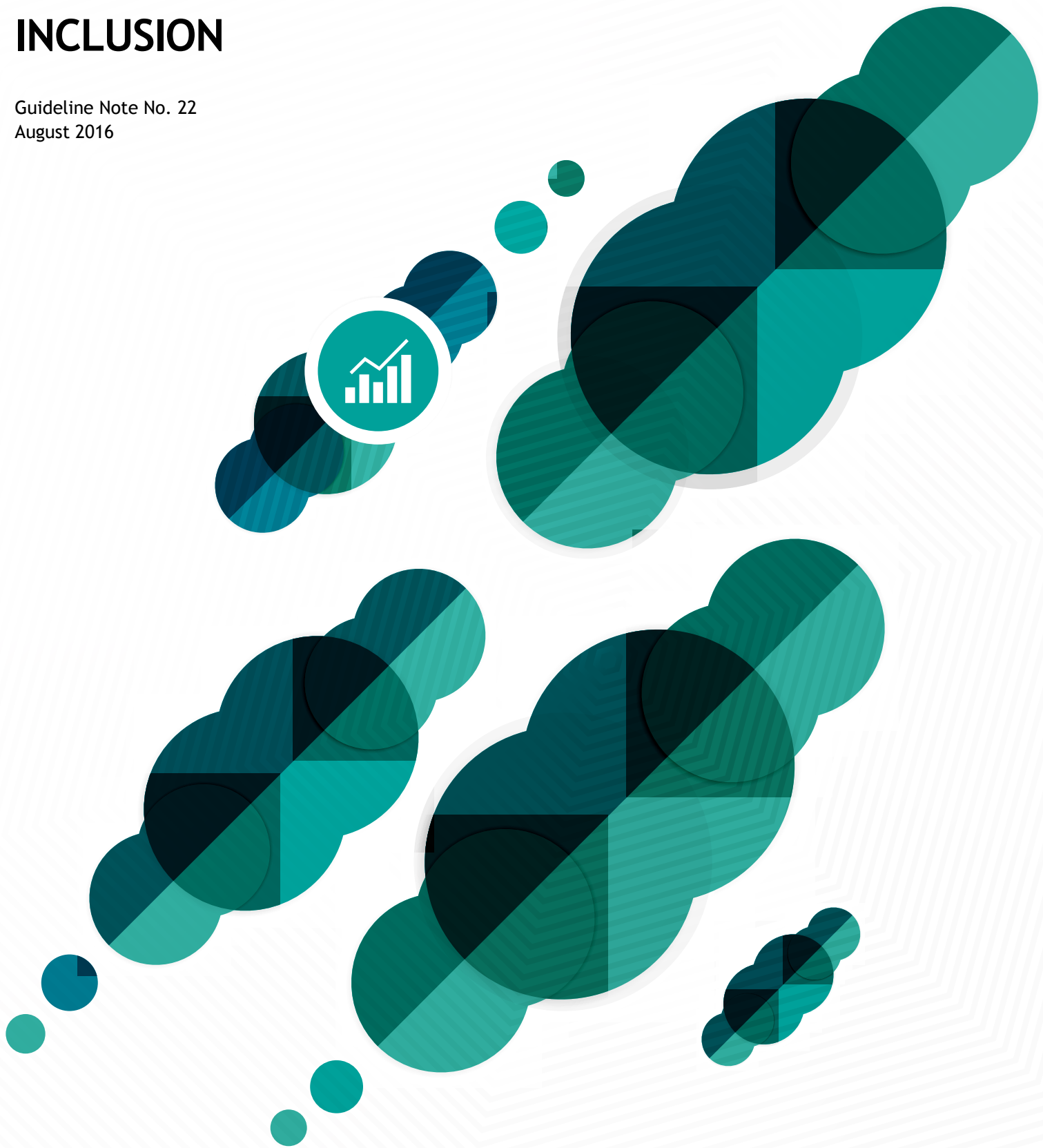


# INDICATORS OF THE QUALITY DIMENSION OF FINANCIAL INCLUSION

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## CONTEXT

Developing indicators to measure the quality of financial inclusion is a challenging yet exciting task. Over the last 15 years, as the term “financial inclusion” moved onto the agenda of developing countries, financial exclusion was so pervasive that the inevitable focus was on improving access to financial services. Lack of access is still a problem, and varies by country and type of financial service. However, the struggle to assure quality in the provision of financial services is also a challenge, and requires us to study, measure, compare and take action based on evidence.

The quality dimension of financial inclusion is not a straightforward attribute. On the contrary, many factors can affect the quality of financial services, such as the cost of services, consumer awareness, the effectiveness of redress mechanisms and consumer protection services, the security of funds, transparency and competition in the market, and even intangible features like consumer trust.

## PURPOSE AND CRITICAL ISSUES

The purpose of quality indicators is to provide guidance on measuring the quality of regulated financial services and the underlying market environment, from the client’s perspective. The aim is to provide a comprehensive (but not exhaustive) list that regulators can use to select indicators they consider appropriate to their particular social and policy context.

Measuring the quality of financial inclusion is a new and challenging task, but if we are to provide measurable, high-quality financial services in a growing number of countries, it is imperative that we take it on. Further complicating the task is that quality is often judged based on opinion and perception – a subjective element that is difficult to measure. With this in mind, the AFI Financial Inclusion Data Working Group (FIDWG) has proposed proxy indicators that could be a first step for a country interested in measuring a specific quality category. Demand-side survey questions are also suggested.

Although this set of indicators covers many basic and relevant aspects of quality, it does not address every issue. Each country or AFI member institution may develop additional indicators customized to its specific needs, and are strongly encouraged to share these indicators with the AFI Network.

## KEY PRINCIPLES OF THE QUALITY INDICATORS

The quality indicators are based on six key principles:

- > **Usefulness and relevance.** When selecting indicators of quality, the most important consideration is whether they are useful and relevant for domestic policymaking.
- > **Conciseness.** A small set of indicators should cover all of the important dimensions of quality.
- > **Specificity.** Indicators should be directly linked to financial inclusion.
- > **Simplicity.** If two indicators are similar, the simpler one should be selected.
- > **Improvement.** Unbiased indicators should be selected even if they cast the country in a bad light.
- > **Client Perspective.** Data should gauge the real situation customers face, not capture broad characteristics assumed to be helpful from the regulator’s perspective. This is perhaps the most important principle: that end users benefit.

## CATEGORIES OF QUALITY INDICATORS

Quality indicators are divided into eight categories: affordability, transparency, convenience, fair treatment, consumer protection, financial education, indebtedness and choice. Not all topics are covered by each category, for example, financial education could be considered a stand-alone topic. Rather, these indicators cover aspects that are required for one to enjoy quality financial services. However, measuring some of these indicators, especially for the first time, will improve our understanding of where we are and allow us to track progress over time, increasing the effectiveness of financial inclusion policy.

### 1. Affordability

This category measures how expensive it is to keep an account, particularly for low-income earners.

- 1.1. Average monthly cost to have a basic account, based on the official minimum wage.
- 1.2. Percentage of clients who stated that the fees and charges for financial transactions are expensive.

### 2. Transparency

Access to information plays a crucial role in financial inclusion. Financial services providers (FSPs) should ensure that clients have access to all relevant information on financial products and services to enable them make informed decisions on usage, even if this information is developed or held by other FSPs. FSPs should also ensure this information is clear, unambiguous and in easy-to-understand language.

- 2.1. Percentage of clients who believe they have received clear and sufficient information about financial services at the start of the loan contract.

### 3. Convenience

This category captures the client perspective on the ease and comfort of accessing and using financial services.

- 3.1. Percentage of people who are not comfortable with the average time spent waiting in a queue at financial institution branches (and/or bank and non-bank agent).
- 3.2. Average time spent queuing at a branch of a financial institution and/or bank and non-bank agent.

### 4. Fair Treatment

This category focuses on clients' perceptions of fair treatment at financial institutions, including issues such as incomplete information about financial services, inadequate time spent on explaining financial goods and services and other situations that clients consider problems.

- 4.1. Percentage of users who have felt mistreated by the staff of a financial institution.

### 5. Consumer Protection

This category looks at the laws and regulations designed to ensure the rights of consumers are protected and prevent businesses from gaining an unfair advantage over competitors through fraud or unfair practices.

- 5.1. Percentage of consumers who have contacted a consumer protection authority to solve a problem regarding financial services within the last three to six months and had their problem resolved within two months.
- 5.2. Percentage of clients whose deposits are covered by a deposit insurance fund.

### 6. Financial Education

This category measures the knowledge of basic financial terms and the ability of users to plan and budget their income.

- 6.1. Percentage of adults who know the definitions of these basic financial terms: rate, risk, inflation and diversification.
- 6.2. Percentage of adults who prepare a budget each month.

### 7. Indebtedness

Indebtedness is an important client characteristic in a financial system. It is therefore important to know how many borrowers have made a late debt payment within a certain period of time.

- 7.1. Percentage of borrowers who are more than 30 days late with a loan payment.

### 8. Choice

Financial inclusion is not only about using financial products and services, but also giving consumers the ability to choose services or products from a range of options.

- 8.1. Percentage of administrative units in urban areas with at least three different branches of formal financial institutions.
- 8.2. Percentage of administrative units with at least three different branches of formal financial institutions.

## APPENDIX: FORMULAS FOR CALCULATING INDICATORS OF THE QUALITY DIMENSION OF FINANCIAL INCLUSION

<p><b>HOW TO CALCULATE INDICATOR 1.1</b></p> <p>(Average monthly cost to have a basic account based on the official minimum wage)</p>	<p><b>Formula:</b></p> $\frac{(X_1 \cdot W_1 + X_2 \cdot W_2 + X_3 \cdot W_3 + \dots + X_n \cdot W_n)}{\bar{i} \sum_1^n W_i}$ <p><b>Where:</b> x is the monthly cost to keep a basic deposit account in the financial institution 1, <math>w_i</math> is the numbers of accounts in the financial institution 1, n is the number of institutions and <math>\bar{i}</math> is the official minimum wage.</p> <p><math>x_i = i_i - (M_i + w_i + A_i)</math></p> <p><b>Where:</b> <math>i_i</math> is the monthly interest from a basic deposit account with \$100 in in the financial institution 1, <math>M_i</math> is the monthly maintenance fee in charged by the financial institution 1, <math>w_i</math> is the monthly withdrawal fee in the charged by financial institution 1, <math>A_i</math> is the monthly ATM fees charged by financial institution 1.</p> <p><b>Data source:</b> Disclosure of terms &amp; charges for all basic accounts.</p>
<p><b>HOW TO CALCULATE INDICATOR 1.2</b></p> <p>(Percentage of clients who stated that the fees and charges for financial transactions are expensive)</p>	<p><b>Formula:</b></p> $\frac{\text{The number of clients who stated that the fees and charges for financial transactions are expensive}}{\text{The number of clients who made a financial transaction}}$ <p><b>Data source:</b> Include the following questions in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Did you make any financial transactions in the last six months?           <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> <li>2 Do you think the fees and charges for financial transactions are expensive?           <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> </ol>
<p><b>HOW TO CALCULATE INDICATOR 2.1</b></p> <p>(Percentage of clients who believe they have received clear and sufficient information about financial services at the start of the loan contract)</p>	<p><b>Formula:</b></p> $\frac{\text{The number of clients who received clear and sufficient information}}{\text{The number of clients with a loan from a financial institution}}$ <p><b>Data source:</b> Include the following questions in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Did you receive clear and sufficient information about financial services at the start of the loan contract?           <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> </ol>
<p><b>HOW TO CALCULATE INDICATOR 3.1</b></p> <p>(Percentage of people who are not comfortable with the average time spent waiting in a queue at a financial institution branch and/or bank and non-bank agent)</p>	<p><b>Formula:</b></p> $\frac{X}{Y}$ <p><b>Where:</b> X is the number of people who are not comfortable with the time they spent queuing at a financial institution branch for their last transaction; Y is the number of people who went to a financial institution branch (and/or bank and non-bank agent).</p> <p><b>Data source:</b> Include the following question in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Are you comfortable with the time you spent waiting in a queue the last time you went to a financial institution branch?           <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> </ol>
<p><b>HOW TO CALCULATE INDICATOR 3.2</b></p> <p>(Average time spent queuing at a financial institution branch)</p>	<p><b>Formula:</b></p> $\frac{(X_1 \cdot W_1 + X_2 \cdot W_2 + X_3 \cdot W_3 + \dots + X_n \cdot W_n)}{\bar{i} \sum_1^n W_i}$ <p><b>Where:</b> <math>x_n</math> is the average time spent queuing (in minutes) per person at the institution n, and <math>w_i</math> is the average number of people who go to one financial institutions 1 per day. n is the number of financial institutions.</p> <p><b>Data source:</b> Administrative information from financial institutions.</p>


<p><b>HOW TO CALCULATE INDICATOR 4.1</b></p> <p>(Percentage of users who felt mistreated by the staff of a financial institution)</p>	<p><b>Formula:</b></p> $\frac{X}{Y}$ <p><b>Where:</b> X is the number of clients who have felt mistreated by the staff of a financial institution and Y is the number of the financial institution's clients.</p> <p><b>Data source:</b> Include the following question in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Have you felt mistreated by the staff of a financial institution?               <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> </ol>
<p><b>HOW TO CALCULATE INDICATOR 5.1</b></p> <p>(Percentage of consumers who have contacted a consumer protection authority to solve a problem regarding financial services within the last three to six months and had their problem resolved within two months)</p>	<p><b>Formula:</b></p> $\frac{X}{Y}$ <p><b>Where:</b> X is the number of consumers who have contacted a consumer protection authority within the last three to six months and their problem was resolved within two months of reporting; Y is the number of consumers who have contacted the consumer protection authority to solve a problem regarding financial services within the last three to six months.</p> <p><b>Data source:</b> Include the following questions in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Did you contact a consumer protection authority to solve a problem regarding a financial institution within the last three to six months?               <ol style="list-style-type: none"> <li>a. Yes</li> <li>B. No</li> </ol> </li> <li>2 (if yes to above) Was the problem solved within two months of contacting the consumer protection authority?               <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> </ol> </li> </ol>
<p><b>HOW TO CALCULATE INDICATOR 5.2</b></p> <p>(Percentage of clients who are completely covered by a deposit insurance fund (DIF))</p>	<p><b>Formula:</b></p> $\frac{\text{Number of clients who are completely covered by a DIF}}{\text{The number of clients with deposit}}$ <p><b>Data source:</b> Administrative information from financial institutions and regulators.</p>
<p><b>HOW TO CALCULATE INDICATOR 6.1</b></p> <p>(Percentage of adults who know the definitions of these basic financial terms: rate, risk, inflation and diversification)</p>	<p><b>Formula:</b></p> $\frac{\text{Percentage of people who answer all four questions correctly}}{\text{Number of respondents}}$ <p><b>Data source:</b> Include the following questions in a demand-side survey:</p> <ol style="list-style-type: none"> <li>1 Suppose you had USD 100 in a savings account and the interest rate was 2% per year. After one year, how much do you think you would have in the account? Correct answer: USD 102</li> <li>2 Do you think if someone offers you the chance to win a lot of money, it also means you may lose a lot of money?               <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> <li>c. Don't know</li> </ol> </li> <li>3 Do you think high inflation means that it would more difficult to meet your daily life expenditures?               <ol style="list-style-type: none"> <li>a. Yes</li> <li>b. No</li> <li>c. Don't know</li> </ol> </li> <li>4 In which case is it more likely that you would lose all your money?               <ol style="list-style-type: none"> <li>a. If you invest it in one business</li> <li>b. If you invest it in one or more businesses</li> <li>c. It's the same</li> <li>d. Don't know</li> </ol> </li> </ol>

<p><b>HOW TO CALCULATE INDICATOR 6.2</b></p> <p>(Percentage of adults who prepare a budget each month)</p>	<p><b>Formula:</b></p> $\frac{\text{Number of adults who prepare their budgets each month}}{\text{Number of respondents}}$ <p><b>Data source:</b> Include the following question in a demand-side survey:  <b>1</b> Do you prepare a budget each month?  a. Yes  b. No</p>
<p><b>HOW TO CALCULATE INDICATOR 7.1</b></p> <p>(Percentage of borrowers who are more than 30 days late with a loan payment)</p>	<p><b>Formula:</b></p> $\frac{\text{Number of borrowers with more than a 30-day delay in making a loan payment}}{\text{Number of borrowers in the financial system}}$ <p><b>Data source:</b> Administrative information from financial institutions.</p>
<p><b>HOW TO CALCULATE INDICATOR 8.1</b></p> <p>(Percentage of administrative units with at least three different branches of formal financial institutions, in areas with more than 10,000 inhabitants)</p>	<p><b>Formula:</b></p> $\frac{X}{Y}$ <p><b>Where:</b> X is the number of urban administrative units with branches or agents of three different institutions and Y is the number of urban administrative units.  <b>Data source:</b> National regulator.</p>
<p><b>HOW TO CALCULATE INDICATOR 8.2</b></p> <p>(Percentage of administrative units with at least three different branches of formal financial institutions)</p>	<p><b>Formula:</b></p> $\frac{\text{Number of administrative units with branches or agents of 3 different institutions}}{\text{Total number of administrative units by country}}$ <p><b>Data source:</b> National regulator.</p>



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