A financially inclusive society is not only beneficial to the previously excluded, but also aids development and economic growth. Banks and for-profit institutes similarly have the motivation to create inclusivity to grow the markets for their products. Thus, there are general as well as direct benefits to firms when a previously unbanked person learns to operate and has access to financial tools.

Using the more current, accepted definition of financial inclusion, which involves use, access to and understanding of finance, inclusion will prompt individuals to engage in savings through formal financial institutions and purchase risk management products, such as pensions and insurance. The majority of unbanked store their savings “under the mattress”, an inefficient and risky practice. The first step in financial inclusion is generally the establishment of some form of savings account. If stored or invested with a formal financial institution, the individual has mitigated the risk that funds will be stolen and can gain returns on their savings.

Increasing levels of inclusion will result in financial institutions ability to evaluate and manage credit, thereby making it accessible to the broader population. Credit creates environments in which individuals can be entrepreneurs rather than wage laborers (World Bank, 2013). Furthermore, the extension of credit will push individuals away from inefficient risk management behavior and allow consumers to better cope with funerals, medical emergencies, or other unexpected shocks (World Bank, 2013). The more inclusive the environment and the more the financial system is used, the more financial institutions will be able to better assess a candidate for a loan. This will lead to a lowering in both the rates available to individuals and the risks to the lender, reducing subprime loans and extending the length of term credit. In the developed world, where the conditions are highly inclusive, 24% of people have a mortgage, compared to only 3% in the developing, un-inclusive world (Demirgüç-Kunt and Klapper, 2013).

Financial participations aids the progression and development of the financial sector, something inextricably linked to growth in the national economy (Perotti et al., 2013). As credit becomes more widely available, a result of the development of capital markets, SMEs are given the opportunity to grow, therefore creating more jobs. The World Bank estimates that, in developing countries, around half of the employed are involved with SMEs, a greater proportion than in higher income settings. Since SMEs are most likely to be financially excluded, the new extension of credit will create substantial growth in this sector. A World Bank (2009) study suggests that for every percentage point increase in financial inclusion, business creation will rise by .51%, and a 15% increase in financial inclusion results in a jump of 1% in employment. This will raise the general welfare of the population, generating greater tax revenues and reducing the need for extensive social programs.

Beyond the rise in general welfare, there is a strong case for the private sector to become involved with financial inclusion. Experts have argued that with new, innovative financial tools, like mobile money, the efficiency of financial institutions’ products increases, driving up customer loyalty, hence ensuring more stability and longevity (Mas and Kumar, 2008). Furthermore, banks can leverage individuals’ use of their basic accounts to sell more products. Once individuals are using a bank account, banks will
attempt to propose loans, or other services (Bold et al., 2012). This process known as “cross selling” is considerably cheaper and easier once individuals have become financially included.

The private sector engaging in financial education, another crucial aspect of financial inclusion, can prove to be commercially valuable in the long run. The Citi group has completed extensive work on the business case analysis for financial education programs, concluding that certain models provide financial institutions with profitable returns. Two models Citi proposes, “star performers” and “transaction intercept” \(^1\), have potential to be profitable, but current data is inconclusive. Citi’s research shows that “induction training” as well as “delinquency management” are both cost effective initiatives (Deb and Kubzansky, 2012). Induction training is already a requirement by most microfinance firms and has reportedly reached close to 100 million financially incapable people, while costing a miniscule $.07-.54 per student (Deb and Kubzansky, 2012). Induction training is completed before the loan agreement is signed, laying out features and expectations of the loans. This process removes confusion concerning the loan, reducing the amounts of late payments and defaults, generating greater revenues for the bank. Delinquency training represents a shift to a more expensive, but more focused, teaching model. Here, customers deemed to be in risk of default or have poor performing loans are invited for classes, masked as other events and often laden with incentives. Although these classes are quite expensive to the providers, around $14 per person, Citi’s research reveals that the banks more often than not make up that amount due to less frequent defaults. In addition, if financial institutions are in control of these education programs, they can easily tie in “product marketing”, raising awareness of their other products’ benefits.

There is a strong business case for the promotion of financial inclusion. The relationship between financial institution and previously excluded individuals, fostered by inclusion, is beneficial for all parties. First, customers gain access to finance, which smoothes consumption cycles and helps them to face unexpected shocks. Second, banks are able to generate higher profits. Third, governments benefit from financial inclusion since it contributes to minimizing the informal economy. Moreover, from a macroeconomic point of view, financial inclusion contributes to sustainable economic growth and poverty alleviation. Increased financial inclusion creates a positive outcome for all involved.
References


The Impact of Banking the Unbanked – Evidence from Mexico. 2009. World Bank


Notes

1. Star performer training involves offering special classes to individual with exemplary repayment behavior. Generally, classes focus on more advanced financial education, often on the managerial aspect. Many organizations extend more credit to participants upon completion. Transaction intercept training is not classroom based; rather, it targets individuals at the precise moment they are interacting with the financial services system, providing short-format, one-on-one education sessions to customers while they are waiting to conduct a transaction such as collect a remittance, Conditional Cash Transfer payment or money transfer.
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