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GLOBAL PRACTICES TO PROMOTE FINANCIAL INCLUSION

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Abstract:

There have been a number of objectives linked to the necessity of financial inclusion. The deprived man's financial status does not make him a creditable customer of the bank. However, the poor man requires credit as much for his business in order to fulfill emergencies. Economic development in all the segments of the society paves way to a decline of disparities with regard to earnings and savings, the financial inclusion can act as a roar for the weak and upcoming countries. This allows the underprivileged to earn and save money, and provide them the chance to go for regular income, which would inevitably lead those to the bank as credit-valuable borrowers. Hence, financial inclusion must need for comprehensive growth. Globally, attempts are made to observe the barriers of financial inclusion and planning of policies to assure access of formal financial services to destitute and needy. The causes might differ from nation to nation and thus the policy may perhaps differ, however all attempts are being done as financial inclusion rightly uplift economic condition and values of life of destitute and needy. The financial inclusion policies made by various countries are discussed in the paper.

Key Words: Financial Inclusion, Global, Initiatives, Economy, Development & Success

Financial Inclusion:

World Bank "Global Index Data Base" exposed that internationally, 62 percent of adults accounted possessing a bank account, went up from 51 percent in 2011. Alternatively, globally 38 % of adults are still not having bank accounts. The adult's population with bank account augmented in almost every financial system but the range of bank account possession constantly varies extensively around the world. In high-income Organization for Economic Co-operation Development (OECD) financial systems, 94% of adults stated possessing bank account. In upcoming countries, only 54% have bank accounts. There are also massive differences amongst developing countries. Account diffusion ranges from 14 % in the Middle East to 69 % in East Asia and the Pacific regions. Account possession augmented in every area, but the development is specifically strong in East Asia and the Pacific, South Asia, Central Asia and also in Latin America & Caribbean and Europe followed by Sub-Saharan Africa and Middle East. All these places witnessed considerable augment in account diffusion of over10 % points.

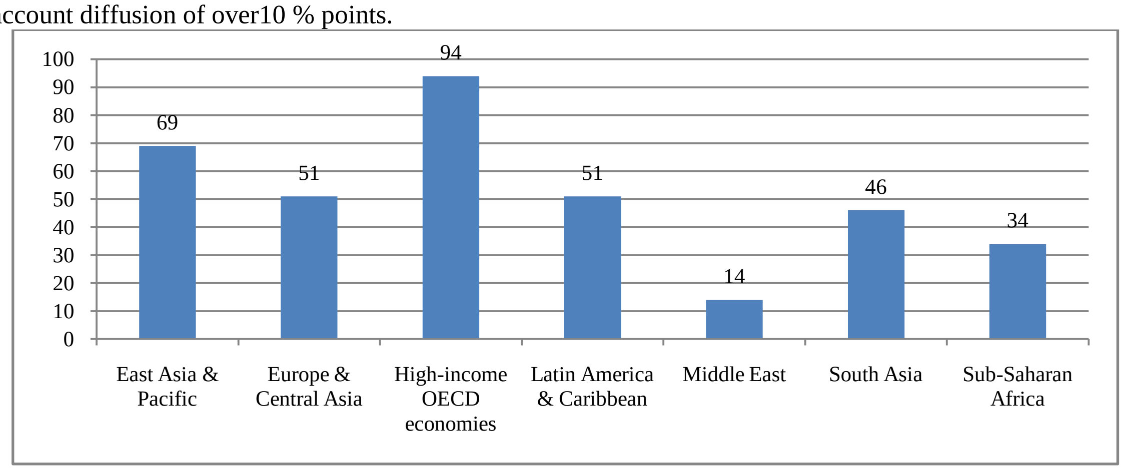

Figure 1: Account Penetration of Adults (%)

Source: World Bank Reports

Review of Literature:

Asli demi˙rgüç-kunt & Leora klapper (2013), provided the user side data set, which measured the saving, borrowing, paymentss and managing risk habits of adults in 148 countries. The study revealed that only 50% of the adults in the world have the bank account and the variation of account penetration varies from nation to nation. It depends on economic development and income groups in the country. Study also focused to identify the reasons for financial exclusion; price, documentation and the distance found as major barriers for financial inclusion. Study also reported that the degree of social development has positive impact on financial inclusion. In addition to the above factors, banking inefficiency and rate of inflation identified as minor obstacles for financial inclusion.

A report for the Commission for Rural Communities in UK, appointed to promote financial inclusion in rural areas (2007), the research employed with nine case studies. Case studies in the research have shown a range of contemporary methods to tackle financial inclusion matters in rural regions and found that access and accessibility are primary relative matters disturbing the pattern of all of these rural financial inclusion projects. Innovative initiatives recommended for tackling financial exclusion.

Alliance for Financial Inclusion (AFI) (2010) highlighted impetus for encouraging financial inclusion in developing countries by self-setting financial inclusion goals. Study suggested the use of quantitative and reliable data of access and usage of banking services to the goals.

Ravi, S & Gakhar, S (2015) research emphasized that unless suitable products for poor are introduced, the needs of the poor will not be served by the informal sources and also focused on promotion of financial literacy to educate the people about financial risks and shocks.

Noelia Clamara et al., (2014) undertaken a study in Peru and used the micro data gathered by surveys is used for analysis. Correlation of socio-economic factors with financial inclusion and sensitivity of some financial inclusion barriers identified. The results revealed that women, individuals of rural areas and young people are majorly excluded. It is identified that age, gender, income and education are main barriers for financial inclusion. On the other side loans and mortgage products are recognized as main drivers of financial inclusion than saving products.

Global Practices:

Globally, attempts are made to observe the barriers of financial inclusion and planning of policies to assure access of formal financial services to destitute and needy. The causes might differ from nation to nation and thus the policy may perhaps differ, however all attempts are being done as financial inclusion rightly uplift economic condition and values of life of destitute and needy.

Countries like Brazil, Chile, and Pakistan have designed several policies to augment the diffusion of financial services in the under-banked regions, which paved the way in extremely motivating outcomes.

- ✓ In Brazil, pharmacies, lottery kiosks, supermarkets and other vendors are allowed to perform as business correspondent agents for banks. Bolsa Familia, restrictive cash transfer program for the poor people in Brazil, offers conditional money transfer to poor household, especially to the female head of the household, families should ensure that their children must attend the school and get vaccinated. This program is like two edged sword, one side is used to include the financially excluded in to the banking fold by the transfer of the amount to their bank accounts and second side eradicates the poverty by ensuring the compulsory education as education is a primary weapon to alleviate poverty.
- ✓ In Chile, supermarket chains are progressively providing the banking services by expanding small store credit for non-account holders and also extended depending on regular repayments, which can be later translated into wider access to credit.
- ✓ Benazir Income Support Program (BISP) introduced in 2008 in Pakistan to support the poor by providing minimum income to mitigate the impact of unfavorable factors like an adverse effect of food and financial crisis etc., it has experimented with various technological innovations. Initially with Government-to-Person (G2P) payments, at present around 94% of the recipients of the scheme are covered with above mode through the electronic payment and it has used smart cards, magnetic stripe-based debit cards and mobile phones. Now debit cards also being replaced with mobile wallets, which link the beneficiary account with his mobile. Likewise, Colombia introduced Colombia’s Familias en Acción Program to support and include the poor into banking fold.
- ✓ Use of technology in mobile banking has wonderful prospective for increasing financial inclusion, particularly amongst poor people living in rural areas without bank account. The triumph of mobile money in Kenya, Tanzania,Uganda, and other African countries indicate that how these latest technologies initiate remarkable changes to get the people into monetary transactions, by lessening entry barricades, bringing down the expenses and augmenting access of formal financial services. It can also aid in bridging the expanse of institutional service providers to open the branches or outlets in excluded areas in a more cost effective manner. Usage of mobile banking in India and internationally is very low i.e. only 2% compared to Kenya and Sub-Saharan Africa, the count is58% and 12%, respectively. Introduction of MPESA in Kenya led a great success of mobile banking in the country.
- ✓ Mobile banking technologies are being used for G2P payments. Digitalizing of these payments ensures the efficiency, transparency and safe reach of benefits. It also makes sure that inclusion of unbanked in to the banking fold by channeling the direct and regular flow of funds to the beneficiaries account. According to World Bank reports 88% of the beneficiaries of government social welfare schemes in Brazil receive through digital payments and it is 80% in South Africa. But this rate is only 10 % in

India. Digitalization of G2P payments ensures the transparency and reduces the cost for the government; the proven example is shift to digital payments in Mexico.

- ✓ The nations which have a strong presence of mobile banking accounts and mobile payment more widely proved that technological innovations helped to augment the financial inclusion and identifies the input of all financial segment players, including non-banks. When financial services are simple and suitable to use and customized to the monetary requirements of the population, they prefer the widest acceptance. Hence, product design considered as a crucial factor in the growth of financial inclusion.
- ✓ In South Africa, Electronic media and radios are being used to promote the financial education. The prominent initiative in this line is the use of popular television soap opera–"Scandal!". The program is targeted at improving awareness, behaviours and behavior for developing better economical decisions, highlighting debit management. It is resulted in a great success as they have used to test the impact of the program periodically by conducting experimental tests to include the shortfalls of content in the next story line.
- ✓ Innovative institutions are developed in several countries in order to increase financial services access. For instance, The Philippine government allowed microfinance units to establish the formal bank, but it should offer half of their portfolio to the micro finance sector. This has given an opportunity for micro finance institutions to convert to the bank. At the same time serves the purpose of reaching unbanked and boost the small savings, also cater the needs of the underprivileged section. In addition to these scaled-down branches called as 'micro-banking offices are permitted, where the banks cannot establish the full branch.
- ✓ One of the liberalization of bank license is found in Mexico. In 2009, it has permitted to establish 'niche bank', which can perform the activities same as other traditional banks, but relaxation is given in the capital requirement and flexible regulatory framework is introduced in the country for the first time in the world to enable the introduction of technological based products, which links the mobile.
- ✓ In United Kingdom (UK) Financial Inclusion Fund is established to include all the sections into the banking fold and it has focused three essential factors. They are,
    - To provide access to basic banking services by providing no-frills account
    - Access to affordable bank finance, to reach this objective, Credit Unions are established
    - Equitable financial advisory services

  Community Finance Learning Initiatives (CFLIs) also introduced to promote financial literacy. One of the major financial inclusion initiatives in UK is the introduction of the Saving Gate Way, which offers £1 from the government for every £1 of investment; the limit is a maximum of £25 per month for low income people.
- ✓ Community Reinvestment Act (CRA) introduced in the United States (US) which mandated all the banks to provide the credit to all the sections of the community without any discrimination. It is found to be a win-win state for both banking institutions and public. In addition to this, State of New York Banking Department is established to provide low cost banking facilities. To reach cent percent financial inclusion, it mandated to all the banks in the US to offer basic banking account with the transparency of the details of the account. According to this, the customer should have prior information about an initial deposit, minimum balance and charges and number of withdrawals etc. Credit Unions should offer a basic share draft account to provide low cost accounts with minimum services.
- ✓ Consumer protection laws are strengthened in countries like South Africa and Malaysia to promote the financial inclusion. The Consumer Protection Act of South Africa provided greater protective measures to customers of goods and services and Act also permitted to establish National Consumer Commission to investigate the consumer complaints. Bank Negara Malaysia (BNM) established Walk-in Customer Service Center and Integrated Contact Centre (ICC), where the customer can directly come and lodge their complaints.
- ✓ Index based insurance is found as a powerful tool to protect the farmers. Under index based insurance the financial product measured with pre specified verifiable index that is associated with local yield, mortality of livestock, and data on climatic conditions of rainfall, temperature, hail and wind observed by meteorological stations by remote sensing techniques. Claims assessed by pre specified index, so it removes all misuses in assessment process. Hence, it assures timely and proper reach of benefits. In Kenya and Ghana it has worked in an effective manner.

Conclusion:

World Bank reports revealed that since 2010, more than 55 countries have made commitments to financial inclusion, and more than 30 have either launched or are developing a national strategy. Countries have shown their commitment towards financial inclusion with their accelerated efforts. An appealing aspect which arises from the global practice is that the more advanced the society is, the bigger the driving force on empowerment of the ordinary person and weaker groups. In the process of success they have to ensure that the fruits of the policies should reach all vulnerable groups in the society at low cost, improvement of financial literacy, introduction of innovative tailor made products, establishment of strong financial consumer protection policies, and adaption of appropriate regulatory and supervisory authorities.

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