

Financial Inclusion: What's the Vision?

The Need to Agree On What Financial Inclusion Is

Financial Inclusion is emerging as a global hot topic. The G-20 has launched a Financial Inclusion Expert Group; the U.N. has appointed Princess Maxima of the Netherlands as Special Advocate for Inclusive Finance; and policy makers from India to Brazil to Mexico are publishing papers and holding conferences about how to get more services to more people. The Obama Administration is seeking to make a contribution to global leadership in this area.

While there is a growing consensus on the importance of financial inclusion, the same consensus does not exist around its definition. From “banking the unbanked” to “branchless banking,” a variety of catch phrases are sometimes used as near synonyms for financial inclusion, when in fact they describe specific aspects of a broader concept. At this early stage in the movement toward financial inclusion, getting the definition and the vision right matters because the definition will shape policy decisions and the vision will motivate action.

Poor people save, borrow, and make payments throughout their lives. But to use these services to their full potential—to protect their families and improve their lives—they need well-suited products delivered responsibly. Bringing this about requires attention to human and institutional issues, such as quality of access, affordability of products, provider sustainability, and outreach to the most excluded populations. A definition and vision with clear and meaningful objectives in all these areas can inspire leaders to take a comprehensive path towards full financial inclusion.

The Center for Financial Inclusion, through its Financial Inclusion 2020 Project, has been working to frame a vision for financial inclusion that is shaped by the recognition that access to suitable financial services is a critical enabler of quality-of-life improvements and economic development. Given the progress that the microfinance industry has made during the past two decades (bringing services to over 150 million new and previously excluded customers), and the prospects that new commercial players are opening for dramatic future growth, we believe that this goal is within the realm of possibility.

The Four Dimensions of Full Inclusion

The Center for Financial Inclusion proposes a simple yet multi-dimensional definition of financial inclusion:

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

This vision puts clients rather than banks or technologies at the forefront. It recognizes that the financial-service needs of the poor have fundamental similarities to those of the better off. More specifically, when we look at inclusion, we focus on four core dimensions:

- **What is provided:** A full range of services, which includes a basic product in each of the four main areas: savings, credit, insurance, and payments.
- **How it is provided:** With quality—e.g., convenience, affordability, safety, and dignity of treatment—and with client protections operating.
- **Who receives:** Everyone who can use the services, including the poor, rural, informal, and groups who are often discriminated against (women, ethnic minorities, disabled).
- **Who provides:** A range of providers led by mainstream financial institutions, but also including organizations from the private, social, and government sectors.

How to Use the Vision

Adopting a broad vision helps keep the ultimate milestones in mind as the policy and action agenda are set:

- Continue striving to provide financial services to the hard to reach, still-neglected populations.
- Improve the quality of services. It is insufficient to count someone as “included” who receives only a single service or whose service is expensive, inconvenient, or unsuited to his needs.
- Highlight consumer protection as a key element in a market-based system.

More practically, the existence of a consensus vision is helpful in organizing players and making policy choices. Such a vision:

- Points toward roles for multiple actors, with government providing a supportive environment.
- Keeps the market in mind. The driver of service expansion is economic sustainability for providers.
- Draws attention to providers like microfinance institutions that seek out harder-to-reach segments.
- Provides a framework for evaluating specific actions—“How significantly does X contribute to the ultimate vision?”

Without a comprehensive vision, policy makers tend to focus on what is easiest to measure and regulate—often one or two products and one or two providers (especially mainstream commercial banks).

The Vision Applied – Mexico

The CFI’s Financial Inclusion 2020 Project team put our definition and vision to the test by applying it in Mexico. We asked: [What would it take for Mexico to achieve full inclusion by the year 2020?](#) When we apply our four full-inclusion lenses to Mexico, we can see the power of a comprehensive definition.

Using our four-product and excluded-groups lenses, we found that while 55 percent of all Mexican households access at least one type of formal financial service, only 5 percent can be counted as fully served. Despite the rapid growth of consumer credit, Mexico is not currently on the path to full inclusion by 2020. Services to the most excluded segments are simply not growing fast enough, and that includes the poor, the rural and the informal who make up two-thirds of the population.

Mexican policy makers are excited about the potential of mobile and agent banking to bring payment services to excluded rural locations, but a close look at the institutional landscape through our multiple-provider lens revealed barriers of infrastructure and location of retail outlets in Mexico's rural areas, leading us to conclude that the financial inclusion challenge cannot be solved by delivery channels alone.

Applying our quality lens led us to flag the rapid growth of consumer credit, where new providers are proliferating, as a potential market hot spot where consumer protection and financial education would be needed.

Finally, a close examination of excluded populations led to the observation that while the *number* of poor households will fall only slightly over the next decade, the *depth* of poverty will diminish as millions of families will leave extreme poverty behind. With slightly more discretionary income such families can begin to afford financial services, opening the possibility for the private sector to serve them. We estimated that full inclusion could bring a potential \$6 to 8.5 billion revenue pool into the financial sector.

These and other observations begin to suggest pathways for Mexico to reach full financial inclusion by 2020, with a strategy that mobilizes all the relevant providers and stakeholders together with government actors.

A Final Word

Full inclusion by 2020 could be within sight in a number of countries. As global financial systems are being re-thought, an opportunity emerges for world leaders to promote the ambitious vision for full financial inclusion within the decade, using a concept that keeps the needs of clients at the center. Financial inclusion is like a jigsaw puzzle. Only when all the puzzle pieces are in place does the image become clear. World leaders say they want to pursue financial inclusion. It makes sense to get the whole picture right.

The goal is ambitious, but it is within the realm of the possible.