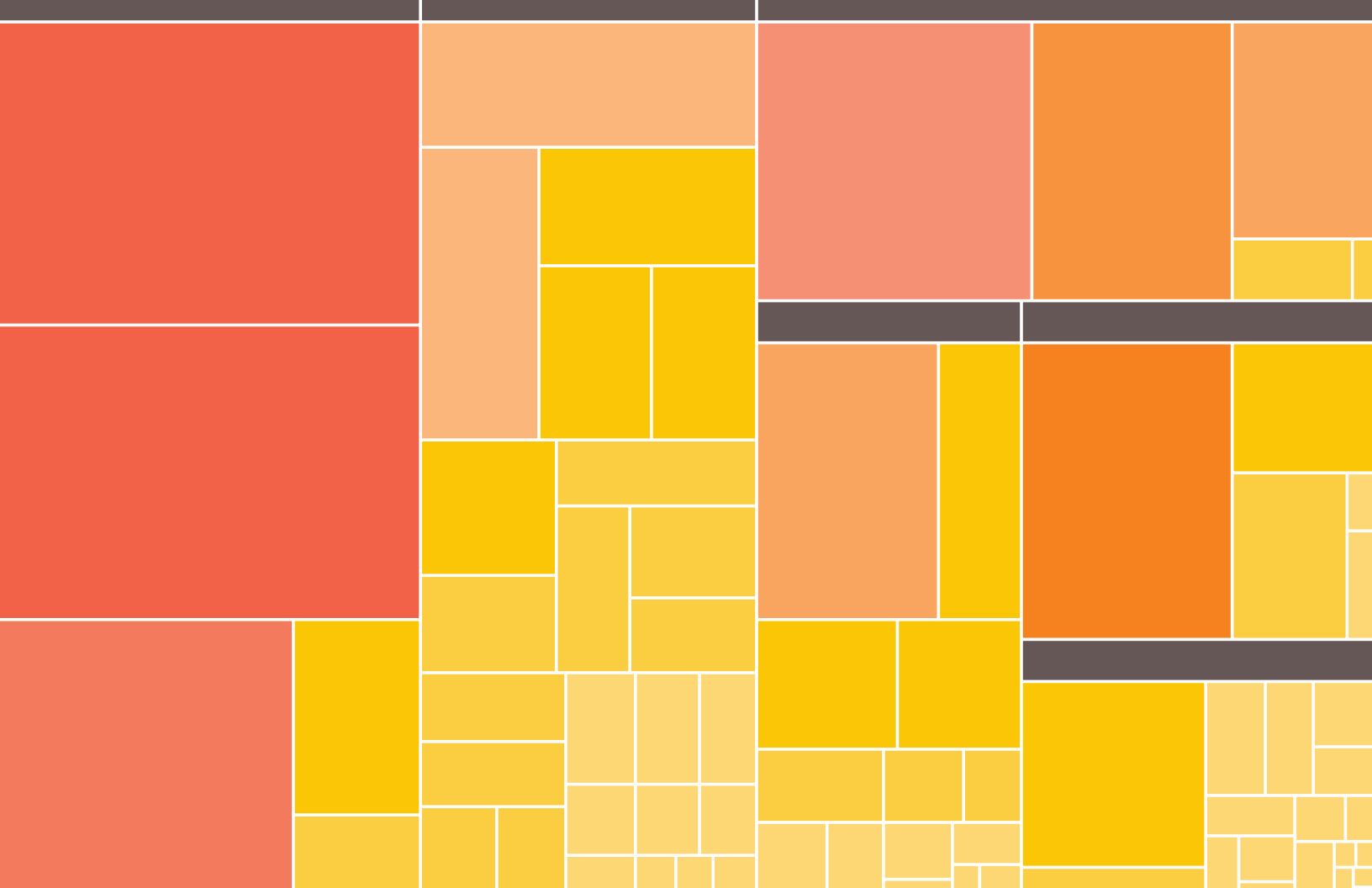




By the Numbers

Benchmarking Progress Toward Financial Inclusion

June 2015

AUTHORS

Sonja E. Kelly and Elisabeth Rhyne

FOREWORD BY

Manuel Rybach, Credit Suisse

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Foreword

Can the world achieve full financial inclusion by 2020? It is an audacious question, but one well worth considering, especially in light of a recent wave of commitments by public and private actors.

Through the Financial Inclusion 2020 project, the Center for Financial Inclusion at Accion (CFI) has been examining this question for several years. In this report, CFI takes a quantitative look at recent progress around the world and makes forward projections to 2020. The headline is that every region, income level, and “slice” of the global population is moving toward greater financial access. According to the World Bank’s Global Findex data, the number of financially excluded people globally dropped from 2.5 billion to 2 billion in the three years from 2011 to 2014. At this rate, by 2020 there will only be about 1 billion excluded adults. With an added push, the World Bank’s goal of universal access to some type of financial account by 2020 seems within reach.

This report steps beyond the headline to ask several probing questions. Who will the excluded be in 2020? Where will they live, and what population groups will they belong to? Will financial access be meaningful for the newly included? Will they use their accounts actively? Will customers deepen savings and borrowing and improve their financial resilience? The report also examines the steps that public and private actors are taking to build a financial inclusion ecosystem. It reveals a level of vibrancy that makes us optimistic about continued or even accelerating momentum.

As a global bank, we at Credit Suisse see this information as significant from a social, innovation, and business perspective. Since the beginning of our engagement in 2002, we have sought to connect the top of the economic pyramid (our bank and our private and corporate clients) with the base by developing and offering

impact investment products in the financial inclusion space. That space is continuously evolving and must continue to do so to reach its ambitious targets: stronger institutions and ecosystems, new technologies, new markets. If we are to continue to create effective investment solutions that enable our clients to support and participate in this growing and important field, a substantiated view of what is to come is key.

Despite its title, this “By the Numbers” report tells us that quantity without quality won’t work—neither for business investment nor for social impact. We and our counterparts at other financial institutions have an important role to play here too. Since 2008, our Microfinance Capacity Building Initiative has focused on developing markets and institutions that will meet the diverse needs of clients at the base of the pyramid, and through the Global Education Initiative we aim to help build financial capability, especially for girls.

CFI projects that the spending power of the bottom 40 percent of the population in low and middle income economies will grow from \$3 trillion to nearly \$6 trillion across the decade ending in 2020. We believe full and meaningful financial inclusion by 2020 represents an enormous opportunity for social impact and economic growth for many—and that we can all be part of that necessary “push,” thereby also making a meaningful contribution to achieving the UN’s Sustainable Development Goals going forward.

Let me conclude by commending the CFI for its commitment to speaking out about the importance of meaningful financial inclusion, and I trust that you will find the CFI’s latest report to be insightful.

Dr. Manuel Rybach

Global Head of Corporate Citizenship and Foundations
Credit Suisse

Introduction: What the Numbers Tell Us



For several years, the Center for Financial Inclusion at Accion (CFI) has engaged in a thought experiment with participants across the financial inclusion sector. We have asked stakeholders to consider one question. Could full financial inclusion be possible by the year 2020?

This question was prompted by our suspicion that, despite large gaps, there was sufficient momentum at work within the industry to place full inclusion by 2020 within the realm of possibility. When we began the Financial Inclusion 2020 project, it was difficult for people even to engage with this concept. They were often preoccupied with today's challenges, 2020 was too far off, and numbers to demonstrate momentum were lacking. That began to change with the release of the Global Findex 2011, which provided demand-side benchmarks on the level of inclusion and revealed both substantial inclusion and exclusion around the world. But at that point the pace of change could only be gleaned from supply-side information. The World Bank's 2014 call for universal financial access by 2020 gave strong impetus to the 2020 timeframe. It signaled that an important dimension of financial inclusion might be achievable within the decade, based on internal analysis that provided the World Bank sufficient confidence to underpin a publicly-trumpeted goal. But it is only with the publication in April 2015 of the Global Findex 2014 that a second demand-side data point has become available, allowing measurement of progress and trends. Now, for the first time, we can look toward 2020 with numbers based on consistent cross-country and cross-time surveys, thanks to the Bill and Melinda Gates Foundation's support of the Gallup World Poll and the World Bank.

This report, "By the Numbers," represents the CFI's quantitative review of the current status of financial inclusion globally, relying largely, though not exclusively, on the two Findex datasets. We also turn to the EIU Global Microscope 2014, which covers the enabling environment for financial inclusion, UN data on income and population growth, World Development Indicators that show increasing infrastructure, IMF data on the supply of financial services, Alliance for Financial Inclusion data on national commitments to financial inclusion, and the GSMA State of the Industry data from mobile providers for greater detail, with glimpses into what the future holds.

"By the Numbers" tracks progress since 2011 and estimates the potential for reaching full inclusion by 2020. CFI will soon follow this report with a qualitative progress report based on FI2020's five roadmaps to inclusion: addressing customer needs, financial capability, technology-enabled business models, credit reporting, and consumer protection. Progress in each of these five areas was identified as essential for building meaningful financial inclusion. We will encourage conversations around the globe and throughout the industry based on these quantitative and qualitative assessments aiming to pinpoint actions needed in various countries and industry segments.

As this decade advances, the FI2020 project will continue to measure progress and draw attention to remaining gaps and actions needed to give all the world's people the opportunity to use quality financial services that add value to their lives.

Data, Projections, and Thought Experiments

CFI has always approached Financial Inclusion 2020 as a thought experiment. The idea is to assist people to think about the future and extrapolate from what they see today to what is likely to happen just beyond their normal field of vision. We offer this analysis in the same spirit.

Indeed, a somewhat playful perspective with respect to the data is necessary. In section 1 of this report, we use the data points from Findex 2011 and 2014 to project forward to 2020 (and backward to 2010) on a straight line. These very simple projections are based on several rather heroic assumptions, including: that a straight line is the best fit, that economic and political conditions in the next five years remain much as they have been in the past three, that population growth continues in the next five years as in the past three, and that the two Findex data sets are directly comparable. On that last point, some observers have pointed out possible discrepancies between the Findex 2011 and 2014 surveys that may affect the validity of comparisons.¹ These discrepancies would be magnified in projections to 2020. Such discrepancies are perhaps inevitable, and CFI is not in a position to resolve the questions that have been raised, though we encourage readers to read the analysis on that subject.

In our view, the best use of this report is to provoke further questions. Accordingly, in Section I, we explore questions such as: Which regions are advancing faster than others and why? Which countries are moving quickly, slowly or not at all? How significant is the contribution of mobile phones to increasing

account access? Where and who will still be excluded in 2020?

We urge readers to consider the projections here as one possible scenario (based on the best readily available data) and to focus more on the implications of the scenario than on the specific numbers. In that scenario, financial exclusion looks much different in 2020 than it looks today. Exclusion will be more hidden—in harder-to-reach population segments, in slow-growth countries, and in products that are not actively used to improve lives. Emphasis will turn to “leaving no one behind” and to offering services that make a real difference.

Universal Financial Access Is Not Full Financial Inclusion

The World Bank has issued a call and made its own commitment for universal financial access to an account by 2020. This is an important, galvanizing call for everyone working in this field, bolstered by the headline news that the percent of adults with an account has risen from 51 percent in 2011 to 62 percent in 2014. The Findex 2014 report highlights the next generation of opportunities to open accounts *en masse*, thereby quickly pushing up that percentage. For example, in addition to the existing emphasis on electronic payment of government benefits and humanitarian aid, there are untapped opportunities to connect people fast and cheaply through electronic utility bill payment and direct deposit of salaries.

However, we cannot emphasize strongly enough that access to an account is a far cry from full financial inclusion. The CFI advocates for the following definition of full financial inclusion: *Financial inclusion is a state in which*

¹ Rozas and Roodman.

everyone who can use them has access to a range of quality financial services at affordable prices, with convenience, dignity, and consumer protection, delivered by a range of providers in a stable, competitive market to financially capable clients.

This definition derives from the conviction that the purpose of promoting financial inclusion is to enable people to use financial services to better manage their lives. A fully included person is an active user of services that bring the user significant value. Full inclusion requires both range and quality. Access to an account is a first step, and one that should help open the door to further use of financial services, but it is not a destination. We hope that future Findex surveys will include more comprehensive information about microinsurance, which we believe is a vital service.

With that broader definition in mind, Section II of this report examines the way people are using financial services, and it uncovers several serious issues. Most worrisome is the observation that although the number of accounts has grown, the number of people using accounts actively has not. Accounts that are not used or are used only for a single purpose (e.g., to receive a salary or benefit payment which is promptly cashed out) are not really functioning as the hoped-for “on-ramp” to financial inclusion.

The data also shows the persistence of informal financial activity, including both saving and borrowing. And a question on financial resilience shows that people in lower income countries who rely more on informal services consider themselves nearly as able to respond to emergency cash needs as their

counterparts in high income countries who use formal services. These observations suggest that a perspective on full financial inclusion should consider informal services as an important, ongoing part of the mix.

Creating Financial Inclusion Ecosystems

Section III of this report underscores the importance of an enabling ecosystem—including infrastructure and supporting policies—to accelerate progress toward financial inclusion. Lean, low-cost communications infrastructure is opening the way, and, the “digital revolution” will certainly be standard operating procedure by 2020. Supporting this market evolution are policy and regulation, with financial inclusion strategies and targets providing structure and direction. Beyond noting the value of comprehensive strategies and capable regulatory bodies, however, we have relatively little data on how policy and regulation shape market development.

Acknowledgments

The Center for Financial Inclusion is grateful for the generous support we have received from our founding partner, Credit Suisse, in support of “By the Numbers,” a project of Financial Inclusion 2020. The work of Financial Inclusion 2020 has been made possible by partnerships with CGAP, Citi, the Bill and Melinda Gates Foundation, MasterCard Worldwide, MetLife Foundation, and Visa. We are also grateful for the institutions that have made their data public, and especially to the World Bank whose Global Findex project supplies the majority of the data used in this publication. All mistakes are ours alone.

1

Will There Be Universal Access to Accounts by 2020?

Accounts are the most convenient marker for financial inclusion, and, particularly in high income countries, they are seen as the financial hub around which other financial services are organized. Access to an account takes a person from “unbanked” to “banked,” an important threshold for both governments and service providers. So it is not surprising that accounts are the focal point for measuring progress in financial inclusion.

This section slices and dices the change in account ownership between 2011 and 2014, based on Findex data, looking at growth by region, country and population group. The resulting trend lines are extended out to 2020, creating a hypothetical portrait of financial access through the decade to 2020.

The Findex defines an account as any type of transaction account—either a bank account or a mobile money account. The inclusion of mobile accounts makes a significant difference to levels of inclusion only in Africa, particularly East Africa (see Figure 4).

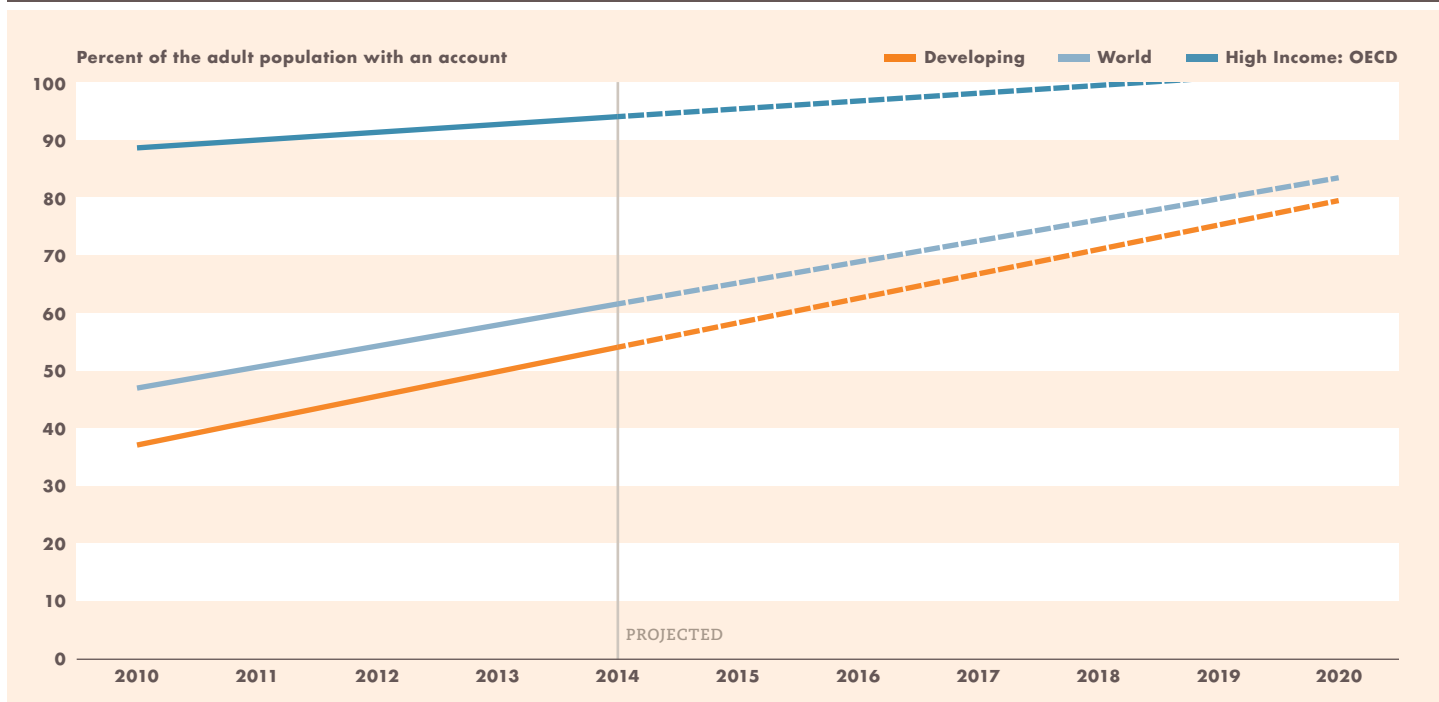
It is important to note that there was a slight but significant change in the treatment of responses regarding accounts between the 2011 and 2014 Findex surveys, in which a somewhat broader array of responses was counted during the second survey. According to the Findex, this change accounts for approximately 20 percent of the increase. We are grateful to Rozas and Roodman for pointing this out.² While this shift in definition makes direct comparison

more problematic, we decided nevertheless to base our projections on the published numbers from the two surveys, given that these are the numbers accessible to most people.

Accordingly, our projections show a somewhat accelerated pace of change, which is magnified as the trend line is extended to 2020. We can be much more confident in the direction of change, and in the comparisons across countries and regions, than about the specific levels of inclusion depicted in the out years. This change should serve as a reminder that this exercise, with its simple straight-line projections, is one of scenario-building, and its purpose is to spark thinking and provoke questions.

What is most striking about the growth of account access is how widespread it is. Only a handful of countries lost ground, mostly in the Eastern Europe and Central Asia region, and access in many developing countries grew quite rapidly, including countries at all income levels. Every population segment (men, women, rural, urban, etc.) also made gains, most strikingly including people at the base of the pyramid (bottom 40 percent). When we extend these trends to 2020, a very different picture of financial exclusion emerges, with remaining exclusion distributed widely rather than clustered in a few countries. This is due in large part to the progress shown in the past few years by the two giants, India and China, home to the largest numbers of excluded people today.

² Rozas and Roodman.

FIGURE 1**Account Ownership, 2010–2020**

Source Author projections based on Global Findex (2015).

Note Adult population refers to people age 15+.

The world is making rapid progress on access to financial accounts.

The percent of the world's adult population with an account (bank account or mobile account) has grown from 51 percent in 2011 to 62 percent in 2014, according to the Findex. The number of people without accounts has shrunk from 2.5 billion to 2 billion.

A very simple projection from these two data points shows 82 percent of the world's population as account-holders by 2020. The high income economies would reach universal access by 2019, and across the developing world 79 percent would have access by 2020.

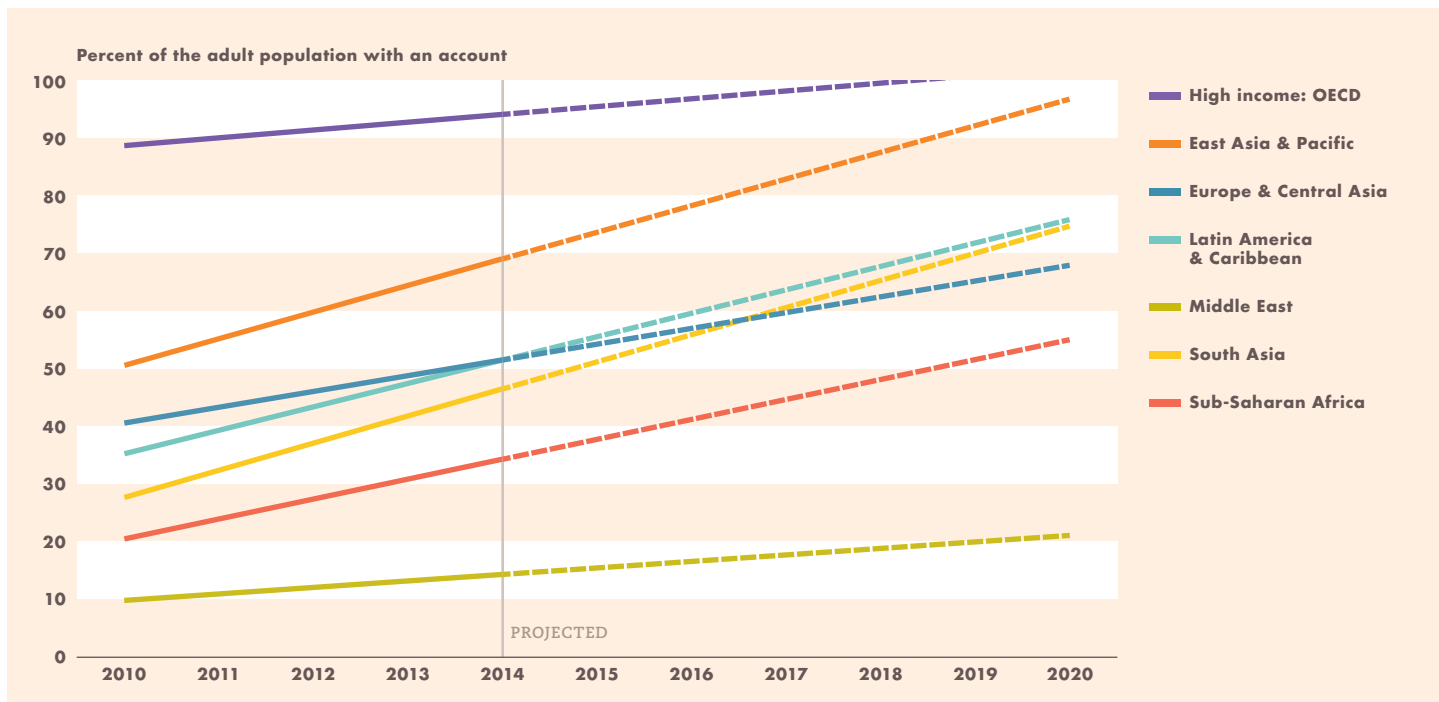
While this trend line does not put the world at universal financial access in 2020,

global momentum around financial inclusion, embodied in the World Bank's call for universal financial access by 2020 and depicted in Section III on policy and delivery infrastructure, could provide the boost needed to close the access gap.

Will these efforts to promote financial inclusion and the application of new technologies kick in to accelerate that pace? Or will the remaining excluded populations prove harder to reach, slowing the pace? Either scenario is plausible, and both factors will be in play.

FIGURE 2

Account Ownership by Region, 2010–2020



Source: Author projections based on Global Findex (2015).

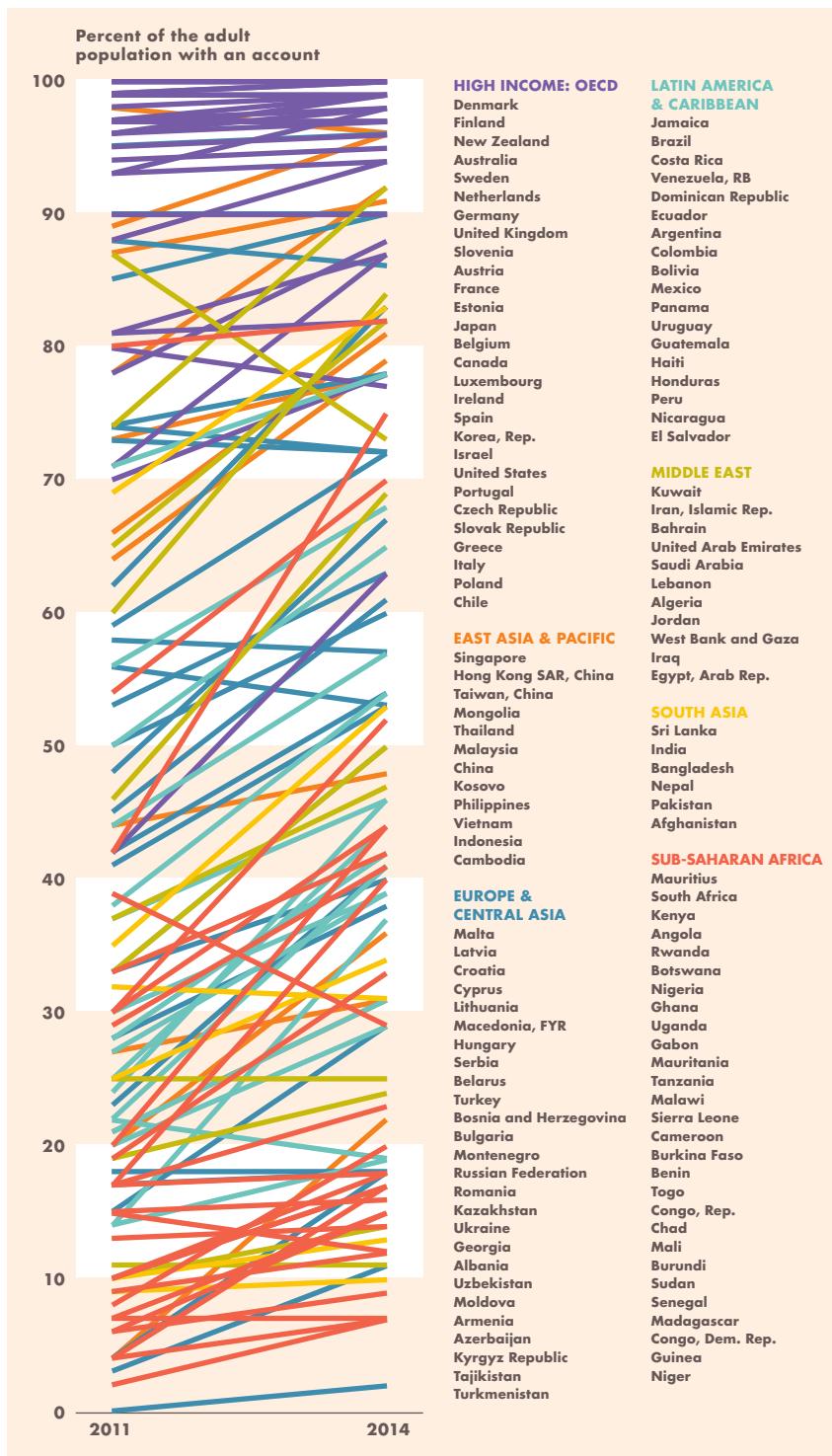
Some regions are growing faster than others.

Most developing regions—East Asia and Pacific, Latin America and the Caribbean, and Sub-Saharan Africa—have been expanding account access quite rapidly. Growth in Africa can be attributed to mobile accounts—a unique phenomenon. In East Asia and the Pacific, which our simple projections show at nearly universal access by 2020, the result is dominated by the large numbers gaining access

in China. The Eastern Europe and Central Asia region is growing more slowly, losing ground vis a vis other regions, and more than half of the countries that have actually decreased in access are in this region. The Middle East and North Africa, while growing, started with such low participation that even if, as shown, access doubles throughout the decade, it will still seriously lag behind all other regions.

FIGURE 3

Account Ownership by Country, 2011–2014



Source Global Findex (2015).

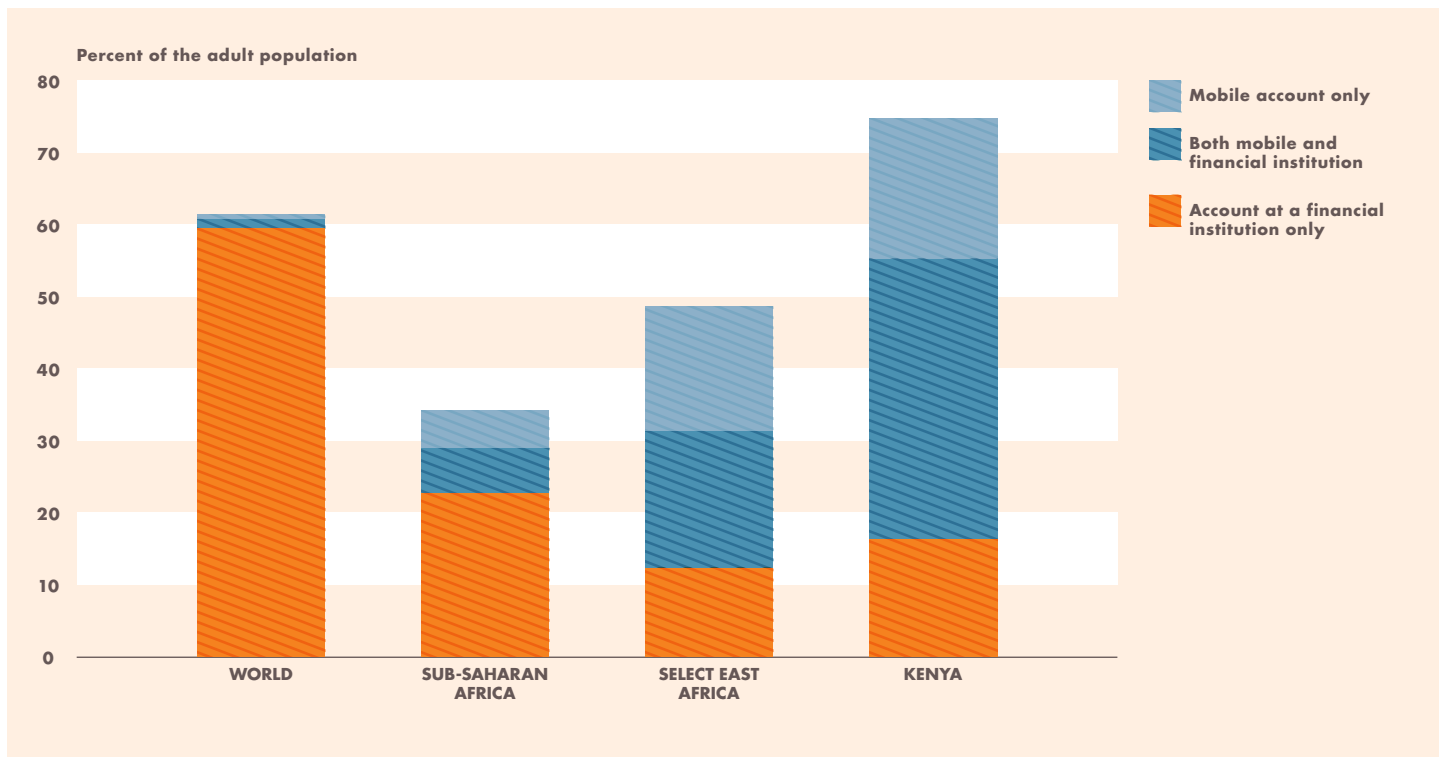
Note Key is in order of country starting point from highest to lowest.

Access is growing in nearly all countries, in some cases at an extraordinary pace.

The vast majority of countries in the world showed an increased proportion of the population with access to an account, in some cases quite a substantial increase. The biggest single jump took place in Kenya, where a third of the adult population went from unbanked to banked in three years, largely due to the expansion of mobile money. Mobile accounts are also a major factor in the large increases in Uganda, Tanzania, and the Democratic Republic of Congo.

It is striking that large increases occur among countries at all income levels, though they tend to be more prevalent among upper middle income countries. The country with the largest percent growth, Cambodia, is a low income country.

Among developing countries, only 14 showed a decrease in access to accounts. Some of those drops were undoubtedly due to conflict or other serious challenges (e.g. Kuwait, with the largest drop). Half of the countries with a decrease are located in or near the Balkan region, countries that may have started with relatively high levels of inclusion, but which have not focused on advancing inclusion in recent years.

FIGURE 4**Mobile Accounts v. Bank Accounts, 2014**

Source Global Findex (2015).

Note Select East Africa includes Kenya, Rwanda, Somalia, Uganda, Tanzania, Zambia, and Zimbabwe, weighted by population.

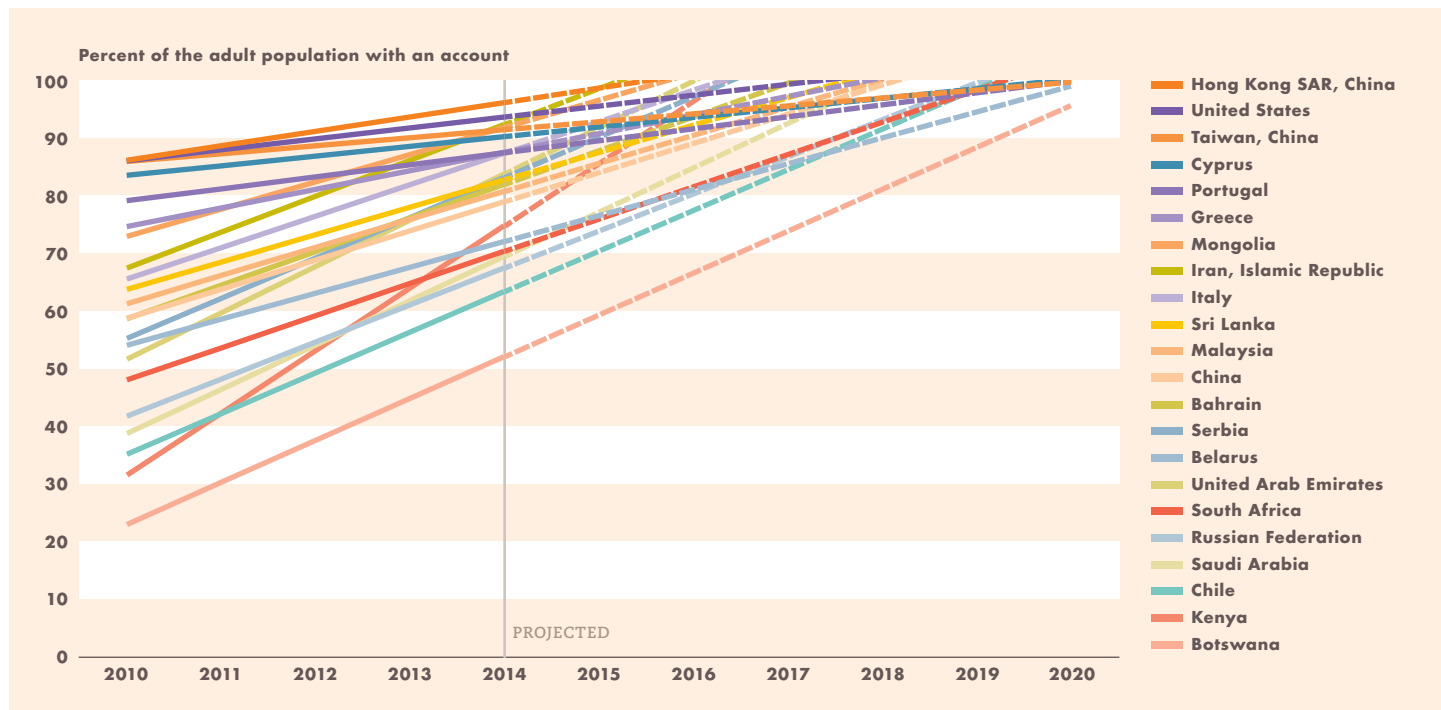
The mobile phone is a big story in Africa, especially East Africa, but not elsewhere.

The rapid growth of access to accounts in East African countries, and in a few West African countries, is largely due to mobile phones. In Kenya, for example, more people have mobile accounts than traditional accounts, although nearly 40 percent of adults use both. Outside this region, mobile accounts are not a significant part of global growth in

financial access over the last three years. Only 2 percent of people globally report having a mobile account. Furthermore, users of mobile accounts are not primarily the “unbanked” as is often hoped. Instead, except in some East African countries, the majority of mobile account users also have an account at a financial institution.

FIGURE 5

Countries Reaching 95% Access to Accounts or Higher by 2020



Source Author projections based on Global Findex (2015).

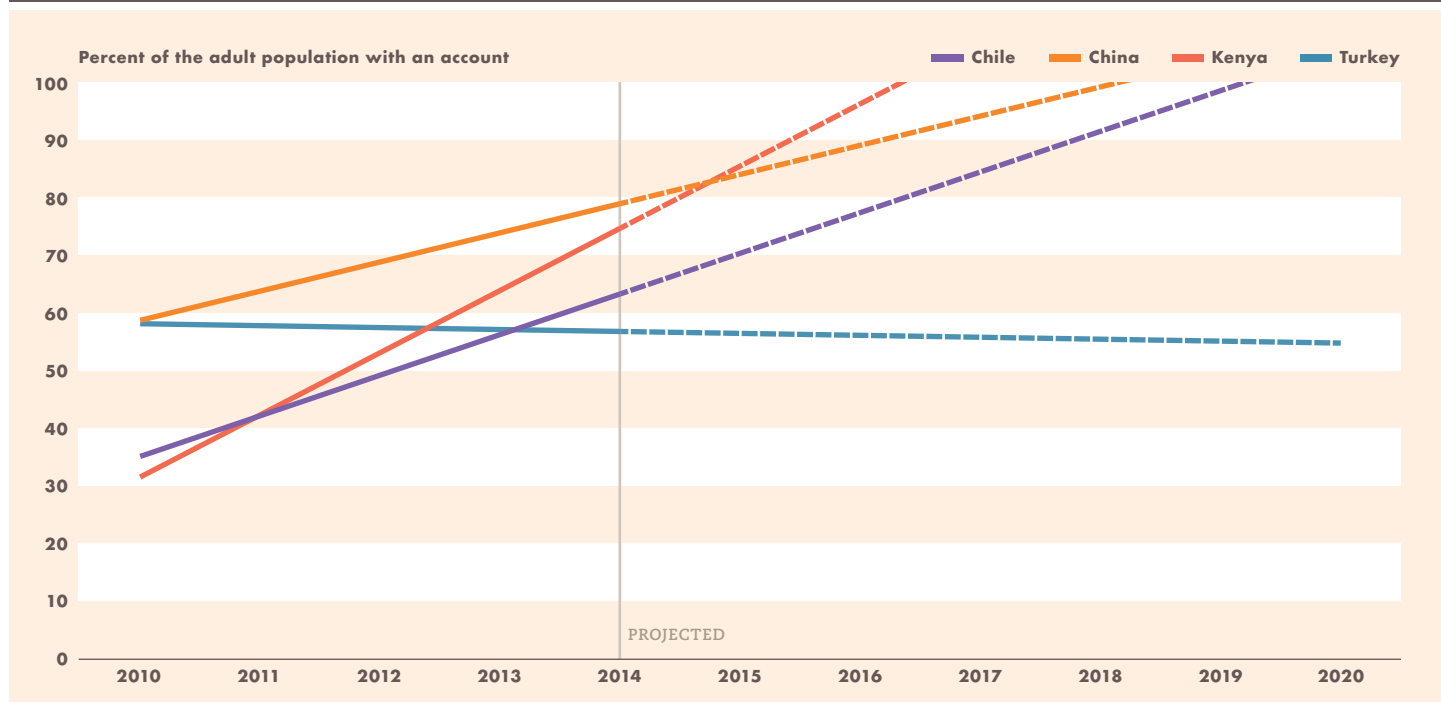
Note Key is in order of country starting point. We use a threshold of 95 percent of the adult population having access to an account, given that 5 percent of adults globally say that they do not have an account because they do not need one. Figure only includes countries with less than 90 percent of the population having access to a bank account in 2011.

At current rates, more than 40 countries will reach universal financial access by 2020.

Our projections show 16 developing countries reaching universal financial access by 2020. These countries are found in every region of the world. All are upper middle income countries, and most started the decade with at least half of their population having accounts. In addition, several high income countries, including the United States and several countries of southern Europe, will reach full access. Most notable among the countries reaching full access is China, as this gain represents the greatest absolute number of people moving from unbanked to banked.

FIGURE 6

Account Ownership in Selected Countries



Source: Author projections based on Global Findex (2015).

There are a variety of paths to financial access.

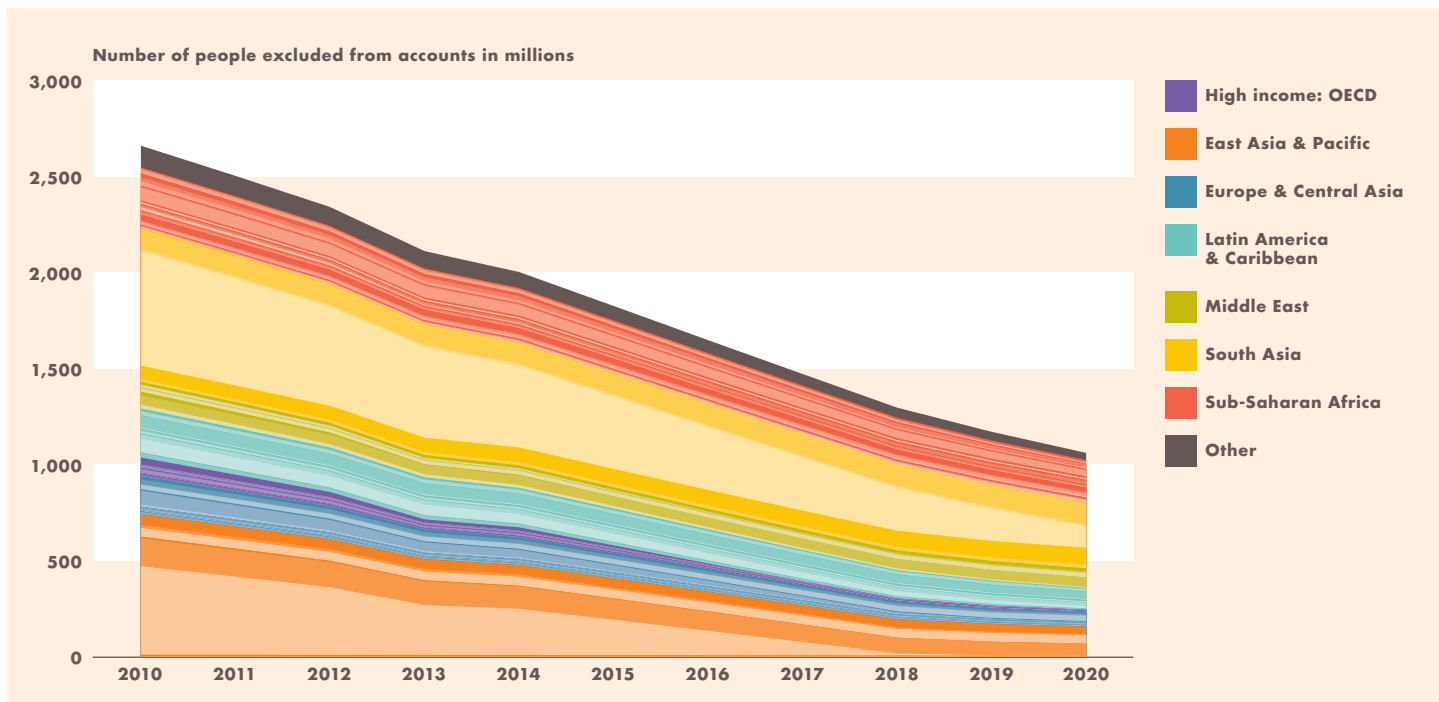
➤ **Mobile-led.** Kenya continues to be the exemplary market for mobile financial services. An impressive 58 percent of adults in Kenya have a mobile account, and around 90 percent of people who send and receive remittances do so through a mobile phone. About 20 percent of people have a only a mobile account and no account at a financial institution, indicating that mobile financial services are filling a need that bank based financial services do not address.

➤ **Government-led.** In 2013, China created a strategy for economic and social reform, setting 2020 as the year to reach its targets. As part of this strategy, China is pursuing inclusive finance by transitioning government payments to bank accounts and increasing financial infrastructure and physical outreach. In the last decade, China created a number of new licenses for microcredit

companies, created a postal savings bank, and directed entities such as rural credit cooperatives and village and township banks to target lower income clients.

➤ **Bank-led.** In Chile, regulation encourages large financial institutions to re-tool products to the needs of low-income customers while maintaining stability in the economic system. A few years ago Banco del Estado, a state-owned bank, led this effort when it developed simplified banking accounts. It currently has around 5 million customers using the product.

➤ **Progress stalled.** Turkey is one of a number of countries where growth has stalled. While other upper middle income countries have increased access, Turkey has not, and as this appears to be a pattern that affects not only Turkey but several of its European neighbors, such as Croatia, Bosnia and Herzegovina, Hungary and Slovakia. A closer look at trends in this area is warranted.

FIGURE 7**Excluded Adults by Country**

Source Author projections based on Global Findex (2015) and UN World Population Prospects (2012).

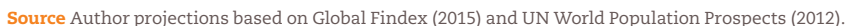
In absolute numbers of excluded, India and China dominate today, but by 2020 remaining exclusion will be broadly distributed among many countries.

If we incorporate population change into our projections, we find that just over a billion people will remain excluded from accounts by 2020. However, the composition of those billion people will be very different than it is today. People in China may not be excluded at all and India will have dramatically fewer excluded. The still-excluded will come from many countries in all regions. Among larger countries, for example, Pakistan, the Philippines, Vietnam, Egypt, Indonesia, Mexico,

Nigeria, Sudan, the DRC, and Bangladesh, have not made enough progress to assume they will reach saturation by 2020.

It will be important to ensure that support for efforts to advance inclusion engage with smaller countries that are not in the spotlight. A tendency we have seen is for global actors to focus their efforts on larger countries or countries where progress may be easier to achieve. Full inclusion will require addressing excluded populations wherever they occur.

Size of Excluded Population by Country, 2020

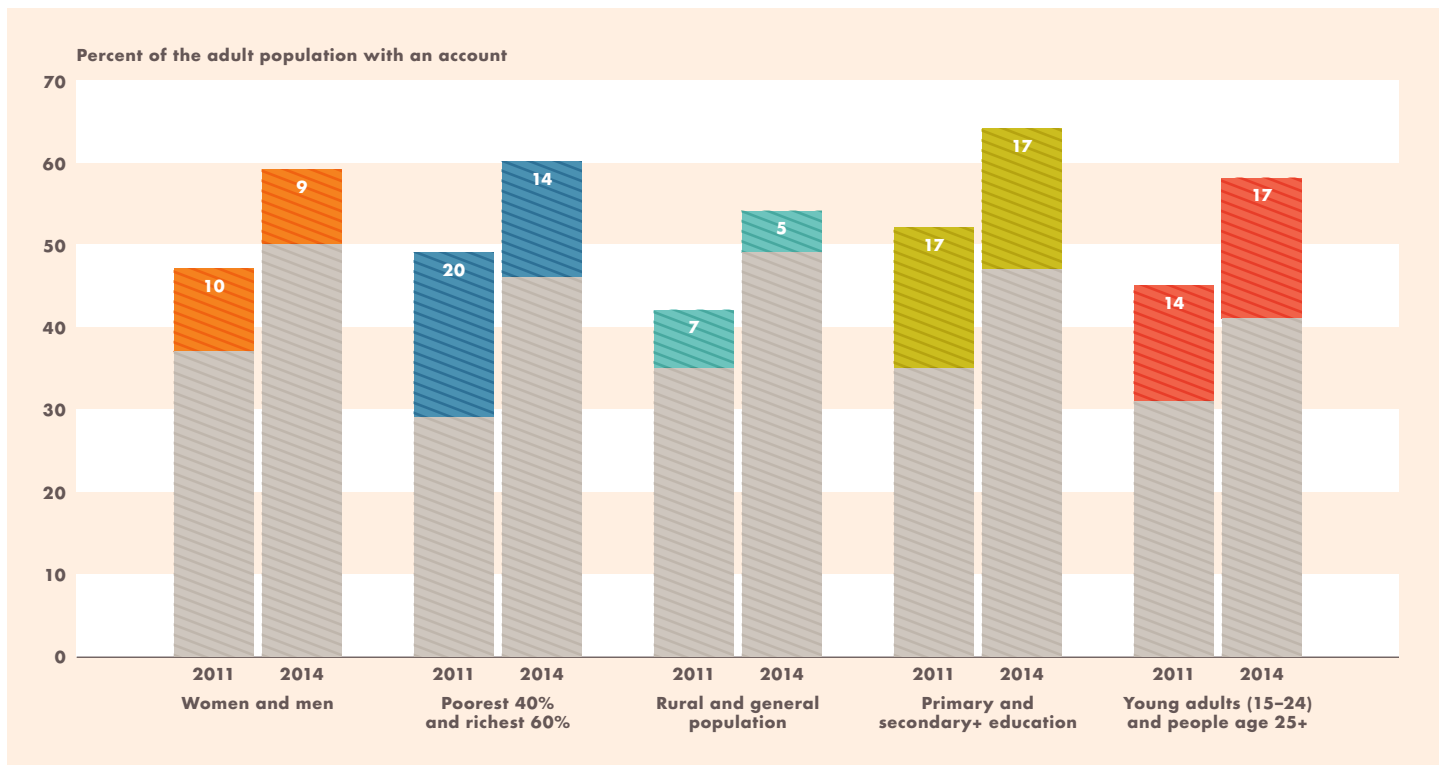


As large international organizations and foundations commit to ushering in financial inclusion in a select larger and more critical countries, smaller and harder to reach countries may be left behind. With current trends, exclusion in 2020 may not be largely dominated by countries like China and India, but spread broadly across the world. Regional bodies like the African Development

16

FIGURE 9

Gap Between Population Segments in Access to Accounts (Developing Economies)



Source Global Findex (2015).

The more-excluded population segments are gaining, but access gaps persist.

It is important to “leave no one behind.” The Center for Financial Inclusion’s vision of financial inclusion emphasizes that financial services should be available for all who can use them—including people who are disabled, older and younger people, women, migrants and refugees, minorities, the very poor, and people who live in rural areas.

The good news is that each of these population segments for which we have data is gaining access. Most notably, much of the progress in access has reached into the base of the pyramid. On average, gains by the bottom two population quintiles in most countries significantly outpaced gains by the upper 60 percent. Moreover, the gap is narrowing

somewhat between rural areas and the general population, suggesting that the question of how to bring financial services to “the last mile,” is gradually being answered. The bad news is that the gap in access between women and men continues, as does the education-based gap and the gap between young adults and adults over age 25. Notable, however, is the absence of data on vulnerable populations. In an age of big data, it is disappointing that publically available data on persons with disabilities, migrants, refugees, and older people is noticeably absent. Governments should act to correct such data gaps, or the push for universal access is likely to bypass these groups.

2

How Are People Using Their Access to Services?

Full financial inclusion is about ensuring that everyone is able to use financial services that add value to their lives—services that assist them to transact simply and cheaply with any person or business, manage the irregularities of their economic flows across weeks, seasons and lifetimes, build assets, invest in the future, and weather shocks.

Access to an account by itself does not generate this value, but the focus on accounts is justified under assumptions about the role of accounts. From a customer perspective, an account is assumed to provide a hub around which a person can build full financial inclusion through saving, borrowing and using the account for payments. From a provider or government perspective, the account may be the first link that connects a person to the formal financial sector, allowing for sale of additional financial products or collection of tax revenue.

In this section of “By the Numbers” we review indicators of progress toward full inclusion in account usage and product range. The Findex results suggest that the story, at least in low-inclusion countries, is not as straightforward as one might imagine. The first challenge to the standard assumptions comes from the inclusion of mobile money accounts in the tabulation of account access. With a few notable exceptions (e.g., MShwari in Kenya) most mobile accounts are devoted to a single type of use and not intended to become money management hubs.

A greater challenge is the evidence of surprisingly low usage among accounts in the developing world, in a pattern that differs

sharply from usage in high income countries. We surmise that accounts are often opened by institutions—governments, employers, or financial service providers—for their convenience in paying designated people. Such accounts are pushed toward relatively passive customers, while customers operate their financial lives on a different plane, not thinking of or wishing for an account to use as a financial hub.

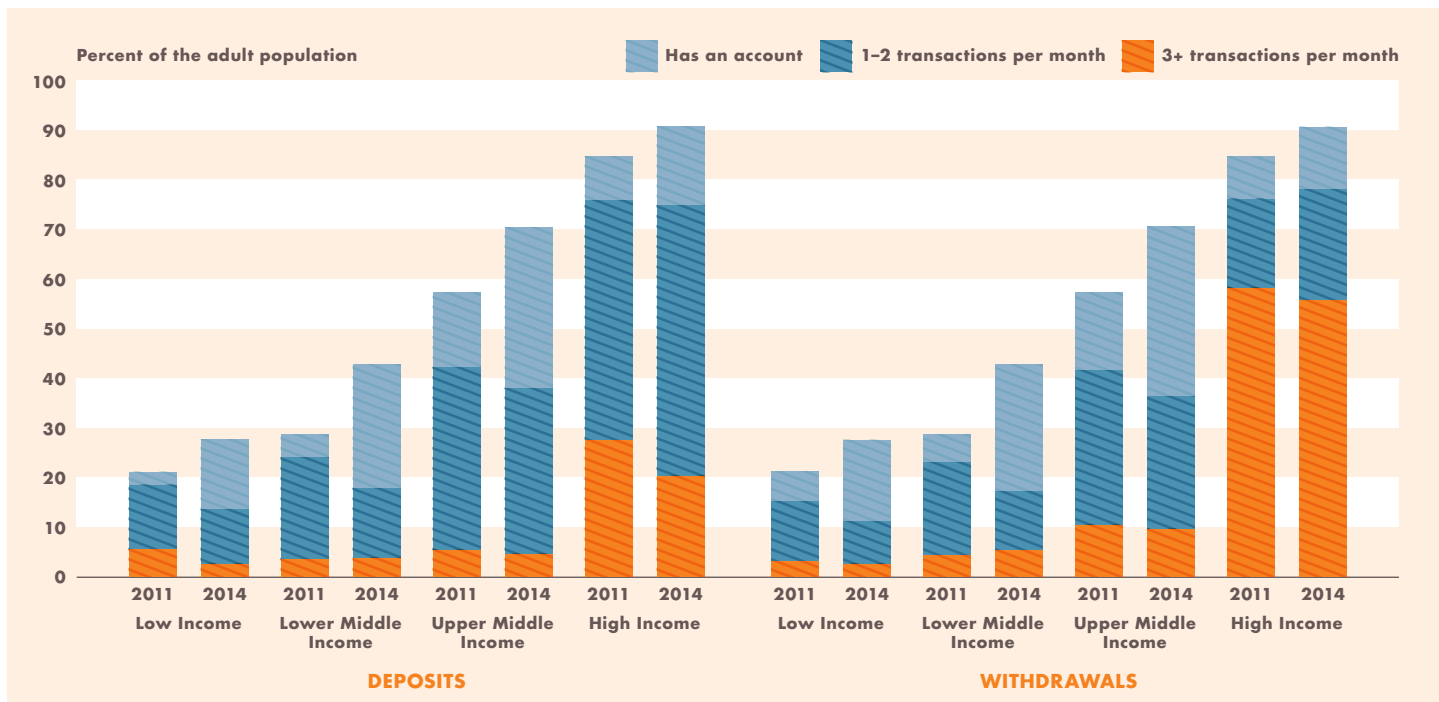
The Findex shows that the financial lives of people in low-inclusion countries are indeed quite active, with significant percentages of the population engaging in both saving and borrowing. However, the results do not show much increase in saving or borrowing through financial institutions. Insurance may be an area where formal providers connect with many new clients, but data to quantify the scale globally is not readily available, while there is some regionally available data on microinsurance.

The results show the persistence of informal financial services, especially family and friends, and increasingly, savings groups. Ignacio Mas and John Gitau refer to “liquidity farming”—the cultivation of reciprocal social connections that can be called on at times of stress.³ This concept may explain why people in poor countries appear to be nearly as able as those in rich countries to come up with cash in an emergency. This kind of resilience is one of the attributes we seek in pursuing financial inclusion. Data from the resilience question sets a bar: financial inclusion efforts should contribute to, or at least not harm, that kind of resilience.

³ Mas and Gitau.

FIGURE 10

Account Use (Developing Economies)



Source: Global Findex (2015).

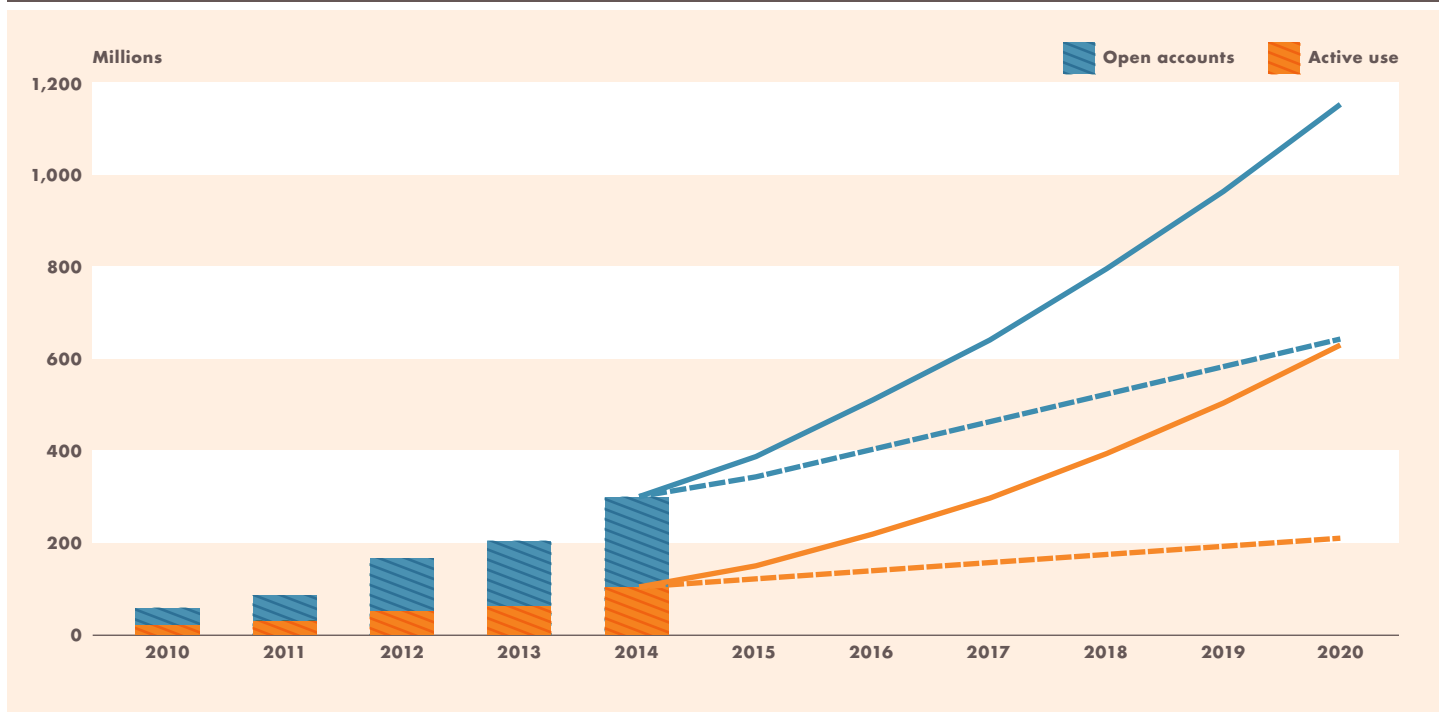
Account access has grown, but usage lags. What are people doing with their accounts?

After a big effort to bring about universal access to bank accounts, will we be left with millions and millions of accounts that people rarely or never use? As compared to 2011, many more people in 2014 said that they have an account but use it less often than once a month for deposits or for withdrawals (the top segment of each bar) while the percentage of people making three or more deposits or withdrawals per month has hardly changed (the bottom segment), and in some cases has fallen. This pattern is very different in high income countries, where most people with accounts use them quite actively.

These figures raise fundamental questions about the difference between financial access and full financial inclusion. Taken at face value, they suggest that there are millions of accounts, including new ones, that are essentially dormant, and many more that are used for one

or a narrow range of purposes, such as receiving a salary payment. This observation calls into question a presumption that access to an account will trigger greater inclusion. It would also suggest caution regarding the value of mass drives for account opening, such as mandated no frills accounts, of which India's Jan Dhan Yohana is only the most recent and highly publicized.

Before drawing firm conclusions, it will be important to uncover more about how people are using their accounts. Perhaps there are explanations other than dormancy and low usage. These figures do not reveal use of accounts for purposes other than cashing in or out, such as paying bills, using debit cards to make purchases, or accumulating savings. Further exploration of Findex microdata will be needed to gain greater understanding of account use. Nevertheless, the contrast in behavior between developing and high income economies, especially on the withdrawal side, coupled with the lack of increase in active use over time, reveals an important usage gap.

FIGURE 11**Mobile Money Use**

Source Author projections using both a three-year moving average and a line of best fit, based on GSMA (2015).

Note Active use refers to one transaction within 90 days.

In mobile, account opening lags active use, although both are growing.

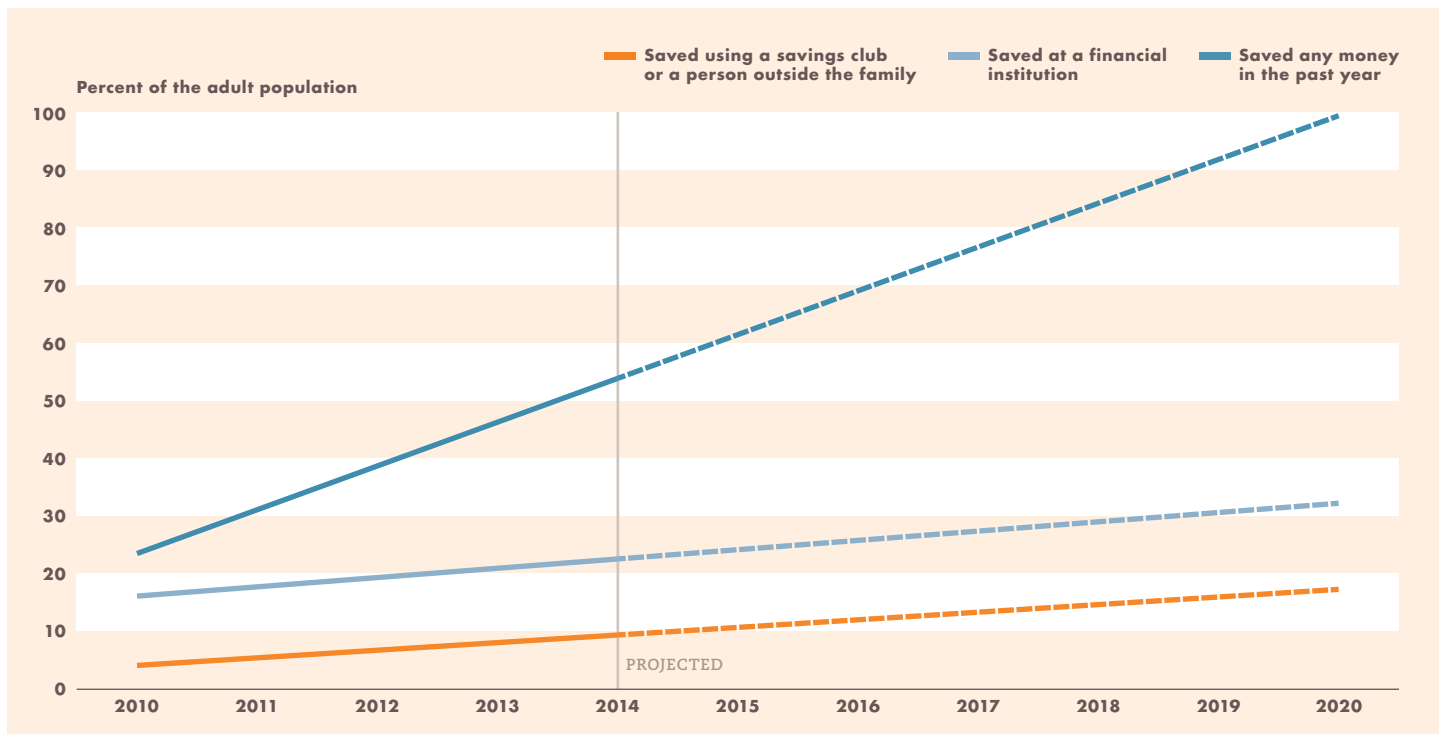
Today less than half of people who have a mobile account use it actively, even with a generous definition of “use” (one transaction within 90 days). If we apply an optimistic projection, use as a percent of accounts would significantly increase by the end of the decade.

Interoperability may be a key to rising usage. GSMA reports that in Tanzania, for example, both transaction volume and value increased

up to ten times following interoperability agreements between Tigo and Airtel and between Tigo and Zantel. While these results were recorded only in the four months following interoperability, they suggest that expanding the use-cases for mobile accounts makes a significant impact on whether and how people use their accounts.

FIGURE 12

Saving Activity (Developing Economies)



Source: Author projections based on Global Findex (2015).

Saving is increasing fast, but not so much in financial institutions.

According to the Global Findex, 54 percent of people in low and middle income economies saved money in the past year, up from 31 percent three years ago. This jump in participation in savings, however, is not reflected in a commensurate increase in saving in financial institutions. Factors that influence the decision on whether to save in a financial institution include macroeconomic context, trust in banks, convenience, and savings products in which fees do not eat up the small amounts lower income people have to save. One explanation for the rise may be that the past few years have seen relative macroeconomic stability—at least compared with the previous several years—making saving in financial form appear safer.

The percent of people who reported saving through using a savings club or person outside

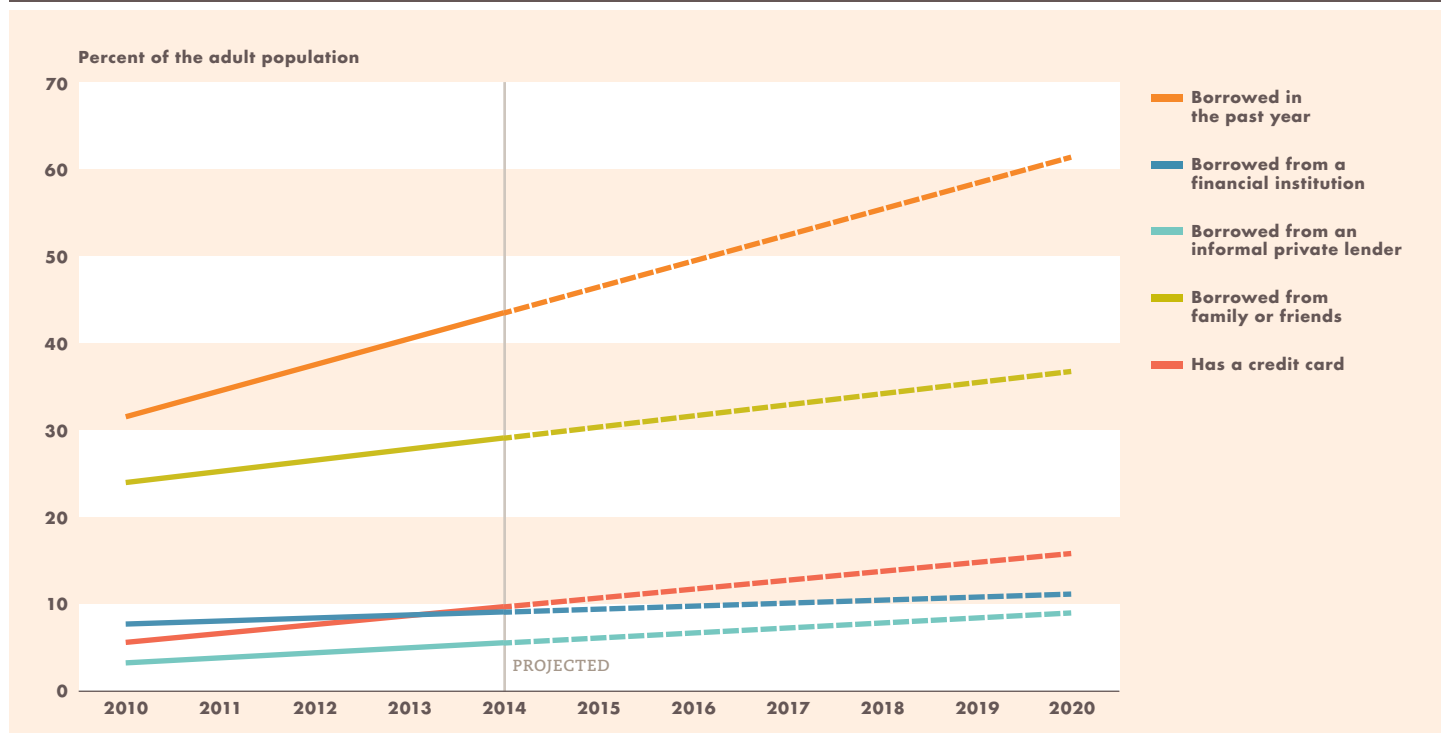
of the family also grew significantly, albeit from a low starting point. However, these semi-formal savings mechanisms do not fully explain the gap between people who report saving at all and people who report saving in a financial institution. We can assume that people who are saving are doing so in cash, in kind, or in assets like livestock or property.

For populations in high income economies, 67 percent of respondents reported saving any money, only slightly higher than those in developing economies. However, people in high income economies were twice as likely to report having saved at a financial institution. The demand for savings is similar globally, therefore, but high income economies have a greater availability of formal services.

If we project the lines above out to 2020, we see full participation in saving activity by 2020, but with only about 30 percent of people in low and middle income economies saving in a financial institution.

FIGURE 13

Borrowing Activity (Developing Economies)



Source: Author projections based on Global Findex (2015).

Borrowers use multiple sources, both informal and formal.

People in low and middle income economies report borrowing at much higher rates than they did three years ago, but borrowing from a financial institution has only inched up. In fact, even the percent of people who report having a credit card is growing at a faster rate than borrowing from financial institutions, as is the percent of people who reported borrowing from an informal private lender. It is notable that many more people borrow from family and friends than from an informal private lender, confirming what has long been understood, that the traditional image of the professional moneylender is far from the dominant form of informal sector borrowing.

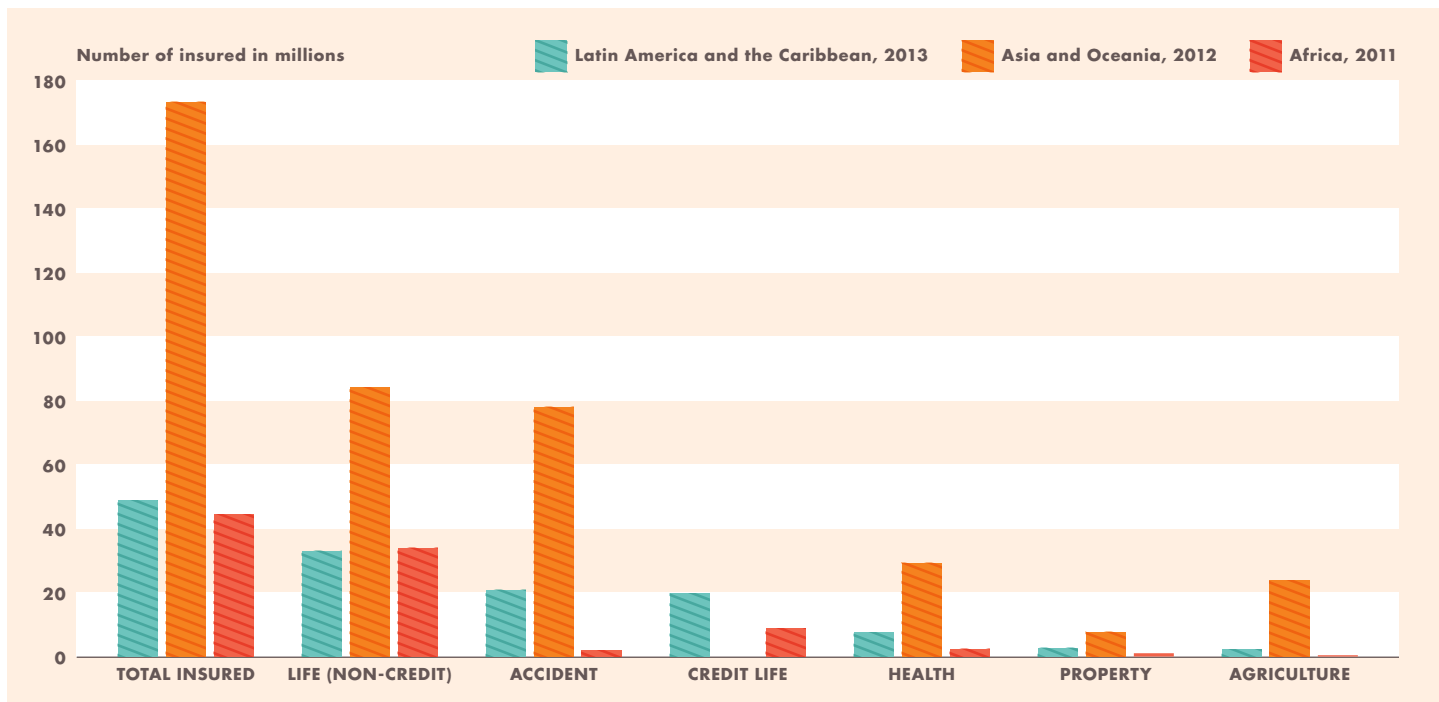
The picture of the need for borrowing for high income countries is surprisingly close to that

in developing economies. Just under 40 percent of people in high income economies reported having borrowed any money, but 17.3 percent did so from a financial institution, a much higher percentage than in low and middle income economies. These figures suggest that while demand for borrowing is similar globally, the sources from which people secure funds varies immensely—and formal services are more likely to be available in high income economies.

The 2020 picture, projecting out from 2011 and 2014, is one in which over half of the population in low and middle income countries are borrowing, but under 10 percent are borrowing from a financial institution. About three times as many people will have a credit card than did at the beginning of the decade.

FIGURE 14

Coverage of Microinsurance by Risk Type



Source MFW4A and Munich Re Foundation (2012); Munich Re Foundation and GIZ (2013); and Microinsurance Network and Munich Re Foundation (2014).

Note Number insured includes individuals and property. No data available for credit life insurance in Asia and Oceania.

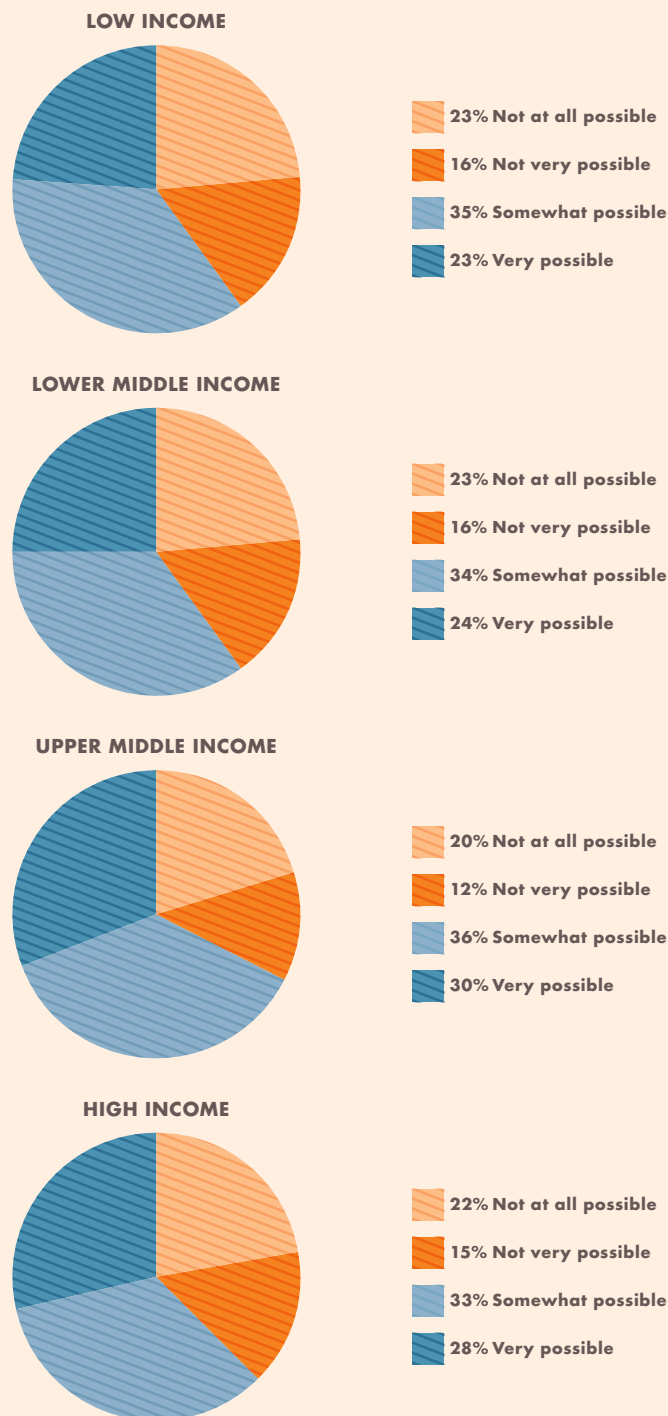
While the total number of people with microinsurance is significant, distribution across the world is highly skewed.

Globally consistent data to show growth of microinsurance, especially from the demand side, is not available, though there are figures to show general magnitudes. While microinsurance has been growing, it lags other financial services in overall reach, and most insurance policies aimed at the base of the pyramid are simple life and accident policies. India, which has mandated that insurers serve lower income segments for over

a decade, accounts for 111 million policies, over 40 percent of the global total. We hope future Findex surveys will be able to include more questions about microinsurance, particularly in light of the findings that 14 percent of adults in developing economies reported borrowing for health or medical purposes and in light of findings supporting a need not only for health, life and accident insurance, but also funeral, property and agricultural insurance.

FIGURE 15

Resilience to Economic Shocks, 2014



Source Author projections based on Global Findex (2015).

Note Figures do not add up to 100 percent.

Does access to formal services increase financial resilience?

When the Global Findex survey asked people whether they would be able to come up with funds in emergencies (the amounts varied based on GNI per capita), the results were surprising.⁴ They were nearly identical across high, middle and low income countries. At all levels, roughly one third of people answered negatively and two-thirds positively. But the ways in which people proposed to obtain emergency funds differed sharply, with people in high income countries more likely to turn to formal sources and people in low income countries more likely to turn to family and friends.

The message? Proponents of financial inclusion need to consider whether their formalizing efforts will effectively support increased financial resilience, particularly if the use of informal mechanisms decreases in the process.

⁴ The Findex resilience question: Imagine that you have an emergency and you need to pay [insert 1/20 of GNI per capita in local currency]. How possible is it that you could come up with that amount within the next month?

Building the Ecosystem: Delivery Infrastructure and Supportive Policies

3

Financial inclusion requires a support ecosystem that involves both the delivery and connection infrastructure and policies that enable the financial system to thrive. Progress to date toward building ecosystems that support financial inclusion is encouraging. Momentum is growing, and financial inclusion is widely seen as a priority in international development.

This section considers two aspects of the financial inclusion ecosystem: connection and access infrastructure and policy and regulation. Given the diversity of topics, we draw on a number of different data sources.

Infrastructure. The “digital revolution” in financial services is no longer news. Instead, digital delivery mechanisms are fast becoming standard operating procedure, enabling markets to move to greater outreach with more options for customers. Lean, low-cost provider infrastructure is extending or replacing branches. As connectivity increases, agents, mobile phones, ATMs and debit cards are enabling transactions to move beyond the brick-and-mortar outlets required in the past.

Looking toward 2020, nearly everyone will soon have access to a mobile phone, and internet access through smartphones and tablets is just around the corner for many of the world’s people. These trends will have massive impact on the landscape of digital financial services, and it will be interesting to watch new business models unfold as 2020 approaches.

Policy and Regulation. Technology changes, and financial inclusion more broadly, are increasingly supported at the national and international level by policy and regulatory priorities. In part through the Maya Declaration process of the Alliance for Financial Inclusion, many countries have focused on developing

national strategies and strengthening their data collection so they can better monitor the financial inclusion sector. Specific national priorities vary widely, however. Many countries have chosen to focus on digital financial services, financial literacy, and consumer protection, while financial identity, credit information systems, and microinsurance have received less attention.

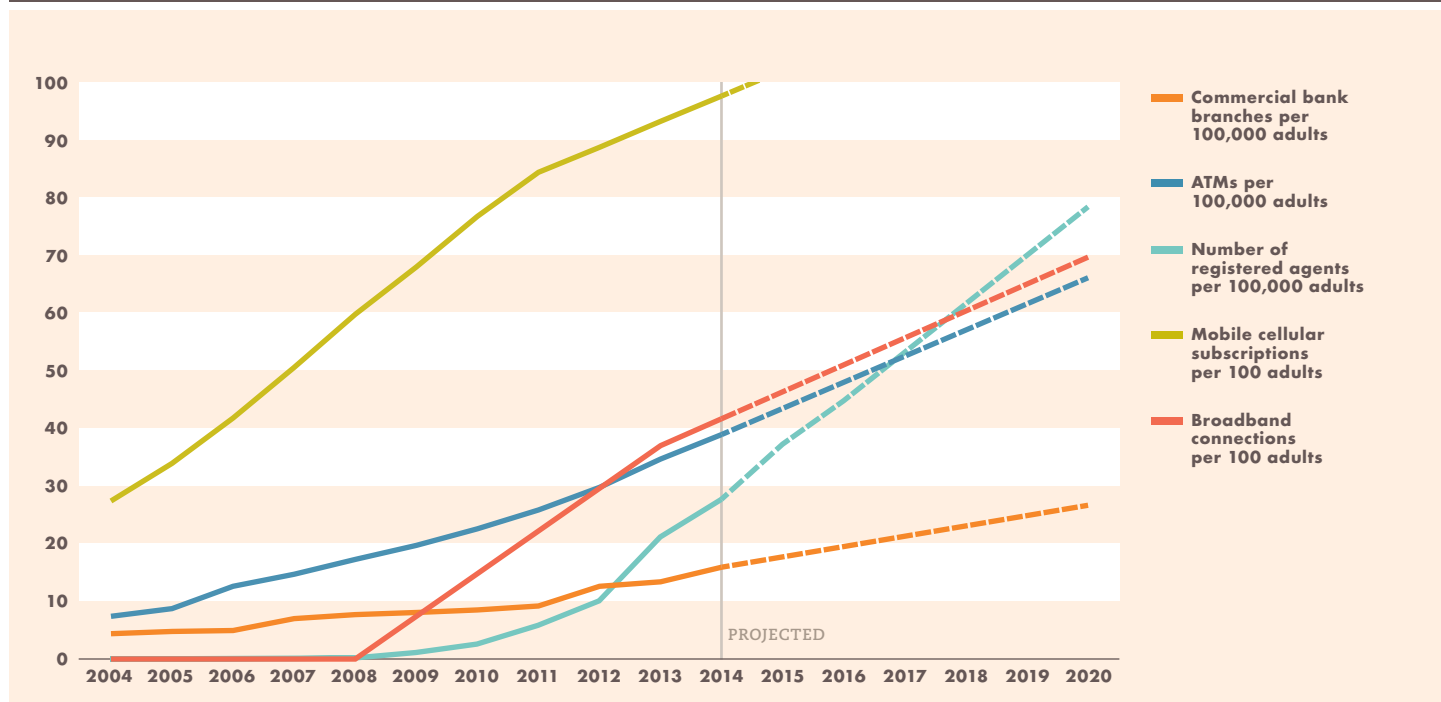
National financial inclusion strategies (beyond just commitments) have a close connection to moving financial inclusion forward. Countries that adopt a national strategy show twice as much growth in access to accounts compared with countries that have not adopted a strategy. The Global Microscope found that while two-thirds of countries surveyed have some kind of commitment to financial inclusion, only one-third have a national strategy. However, the world is only beginning to understand how financial inclusion policy and regulation shape market development, with a few countries providing case studies that shape opinion.

Global institutions are important to structuring the conversation on financial inclusion. The global standard setting bodies have shifted from a stance that suggested financial inclusion reduces stability to one that acknowledges that it may support stability. In translating this stance into detailed guidance, however, their willingness to adjust previously issued guidance is characterized by small, careful steps.

The World Bank prioritizes the creation of national targets and provides the technical assistance to establish and achieve these targets. Their support creates greater global momentum toward full inclusion. And the support of the G-20 for financial inclusion keeps the topic visible at the highest levels.

FIGURE 16

Physical Banking Infrastructure, 2004–2020 (World)



Source: Author calculations based on IMF FAS (2014) and World Development Indicators (2014). Population weighted, with projections based on three-year moving average.

Mobile phones, ATMs, agents, and bank branches are rapidly moving the world toward ubiquitous access.

Infrastructure—both physical and digital—is increasing convenience for customers and decreasing costs to providers. All types of service outlets are on the increase—including traditional bank branches, though their growth has slowed. If trends continue, the number of banking agents will surpass the number of ATMs and branches by 2017. In addition, the number of people equipped to use cards to make payments and purchases is rising. In other words, expensive big-footprint infrastructure is quickly being replaced by more inexpensive channels and service points.

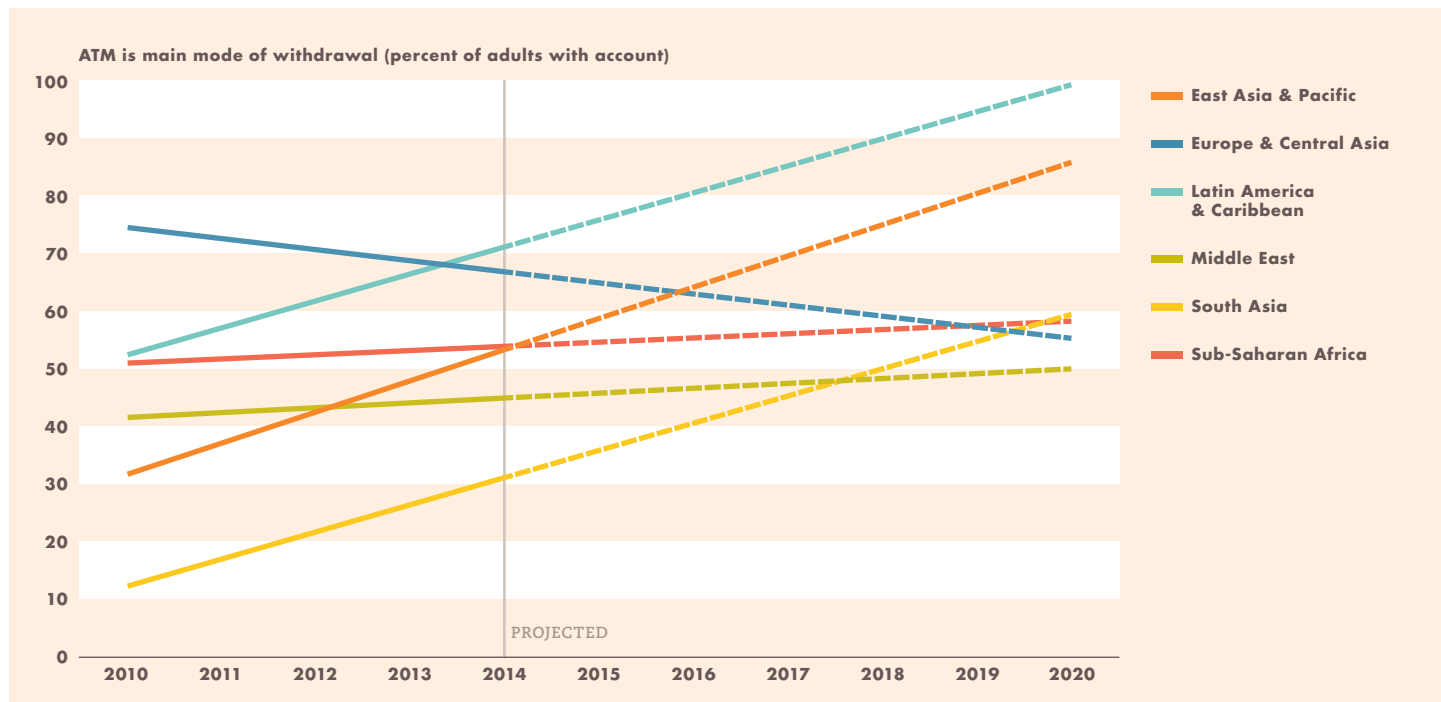
These increases are dwarfed, however, by the increase in the number of mobile and internet connections (note that the graphs show mobile and broadband 100 adults, while ATMs, banking outlets and agents are

shown per 100,000 adults). Already there are about as many mobile cellular subscriptions as people. A wholesale shift to banking through phones and internet has yet to occur, except in Africa.

The industry emphasis on “the last mile” could be solved over the next few years by low-cost infrastructure. The future of small-footprint infrastructure will hinge on factors that go beyond digital solutions. Will agents and ATM have sufficient cash on hand to facilitate transactions? Will financial institutions be able to ensure quality as infrastructure grows to include more elements? Will financial institutions have the capacity to address agent risk? The outcomes of these questions between now and 2020 will determine the success of low-cost infrastructure.

FIGURE 17

Use of ATM as Main Mode of Withdrawal by Developing Economy Regions



Source: Author projections based on Global Findex (2015).

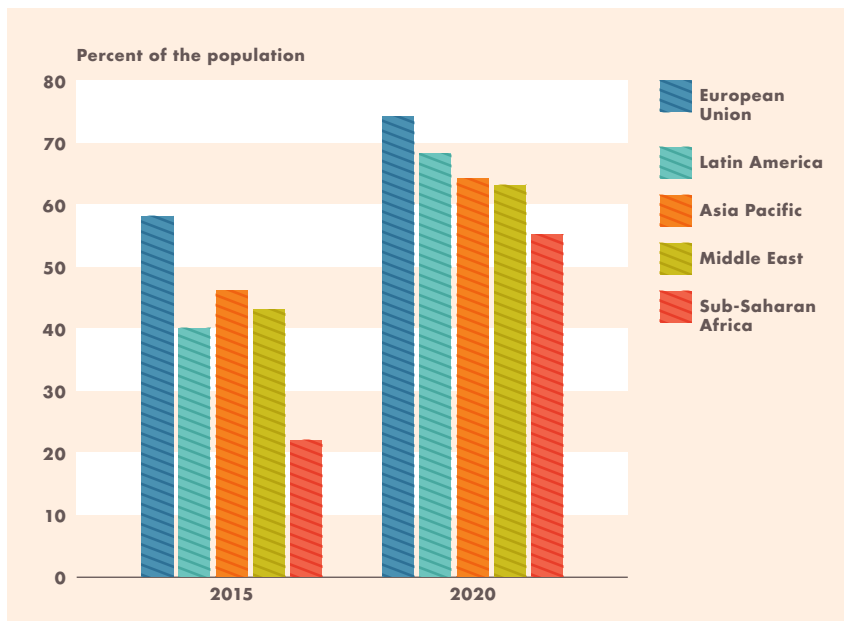
In regions with fast-growing bank account access, ATM use is also growing quickly.

The three regions that saw a significant increase in ATM use as the main mode of withdrawal for account holders (Latin America, East Asia, and South Asia) are all growing quickly in access to accounts, and certainly, ATM availability is likely to be a contributing factor to higher access. Though there are other, less readily visible trends at work, too, such as shifts in government benefit payments from cash to accounts.

Relatively slow growth of ATM use in sub-Saharan Africa may be explained by the role of mobile accounts in the financial inclusion story. In the Middle East, it is possible that political conflict has had a significant market advancement effect. It is less obvious why ATM use actually decreased between 2011 and 2014 in Europe and Central Asia.

FIGURE 18

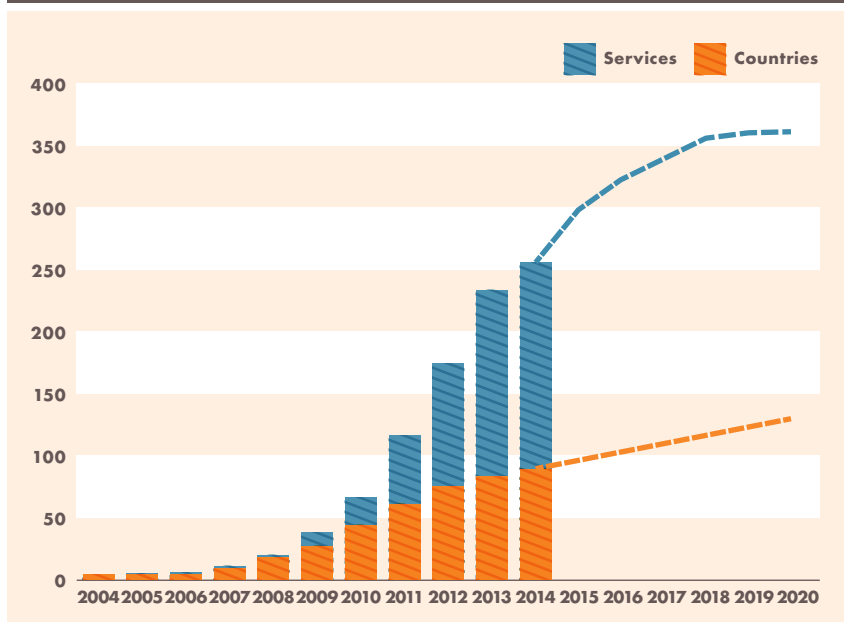
Projected Smartphone Penetration, 2020



Source GSMA (2015)

FIGURE 19

Mobile Money Services and Countries, 2001–2020



Source Author projections using a three-year moving average based on GSMA (2015).

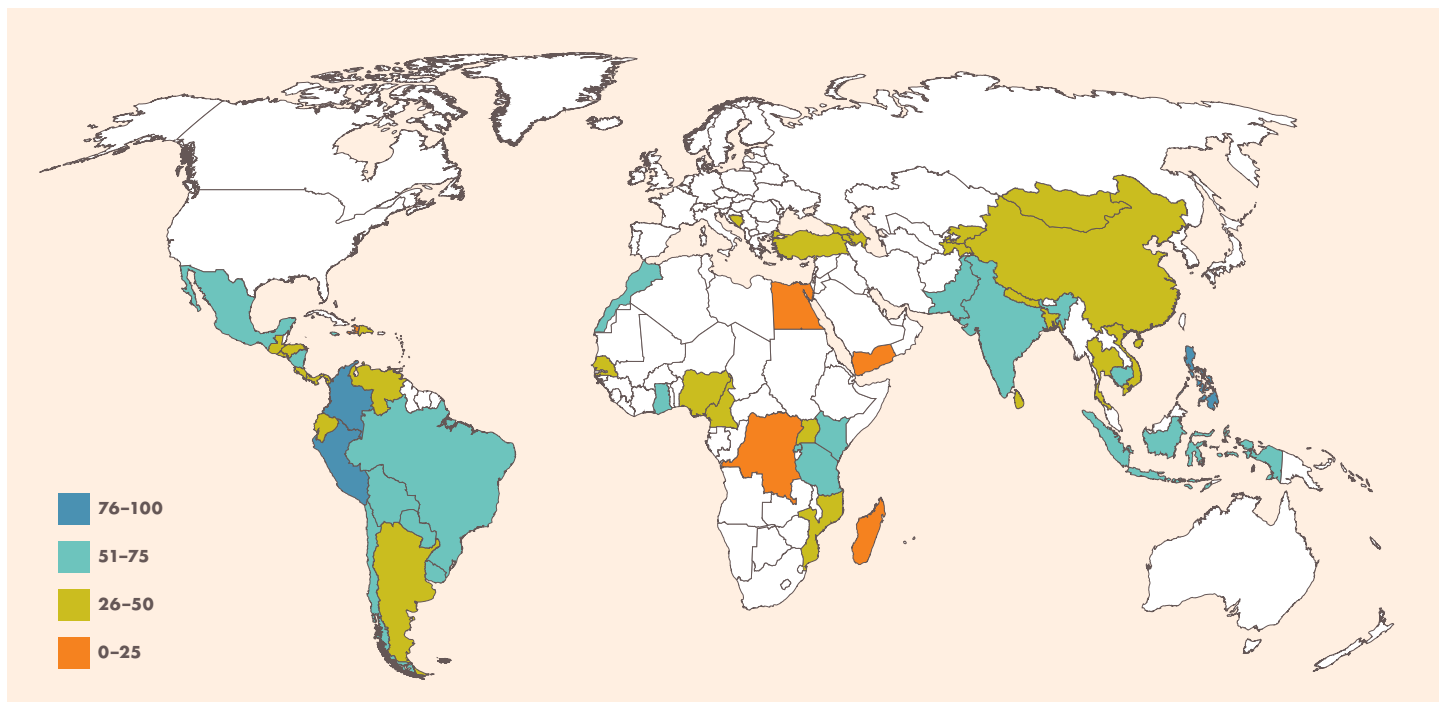
By 2020, most people in every region will have smartphones, and the mobile money industry will begin to consolidate.

Digitally enabled financial services are no longer a revolutionary force in the financial services industry. Instead, digital financial services—both SMS and app-based—are becoming the status quo. GSMA predicts that by 2020 there will be 4 billion broadband connections in the world. At the same time, prices are making technology more accessible to consumers. This year Nokia released a \$29 smartphone, showing that a dramatic price reduction in smartphone technology is already a reality. Access to internet-based services will be the next enabling leap forward for financial services. App-based banking will soon be possible for many low-income people, allowing more user-friendly interfaces than the more limited SMS mobile platform.

Mobile money services continue to grow in select markets, but growth has slowed over the past year. As of December 2014, there were 255 mobile money services in 89 countries, mostly in sub-Saharan Africa. What we have seen, however, is an increase in quality and an increase in use of mobile financial services. Four markets—Indonesia, Tanzania, Sri Lanka, and Pakistan—became fully interoperable for mobile money by the end of 2014, with users being able to send funds between different mobile network operators. In addition, this year for the first time growth in active mobile money accounts outpaced growth in number of subscribers.

FIGURE 20

National Performance on the Enabling Environment for Financial Inclusion, 2014



Source Global Microscope (2014).

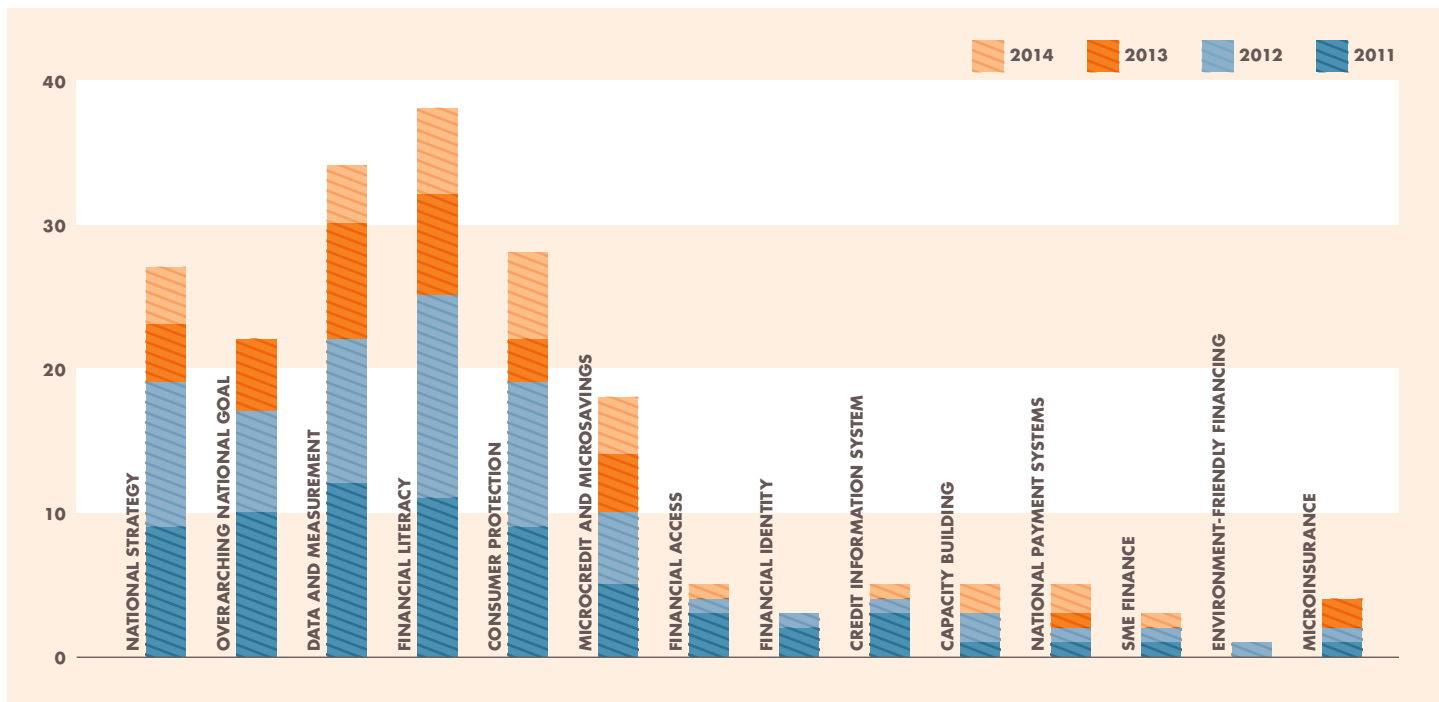
Policy performance across the world ranges from excellent to very poor.

According to the Global Microscope, the top ten environments for financial inclusion are located in almost every region of the world, and include Peru, Colombia, and the Philippines at the very top, with Chile, India, Mexico, Bolivia, Pakistan, Cambodia, and Tanzania following them. However, it is also important to recognize that the range of performance is enormous. The top-performing countries score well in nearly all of the 12 policy and regulatory areas identified as essential for fostering financial inclusion, reflecting both appropriate policies and

solid regulatory infrastructure, while the lowest-performing countries score badly on nearly all of the indicators, and there are many countries whose levels of performance are middling. In fact, most of the lowest scoring countries have one thing in common: they perform poorly on measures of institutional support for financial inclusion. While they have made commitments to financial inclusion, they have yet to deliver on these commitments. Their regulatory and supervisory capacity may be too low to effectively enforce policies that promote financial inclusion.

FIGURE 21

Maya Declaration Commitment Topics, 2011–2014



Source: Alliance for Financial Inclusion (2015).

Digital financial services, financial literacy and consumer protection are the most frequent focal points for national commitments by AFI member countries. Many countries have already completed at least one Maya Declaration commitment.

Another measure of national support is commitments that governments make—and the plan to achieve those commitments. An analysis of the 54 Maya Declaration commitments shows that data, digital financial services, consumer protection, and financial literacy are frequently cited areas of commitment. Financial identity, regulatory capacity, credit reporting, and

payments receive fewer mentions. Not surprisingly, concepts that receive less attention are often situated in or managed by a government institution other than the AFI member organization (usually the central bank or regulator). Whereas the number of commitments was fairly strong at the outset, in the last two years there have been far fewer commitments than before.

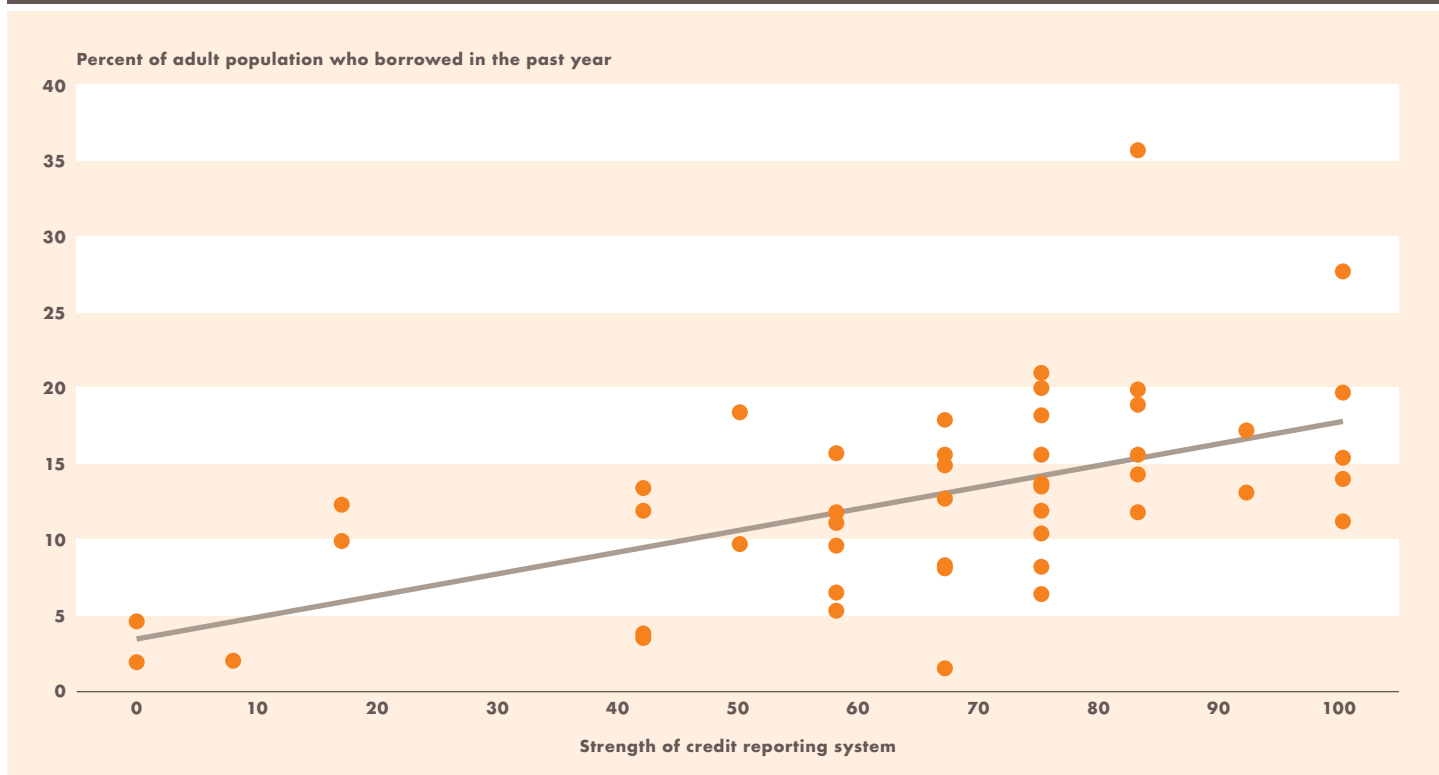
FIGURE 22**Completed Maya Declaration Commitments**

AREA OF COMMITMENT	COUNTRIES
Financial Inclusion Strategy	Armenia, Mexico, Mozambique, Namibia, Nigeria, Paraguay, Rwanda
Partnerships and Forums	Brazil, Burundi, Philippines, Rwanda
Numeric Outreach Goal	Fiji, Malaysia, Papua New Guinea, Peru, Solomon Islands, Tanzania, Zambia
Data and Surveys	Brazil, Burundi, Fiji, Guatemala, Indonesia, Kenya, Malawi, Malaysia, Mexico, Namibia, Pakistan, Peru, Solomon Islands, Tanzania
Digital Financial Services and Agent Banking	Bangladesh, Democratic Republic of Congo, Malawi, Malaysia, Mexico, Mongolia, Peru, Philippines, Samoa, Senegal, Tanzania
Financial Literacy	Armenia, Bangladesh, Chile, Ethiopia, Fiji, Guatemala, Malawi, Malaysia, Namibia, Philippines, Solomon Islands, Tanzania, Zambia
Consumer Protection	Democratic Republic of Congo, Guatemala, Malawi, Namibia, Palestine, Peru, Tanzania
Microfinance	Senegal
Credit Reporting	Ethiopia
Capacity Building	Malaysia
National Payment Systems	Sierra Leone
Housing, SME or Ag Finance	Bangladesh, Ethiopia, Malaysia, Pakistan
Microinsurance	Malaysia
Other	Bangladesh, Mongolia, Peru

Source Alliance for Financial Inclusion (2015).

FIGURE 23

Credit Reporting v. Borrowing Activity, 2014



Source: Global Findex (2015) and Global Microscope (2014).

Where effective credit reporting exists, more people borrow.

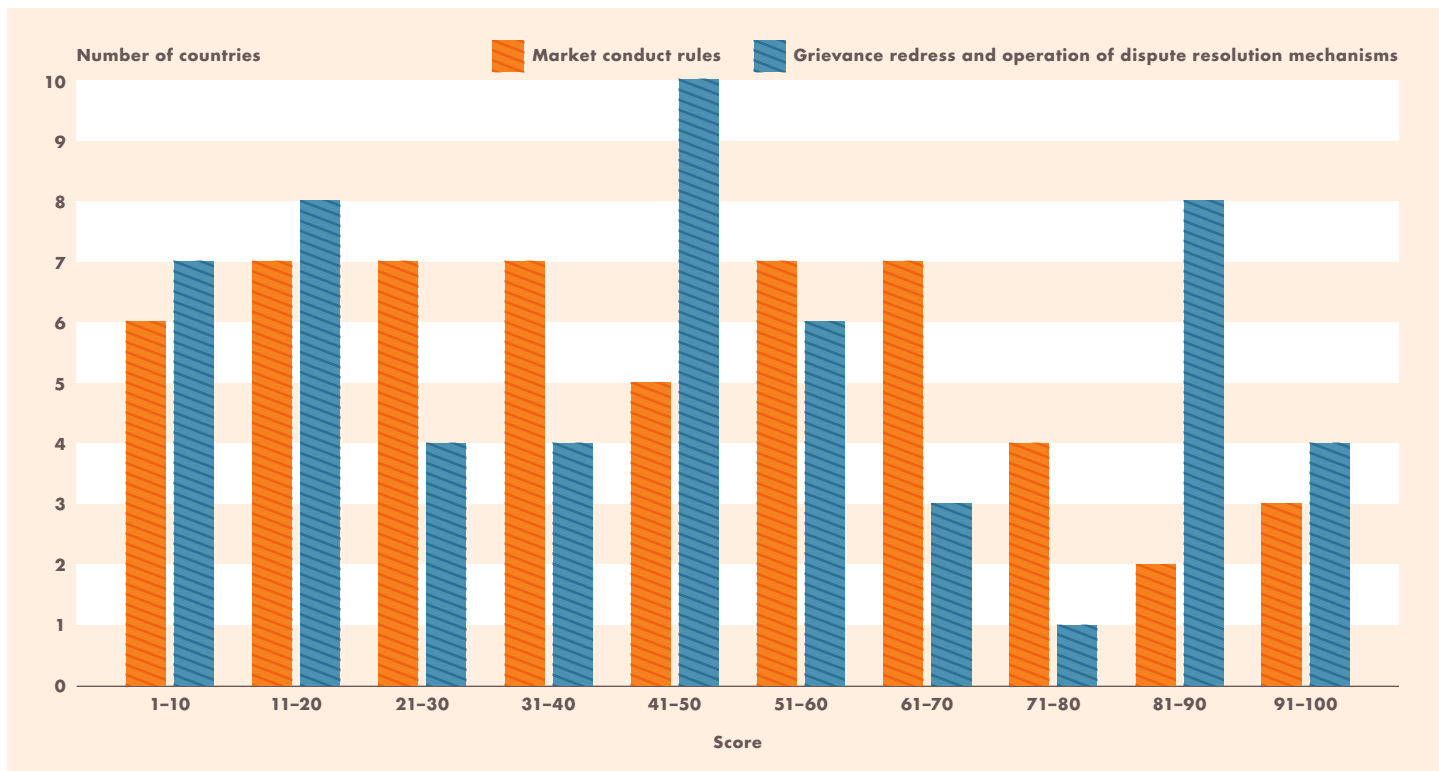
High-functioning credit reporting systems are important to enable the development of credit markets that can serve lower income people responsibly. The completeness of the information contained in the credit reporting system and the percent of people who borrowed in the past year are closely correlated ($R^2 = .55$). In other words, well-functioning credit information systems accompany increased borrowing activity. Three aspects to credit reporting are essential to ensuring its success. Information must be comprehensive, regularly updated, and actively used.

This relationship between a publicly available credit reporting system and borrowing

behavior does not address the question of what the impact of alternative credit reporting systems will be. Many players are exploring alternatives to traditional credit reporting such as psychometric testing, tracking consumer behavior, leveraging social media, and utilizing big data. So far, however, these methods are in their infancy. Moreover, they have only been available through proprietary systems, without the market-building effects of traditional credit bureaus available to all providers. For credit reporting systems to help generate market-wide increases in credit, many providers would need to contribute to shared credit reporting infrastructure.

FIGURE 24

Microscope Distribution of Client Protection Ratings, 2014



Source Global Microscope (2014).

Consumer protection regulation ranges from extremely weak to quite comprehensive.

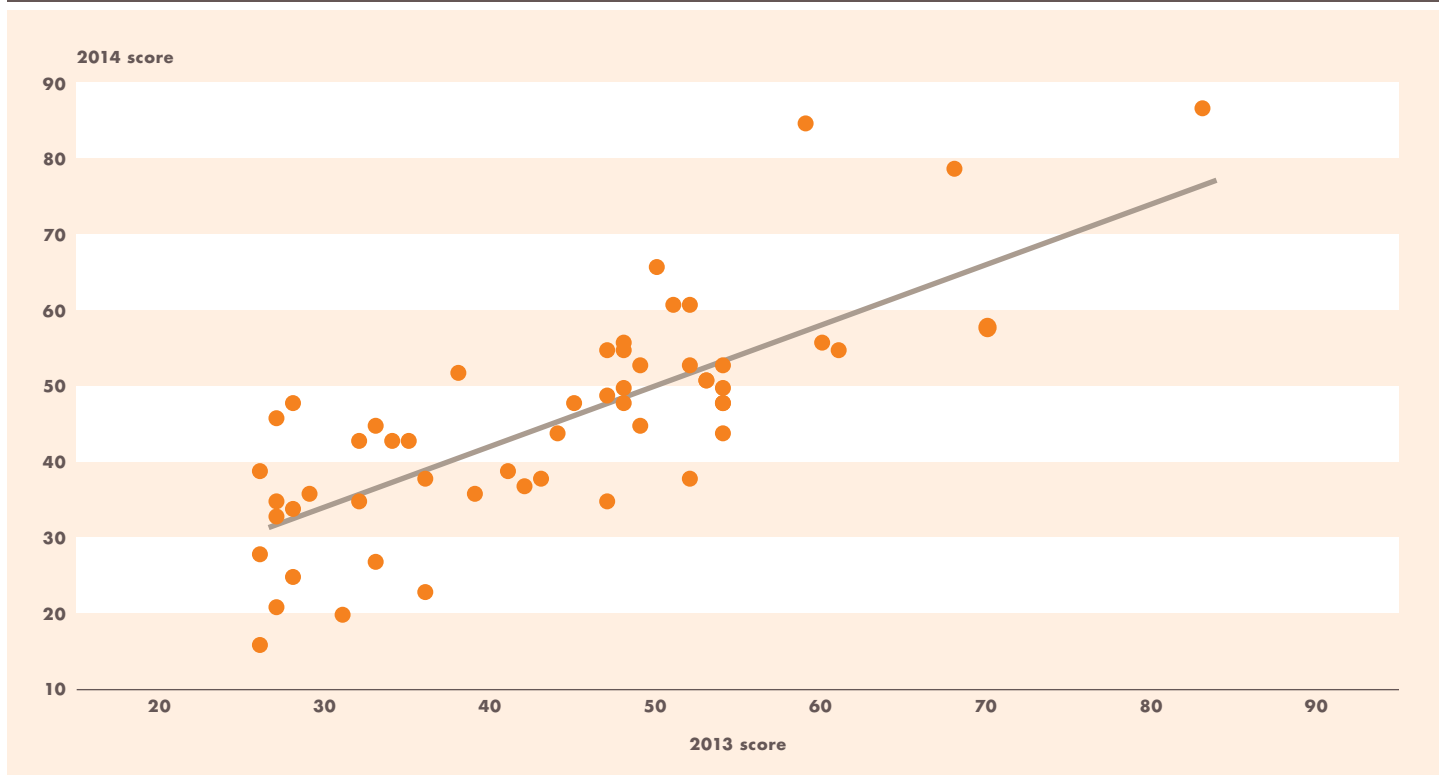
Client protection has gained traction, especially since the global financial crisis, both from national governments and from portions of the financial inclusion industry. However, building an effective client protection infrastructure takes time, and many countries have started from a low base. When the EIU rated regulatory frameworks for client protection as part of the Global Microscope, it found a very broad distribution of performance.

Industry-led client protection efforts are also emerging. From the microfinance community through the Smart Campaign, there has been a dramatic increase in commitment to client protection as well as an increasing number of

microfinance clients served by institutions that have been certified for strong client protection practices (18 million as of May, 2015). Client protection initiatives driven by the industry can be adopted into the internal operations and corporate culture of the institutions. The Smart Campaign serves as a reminder that voluntary client protection is possible. Similarly, with support from its member institutions the GSMA issued a code of conduct last year that detailed best practices in the protection of client interests and rights in mobile money. Industry efforts bridge the gap particularly where client protection policy and regulation is lacking.

FIGURE 25

Financial Inclusion Policy and Regulation v. Microfinance Policy and Regulation



Source Global Microscope (2014).

Countries that established pro-microfinance policy frameworks also tend to score well on the financial inclusion environment.

Microfinance—both microcredit and microsavings—is cited in the national commitments of 18 countries that have made a Maya Declaration commitment. National commitments signal that microfinance plays a significant role in the policy commitments of national governments and will continue to be important in reaching customers at the base of the economic pyramid with credit and savings services. Countries whose environments are friendly to microfinance

also have environments that are friendly to financial inclusion.

Moving a national policy focus from microfinance to financial inclusion does not mean leaving microfinance behind. Microfinance has played an important role in putting the financial needs of low-income people on the global agenda, and microfinance providers will continue to be significant players in the delivery of financial services, especially basic credit and savings, at the base of the pyramid.

FIGURE 26

Support from Standard Setting Bodies, 2005–2015

BCBS	2010 “Microfinance activities and the core principles for effective banking supervision”	2012 Basel Core Principles redesigned, presenting an opportunity to examine the core principles and their links to financial inclusion	2015 “Range of practice in the regulation and supervision of institutions relevant to financial inclusion”
CPMI	2007 “General Principles for International Remittance Services,” with implications of pricing for low income customers	2011 joint Forum on Retail Payments with the World Bank, which continued until 2015	2012 “Innovations in retail payments”
FATF	2010 paper on new payment methods; subgroup to address them with relevance to financial inclusion	2011 paper “Anti-money laundering and terrorist financing measures and Financial Inclusion”	2012 President statement: “Giving more people access to the formal financial sector increases the reach and effectiveness of anti-money laundering and countering the financing of terrorism regimes” 2013 “Revised Guidance on AML/CFT and Financial Inclusion”
IADI	2010 forms Financial Inclusion and Innovation Subcommittee to study links between financial inclusion and deposit insurance	2013 “Financial Inclusion and Deposit Insurance”	
IAIS	2005 joins with Microinsurance Network to form a working group on regulation and supervision of microinsurance	2007 “Issues in Regulation and Supervision of Microinsurance”	2010 “Issue paper on the Regulation and Supervision of MCCOs in increasing access to Insurance Market” 2012 “Guidance on regulation and Supervision Supporting Inclusive Insurance Markets” following new core principles

Note Standard setting bodies include the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructure (CPMI), the Financial Action Task Force (FATF), the International Association of Deposit Insurers (IADI), and the International Association of Insurance Supervisors (IAIS).

The global standard setting bodies have tentatively endorsed financial inclusion and taken steps to adjust their guidance.

All the major standard setting bodies have recognized the need for financial inclusion, and have at least explored how the issue relates to their area of concern. A few have offered significant contributions to the understanding of the links between financial

inclusion and financial sector stability. These groups have considered financial inclusion’s relevance to stability, combatting money laundering and terrorism, regulatory and supervisory capacity, and more. While there is a long way from general statements of principle at this global level to practical change on the ground, and while standard setting bodies are notoriously conservative, their endorsement and engagement represents a significant step toward financial inclusion.

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The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank working toward full global financial inclusion.

Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using tools that include research, convening, capacity building, and communications.

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