Central Banks and Financial Inclusion

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Outline

1. Definitions of financial inclusion
2. Status of financial inclusion in Asia
3. Barriers to financial inclusion
4. Strategies to promote financial inclusion
5. Financial literacy and financial education
6. Fintech and financial inclusion
7. Central bank policy innovations in response to COVID-19
8. Conclusions
1. Definitions of financial inclusion

“Financial inclusion aims at drawing the “unbanked” population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance.”

(Hannig and Jansen 2010)

“... the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It primarily represents access to a bank account backed by deposit insurance, access to affordable credit and the payments system.”

(Khan 2011)

“Inclusive financial systems provide individuals and firms with greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities, and confronting shocks.”

(World Bank Global Financial Development Review 2014)
2. Status of financial inclusion in Asia:
Share of adults with accounts at formal inst. highly related to income level

Correlation = 0.88

Share of small firms with line of credit
Moderately related to income

Correlation = 0.49

3. Barriers to financial inclusion

• Supply side
  ◦ Market-driven
    • Small accounts not economic
    • Branches in rural areas not economic
    • Lack of credit data, usable collateral
    • Lack of appropriate products
  ◦ Regulatory
    • Entry and exit in financial business
    • Capital adequacy and supervisory rules
    • Branch/ATM opening requirements
    • ID and other documentation requirements
    • Regulatory requirements for microfinance institutions (MFIs)
  ◦ Infrastructure
    • Lack of convenient payment systems, Lack of financial institutions

• Demand-side (Borrowing and Savings)
  ◦ Lack of knowledge (financial literacy, digital financial literacy) and/or trust
  ◦ Lack of funds (shortage of savings)
4. Strategies to promote financial inclusion

- **Level of strategy**
  - National
  - Central banks and regulatory agencies
  - Private institutions and NGOs

- **Inclusion-oriented financial institutions**
  - MFIs, state banks, post office, credit coops, community orgs

- **Regulatory approaches**
  - “Proportionate” regulation
  - Market-oriented policies
  - Regulatory sandboxes

- **Innovative products and services**
  - No-frills accounts, agent banking, “micro” branches

- **Innovative delivery technologies**
  - Mobile phones, e-money, other Fintech

- **Innovative systems to enhance credit access**
  - Credit databases, expansion of eligible collateral
  - Innovative investment vehicles: crowd funding, P2P lending
### Wide range of approaches to inclusion

#### Elements of Financial Inclusion Strategies

<table>
<thead>
<tr>
<th>Country</th>
<th>Inclusive Financial Institutions</th>
<th>Subsidized Funding</th>
<th>Innovative Financial Products and Services</th>
<th>Innovative Delivery Technologies</th>
<th>to Enhance Credit Access</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bangladesh</strong></td>
<td>Cooperative societies, postal savings bank, Grameen Bank, licensed NGO-MFIs</td>
<td>Palli Karma Sahayak Foundation for MFIs; refinancing of bank loans to small and medium-sized enterprises</td>
<td>Micro-deposits, micro-loans, Taka Ten bank accounts for farmers, school banking program</td>
<td>Mobile phone banking</td>
<td></td>
</tr>
<tr>
<td><strong>India</strong></td>
<td>Regional rural banks, united community banks, Local Area Banks, NBFC-MFIs</td>
<td>Micro Units Development and Refinance Agency Bank</td>
<td>No-frills bank accounts (with additional services to be added), business correspondents</td>
<td>Telephone bill-paying</td>
<td>Stock-exchange platforms for small and medium-sized enterprises, credit bureaus</td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td>Bank Perkreditan Rakyat, Bank Pembangunan Daerah, Bank Rakyat Indonesia</td>
<td></td>
<td>Grameen Bank-style microcredit products, Islamic microfinance products</td>
<td>Telephone banking, e-money</td>
<td>Loan guarantee programs</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>Rural banks, cooperatives, credit cooperatives, credit NGOs</td>
<td></td>
<td>Micro-deposits, micro-loans, and micro-insurance products; agents for insurance, e-money, and payments</td>
<td>Telephone banking, e-money</td>
<td></td>
</tr>
<tr>
<td><strong>Sri Lanka</strong></td>
<td>Cooperatives, NGO-MFIs, community-based organizations, Samurdhi, rotating savings and credit associations</td>
<td></td>
<td></td>
<td>Telephone banking via point of sale terminal, e-remittance services</td>
<td></td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>State financial institutions, cooperatives and occupational groups, savings groups for production, village funds</td>
<td></td>
<td>Telephone banking, e-money</td>
<td></td>
<td>Loan guarantee program, credit database (in development)</td>
</tr>
</tbody>
</table>

MFI = microfinance institution, NBFC = non-banking financial company, NGO = non-government organization.

Sources: ADBI (2014); BUCFLP (2014); Barua, Kathuria, and Malik (2016); Kelegama and Tilakaratna (2014); Khalily (2015); Llanto (2015); Tambunan (2015); and Tambunlertchai (2015).
# Financial inclusion programs and strategies

<table>
<thead>
<tr>
<th>Country</th>
<th>National</th>
<th>Central Bank</th>
<th>Ministries/Regulators</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>No national strategy; legal basis for Grameen Bank; establishment of Microcredit Regulatory Authority</td>
<td>Taka Ten Account for farmers; expansion of rural bank branches, refinancing, mobile banking, SME financing, and school banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Priority sector lending targets; Prime Minister's People Money Scheme bank account strategy; biometric identification program</td>
<td>Rural branch opening rules; establishment of innovative bank types; promotion of no-frills bank accounts; business correspondents; financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Subsidized credit and bank lending targets for micro, small, and medium-sized enterprises and farmers; establishment of Grameen-type banks and other microfinance institutions</td>
<td>National Strategy for Financial Inclusion (with Ministry of Finance), payment system infrastructure; financial education; credit-related information; supporting regulation; campaigns;</td>
<td>Ministry of Finance (see central bank)</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>Included in Philippine Development Plan 2011–2016 to increase confidence in financial system; expand offerings of</td>
<td>Lead government institution to formulate specific financial inclusion strategies, numerous circulars</td>
<td>Department of Finance-National Credit Council: Credit Policy Improvement Project</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10% bank loan target for agriculture; creation of Samurdhi</td>
<td>Branch opening regulations</td>
<td></td>
<td>Commercial bank campaigns to attract savings; services for</td>
</tr>
<tr>
<td>Thailand</td>
<td>Aspects included in 11th National Economic and Social Development Plan: focus on SME finance, financial education</td>
<td></td>
<td>Ministry of Finance: National Strategy for Financial Inclusion; OSMEP: Master Plan of SME Promotion</td>
<td></td>
</tr>
</tbody>
</table>

Source: ADBI (2017)
### Regulation of financial inclusion varies substantially by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulatory Agencies</th>
<th>ID-related Measures</th>
<th>Regulation of MFIs</th>
<th>Lending Regulations</th>
<th>Consumer Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Bank of Bangladesh, Microcredit Regulatory Authority, Insurance Development and Regulatory Authority</td>
<td>Licensing of MFIs over certain size can take deposits</td>
<td>Interest rate cap, deposit rate floor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Reserve Bank of India, Micro Units Development and Refinance Agency Bank</td>
<td>Aadhaar biometric ID program, linked to access to micro-accounts</td>
<td>Licensed; can convert to small bank</td>
<td>Lending rate caps for banks, non-bank MFIs</td>
<td>Reserve Bank of India: Grievance Redressal Mechanism in banks; banking ombudsman system</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Bank Indonesia, Financial Supervisory Agency (OJK), and multiple others</td>
<td>Multiple regulatory entities</td>
<td>Interest rate caps: non-collateralized credit scheme for micro, small, and medium-sized enterprises (KUR) (22%), 5%–7% for agriculture/energy programs</td>
<td></td>
<td>National Consumer Protection Agency, Consumer Dispute Settlement Board, Credit Information Bureau</td>
</tr>
<tr>
<td>Philippines</td>
<td>Bangko Sentral ng Pilipinas (BSP), Insurance Commission</td>
<td>Easier ID requirements in cases where documentation is lacking</td>
<td>BSP regulates most entities; only rural banks and credit cooperatives can accept deposits</td>
<td>Only disclosure rules</td>
<td>BSP: Consumer Affairs Group; Securities and Exchange Commission; National Credit Council and National Anti-Poverty Council Microfinance Consumer Protection Guidebook</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Central Bank of Sri Lanka</td>
<td></td>
<td></td>
<td></td>
<td>Consumer Affairs Authority; Voluntary Financial Ombudsman system; Consumer Affairs Council; Credit Information Bureau of Sri Lanka</td>
</tr>
<tr>
<td>Thailand</td>
<td>Bank of Thailand, Ministry of Finance, and multiple others</td>
<td>Nongovernment organization-MFI's can register under various acts; not licensed; only cooperative societies and Samurdhi Banking Societies can take deposits</td>
<td>Nongovernment organization-MFI's can register under various acts; not licensed; only cooperative societies and Samurdhi Banking Societies can take deposits</td>
<td>Interest rate cap of 28% for specialized financial institutions, 15% for non-formal lenders</td>
<td>Bank of Thailand: Financial Consumer Protection Center</td>
</tr>
</tbody>
</table>

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5. Financial literacy and financial education:
Results of OECD/INFE financial literacy surveys

Source: OECD (2016), authors’ estimates.
# Policies and programs for financial education

<table>
<thead>
<tr>
<th>Country</th>
<th>National</th>
<th>Central Bank</th>
<th>Other Regulators</th>
<th>Private Sector</th>
<th>Coverage</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>None</td>
<td>Policy statement on financial literacy, but no specific strategy</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>India</td>
<td>National Strategy on Financial Education launched by the Financial Stability and Development Council</td>
<td>Financial literacy project to enhance financial literacy among target groups; standardized literacy material</td>
<td>None</td>
<td>Bank literacy centers that work with microfinance institutions</td>
<td>School children, senior citizens and military personnel</td>
<td>Schools</td>
</tr>
<tr>
<td>Philippines</td>
<td>Included in Philippine Development Plan 2011–2016</td>
<td>Economic and Financial Learning Program to promote public awareness of economic</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>None</td>
<td>Some activities</td>
<td>Some activities</td>
<td>Some activities</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Thailand</td>
<td>None</td>
<td>Financial education programs for individuals, small and medium-sized enterprises</td>
<td>Government &quot;Debt Doctor&quot; program, Office of Small and Medium Enterprise Promotion</td>
<td>Civil society groups, commercial banks, Bank of Agriculture and Agricultural Cooperatives, independent organizations, non-profit organizations</td>
<td>Generally small-scale programs, except &quot;Debt Doctor&quot;</td>
<td>Media</td>
</tr>
</tbody>
</table>

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Sources: ADBI (2014); BUCFLP (2014); Barua, Kathuria, and Malik (2016); Kelegama and Tilakaratna (2014); Khalily (2015); Llanto (2015); Tambunan (2015); and Tambunlertchai (2015).
6. Fintech and financial inclusion

- Fintech perceived to have great potential, reflecting ability to deliver innovative services online, especially via smartphones

- Major categories of financial services offered by Fintech firms
  - Payments and Transfers; (E-Commerce Payments; Mobile Banking, Mobile Wallets; P2P Payments and Transfers; Digital Currency; Cross-Border Transactions incl. Remittances & B2B Payments)
  - Personal Finance (Robo-Advisors; Mobile Trading & Personal Financial Management)
  - Alternative Financing (Crowdfunding, P2P Lending, & Invoice and Supply-Chain Finance)
  - Others (Insurance, etc.)

- New regulatory approaches: sandboxes, special licensing regimes
- But Fintech introduces new risks as well, especially for less educated financial consumers ➔ Need for more emphasis on digital financial literacy
7. Regulator innovations in response to COVID-19 to support financial inclusion

- **Know Your Customer/Anti-Money Laundering/Digital identity**
  - Facilitating or permitting electronic KYC (eKYC) processes where previously not permitted, or simplifying KYC processes and practices (temporary in some cases)
  - Digital on-boarding, e.g., facilitating or permitting the use of digital identities, digital/electronic signatures, simplified and/or digital customer due diligence (CDD) checks, use of digital documents

- **Economic relief**
  - Emergency liquidity facilities, including Fintech firms
  - Concessional funding for commercial banks and credit institutions for lending to firms, including to SMEs and start-ups

- **Business continuity planning**

- **Cybersecurity**
  - Enhancement of requirements or controls, strengthened cybersecurity oversight and supervision, recommendations for cybersecurity protocols

- **More ‘digital’ approach to regulation**

- **Digital payments and digital lending**
  - Waiving or reducing transaction fees; increase of transaction limits/thresholds
  - Digital lending providers authorized to issue credit cards and fund operations with resources from the development bank, targeting the underserved.

8. Findings and Conclusions

- Central banks have already been active in promoting financial inclusion, often nested within national FI strategies
  - Innovations regarding IDs, KYC, AML/CFT
  - Innovations regarding products, access
  - Regulatory approaches for financial inclusion institutions
  - Regulatory approaches for Fintech firms
    - Regulatory sandboxes
    - Tailored licensing regimes
  - Financial education programs (also nested within national financial education strategies)
- Impacts of COVID-19
  - Greater demand for online financial services
  - Governments see greater utility of online services for delivery of aid, funding
- Central bank reactions to COVID-19
  - More directed to financial sector as a whole than to financial inclusion specifically
  - **Digital financial literacy** needs greater emphasis in FE programs
Thank you!

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