



Seizing the Moment:

On the Road to Financial Inclusion

**FINANCIAL
INCLUSION** 2020
A Global Forum



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Preface

Can the world achieve global financial inclusion by 2020? The many participants in Financial Inclusion 2020 have been asking this question through working groups, webinars, and research efforts throughout 2013. By raising the question in structured ways and with multiple actors, the Center for Financial Inclusion at Accion aims to increase the momentum toward financial inclusion. Our hope is that by building a shared vision of the future of financial inclusion, developing a common roadmap guiding how to achieve it, and grounding the discussion in data on current trends, we will help spark decisions to prioritize financial inclusion among financial service providers, technology innovators, governments, and civil society.

The first of FI2020's two main work streams, Mapping the Invisible Market, provides a data framework by looking at demographic and economic trends and projections and then examining their implications for the future of financial inclusion. The two Mapping papers,¹ one on demography and one on income growth at the base of the pyramid, demonstrate the enormous and growing scale of the market for financial services among currently unserved and underserved people throughout the world. When these trends are coupled with the growing pace of technology-led innovation, entry by new players, and priority setting by global policymakers, it's clear that major leaps in financial inclusion can happen by the end of the decade.

In its second main work stream, FI2020 engaged a diverse group of stakeholders to construct a vision of how to advance financial inclusion. Representatives from over 40 organizations have convened to identify the most important steps each actor can take, aligning individual interests for a larger purpose. These consultations have involved five working groups, each considering one priority topic: Financial Capability, Addressing Customer Needs, Technology-Enabled Business Models, Consumer Protection, and Credit Reporting. Major stakeholders, including financial services providers, technology companies, policymakers, and supporting organizations have been involved, and participants in the process come from over 30 countries. In addition over 100 people, especially advocates for important client segments, have provided comments. These roadmaps lay out a vision of an ideal future, a diagnosis of the current situation, and recommendations for moving forward.

In this report, we look at why financial inclusion matters and why we are confident it can be achieved in the foreseeable future. Through many conversations, we have learned that most of the solutions already exist. Innovative action is already happening, among organizations and companies large and small. We hope that the vision and way forward outlined here will help the actions of such stakeholders to build on each other to make financial inclusion a reality sooner than ever thought possible, and to enable financial inclusion to develop in a way that benefits the millions – or billions – of new clients

This report is organized into three chapters. Chapter 1 summarizes the case for financial inclusion in this decade: what financial inclusion is, why it matters, and why we believe it is increasingly possible. The chapter details how financial inclusion contributes to well-being for customers, countries, and providers. It also grounds the discussion in data about the current state of financial inclusion. Based on the research from Mapping the Invisible Market, it outlines the growing markets for financial services brought on by changing global demography and income growth. It highlights how technology innovations and policy initiatives are advancing inclusion. Chapter 2 summarizes the five roadmaps to inclusion, recording the investigative journeys that took place in each of the five FI2020 working groups, and spotlighting the most important

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1 Peter Kasprovicz and Elisabeth Rhyne, Looking Through The Demographic Window: Implications for Financial Inclusion and Sonja Kelly and Elisabeth Rhyne, Growing Income, Growing Inclusion (Washington, DC: Center for Financial Inclusion at Accion, 2012 and 2013).

messages group members wanted to communicate to the global financial inclusion community. It also incorporates reflections on several special populations segments, drawn from FI2020's consultations with representatives of these groups. Chapter 3 calls providers, policymakers, and support organizations to action, based on the principles and recommendations emerging from the five working group consultations. Those who like to cut straight to the bottom line may turn directly to Chapter 3.

The Center for Financial Inclusion is very grateful for the superb support we have received from our sponsors and collaborators. We extend our sincere thanks to FI2020 lead and founding partner, Citi, to lead and principal partner Visa Inc., and to principal partners MasterCard Worldwide and the Bill & Melinda Gates Foundation. We also thank project partners Western Union and MetLife Foundation, and CFI's founding sponsor, Credit Suisse. We wish to acknowledge and thank the many people and organizations who served on the working groups, particularly the tireless group chairs (listed in Annex 2). In addition, we thank the many experts who commented on the drafts.

The Center for Financial Inclusion takes responsibility for any errors made here. Although this is a document developed through consultation, the views expressed cannot be attributed to any particular contributing organization.

Why Financial Inclusion? Why Now?

The FI2020 Question: Can the World Achieve Global Financial Inclusion by 2020?

Can the world achieve financial inclusion by 2020? It's an audacious question, but at a time of global goal-setting, it's worth serious consideration. As Financial Inclusion 2020 (FI2020) examined this question throughout the past year, we realized that while global financial inclusion in all its dimensions may be more an ideal than a goal, there are important dimensions of inclusion that, with commitment to action, could be within the world's grasp.

What is Full Financial Inclusion?

Financial inclusion is much more than "banking the unbanked." The Center for Financial Inclusion envisions financial inclusion as:

A state in which all people who can use them have access to a 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, to a financially capable clientele.

This vision encompasses aspirations in five dimensions needed for a truly financially inclusive world. It recognizes that people need a range of products that are suited to their diverse needs, and that these services will only be worth using if they are delivered with sufficient quality – convenience, affordability, security, etc. – and with consumer protections in place. The vision includes everyone who can safely use the services, including groups with special challenges, such as poor, rural, women, migrants, or disabled. And it requires a diverse, well-functioning marketplace in which multiple competing providers operate in a framework set through effective regulation. An increasingly central aspect of the financial inclusion vision involves the financial capability of the customers, who must have knowledge, skills, and behaviors that enable them to make sound financial decisions.

The world is poised to achieve rapid breakthroughs in access to specific financial services for people at the base of the pyramid (BOP), but the real promise of financial inclusion will only be realized if all five elements of inclusion develop in tandem.

Financial Inclusion Matters for Customers, Their Societies, and Financial Service Providers.

The importance of financial inclusion as a global goal rests on its potential value for the billions of individuals, households, and microenterprises that are now either fully or partially excluded. As a woman becomes more financially included, she gains power to use financial services to improve her life and that of her family. A simple first step, such as opening an account for receiving a monthly salary, can begin a transformation that will ultimately enable her to manage her day-to-day life more productively, shield her against risks, and support her in achieving major life goals like education, home, and business growth. Yet today, 2.5 billion adults lack even a basic bank account, and many more have only one of the four key services (payments, savings, credit, and insurance) or have services that are so inadequate they are dormant.²

FI2020 calls on policymakers at a national level to make financial inclusion a goal. Expanding financial services to more people can increase a country's economic productivity. Many of the world's middle income countries are now experiencing a unique demographic transition, with an especially large cohort of working age people relative to dependent children and elderly. This transition creates an opportunity for unparalleled economic growth – but only if the society can enable its working age members to fulfill their economic potential. Financial inclusion can be one of the key economic policies setting a society up to take advantage of this demographic transition.

Nations prioritizing inclusive societies and growth will see financial inclusion as part of their critical path. Today, with the rise of electronic payments, a relationship with a formal financial institution is increasingly a passport to economic citizenship. And governments are discovering that incorporating financial inclusion into their own interactions with citizens through electronic government-to-person (G2P) payments can save them significant sums, substantially reduce fraud, and act as an “on-ramp” to other forms of inclusion.

FI2020 also challenges private providers of financial services to consider financial inclusion. Rising incomes at the base of the pyramid in the developing world are creating an enormous new and little-tapped market, and many of the specific markets in this space will be captured this decade. A long-run market growth perspective will pay off. Moreover, the “frugal innovation” and learning needed to serve low-income people effectively can yield spillover lessons for other business lines.

The potential benefits of financial inclusion for customers, nations, and providers make financial inclusion a worthy goal. And for the first time, global financial inclusion is also a conceivably achievable goal.

For the First Time, Significant Levels of Inclusion May Be Within Reach.

Four factors are coming together in this decade to set the stage for dramatic leaps in financial inclusion.

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2 World Bank, Global Findex (Washington, DC: 2012).

1. Incomes are rising at the base of the pyramid. Massive numbers of people, especially in populous middle income countries, are moving from incomes at or near subsistence to a level that provides a small disposable surplus, in the range of roughly \$4-\$10 per day.³ Some are calling this the rise of a new “vulnerable class” – no longer poor, but still not fully secure. Between 2010 and 2020, the world’s bottom 40 percent will nearly double their spending power from \$3 trillion to a \$5.8 billion (in today’s dollars). As they gain income, people in this population segment are also likely to begin demanding formal financial tools; at the same time, they will have sufficient money to afford basic services.
2. Technology is reducing delivery costs and expanding reach. Deep penetration of telecommunications infrastructure and upgrading of payment systems are enabling transactions in poorly served geographic areas at costs well below traditional branch-based banking. The mobile money “revolution” taking place in Africa is already well known. Such advances will enable even people who remain very poor to benefit from advances such as through safer money transfers and benefits payments. Technologies like “Big Data” and social media are also transforming product design and delivery, client segmentation, and credit reference in ways that allow outreach to the un- and under-served.
3. The opportunities are attracting providers to innovation and new entry. The financial inclusion marketplace is a lively place, bringing together traditional banks and new players, all seeking to capture new markets. At FI2020 we see traditional banks developing new products, small start-ups experimenting with disruptive business models, and non-traditional actors such as telecoms companies, retail stores, and consumer goods distributors entering the arena. Microfinance institutions are seeking to build on their foundations to offer a broader array of products. Breakaway successes, such as M-PESA and Equity Bank in Kenya, Banco Bradesco in Brazil, or Allianz’s microinsurance in India provide a sense of enormous possibility.
4. Policymakers are prioritizing financial inclusion. The world community has put financial inclusion on the agenda. In 2008 the Alliance for Financial Inclusion (AFI) was formed to convene banking authorities in the developing world for cross-learning on financial inclusion. In 2009 the G20 began making commitments to financial inclusion at the highest policy levels, subsequently establishing the Global Partnership for Financial Inclusion (GPII). These and other efforts support the many ambitious financial inclusion strategies arising at the national level across the globe.

The elements needed for financial inclusion are converging: increasing demand, new business models, creative suppliers, and governments prepared to be supportive. Under any scenario, these elements will bring massive increases in services in many countries. But the scale and location of those services, their spread to all who need them, and their quality and value all depend on how the elements are assembled. For all involved, especially the prospectively “included,” the stakes are high.

FI2020 is working to develop a shared roadmap and increased commitment around these challenges. We believe that the widespread adoption of such a shared path and stronger commitment can raise the chances that the world will see full financial inclusion by the end of the decade.

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 3 The \$4-\$10 per day income band was used in Kelly and Rhyne (2013). Others first identified this band, including Francisco H.G. Ferreira et al., *Economic Mobility and the Rise of the Latin American Middle Class* (Washington, DC: World Bank, 2013) and Nancy Birdsall, “India’s 4-10s: The New Not-Poor Not Middle-Class and Its Implications,” *Global Development: Views from the Center* (blog), Center for Global Development, Nov. 19, 2012.

The Goal and Why It Matters

At the customer level. Financial inclusion matters to individuals, their families, and their small enterprises. Access to a suite of quality services tailored to client needs unlocks opportunities and improves lives in multiple ways.

Convenient payment systems increase the efficiency of economic transactions, sometimes dramatically. When payment systems improve, and especially when they shift from cash to electronic, the time and money eaten up by transaction costs are freed for other uses. A remitter receives all of the \$100 his family meant to send him. A pension recipient no longer has to pay an illicit “service fee” to receive her check. A microfinance client no longer has to waste an entire morning to pay a loan.

Access to bank accounts and short-term loans allow low-income households with small and irregular incomes to manage day-to-day resources. They can use credit and savings to tap past or future income to keep bread on the table even during the hungry season. Similarly, microenterprises use working capital to operate smoothly.

Financial services are also critical for achieving major life goals. Long-term savings and credit assist major life transitions from youth through old age, such as schooling or home improvement. Financial services support productivity-enhancing investments for micro and small businesses. Of the 2.6 billion people living on less than \$2 a day, about 600 million are small-holder farmers and about 180 million are microentrepreneurs.⁴ These large proportions do not even account for informal SMEs. These enterprises may use credit or savings to invest in assets like sewing machines, refrigerators, or farm implements. With a credit history available through a credit bureau, a family or small business can borrow against its assets, leveraging their value to facilitate further investments.

Low-income people face many vulnerabilities, from illness to theft to unemployment. Many families just emerging from poverty could fall back into it if faced with a health or business emergency. Insurance, savings, credit, and even remittances provide sustainable and low-cost coping strategies. If a financially included member of the household loses her source of income, she might not have to withdraw a child from school, sell a valuable asset, or fall deeper into poverty.

Financial services foster independence, giving people greater ability to manage their resources. For example, microfinance impact studies from Bolivia and Mexico report that microfinance clients are more self-confident, more actively involved in local governments, and more respected within their communities.⁵ And increasingly, a bank account or enrollment in electronic payment mechanism is essential for connecting with society’s mainstream institutions, from purchasing a train ticket to paying bills. All these examples add up to economic citizenship.

At FI2020, we find it helpful to express the aims of financial inclusion through a series of assertions we envision that a fully included person could make (see Box 1). The image these statements project reminds us just how central to well-being financial inclusion could be and why the global community should pursue financial inclusion.

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4 Oliver Wyman, *Sizing and Segmenting Financial Needs of the World’s Poor* (Seattle: Gates Foundation, 2008).

5 Nathanael Goldberg, “Measuring the Impact of Microfinance: Taking Stock of What we Know” Grameen Foundation, 2005. Manuela Angelucci, Dean Karlan, and Jonathan Zinman, “Win Some Lose Some? Evidence from a Randomized Microcredit Program Placement Experiment by Compartamos Banco” Yale Economics Department Working Paper No. 117, (New Haven: Yale University, 2013).

Box 1: “I Am Financially Included”

These “I” statements from the viewpoint of an ideally financially included person embody the ultimate client level goals of financial inclusion. They synthesize vision statements developed by each of the FI2020’s five working groups to guide their work.

1. What Financial Services Do for Me and My Family

- I use financial services to help manage daily financial life for my family and me.
- I use financial services to cope and to protect our resources when emergencies strike.
- I transact smoothly with people and organizations that are far away.
- Financial services help our family meet big life needs, like education, establishing a household, raising children, caring for parents, and preparing for old age.
- If I run a business, financial services help with day-to-day business needs and long-run investment.

2. The Services I Use

- I manage a diverse portfolio of financial services (formal or informal) that fit my situation.
- I have a choice of providers.
- I have a safe place to save.
- I can get access to credit when I need it, for personal or business use.
- I use efficient payments services in a “cash lite” setting.
- I have simple but relevant insurance.
- My services facilitate tracking for budgeting and money management.

3. The Quality of My Services

- I can afford what I need.
- I can choose delivery methods, including technologies, that work when and where I prefer.
- I am not burdened with bureaucratic requirements that are difficult to meet.
- I have the information I need about my financial services, and if I need more, I can get it.
- My financial services are easy to understand and delivered in an intuitive way.
- I have confidence that using these services will not cause harm.
- I am treated with respect and am not discriminated against based on my characteristics.
- I am not pushed into debt or using products that are not right for me.
- I know the paths to resolve problems.

4. My Financial Capabilities

- I can make sound financial decisions and I understand the consequences of poor decisions.
- I know my financial limits and stay within them.
- I know my rights and responsibilities as a client.
- I am committed to remain financially capable throughout my lifetime.

At the national level. How should policymakers situate financial inclusion among economic and social development goals? What level of priority should it command? Why does financial inclusion matter for nations?

Financial inclusion is often seen through the relatively narrow lens of financial sector development, and certainly in technical terms, it belongs in the hands of people who govern the financial system. From a development perspective, the sector is incomplete as long as major portions of the population are excluded.

With the global financial crisis still fresh in memory, policymakers are aware that sound financial inclusion policies contribute to financial stability.

Through a broader economic development lens, however, financial inclusion takes on even greater significance, as an enabler of many important development goals. Consider the following:

- Do policymakers seek quality education for all? Savings and credit help families pay for school.
- A healthy population? Health insurance is integral to enlarging access to health care.
- Food security? Farmers need financial services to purchase inputs, manage the seasonal flow of their incomes, and cope with agricultural risks.
- Empowerment of girls and women? A loan to a woman, in her name, gives her increased economic status in the family and possibly in the community.

Financial inclusion is perhaps best viewed as an essential aspect of national infrastructure that enables users of financial services to make the best use of their resources. During the middle of the 21st century, many of the world's developing countries will be enjoying a unique period in which they have the opportunity for robust economic growth, based on demographics that give them an unusually high proportion of people in their productive middle years.⁶ In order to take full advantage of this demographic window, they need to create an environment in which all citizens can be productive.

From a fiscal perspective, financial inclusion can help lighten a government's load. Development goals pose daunting fiscal challenges for governments charged with meeting the many needs of their population. However, if a poor family steadies its economic life using financial services, its need for cash transfers decreases. Government's burden falls. The same goes for health, housing, education, and pensions. Financial services that help people become more self-sufficient reduce the need for government subsidies.

Finally, many policymakers seek financial inclusion as one of several types of inclusion needed for social and economic justice.

For Providers. The provider case for financial inclusion is quite straightforward. As shown above, the untapped market for financial services constitutes an enormous and increasingly viable opportunity, one that will only grow throughout the coming decades. The 21st century will belong to the world's developing countries, and their majority populations. Businesses with an eye on the future will secure the loyalty of these prospective customers early on.

Where We Are Today, and Where We Are Heading

Today, 51 percent of adults worldwide have bank accounts.⁷ One could say that about half the world is included (or excluded, if one is a pessimist). Indeed, it is this figure that gives rise to the widely quoted claim that 2.5 billion people are "unbanked."

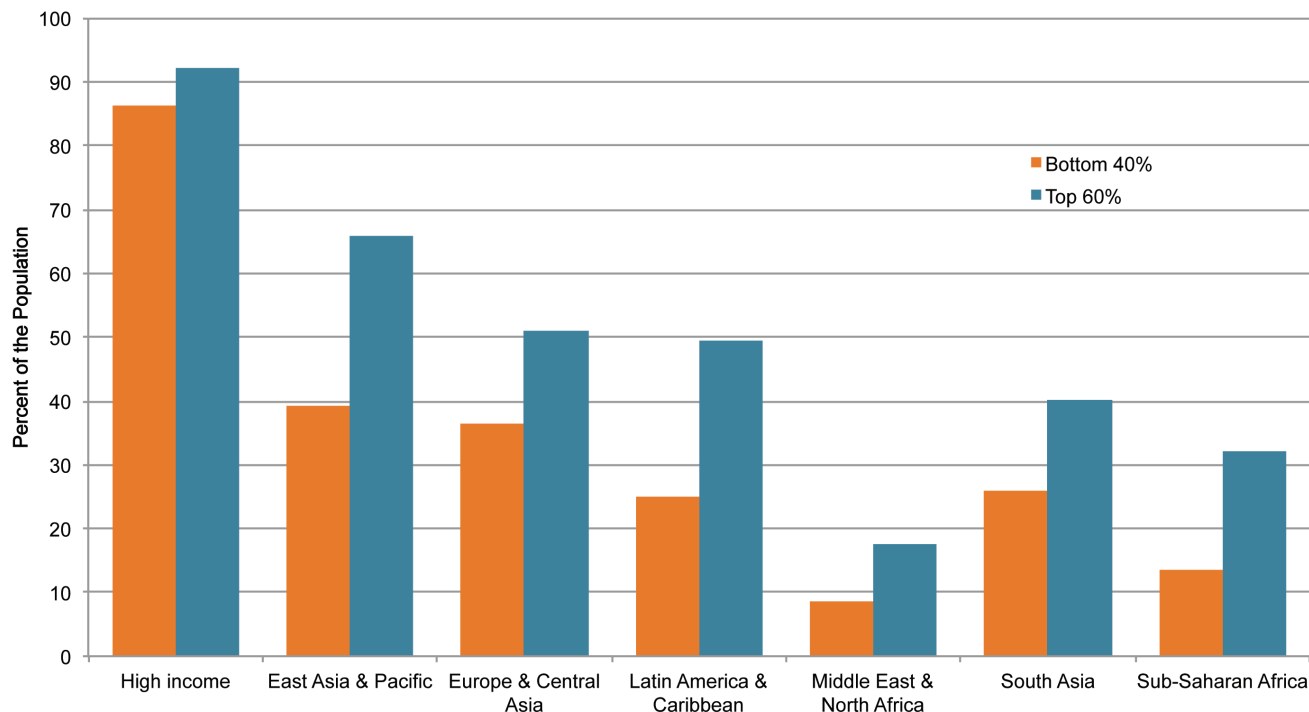
However, inclusion and exclusion are not evenly distributed across the world. In developing countries, only 41 percent of adults have accounts, and among the bottom 40 percent of those populations, only 30 percent have accounts. Lower still are the rates for certain segments. Women, people in rural areas, youth, and those of limited education are all less likely to have accounts than their male, urban, and middle-aged counterparts.

6 Kasprovicz and Rhyne, Looking Through the Demographic Window.

7 World Bank, Global Findex.

In the poorest countries, participation is especially low. Figure 1 shows where inclusion is lagging, but the glass is still half full.

Figure 1: Account Ownership in Low and Middle Income Economies, 2011

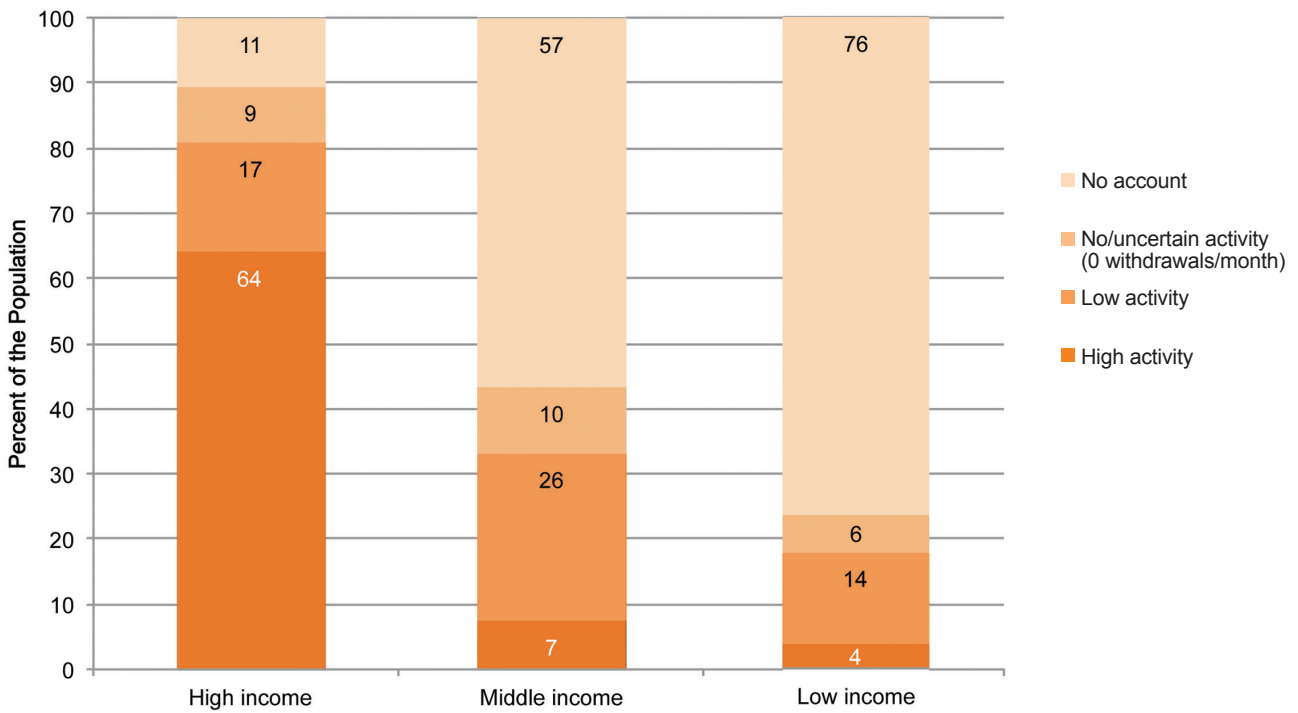


Source: World Bank, Global Findex (Washington, DC: World Bank, 2012).

Unfortunately, however, figures based on account ownership dramatically overstate the level of genuine financial inclusion. If one shifts from ownership to use of accounts, the numbers of the included fall to a fraction of the quoted levels. In rich countries, most people who have accounts use them actively (defined as making more than two withdrawals per month – 64 percent of all adults). In developing countries, however, very few account holders use them in this active way (see Figure 2).

Only 7 percent of all adults have accounts and use them actively. This enormous disparity in usage suggests that the 2.5 billion figure is vastly over-optimistic. It also highlights the fact that inclusion is much more than “banking the unbanked.” Accounts do not exist in a vacuum, but if they are to be actively used, they need a rich financial sector environment in which payments are carried out through the formal financial system.

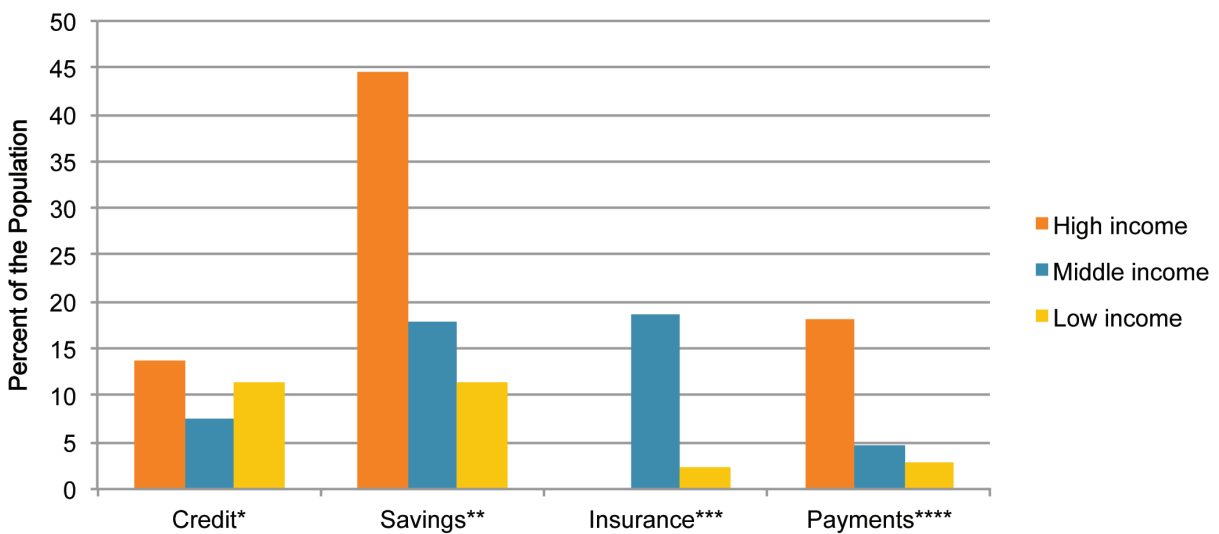
Figure 2: Bank Account Ownership and Activity by Income Group, 2011



Source: World Bank, Global Findex.

Levels of inclusion for credit and insurance are also very low, with only 17 percent globally having personal insurance and 9 percent of people having formal credit in the past year. And in developing countries there is a great disparity between people who save and people who save in formal financial institutions (see Figure 3). If we look closely at the data on the current level of financial inclusion, it's easy to be a pessimist.

Figure 3: Formal Financial Services Use by Income Group, 2011



*Loan from a formal financial institution in the past year; **Saved at a formal financial institution in the past year; ***Personally paid for health insurance (no data for high income economies); ****Use an account to send remittances
 Source: World Bank, Global Findex.

However, there is good news, and it revolves around the many signals of rapid change:

- Microcredit now reaches nearly 200 million borrowers across the globe.⁸
- Governments are rapidly shifting their G2P payments such as pensions and transfers to from cash to cards or bank accounts.
- Mobile banking is scaling in Africa, with 15 percent of Africans reporting to Findex in 2011 that they use their phones to send or receive money.
- The agent banking model, pioneered in Brazil, is spreading throughout Latin America and beyond, bringing physical access to remote locations.
- Microinsurance markets are developing quickly in some countries. In South Africa and Namibia 55 percent of the population had some form of insurance cover in 2011.

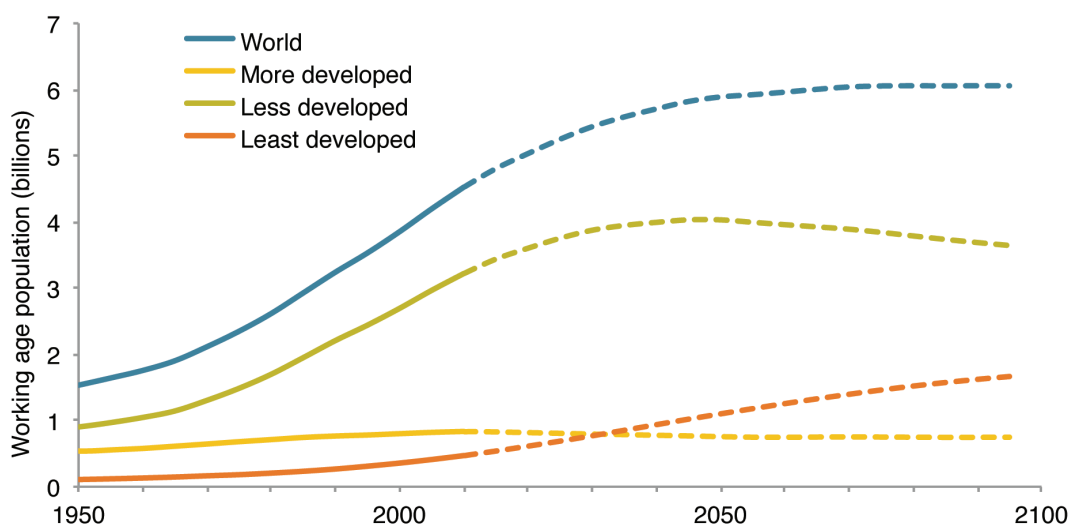
Successes in one country are rapidly picked up and applied in other countries, suggesting that the pace of change may even accelerate. These advances are explored later in the next section.

The Opportunity: Why Financial Inclusion Is Possible

Markets Are Growing

Throughout this decade and beyond, changes in demography and rising incomes (increased purchasing power) will open enormous new markets for financial services among people who are no longer poor but are still vulnerable. The business case for financial inclusion will improve significantly as the decade progresses.

Figure 4: Working Age Population by Income Category



Source: United Nations, World Population Prospects (New York: United Nations, 2010).

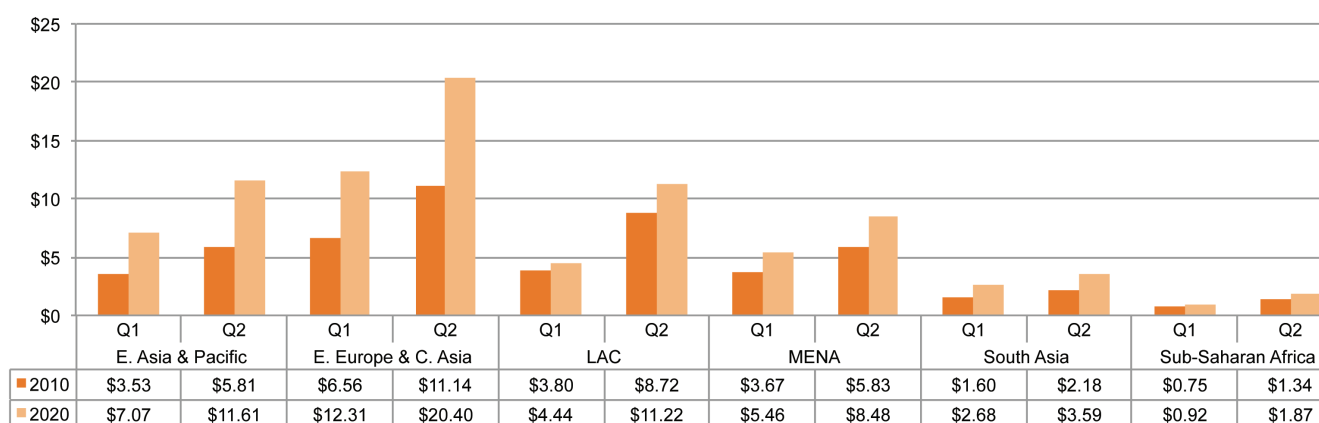
8 Jan P. Maes and Larry R. Reed, State of the Microcredit Summit Campaign Report 2012 (Washington, DC: Microcredit Summit Campaign, 2012).

At the same time, the incomes of people at the base of the pyramid are rising, especially in middle income economies. Massive numbers of people at the base of the pyramid are moving from incomes at or near subsistence to a level that provides a small disposable surplus. This change amounts to a movement from \$1-\$2 per day to perhaps \$4-\$10 per day. Some are calling this the rise of a new “vulnerable class.” People in this income group are not wealthy enough to be out of danger of falling below the poverty line, and cannot be considered middle class, but they do have income beyond the level required to barely cover minimum expenses. By 2020, based on simple forward projections based on the past 30 years, we estimate that the vulnerable class may become the largest income group in many countries, bigger than the poor, the middle class, or the wealthy. In Latin America alone, over 40 percent of the total population had already moved into the vulnerable class by 2010, accounting for a larger percentage of the population than the poor. In the developing world as a whole (both middle and low income countries) we estimate that by 2020 about a quarter of the population will be in the \$4-\$10 range, roughly three times as many as in 2010.

This rising prosperity will be concentrated among middle income countries. If projections hold, by the end of the decade the majority of the lowest two quintiles of the population in four regions (East Asia, Eastern Europe and Central Asia, Latin America, and the Middle East and North Africa) will, on average, have crossed into the vulnerable class (see Figure 5). South Asia and sub-Saharan Africa will not see such a massive movement of the bottom quintiles into the vulnerable class, but even in these countries the vulnerable class will grow, made up of people in the third and fourth quintiles.

This trend includes several of the world’s most populous countries. All quintiles of the population will be in or beyond the vulnerable class in Argentina, Brazil, China, Egypt, Indonesia, Iraq, Morocco, Peru, Sri Lanka, Thailand, and Ukraine. In a few large countries (India, Democratic Republic of Congo, and South Africa), only the second-poorest quintile will enter the vulnerable class, while the bottom 20 percent will remain poor.

Figure 5: GDP Per Capita Per Day by Region in Q1 and Q2, 2010 and 2020



Sources: International Monetary Fund, World Economic Outlook (Washington, DC: IMF, 2012); UN-Wider, World Income Inequality Database (Helsinki: United Nations, 2008); United Nations Department of Economic and Social Affairs, World Population Prospects (New York: United Nations, 2010); author’s calculations and projections.

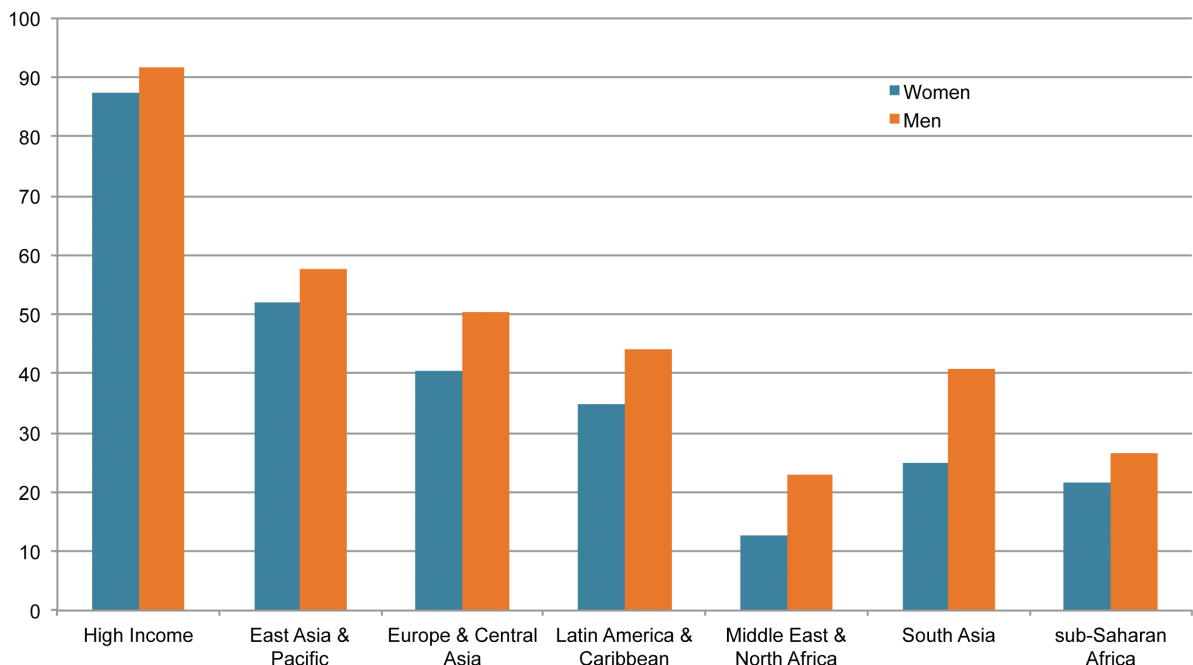
The rise of the \$4-\$10 class creates an opportunity for financial inclusion because people at that level have at their disposal “useful” sums of money that they may increasingly wish to manage in the formal financial sector. In the 2011 Global Findex demand-side survey, nearly two-thirds of respondents cited insufficient money as a reason for not having a bank account. Our hypothesis is that as people move into the \$4-\$10 range, many will begin to shift into formal services. Formal providers face the challenge and opportunity of convincing these prospective customers that formal services are significant improvements over the informal services they may be familiar with.

Box 2: Women are Less Financially Included Than Men

Women make up just over half of the global population, and more than half of the elderly and those living in poverty. Women often find accessing quality, convenient, and affordable financial services to be a challenge. The gender gap in financial inclusion is, in part, the reason that many microfinance institutions target women.

Women are less likely to own an account than their male counterparts in every region of the world, but the size of the account ownership gap differs among regions. When we consider women’s account ownership as a percent of men’s, we see large gaps between men and women in the Middle East and North Africa and in South Asia. East Asia and the Pacific and sub-Saharan Africa show significantly higher gender equity in use of financial services.

Figure 6: Bank Account Ownership by Gender and Region, 2011



Source: World Bank, Global Findex (2012).

Middle income countries⁹ already contain most of the world's people, and while population growth is slowing, the momentum of growth in these countries will continue throughout much of the century. During the next few decades, most of the world's workforce will come from these countries (see Figure 4). These countries are also experiencing a unique demographic "window" in which their working age population is unusually large relative to dependents (low dependency ratio).¹⁰ This demographic window provides a unique opportunity for strong economic growth – a demographic dividend – provided these countries can offer their citizens economic opportunity, such as by including them financially.

While this positive story may dominate headlines, it is also important to look specifically at those who will remain poor. In the poorest countries, mostly in sub-Saharan Africa and South Asia, even the poor will experience income growth, but by the end of the decade most of the bottom quintile and many of the second quintile will still live below \$1.25 per day. Development organizations are focusing attention on these segments of the world's population, as in the World Bank's recent call to eradicate extreme poverty. While this segment of the population may not be the main attraction for commercial providers, there are important actions that can be taken to include them, particularly through cost-reducing technology. Mobile money in Africa, for example, is becoming increasingly relevant to people living in poverty, and microfinance institutions and cooperatives will continue focusing on these segments and taking advantage of technology developments as possible to control costs. Government benefit and humanitarian relief programs, when shifted onto electronic platforms, can provide an entry point to financial inclusion for many of the world's poor.

Innovators Are Using Technologies to Increase Reach

Even as incomes are rising, technology applications are reducing the cost of serving lower income clients, dramatically shifting the supply/demand frontier in favor of major leaps in inclusion. And a host of traditional players and new entrants are developing new business models to apply the technologies.

The most celebrated breakthrough involves the use of mobile phones as payments devices through SMS technology, as demonstrated spectacularly in Kenya's M-PESA program. M-PESA now has about 17 million active users, or about 69 percent of the adult population,¹¹ allowing people in the most remote sections of the country to transact with each other wherever they are. M-PESA is not so much a new technology as a business model innovation. It reduces costs by taking advantage of the enormous investment that Safaricom, Kenya's main mobile network operator, has made in signal coverage, agent networks, and handset penetration. Mobile banking has attracted new entrants, especially across Africa, where the Findex reports that in 2011, 15 percent of adults said they used a phone to send or receive money. In 2012 McKinsey identified over 100 mobile money companies in emerging markets.¹²

Mobile banking is closely akin to another business model innovation, agent banking, which allows retail outlets from gas stations to corner groceries to post offices to transact on behalf of a bank or other financial institution. Born in Brazil and now spreading throughout Latin America and into other regions, agent banking is made possible by the falling costs of point-of-sale devices, card payment systems, and the information

9 Here, we use the World Bank country group categories. Economies are divided according to 2012 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$1,035 or less; lower middle income, \$1,036 - \$4,085; upper middle income, \$4,086 - \$12,615; and high income, \$12,616 or more.

10 Kasproicz and Rhyne, Looking Through the Demographic Window.

11 Safaricom, Safaricom Limited Annual Report for the Year Ended 31 March 2013 (Nairobi: Safaricom, 2013).

12 Beth Cobert, Brigit Helms, and Doug Parker, "Mobile money: getting to scale in emerging markets," McKinsey on Society. February, 2012.

technology connecting them. Like M-PESA, it also takes advantage of low-cost outlets in places too remote for a bank branch. Within three years of the introduction of agent banking, every municipality in Brazil gained access to a basic banking outlet.

The agent model has spawned new entrants such as GloboKas, a banking agent network manager. In Peru, its partnerships with banks including Mibanco and BBVA Banco Continental make it easier for banks to scale up agent banking. Through its “KasNet Agent” network, agents equipped with point-of-sale devices connect to a satellite network, which allows GloboKas to enable its partner banks to reach more than 7,000 localities throughout the country.

The increasing availability of data generated through electronic transactions and the increasing sophistication of data analytic techniques are also advancing inclusion. Banco Azteca in Mexico used the extensive information it had on customers from its parent Elektra appliance stores to launch a bank that grew quickly to serve more customers than any other bank in the country, many of them from the vulnerable class.¹³

More recently, companies have emerged that analyze data from new sources in new ways, making it possible to lend to clients lacking financial histories. Cignifi and DemystData are two start-ups using alternative sources of customer data to expand financial inclusion. Cignifi helps financial service providers estimate the credit risk of prospective customers based entirely on an individual’s mobile phone usage patterns, while DemystData relies on online, social, and internal “big data.” Both use advanced analytic techniques that go beyond traditional credit scoring.

A second generation of innovations has begun to deepen the product offer, building on the “rails” laid down by agent, mobile, and card-based payments. Safaricom, together with partner Commercial Bank of Africa offers M-PESA mobile money users access to M-Shwari, a savings account with availability of loans. Many other businesses use the M-PESA payments platform to offer services involving not only savings and insurance but also access to energy, water, transportation, and health care. In the United States, Walmart and American Express are using prepaid debit technology to offer services much like those of a full scale bank account through their Bluebird Card. Bluebird cards can accept payroll direct deposits and make electronic payments, including P2P, in addition to other functionality.

One of the fastest-growing “on-ramps” involves governments using electronic means to pay salaries, pensions, and welfare benefits to low income individuals (G2P). Total G2P payments for the unbanked currently stand at about US\$1 trillion per year and are expected to rise to US\$1.25 trillion by 2015.¹⁴ Shifting to electronic payment programs can introduce recipients to bank accounts and/or electronic payments while improving efficiency, transparency, and safety for governments. For example, Brazil’s social welfare program, Bolsa Familia, which delivers transfers to 12.4 million recipients, reduced administrative costs from 15 percent to 2 percent by moving to electronic payments.¹⁵

The G2P principle is also deepening in various ways. The Nigerian government has partnered with MasterCard and local banks to develop a national identification system using a biometric card that can also function as a debit card. If successful, this program could quickly provide millions of Nigerians with a route to a financial identity and a bank account. On a different note, Visa is crafting agreements with international NGOs

13 Elisabeth Rhyne, *Microfinance for Bankers and Investors* (New York: McGraw Hill, 2009).

14 World Economic Forum, *Galvanizing Support: The Role of Government in Advancing Adoption of Mobile Financial Services* (Geneva: World Economic Forum, 2012).

15 The World Bank, *General Guidelines for the Development of Government Payment Systems* (Washington, DC: World Bank, 2012).

to facilitate their payments to humanitarian relief recipients, small farmers, and a range of others. Such electronic payments can dramatically speed relief payments in the critical time immediately after a disaster.

Softer technologies are also emerging, such as the application of behavioral economics insights to incorporate financial capability building into service delivery. Juntos Finanzas leverages technology and peer influence to improve savings habits. In partnership with financial institutions, Juntos sends customers personalized text messages that remind them how much they have saved or spent, encouraging them to meet goals, and congratulating them when they do. In early testing 72 percent of successful Juntos savers indicated that they had never been able to save before. Malayan Insurance, Munich Re, and Philippine Prudential Life distribute a variety of life, property, and health insurance products to more than a million customers in the Philippines through CLIMBS, an association of 2,000 cooperatives. And at the grassroots level, the spread of learning about the propagation of savings groups is bringing appropriate savings and credit services to people in countries with large very poor populations in Africa and South Asia.

These exciting developments in financial inclusion provide confidence that great progress can be made on many dimensions before the decade is out. The examples just cited involve major leaps in numbers served, reach to lower income or more remote customers, and range and usefulness of products. Not all efforts toward inclusion work, and not all business models will scale or survive. It is clear, however, that this is a time of creative ferment in which frontiers are changing, often dramatically.

Policymakers Are Putting Financial Inclusion On the Agenda

For the first time, financial inclusion is attracting attention at the highest global policy making levels. The G20 first committed to work toward inclusion at its summit in 2009. It followed up at subsequent summits with specific commitments and the creation of the Global Partnership for Financial Inclusion, a vehicle for multi-country cooperation.

The Alliance for Financial Inclusion, which convenes banking authorities from developing countries, launched the Maya Declaration process in 2010, through which 45 nations have now made specific commitments to financial inclusion (see Figure 6). For example, Nigeria has set a target to reduce financial exclusion from 46 to 20 percent by 2020, and Rwanda aims for 80 percent of adults to own bank accounts by 2017. These are ambitious goals, given the current baseline, but they are not beyond the realm of possibility.

In 2013, the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, led by three heads of state, considered the role of financial inclusion in the next round of Global Development Goals (GDGs). Their draft goals include: “Strengthen productive capacity by providing universal access to financial services,” setting the stage for global targets on financial inclusion in the Post-2015 GDGs.

And the mainstream financial sector standard setting bodies, the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision, have recognized the importance of financial inclusion and begun to make specific inclusion-friendly adjustments, for example on FATF’s KYC/AML requirements. Similarly, the International Association of Insurance Supervisors (IAIS) offers consistent global standards for regulation and supervision of insurance in over 140 countries.

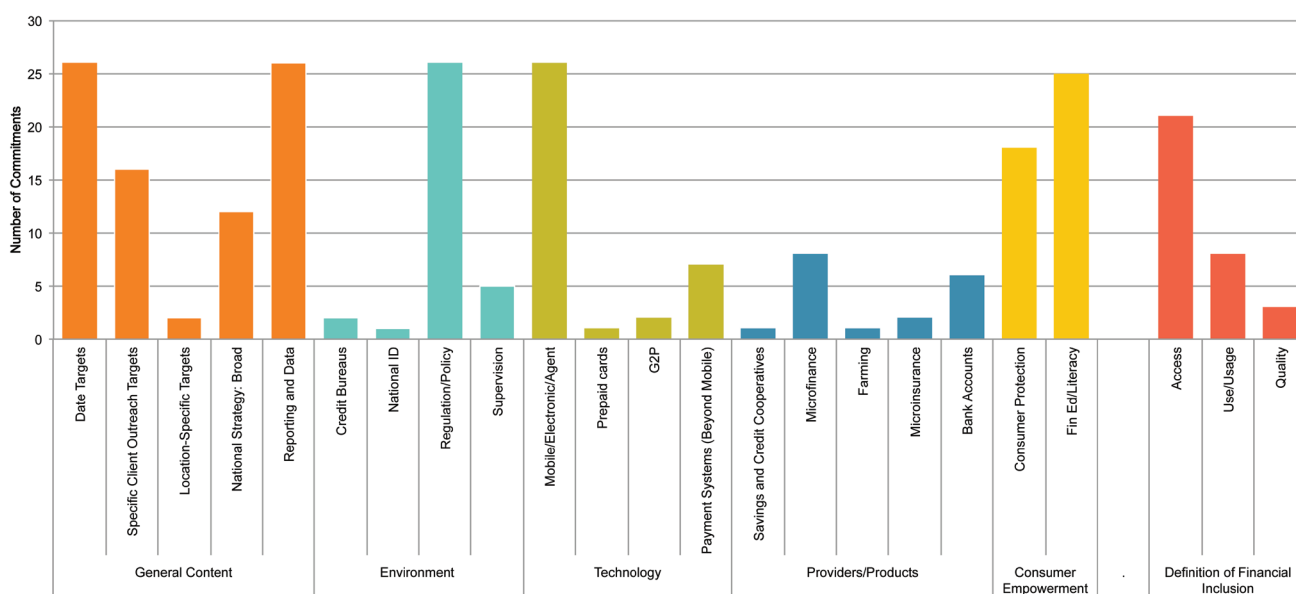
As significant as these global actions may be, they are just the tip of a much bigger iceberg. In countries across the globe, regulatory authorities and government ministries are making major investments in promoting financial inclusion. Perhaps the best known of these are the policy adjustments that enable modern

distribution models (agent banking in Brazil and subsequently much of Latin America, mobile banking in Africa and Asia). Just as important are investments by regulatory authorities in capacity to oversee consumer protection, rules governing microinsurance, and new programs such as financial education in primary and secondary school curricula.

Investments at both national and multilateral levels in new data are enabling countries and service providers to know more about unbanked markets and client needs and to measure progress against national targets. The G20 Basic Set of Financial Inclusion Indicators measures access and use in an internationally comparable way. The World Bank's Global Findex provides internationally comparable demand-side data for the first time, which complements provider data already collected by the World Bank and IMF. Again, these global efforts reflect a larger number of data collection efforts by individual nations.

For financial service providers, these developments mean that policymakers will tend to look favorably on their plans to extend services to the un-served and under-served. Policymakers are likely to be open to dialogue on regulatory approaches, and there is growing interest in partnerships such as the many G2P programs that are enabling government to provide benefit payments through electronic channels.

Figure 7: Maya Commitments by Topic, 2013



Source: Author calculations, September 2013.

The Path to Inclusion

Recognizing both the importance of and prospects for financial inclusion, the Center for Financial Inclusion launched a consultative process to examine ways to advance the vision laid out in the previous chapter, a vision that involves not only access but also quality and value.

As the heart of the Financial Inclusion 2020 process, five working groups have met repeatedly to develop “Roadmaps to Inclusion.” These roadmaps address five priority topics: financial capability, meeting customer needs, technology-enabled business models, credit reporting, and consumer protection. Selection of topics was based on their identification as the five top priorities for achievement of financial inclusion through a 2011 survey of experts, known as Opportunities and Obstacles to Financial Inclusion.¹⁶ The groups included representatives from over 40 organizations that are important contributors to financial inclusion: global and regional banks, microfinance institutions, telecoms companies, technology providers, associations, support organizations, multilateral institutions, and researchers.

The working groups were charged to create roadmaps that would accomplish three things:

- Articulate a vision for the ideal state that could be achieved, envisioning that ideal from the customer perspective
- Diagnose the issues, current status, opportunities, and challenges involved in reaching that ideal
- Make recommendations to the broad financial inclusion community, especially providers and regulators, on how to move forward

Through this consultative process, stakeholders from differing perspectives and even at times competitors shaped a set of consensus views. In addition, over 100 experts reviewed and commented on the draft roadmaps. A special set of reviews included dialogue with representatives of customer groups that are typically less financially included. Views from the customer advocate consultations are shown in the boxes throughout this chapter.

As the groups met, they identified the many connections among their topics and recommendations. For example, the financial capability working group appealed to the technology group regarding the use of electronic channels to deliver financial capability messages at scale and low cost. And the technology and credit reporting groups identified consumer protection issues arising from increased use of customer data.

¹⁶ Anita Gardeva and Elisabeth Rhyne, *Opportunities and Obstacles to Financial Inclusion* (Washington, DC: Center for Financial Inclusion at Accion, 2011).

Many more examples arose, as it became clear that all these areas of financial inclusion need to advance together if goals are to be achieved.

As groups looked to the future, many recurrent and cross-cutting concepts emerged. We mention three areas where thinking is still well ahead of implementation. Perhaps most notable was the influence of behavioral economics on thinking about the interface between providers and customers. Behavioral economics offers insights about the cognitive biases that drive all people (especially those in vulnerable positions) to frequently make financial decisions different from those a perfectly rational actor would make. The implications of these insights for the design of financial services and the financial system are potentially profound, as noted by the working groups on financial capability, meeting client needs and consumer protection. Behavioral thinking is now widely prevalent among certain groups of experts in financial inclusion, but it has yet to penetrate deeply into business models.

Another emerging trend, still in early days, is the use of “big data” – the rapidly increasing volume and detail of information on clients that technology is making available. Alternative data, such as that generated by telecoms companies, electronic payments, and even social media, was a central topic in the credit reporting discussion, but also surfaced in the working group on meeting client needs (use of such data for product design), on technology, and on consumer protection. Again, there are many promising experiments, but few implementations at scale.

Another emerging trend, though less fully developed, was the need for those working on the supply side of financial inclusion (providers and regulators alike) to find better ways to listen to the demand side, including encouraging customers to speak up for themselves. The consumer protection working group highlighted the potential value of consumer associations, which have not yet become the significant players in emerging markets that they are in high income economies.

The five roadmaps function as vehicles for dialogue among many participants working to construct a common vision and path. With that in mind, these roadmaps will remain works in progress. As the FI2020 process moves forward to engage with more actors the roadmaps will incorporate their views, building up a shared vision throughout the financial inclusion community.

This chapter summarizes the main points from each of the five roadmaps.

Financial Capability Working Group

The Financial Capability Working Group advocates a major conceptual shift in the way participants in the financial inclusion sector think about the promotion of financial capability – a shift that has enormous implications for action. The group launched that shift by defining financial capability as the combination of knowledge, skills, attitudes, and behaviors a person needs to make sound financial decisions that support well-being. Financial capability is not only about knowledge, but also about behavior. This core insight is signaled through use of the term financial capability rather than financial education. This change turns the financial capability challenge into a search for levers that catalyze behavior change.

The members of the working group share a passionate conviction that financial capability has intrinsic importance for individuals as well as for the financial sector and societies, and that successful financial inclusion requires financially capable consumers. By 2020 hundreds of millions of people will experience

formal financial services for the first time in their lives. If their encounter with formal services is to lead to the desired benefits for new customers, as well as for providers and nations, it must be accompanied by attention to financial capability.

As an ideal, the group envisions a financially capable client as someone who is confident in managing money, with a long-term outlook and self-regulation in the use of financial services. A financially capable person will know how to take advantage of financial services that can assist her while avoiding harm through susceptibility to misuse.

Many people are familiar with financial education as an activity that imparts knowledge and skills. However, many – or even most – people experience a gap between knowing and doing when managing their finances, even after receiving financial education. As adult educators know, knowledge must translate into useful skills through practice, and skills must be applied in day-to-day decision making.

Capability development therefore sets a much more ambitious bar than simply delivering information. At the same time, this conceptual shift opens the way to a wealth of new kinds of interventions.

With consensus on these fundamentals, the group articulated a theory of change that takes into account the many ways financial capability is normally acquired.

- Culture. Family, peers, religion and media play enormous roles in shaping practices and attitudes about money. Deeply ingrained habits and beliefs that are not easily changed.
- Innate human tendencies. Behavioral economics research reveals that poor financial choices often stem not from lack of knowledge but from cognitive biases to which all people are subject, like over-valuing the present relative to the future, excessive optimism, and impulse decision-making.
- Learning by doing. People need to practice in order to solidify their skills. And they are most ready to hear and apply financial education messages at “teachable moments,” when making a financial decision or using a service.

Although financial capability gaps appear among people of all socio-economic backgrounds, special considerations apply to low-income people for whom the stakes are especially high. Not only are they more likely to have challenges due to limited education and exposure to formal services, research suggests that economic vulnerability may in itself create decision biases.¹⁷

Financial capability efforts based on these observations would: repeat messages through many influencers across society, target teachable decision points, and motivate people to apply their skills in real life. With this in mind, the group put forward ideas on intervention design.

- Many messages. Repeated and diverse delivery channels are needed, from basic education, to mass media, specialized training, and messages built in to the point of use.
- Applied insights from behavioral economics. These include reminders, default settings, rewards for responsible behavior, commitment programs, and avoidance of tactics that exploit biases (for example, teaser rates).
- Relevant and evolving. Messages should be tailored to specific client needs. Maturing adults will listen to messages about preparation for old age that would bore youth, and women will respond when messages take into account how local culture shapes their choices.
- Leverage technology for massive, interactive, and inexpensive reach. Technology offers exciting opportunities to communicate with more people at the right time. This includes communications linked to electronic transactions, as well as interactive courses and learning games.

17 Sendhil Mullainathan and Eldar Shafir, *Scarcity: Why Having Too Little Means So Much* (New York: Times Books, 2013).

Role of Providers. The working group challenges providers to incorporate financial capability directly into service design and delivery.

It is in providers' interests to ensure that clients are financially capable so that they will use their services actively and responsibly, minimizing gaps between access and usage. Monitor Group's report, *Bridging the Gap: The Business Case for Financial Capability* expressed the market motivation for providers to address financial capability under three broad headings: a moral imperative, risk reduction, and avoidance of harm and customer growth. First-time clients, especially youth, may need assistance to be prepared for active use. Financially capable customers may be more loyal, active, and therefore more profitable.

Box 3: The Youth of Today Are the Earners of Tomorrow

Youth ages 15 to 24 account for almost 20 percent of the world's population.¹⁸ Investing in these groups now poses a great opportunity to increase financial inclusion by the end of the decade. About half of the world's approximately 1.2 billion youth report being economically active.¹⁹ As today's youth enter adulthood, they are becoming the earners of 2020.

In all geographic regions, youth have consistently lower participation in accounts than their older counterparts. Saving and money management are critical habits for youth to develop for future success as they complete their education and establish themselves as productive adults. If youth are given the opportunity to control their finances in a safe environment, coupled with financial education, they can get a head start on developing positive habits and become loyal customers.

Accordingly, the products that may be most relevant for youth include financial capability building, savings products, and small loans in combination with enterprise education.

Advocates for youth financial services want to see youth recognized by policymakers, providers, and civil society as having the independence to make financial decisions, starting with enabling laws (such as regarding the age of majority or acceptance of alternative forms of identification). At the same time, we highlight the role of guardians in financial product design. The design aim is to rely on guardians to support youth and mitigate risk, while at the same time creating a path to responsible independence.

Advocates also argue for policymakers to work with ministries of education to implement youth-specific financial inclusion strategies in schools. Teachers will need training to be equipped to deliver financial education. Public campaigns such as financial literacy weeks can also create engagement.

Providers can create products that respond to the unique motivational factors, biases, and future orientation of young customers. They may wish to establish youth advisory boards as a way to stay in touch with the needs and attitudes of youthful clients.

Providers have unique opportunities to influence financial capability. They have privileged access to the all-important "teachable moments" of decision-making. They are also well positioned to deliver messages cost-effectively and at scale, through existing systems for marketing and service delivery. Microfinance institutions, for example, build pre-loan training into their group lending process.

18 United Nations, *World Population Prospects* (New York: United Nations, 2010).

19 International Labour Organization, *Global Employment Trends for Youth 2010* (Geneva: ILO, 2010).

The group was particularly excited about the prospects for electronic means to turn client touch points into opportunities to build capability. From consumer alerts, to bill reminders, to ATMs that encourage consumers to check balance before they withdraw, technology can enable consumers to become more aware and purposeful with their financial intermediation. Currently, these opportunities are vastly underutilized. Innovators like Juntos Finanzas and PiggyMojo leverage technology to improve savings habits. When delivered through mass media (magazines, radio, televised soap operas like Makutano Junction in Kenya), stories and dramatizations may even influence culture.

Role of Government. Governments recognize the value of financial capability as a building block of economic citizenship and a means to protect clients and promote stability in the financial system. The group encourages governments to develop national strategies for financial capability that outline the responsibilities of various actors. Governments should measure levels of financial capability, fund research on effective approaches, and foster creation of standards.

Governments also have an important role in delivery of financial capability messages, especially to ensure that clients understand their rights. Many regulatory authorities provide consumer information, from the online courses of the U.S. Federal Deposit Insurance Corporation to the informative brochures of Bank Negara Malaysia. Increasingly, governments are integrating financial education into school curricula, although best practices have yet to emerge from widely disparate efforts.

The working group noted the excellent work of the Organisation for Economic Co-operation and Development (OECD), through its International Network on Financial Education (INFE) with guidelines on national strategies for financial capability, and the Russia Financial Literacy and Education Trust Fund at the World Bank with its program to measure financial capability in seven countries. At present, however, the scale of national and global efforts is far too low to create change of the magnitude needed.

Social Sector Organizations. Schools, media, and other societal institutions are also an essential part of the mix. They can provide the broad messages (e.g. financial goal-setting, money management, client rights) that providers are not always interested in. Creativity is called for in the design of interventions by these organizations. Stand-alone financial education courses are expensive (limiting scale), clients are often uninterested in attending, and the messages are separated from moments of decision-making. Financial education practitioners are experimenting with linkages to financial institutions and social programs (e.g., health care organizations, immigrations services) to connect with people at specific decision-making times. Partnerships between nonprofits and financial service providers may be one of the best ways to enable providers to install effective financial education techniques.

Many cost-effective interventions are simple, such as scripts, flip books and posters for use by field agents or “rules of thumb” to help clients develop useful habits. Organizations like Microfinance Opportunities and ideas42 are contributing to creative intervention design.

Finally, the working group acknowledges that financial capability is a relatively new field with many learning challenges and needs for research. Among the topics requiring further exploration are intervention efficacy and the business models that that can support scale and sustainability in delivery. It should be a priority for the financial inclusion sector to invest in this kind of learning.

Working Group on Addressing Customer Needs

The working group on addressing customer needs explored what it takes for financial service providers to systematically uncover deep insights about the lives of unserved customer segments and translate them into relevant financial solutions.

Business models for reaching low-income people traditionally involve low-cost mass delivery of simple products – a practical response to the small incomes of the poor. However, financial service providers seeking to reach low-income people can benefit from shifting their focus from selling products (a transactional approach) to addressing customer needs (a relationship approach). Technologies and business innovations increasingly make this possible.

This working group formulated its vision in terms of customers' broad goals for seeking financial services:

All people, including the poor, have access to a suite of quality financial services, designed with their needs and aspirations in mind, that can help them to meet their daily and lifecycle needs, build assets, protect them from life's storms, prepare for the future, and realize their dreams.

Additional vision points include services that are easy to use and customer confidence in the providers. As with the Working Group on Financial Capability, this working group stresses capability building as a key component of customer-centricity.

Many providers recognize that being customer-centered is about focusing on generating value for customers, and that creating such value provides a competitive edge and builds customer loyalty. The challenge is to move from affirming the importance of being customer-centered to applying customer centricity in practice.

Understanding the role of finance in people's lives requires knowledge of their activities, needs, and financial behavior. Providers can tap a rich knowledge base about the financial lives of low-income people, developed from efforts such as the USAID-sponsored AIMS studies, MicroSave's work, and FinMark Trust's FinScope studies. More recently, financial diaries studies have provided detailed portraits of family financial lives. "Big data" analytics are enabling deeper segmentation analysis. And randomized control trials have helped identify effective product designs. In 2012, the World Bank's Global Findex demand-side study provided comparative statistics on financial services use and attitudes among people in 148 economies.

The working group especially highlights new insights from behavioral economics, based on the idea that a better understanding of social, cognitive, and emotional factors can help explain why and how people use financial services. We know that poor and low-income people:

- Lead complex financial lives, using a variety of informal and formal tools to manage daily cashflows, mitigate risk, invest, and meet major lifecycle needs.
- Have perceptions of formal institutions that may discourage them from using their services.
- Often continue to use informal services, even as formal ones start to be available.
- Enter the formal financial system at different points rather than through one "gateway" product.
- Save, and need to save a lot more than they do.
- Can get into trouble when credit is easily available.
- Can benefit from simple insurance that complements informal risk-sharing practices.

Building on such observations, a customer-centric provider would examine factors involved with its specific customer segments – for example customer satisfaction with informal services they now use, or level of trust in formal institutions.

It is challenging to translate knowledge about customers into products and operations. Operations must be reoriented around the customer’s perspective and alignment sought between value for the customer and value for the company. Customer-centric elements must be infused throughout an organization: from governance to front-line staff.

Some providers, especially smaller ones, may lack the capacity to source customer insights deeply or the financial engineering skills to design and implement new products and delivery for scale. Such institutions may wish to outsource some portions of these activities to leverage specialized skills and fresh perspectives, while maintaining some direct customer contacts in-house. Providers may wish to create feedback loops that allow customer insights from the front-end staff to reach key decision-makers who do not otherwise interact with customers.

KGFS in India illustrates a highly customer-centered operational concept. The KGFS model offers a full-service, tailored product suite to low-income customers. The core of the KGFS concept is the positioning of front-line staff as “wealth managers” who assist customers to develop a portfolio of services based on their particular needs. These wealth managers are equipped with decision analytics derived from extensive analysis of customer data.

Even when there is a commitment and capacity to better serve customers, cost structures for certain products or customer segments may be prohibitive without further innovations. One promising trend involves disaggregating functions so that institutions focus where they add the most value and have a cost advantage, such as acquiring customers, holding risk, or providing payments infrastructure. Partnerships across banks, mobile network operators, microfinance institutions, agents, and insurance companies are therefore on the rise. There is also great potential for productive partnerships that integrate finance into education, health, housing, community infrastructure, and agriculture value chains. This can help create demand and activate usage, while delivering social outcomes.

Scalable ideas that generate value for customers also need to generate long-term value for the provider. Establishing the institutional capacity to offer a suite of services is expensive, and not all institutions focused on serving the base of the pyramid have deep pockets. Nor can all institutions equally access the broader infrastructure, such as payment systems or deposit insurance, needed to get to scale.

For commercial players in markets with abundant opportunities for profitable growth, the small ticket size of transactions may put the BOP market on the low priority list. However, if providers can define the levels and time frames at which viability is important—transaction, product, customer, or segment—there may be opportunities for cross-selling or viability at a unit level that allow for products that are not profitable on their own.

Innovations in technology are decreasing costs and making access to services more convenient, improving the business case. Innovations include technology such as mobile money and expanding payment infrastructure, as well as low-tech, high-touch innovations such as savings groups and agent networks. Technology is also providing new information about clients that will make tailored design and delivery of services easier.

The customer-focused approach should also help close the access-usage gap. When products are designed to meet customers' needs, customers use them and generate revenue for the provider. When products are not designed for customer needs—arguably, for example, the no-frills account in India—customers do not use them, providers do not make money, and the perception is spread that it is not financially viable to serve BOP customers.

Supporting stakeholders can assist providers to become more customer-centered:

- Governments can provide information on customers as a public good. Household and demand-side surveys are useful for providers and also help uncover policy-relevant market risks. Customer research can help governments protect customers and craft regulations that enable the introduction of customer-responsive products.
- Funders have a role in supporting research and access to know-how, and creating incentives to advance a deeper understanding of customers.
- Social investors can help share the risk of entering into new markets and launching new products. They can provide patient capital and smart subsidies for providers to rewire their operating models around clients. They can incentivize providers to take a customer-centered approach through their due diligence, investment, and monitoring systems.
- Researchers from the design, anthropology, sociology, business, and economic disciplines can partner with financial services providers to investigate practical research questions and share new knowledge relevant to improving the service offering.

Competition among customer-centered providers should lead to a market ecosystem that offers a full suite of services, providing significant value for diverse client segments.

Box 4: A Growing Need and Opportunity: Financial Services and Aging

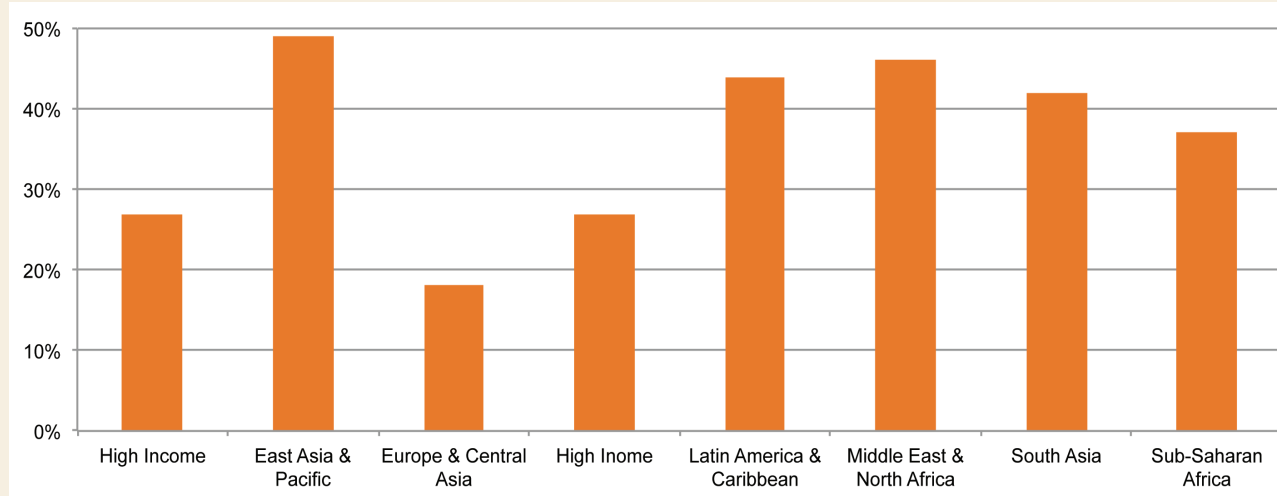
The older population segment (ages 65+) will experience spectacular growth between now and the end of the decade, increasing nearly 40 percent in only 10 years. In many middle income countries older adults are the fastest growing population segment. The financial inclusion community must address this global demographic change. Issues involving aging are relevant for everyone.

Individuals need to begin preparing for old age well before they reach it. Relevant products include savings, pensions, small loans for home accessibility, continued access to business loans later in life, health and life insurance, and intergenerational transfers of assets. To date, there are few actors considering what financial inclusion means for the elderly. Financial service providers need to create relevant products, and governments play a role in ensuring appropriate education and regulation, not to mention pension and retirement support systems.

Retirement ages have risen, and adults are working later in life. At the same time, with smaller families, individuals can no longer count on children to take on their care. Four out of five older adults do have no pension. In many lower income countries, public pension systems are inadequate to secure a minimum level of financial security, and must be supplemented by private savings. Savings by most adults at the base of the pyramid are far below the level needed for a decent period of retirement or an ability to pay for medical care. In many countries that have pension systems, responsibility is shifting toward the private sector. The public and private sector must cooperate to create a more effective set of offerings, and individuals must be educated and encouraged to save and invest more.

While older adults can be excellent financial services clients, some accommodations may help. Some older adults have issues, such as decreasing vision, mobility or dexterity or lack of comfort using newer technologies. In high income countries, fraud and financial abuse have emerged as problems that disproportionately affect older people. Consumer protection efforts that pay specific attention to the needs of the elderly could assist.

Figure 8: Percent Rise in Older Adults by Region, 2010-2020



Source: United Nations, World Population Prospects (New York: United Nations, 2010).

Technology-Enabled Business Models Working Group

The technology working group contends that the successful application of technologies could be the key to achieving full financial inclusion by 2020. However, to realize this promise, technologies must be embedded in business models that work for both service providers and customers, enabled by sound regulatory frameworks.

The group began by noting the benefits technology can offer to customers: ubiquitous access at all times and places, lower costs, which creates affordability for more customers, personal security, especially compared to cash, and a richer array of products and delivery methods that are easy to use. For example, an ATM that uses audio to assist illiterate customers or persons with disabilities brings access to people who might otherwise remain excluded.

The group anticipates that a major transition toward digital transactions, now already advanced in many economies, will spread throughout the world. Technology-enabled “on-ramps” like bill payment, salary and benefit distribution, prepaid cards, or mobile payments will bring most adults into contact with formal payment and other financial services. One vision is a wholesale shift to “cash-lite” in which many or most transactions are digital, as envisioned by the Better than Cash Alliance. The working group envisions a landscape with shared “rails” in the form of system infrastructure used by competing service providers. If basic access is largely solved, the focus in 2020 may turn to developing some of the other benefits technology can offer in terms of product range and quality.

Some ways in which technology will shape future financial inclusion are just emerging, such as:

- “Big data” may assist previously excluded people to use their ordinary behavior to build financial histories.
- Cloud computing and “software as a service” may lower barriers to entry for start-ups and new products.
- Internet access through smart phones and tablets, soon widely available at affordable prices, will allow users to connect directly to financial service providers, and more information will flow between providers and customers.
- Social media could enhance use of financial services through information sharing.
- Biometric identification can facilitate KYC/AML compliance for low-income or low-literacy users.

If the promise of technology is to be realized, the marketplace must be governed in a way that allows for competitive innovation while promoting interoperability and maintaining safety.

Enabling Regulatory Frameworks. Change in financial system technology challenges regulators to allow the benefits of new technologies and business models while ensuring the stability of the financial system and protection of consumer rights. Regulators must stay abreast of technical progress as well as the commercial issues involved in ensuring a competitive marketplace. Many existing regulatory frameworks still reflect the legacy model: regulated commercial banks operating primarily through dedicated brick-and-mortar branches. Technology has changed how commercial banks operate and also who is involved, such as telcos and internet-based providers. Equipping regulators to work in a setting of rapid and continual business model change is a major challenge. Global support organizations are called on to assist. Among the regulatory issues most important for technology are these:

- Opening restrictions on who can provide financial services and act as agents. Agent and mobile banking involve new players as handlers of financial transactions. But many countries have strict rules around who may offer financial services. One approach is to shift some of the rule-setting from organization type (e.g., bank) to service or interface type (e.g., low-value payments).

- Know Your Customer (KYC) rules that facilitate inclusion of new customers while ensuring security. The Financial Access Task Force (FATF), the standard-setting body on combating terrorist financial activity and other threats, offered new guidance on acceptable tiered and proportionate KYC practices compatible with financial inclusion. This guidance has not yet been fully implemented by many national regulators. Universal identification systems are also important.
- Coordination among regulatory agencies. Some new financial service providers (for example telcos and credit unions) may not fall under the same regulators. It is important that regulators work together to ensure a cohesive approach across institutional types.
- Tax policies that do not discourage investment. Many countries heavily tax electronics as luxury items. Such taxes restrict BOP customer access to enabling technology.

Interoperability. The working group focused on interoperability because of its central role in enabling scale and increasing value of new services. Interoperable services that allow any user to connect with any other user across providers have the potential to draw in more people than closed-loop services, thus promoting the volumes needed for business models at the base of the pyramid. Interoperability also supports innovation, if innovators can readily connect to an expanding open ecosystem. Interoperability can occur at different levels, from back-end infrastructure and platforms, to sharing of agents or ATMs, to accessing multiple accounts on one mobile device. Nor does it require a single platform: it can exist at a network level with standardized, open rules.

Although interoperability is broadly desirable, the ways to achieve it differ with local context and involve competing interests. Market players may develop interoperability without external prompting, particularly as technologies evolve. But this is not always the case, as with the advent of mobile money. There are technical actions that can make interoperability easier, such as APIs (application programming interfaces) that allow different systems to connect. Investments in national payment infrastructure and basic communications technology also support interoperability.

The most important challenges are not technical, however, but in the incentives surrounding the commercial agreements among parties (pricing, revenue distribution, customer relationships) that accompany interoperable transactions. Ultimately, customers will be asked to pay for the ability to operate seamlessly across multiple providers and platforms, and these revenues must be shared effectively among all participants in a transaction. If not, service providers will not make such capabilities available.

Governments and funders that wish to promote interoperability can create incentives for providers to work out the needed technical and commercial agreements. It may be tempting for regulators to mandate interoperability, but the group does not recommend this. Negative consequences of such mandates can seriously discourage new entrants from entering a market or freeze a market around what turns out to be a poor standard. Regulators must exercise judgment based on understanding of competitive markets.

Incentives can instead be used, such as subsidies, prizes, or tax breaks. The setup of government benefit payment systems and other bulk procurement of financial services provide an especially good opportunity to promote greater interoperability.

Improved Use of Customer Data. The data available to service providers and policymakers are growing exponentially. Opportunities for improved understanding of customers through these multiple data sources could be valuable, when used correctly. But there are questions on how to use these data, who should be able to use them, and how to protect customer privacy.

Alternative customer data open the way for varied sources of information (e.g., mobile usage) to generate financial histories for new customers. Mobile devices, Internet, and other electronic records capture data about many customers, including customers with no prior financial services exposure. This “big data” may transform credit and insurance underwriting as more is learned about how to predict risk from customer behavior, enabling many new customers to be considered creditworthy or insurable for the first time.

At the same time, customer privacy is a value to be protected. The value is not absolute, and choices about privacy policy must consider the potential benefits to customers that might come from use of their data. Service providers spend considerable resources designing products that generate valuable customer data and understandably want to protect their investments. The working group believes that while service providers should be entitled to protect their competitive information, access to these data by third parties should be based on customer approval (on an opt-in or opt-out basis). Customers should be allowed to determine the extent of data sharing, get copies of their records, and have a channel to correct errors. (This view is shared by the consumer protection and credit reporting working groups.)

Technology and the Access-Usage Gap. The working group discussed the significant gap between the numbers who have access to services, especially technology-enabled services, and the numbers who actively use them. The access-usage gap has many plausible explanations, such as customer lack of information or confidence, lack of perception of a need, or informal ways to meet their needs. Providers of technology-enhanced services must do the detective work to understand the access-usage gap and design products and user interfaces that overcome customer reticence or offer greater value.

Assumptions derived from the financial habits of middle-class people or rich nations may not apply. Even such a basic concept as the bank account as a financial management hub may not align with customer thinking, and we need to better understand how “on-ramps” that appear attractive to suppliers are viewed by customers.

New delivery technologies offer many possibilities for applying insights from behavioral sciences to encourage usage and build financial capability, for example, in setting up reminder systems, default options, or rewards. There are important opportunities for collaboration between providers and behavioral experts to embed such insights. (This topic was explored in depth by the working groups on financial capability and addressing customer needs.)

Credit Reporting Working Group

The Credit Reporting Working Group offers a clarion call for regulators, financial service providers, and credit information providers in every nation to work together to build effective credit reporting systems. Credit reporting systems are essential building blocks. But too often the multi-stakeholder complexity of the task of building effective credit reporting systems has caused progress to lag or even halt.

The Credit Reporting Working Group began its work with the “General Principles for Credit Reporting” created by a World Bank-led task force in 2011. These principles constitute consensus standards for effective credit reporting systems. They focus on all the elements needed for credit reporting systems to succeed, such as timely and accurate data (both positive and negative), security, broad coverage, efficient operations, and consumer protection. The group’s starting position, therefore was a strong endorsement of these principles and recommendation that they be applied throughout the world.

If these principles are fully implemented, the benefits of credit reporting would accrue to all clients, who would be enabled to use their economic histories as testimonials to their suitability for use of financial services. They would carry their financial histories with them, even across international boundaries, giving them freedom to choose among providers. Financial service providers would incorporate credit reporting as an essential part of risk management, pricing, and outreach to new clientele. Their clients would have strong incentives to behave responsibly, knowing that defaults will affect their continuing access to services. And recognizing the value of credit reporting, providers would submit their own data in a full and timely way, willingly paying the service charges needed to keep credit reporting services viable.

It is good news that the number of credit bureaus around the world has tripled in the past two decades, with credit bureaus or registries now in at least 146 countries.²⁰ The bad news is that relatively few of these systems work well for customers at the base of the economic pyramid. The group's next focus, therefore, was to examine the obstacles to full implementation at the base of the pyramid.

Group members knew from experience that setting up an effective credit reporting system requires sustained coordination among different types of actors. Legislators, regulators, financial institutions, and credit reporting companies must come together around common solutions. An example that might seem simple but is representative: definitions and formats for collecting information must be agreed upon so that the reports will have the same meaning. At times an external third party can assist in organizing the development process. The working group noted that the World Bank and IFC are leading global resources to support this work.

Getting the business models right for both the providers of the service and its users is particularly tough for small value BOP customers. In order to have a viable business, credit reporting providers must be assured that financial service providers will use their services actively. Their service will only be valuable if it is based on data from all relevant financial service providers, both regulated and unregulated, as well as public agencies and alternative data providers. Policymakers can facilitate this sharing of information by treating regulated and unregulated institutions the same in credit reporting policies. Even if they are granted permission, however, providers may not see the benefit of participating in credit reporting systems for the BOP market.

One reason for their hesitation is that financially excluded people often lack unique identifiers. While national identification systems may alleviate this problem, unique IDs alone are insufficient. Because much of the financial activity of the poor takes place through informal means, the poor are left with "thin files" too limited for credit reporting systems to work with even if they establish financial identity.

One of the most exciting current developments in the credit reporting area – use of alternative data – could change that. The working group discussed how use of phone records, utility payments, rental information, remittance data or even social media has become a dynamic force in the credit reporting landscape. Unlike traditional data, which require that an individual already participate in the formal financial system, alternative data are relatively available for many thin-file populations.

Today, exciting new companies work with alternative data to build models for assessing creditworthiness. One example is Cignifi, which uses complex data analytics of mobile phone behavior and payments to create an assessment of creditworthiness (for financial services providers), predict churn behavior (for

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²⁰ World Bank and International Finance Corporation, *Doing Business 2013* (Washington, DC: World Bank Group, 2013).

telecommunication companies), and provide insights on product offerings (for both). Although new, the Cignifi model demonstrates the game-changing potential of credit reporting with alternative data.

A variety of market and political forces must align to enable use of alternative data. In some cases, governments restrict the ways that data can be shared. As the technology working group also noted, data owners, such as telcos, may not wish to voluntarily share their data for competitive reasons. It will be important to build a market and business case as well as facilitating policies around data sharing.

The working group recognized that financial service providers to the poor face operational hurdles in order to achieve the risk and cost reduction benefits that would make use of credit reporting worthwhile. The value of credit reporting for providers is the chance to replace resource-intensive credit assessment methods with a credit score, with lower risk and lower operating costs. But such a change often requires deep internal reorganization. To understand the challenge involved here, consider the microfinance industry, which, in the absence of credit reports, developed internal credit assessment methods such as group lending and high-touch interaction between loan officers and borrowers. If a credit report or credit score is applied simply as an add-on to these existing methods, the institution may reject it as unnecessary and costly.

The value proposition, especially for small financial service providers, may be shallow compared with investment costs for new or updated systems and trained staff. In addition, running costs, such as subscription and inquiry fees may be deemed too high. Donors and support organizations have an opportunity to support capacity building to overcome these initial barriers, in the interest of building a credit reporting system that will ultimately work for everyone.

The last topic, but certainly not the least, for the working group was consumer protection. Credit reporting raises specific issues that governments must address. Most notably, policies on data usage ensure that client privacy remains protected while also ensuring that privacy rules do not stifle credit reporting. Clients need clear information about how credit reporting affects them, and they should be informed about how data are gathered, used, and protected. They need to be able to confirm that data about them are accurate. Systems must be secure and backed by accessible problem resolution mechanisms.

Box 5: On the Move, Migrants in Need of Financial Services

There are an estimated 214 million migrants around the globe. The total number of migrants has increased in the past decade, and the resulting remittances they send home reached an estimated US\$440 billion in 2012, and are projected to be at US\$515 billion per year by 2015.²¹ For many migrants, low incomes and uncertain legal status become large barriers to accessing financial services. Migrants may have access to remittance sending services but not to quality savings services, insurance, or loans. At the same time, sending costs can be quite high, discouraging them from sending money back to their countries of origin more than a few times per year. Security is also a challenge for migrants, as they are often paid in cash instead of electronic payments. A contributing factor is the fact that many migrants did not use banks in their home countries. This is particularly true for first generation migrants, low to medium skilled migrant workers, and the undocumented.

For migrants, therefore, innovative solutions that take country-specific cultural and economic patterns into account may be the key to reaching them with formal services. Tiered KYC regulations developed in consultation with the banking industry could lower barriers to entry. One suggestion is that providers allow anyone to open an electronic account, including anonymous accounts, triggering KYC/AML requirements only if an account's scale reaches a pre-established threshold. Enabling non-bank players to provide financial services, especially near where migrants live and work, could increase opportunities for migrants. Non-traditional providers may be able to position themselves closer to migrants and establish greater cultural connection and trust. The development and use of non-traditional sources of behavioral data (for example, mobile behavior or purchase records) to establish financial identity and history could mitigate risk for providers when working with undocumented migrants.

Consumer Protection Working Group

As access expands to new and vulnerable customers, actions to protect them must take into account the forces that can trigger harm. Human beings, it is well understood, are prone to misuse financial services, whether through over-valuing the present relative to the future or making decisions on impulse. Providers, for their part, may face perverse incentives to sell aggressively or disguise true costs. These forces can never be eradicated, but countervailing incentives or rules can shift the power and information imbalances that lead to poor outcomes.

The working group examined the path to consumer protection by looking at each of the three groups that bear responsibility to protect customers: providers (who follow consumer protection principles), regulators (who make and enforce rules), and clients themselves (who understand their rights and responsibilities).

Providers. The working group envisions that under full inclusion with consumer protection, all providers of financial services to the poor would implement a set of widely endorsed consumer protection principles, such as those promoted through the Smart Campaign:

- Appropriate product design and delivery.
- Prevention of over-indebtedness.
- Transparent communications, including transparent pricing.
- Responsible pricing.
- Fair and respectful treatment of clients.

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21 Development Prospects Group at the World Bank, "Migration and Development Brief" (Washington, DC: World Bank, 2013).

- Privacy of client data.
- Mechanisms for resolving complaints and problems.

These principles would be backed by standards of practice and thoroughly integrated into the operations and corporate culture of providers. Providers would also act through industry bodies and investor groups to promote and monitor these standards of conduct. They would work with regulators to apportion responsibility for upholding standards.

Regulators. The working group debated the effects of competition. It concluded that competition is desirable for the benefits it brings to clients, however, it also produces perverse incentives. Ultimately, even with responsible providers, regulations are essential in shaping an orderly financial market that protects clients.

In this vision, regulators would allow competition and support moves by industry to take responsibility for consumer protection. However, they would also set and enforce clear boundaries. They would cover all providers of financial services, whether prudentially regulated or not. Regulators would use common sense to create proportionate regulation that minimizes the financial burden on providers, and would therefore develop regulations in dialogue with providers and clients.

The group called attention to a number of mechanisms that need to be in place, including enforcement abilities for catching and sanctioning rogue players and easily accessible recourse and mediation mechanisms. Deposit insurance systems are needed to protect small depositors, and well-functioning credit reporting systems to prevent over-indebtedness.

Clients. The working group was especially eager to highlight the potential for clients to develop greater ability to protect themselves, though this dimension requires a great deal of new work. Effective consumer protection requires that clients understand enough about the use of financial services to make informed choices and where to turn if they encounter problems. The group envisions that by the end of the decade clients will have more ways to raise their voices to protect their interests in the marketplace, making consumer protection more demand-driven. One approach that the group sees as a promising way to empower clients is the posting of client complaints (or compliments) online – such as the system now being implemented by the U.S. Consumer Financial Protection Bureau.

A Long Way to Go. The working group's overriding message is the urgent need for investment in consumer protection. Effective consumer protection is not a reality in most countries, although progress is accelerating. While there are enlightened or socially motivated providers who actively foster consumer protection, at the other extreme are fast-buck players and outright fraudsters. Most providers are in the middle and are swayed by the incentives they face – which are often weak.

Many providers think of consumer protection as adding costs and detracting from revenues, rather than perceiving their long-term interest in a positive reputation for themselves and healthy use of services by their clients. They often see consumer protection as a regulatory responsibility and make a compliance-based response. Providers may also be complacent about their consumer protection practices, and as a result, under-invest in capacity to implement high standards. In many countries, collective industry action to create explicit norms and standards is only beginning.

Regulation also needs a strong boost. Traditionally, the mandate for regulatory authorities did not extend to consumer protection, but this is changing in many countries, and the pace of change has accelerated greatly since the 2008 global financial crisis. The rewriting of laws and reshaping of regulatory institutions takes

time, and in the meantime, consumer protection regulation often faces a confused or incomplete regulatory mandate. Practical challenges, such as the cost of supervision and the lack of supervisory capacity create roadblocks to progress. The political economy of consumer protection is often challenging and can span the gamut from regulators “captured” by industry to politicians “out to get” industry. And client groups in the developing world are only starting to take up financial services as a theme.

The working group sees a number of major opportunities for action. The world community has a high degree of consensus on the principles of consumer protection, and this agreement opens the way for rapid progress. Efforts to encourage and equip providers to take proactive responsibility have been underdeveloped, and this also represents a major opportunity. Similarly, investments in strengthening clients’ ability to protect themselves could pay off.

Most importantly, investments are needed to support the development of effective consumer protection regulation and supervision in every country. Both the global community and national governments must take on this challenge. The working group would like to see the global community, through the GPFI or AFI, set a goal of an effective regulatory framework for financial consumer protection in every country by the end of the decade.

Following the financial crisis of 2008-2009, consumer protection moved well up the action agenda for the financial sector. But, it has not moved up far enough. The working group’s final call is for a significant step up in political will by all actors to implement consumer protection.

Box 6: Persons with Disabilities Underrepresented in Formal Financial Services

It is estimated that over 15 percent of the world’s adult population—785 million people—live with a disability.²² Because of population growth, medical advances, and the aging process, this number is on the rise. As a result, persons with disabilities (PWDs) are and will continue to be part of multiple vulnerable population groups. Unemployment for PWDs around the world is as high as 80 to 90 percent in the developing world, with many employers assuming that PWDs are unable to work. In high income, or industrialized economies, this figure shrinks to 50 to 70 percent.²³

While there is little information available showing the extent to which PWDs are leveraging financial services, according to Handicap International, less than 1 percent of all microfinance clients were persons with disabilities.²⁴ There are many reasons for this, such as lack of reasonable accommodation, lack of awareness by staff of the potential of people with disabilities, stigma or prejudice, the misguided belief that charity is the only or best way to help, and the denial of “legal capacity” which makes it impossible for persons with disabilities to make decisions for themselves.

To date, small pilot projects and small-scale changes have occurred in organizations that provide financial services to the base of the pyramid. However, to increase financial inclusion in a scalable manner for this client segment requires providers and organizations serving PWDs to partner in promoting and providing adequate physical access to and ease of use of products and technology, along with sensitivity training for staff. Policymakers have a role in seeking remedies to legal barriers blocking PWDs from accessing financial services, along with promoting financial capability.

22 World Health Organization and World Bank, World Report on Disabilities (Geneva: WHO, 2011).

23 United Nations, Enable: Disability and Employment Fact Sheet 1 (New York: UN, n.d.).

24 Handicap International, A New Financial Access Frontier: People with Disabilities June 2010 Report (Lyon: Handicap International, 2010).

A Call to Action: The Roadmap Principles

The FI2020 working groups each developed a set of recommendations, ranging from broad principles like embracing consumer protection to specific action points like using universal service fees to boost rural outreach.

These recommendations constitute calls to action for all stakeholders in financial inclusion. Many recommendations are directed at financial service providers. Other recommendations ask policymakers and regulators to facilitate inclusion. Still other recommendations advise supporting organizations and client advocates on where to direct their resources of financial support, expertise and influence.

A Sampling of Ideas. Annex 1 provides a sample of specific ideas from working group discussions. Many of these reflect new concepts that are generating excitement but which have not yet become mainstream, such as the power of behavioral economics to guide product design, capability building, and consumer protection, or the use of data analytics in creating alternative credit reporting systems and targeting new market segments. Some of the ideas in this list have transformative power, if widely applied. (For a complete listing of recommendations, see each roadmap, at www.centerforfinancialinclusion.org/fi2020/roadmap-to-inclusion.)

The Roadmap Principles. Box 7 distills the broadest, most important recommendations from each group in the form of a set of roadmap principles that we hope will be among the key takeaways from the FI2020 process. These basic principles form what might be thought of as a manifesto for financial inclusion. They advocate for major investments of time and resources necessary to achieve full financial inclusion with quality.

The working groups emphasize that while the principles may be broadly endorsed, actions taken or underway in these areas are not commensurate with the scale or scope of the need. If we truly aim to reach full inclusion by 2020 or soon after, the gap between principles and reality must close.

If closing the gaps were easy, it would have happened already. Many factors stand in the way of fulfillment. In the case of regulatory accommodation to technology-enhanced business models, the gaps result from complex factors such as the pace of the spread of know-how among policymakers globally, national legislative and political processes, and uncertainty about the risks involved with new models. In the case of fully addressing the needs of BOP customers, gaps stem from a combination of doubt among providers about the likely profitability of these customers with shallow penetration into provider organizations of knowledge about the financial lives of the poor. In the case of consumer protection, providers may face perverse incentives while many regulator bodies are only beginning the major task of establishing robust market conduct oversight.

The roadmap principles are meant to help keep the financial inclusion community focused and accountable for guiding inclusion in a direction that will fulfill its promise to improve lives and boost economies. They demonstrate the need for a strong demand-side orientation, signaling that financial inclusion is not just about expanding access, but about doing so with quality so that usage will be high and customers will benefit.

Providers who see the business case for serving BOP customers are asked to adopt a pro-customer orientation by investing in understanding the special character of the BOP, applying opportunities to build financial capability and committing to consumer protection. Working group members, including those in the private sector, believe that such an orientation is in the best interest of providers that seek long-term stability and growth. The principles also ask providers to work with each other and with partners in the public, private, and social sectors to create a healthy ecosystem for inclusion. Many of the requisites for an enabling business environment can only be developed through collaboration, be they standards for interoperability or consumer protection or alignment of providers and regulators around workable credit reporting systems. All providers should incorporate industry development objectives into their own financial inclusion strategies.

The principles challenge policymakers and regulators to facilitate technologies, business models, and providers adapted to the BOP, and to develop effective consumer protection. The working groups acknowledge that regulators are hard at work on both these tasks, but observe that the scale of the tasks calls for even greater efforts. Supporting organizations such as the GPFI, AFI, World Bank, and United Nations are asked to consider whether their excellent efforts to increase capacity are sufficiently resourced.

Full financial inclusion could bring individuals, nations, and businesses enormous benefits. We know what needs doing. The political will and business case are getting stronger every year. With sustained pursuit of the roadmap principles, full financial inclusion within a realistic time frame is possible. FI2020 challenges the global financial inclusion community to commit to these principles and this goal.

Box 7: The FI2020 Roadmap Principles

1. Financial Capability: Shift the Paradigm

- Those involved in financial inclusion must shift the paradigm from financial education as knowledge transfer to financial capability as promoting sound financial choices and behavior.
- All participants in financial inclusion should integrate financial capability building into every aspect of work with current and prospective customers.

2. Addressing Client Needs: Easy to Say; Hard to Do

- Providers need to be customer-oriented by developing the ability throughout their organization to listen to customers and prospective customers.
- Providers have a responsibility to build on the knowledge that already exists on the financial lives of the poor and insights from behavioral economics to create products and delivery systems valuable to customers and actively used.

3. Technology-Enabled Business Models: Pave the Way for Dramatic Change

- Regulators should create facilitating rules that allow technology-enabled business models and providers to operate smoothly at the base of the pyramid.
- Governments need to use their own resources creatively, such as G2P payments, to promote technology-enhanced inclusion.

4. Credit Reporting: It Takes a Village

- Providers, governments and credit reporting organizations must make the sustained collaborative effort required to establish credit reporting systems that work for all parties and seamlessly cover the BOP.
- The entire financial inclusion community can encourage the use of alternative data to enable “thin file” customers to access financial services, while protecting customer rights to correct errors and sign off on use by third parties.

5. Consumer Protection: Everyone’s Promise

- Providers need to incorporate consumer protection into their professional identity and, as a corollary, to apply a client bill of rights and related standards.
- Regulators and support organizations should set a global goal of effective consumer protection regulation and supervision in every country by 2020.

Annex 1:

A Sampling of Ideas from the Roadmaps

- Use electronic customer touch-points to support financial capability at low cost, for example, SMS reminders that alert clients before a loan is due or encourage regular savings. (Providers)
- Partner with behavioral economics experts to design products that build financial capability using insights about cognitive biases. (Providers)
- Every board member should listen directly to customers, through regular interviews, customer panels, or other means. (Providers)
- Subsidize smaller service providers to gear up to use credit reporting efficiently; such providers face high transition costs. (Support organizations)
- Develop systems to spot third party fraud and abuse of vulnerable customers, such as the elderly. (Providers)
- Do not mandate interoperability but use creative means to encourage it, such as making interoperability a criteria for G2P bids. (Policymakers)
- Invest in deep information about BOP households and make it available to all providers as a public good. (Policymakers)
- Develop partnerships to promote financial capability with organizations that interact with clients at key moments when financial decisions are at stake, such as immigration organizations or hospitals. (Financial capability experts)
- Use tiered KYC to facilitate access of people in the informal sector to accounts – even to the point of very small anonymous accounts that only require KYC when they grow. (Regulators)
- Create alternative dispute resolution systems that are easier to use than traditional ombuds. (Policymakers)
- Use universal service funds paid by telecommunications companies to incentivize mobile money to reach remote areas. (Policymakers)
- Create forums for publication of consumer complaints or compliments about services they use to increase consumer voice and provider accountability. (Policymakers, consumer groups)
- Develop and track national indicators to measure consumer protection and financial capability. (Policymakers, researchers)
- Train regulators on competition law to enable them to better regulate the entry of new business models. (Regulators, support organizations)
- Customize credit reporting services for BOP products such as group lending. (Credit reporting services)

Annex 2:

FI2020 Working Group Members

Financial Capability

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