therefore recommends that national regulators make use of the flexibility offered by the AML/CFT international standards to prevent unintended effects on financial inclusion¹⁰. The adoption of a Risk-Based Approach and the customization of AML/CFT Recommendations at country-level can respond to the need of low income prospective clients, in full compliance with the FATF standards. The definition of a reduced CCD regime, where the risks are potentially low and a sequenced implementation of the FATF set of Recommendations, across financial sectors, institutions and operations have proved useful methods to overcome the existing constraints.

Nevertheless, and as part of the ongoing review of the FATF Recommendations, WSBI calls for further guidance from FATF on the identification of low risk transactions and customers and clarification of appropriate CDD measures within the low risk context.

- The Basel Committee on Banking Supervision (BCBS) issued some guidance on the application of its Core Principles for effective banking supervision to microfinance activities¹¹, especially those developed by deposit-taking microfinance institutions. It suggested that the Core Principles generally offer a suitable framework for microfinance supervisors, with some adjustments and tailoring requested, taking into account in particular the type, size, and complexity of transactions, and the need to avoid adding significant costs to microfinance providers.

¹⁰ http://www.wsbi.org/uploadedFiles/Position_papers/0565%20updated.pdf

¹¹ http://www.wsbi.org/uploadedFiles/Position_papers/WSBI%20Contribution%20BCBS%20167.pdf

WSBI welcomed the Basel Committee's initiative and underlined that the focus on all deposit-taking institutions will be a major step to build trust of small scale savers and positively contribute to developing inclusive financial markets. WSBI supported the proposal to use the banking supervisory framework as a reference, for a level playing field between all microfinance providers. But WSBI also pointed at the need to ensure efficient implementation and take up by the local supervisory authorities, especially in developing countries not familiar with the Basel Committee approach.

b) Defining supportive frameworks to encourage the opportunities that technology solutions bring to expand access to finance

There are huge expectations that innovative distribution channels, involving technology or/and non bank intermediaries, could be a significant enabler for much wider and deeper financial inclusion. To reach this objective, a number of core policy and regulatory principles should be followed:

- Banks should be allowed to work through third-party retail outlets, which would act as intermediaries vis-à-vis the clients;
- The status of the agent (be it a lottery kiosk, a pharmacy, a newsagent or any other kind of retailer) vis-à-vis the bank has to be unambiguously disclosed to the clients, as well as the scope of the activities undertaken on behalf of the bank;
- Given that one of the main objectives of working through non bank agents is to bank people and to integrate them into the formal banking system, the scope of services to be delivered by the agents should extend to the opening of accounts and the collection of deposits. They should not be restricted to transactional operations such as withdrawals or payments;
- Any regulation should be service-based rather than provider-based. This would ensure that all financial service providers, whatever the distribution channel they use and whatever their institutional status, operate in a level playing-field;
- All consumers should benefit from the same level of security, whatever the institution they operate with, whether it is a bank or a non-bank player. This would involve that all branchless banking models should involve a banking institution, to ensure that relevant prudential and supervisory measures are in place to guarantee the security and the soundness of transactions;
- Risk mitigation and the challenge of ensuring high level consumer protection should be carefully balanced with the needs for innovation and market access.

c) Supporting the financial literacy efforts

Financial education in emerging and developing economies is to be directly connected to the debate on access to finance, the lack of knowledge on money issues and some possible misconceptions on the role of banks. The primary focus is therefore on financial literacy, with the provision of basic information about money and the benefits of having a relationship with a formal banking institution. The aims should be to build the required long-term trust and ultimately to enlarge the level of "bancarisation" of the population.

Moreover, financial education can contribute to a more efficient and more proactive use of scarce financial resources by current clients of banks, through a better understanding of the opportunities and options on offer. It is also important to enable customers, especially the most vulnerable ones, to protect themselves from abusive financial practices and prevent

them from being overburdened by debt. All in all, the end objective should be to empower people to achieve their own goals through enhancing their financial capabilities.

This is particularly true in a context of rapid development of branchless banking, with newly banked people being exposed to non bank intermediaries, therefore with no possibility to directly interact with experienced bankers. This calls for enhanced efforts to teach low income customers how to successfully and safely use the services offered, and manage their money better. This would also be a condition to open up the true potential of branchless banking.

Financial education is a key field of WSBI members' contribution to society and interaction with stakeholders. On all continents, savings banks play an important role in educating people on finance and budget, far beyond the scope of their clientele. They are motivated by the strong belief that these initiatives contribute to bank people, prevent social and economic exclusion and that citizens with a better knowledge of financial issues are able to make informed choices¹².

WSBI has issued some proposals on the conditions in which financial education could best contribute to address the access to finance gap¹³:

- Definition of a comprehensive national strategy: financial education has to be part of the long-term vision and comprehensive approach defined by governments and/or regional policy-makers for the development of inclusive financial services sector. It also needs to be an integrated part of broader policy initiatives on consumer protection and fair market practices, and a complement, and not a substitute, to proper financial regulation;
- Adoption of a multi-stakeholder approach: all interested stakeholders have to be involved in financial literacy efforts (representatives of Ministries of Finance, but also of Education, and if relevant of Social affairs/cohesion and of Development, central banks and financial services supervisory authorities, consumers and civil society, through NGOs, especially women groups, churches, community groups, who can act as demultipliers with the targeted groups of people), and work through a collaborative process.
The financial industry at large should also take part, ie. financial services providers as well as financial intermediaries, such as money transmitters or banking agents as the first points of contact with the public. They should give assurances that their involvement is done in a fair, transparent and unbiased way;
- Development of life-long learning programmes, with specific focus on children and young people: WSBI believes that financial education should be available and actively promoted at all stages of life, on a continuous basis and as early as possible.
In a number of countries, specific programmes for children's education to the basics of money have been developed, not only to support their habit building, but also because children are key actors of change for their families, and more generally for households and communities' attitude to money. A key objective for governments could therefore be to strengthen basic financial education programmes at school. Although well aware that this is a decision to be taken by national authorities, WSBI would nevertheless call on national governments to consider including financial education in the primary and secondary school curriculum.

¹² [http://www.wsbi.org/uploadedFiles/Publications_and_Research_\(WSBI_only\)/financialeducation%20wsbi%20screen.pdf](http://www.wsbi.org/uploadedFiles/Publications_and_Research_(WSBI_only)/financialeducation%20wsbi%20screen.pdf)

¹³ http://www.wsbi.org/uploadedFiles/Position_papers/0064.pdf

d) Ensuring an appropriate level of consumer protection

Consumer protection measures are of high importance and should be given specific attention in a context where banking with formal institutions is still emerging. The targeted client groups, by definition, come from the most vulnerable and low income segments of the population and the impact of any misbehaviour or fraud by a banking institution or a banking agent has to be particularly taken into account. This is a major challenge for the credibility and the sustainability of the whole financial sector. If not properly addressed, any problem could lead a long-term mistrust in financial institutions and loss of confidence in the banking system altogether.

WSBI has defined a guidance for Fair and Clear Relations with Consumers¹⁴. The main objectives are to highlight the importance of fair and clear relations with customers as a means of building, maintaining and enhancing a long-term relationship of confidence with customers, and provide a tool-box of non binding guidelines and best practice examples which can be used by WSBI/ESBG member savings and retail banks to develop an integrated customer relations policy. It includes recommendations to:

- Provide clear, transparent, understandable and honest information on products and services and other terms and conditions of use;
- Advertise responsibly and ensure the visibility of information on products and services both in the branches and at retail outlets where banking transactions are made;
- Provide advice that meets the needs of customers and promote products and services that are appropriate to their personal circumstances and risk profile;
- Consider all cases of financial difficulty sympathetically;
- Inform and communicate with customers and deal with customer complaints quickly and efficiently;
- Promote financial education and literacy.

Besides, WSBI is actively involved in the Microfinance Consumer Protection initiative, the Smart Campaign and promotes its 6 core Principles (Avoidance of over-indebtedness, Transparent and responsible pricing, Appropriate collections practices, Ethical staff behavior, Mechanisms for redress of grievances, Privacy of client data) with its members involved in microfinance activities¹⁵.

¹⁴ <http://www.esbg.eu/template/press.aspx?id=4368>

¹⁵ <http://www.smartcampaign.org/>



About WSBI – The Global Voice of Savings and Retail Banking

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 90 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via ESBG, the European Savings Banks Group). WSBI works closely with international financial institutions and donor agencies and facilitates the provision of access to financial sectors worldwide – be it in developing or developed regions. At the start of 2009, assets of member banks amounted to almost € 9,000 billion, non-bank loans to € 4,300 billion and non-bank deposits to 4,600 billion. Together the member banks conducted operations through 160,000 outlets.

WSBI members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. WSBI member banks have reinvested *responsibly* in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout the world.



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Published by WSBI. October 2010