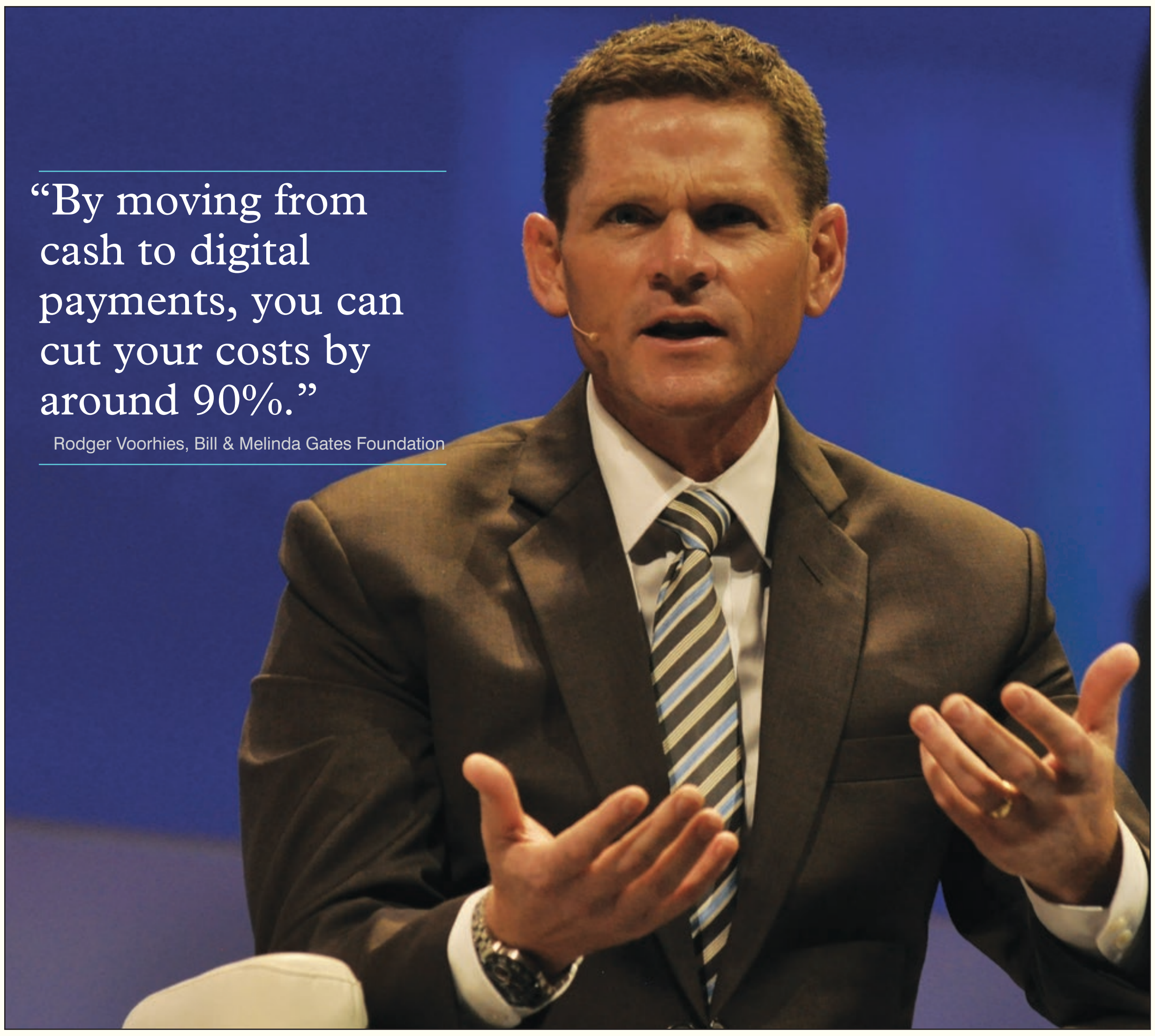
Banks are getting mobilised to put services within the reach of the global unbanked

Mobile banking widely seen as critical to financial inclusion

But government action needed to support use of new technologies

According to the World Bank, worldwide around 2.5 billion people do not have a formal account at a financial institution. This is of concern to the Bank because access to affordable financial services is linked to overcoming poverty, reducing income disparities and increasing economic growth.

At Sibos 2013 in Dubai, delegates heard about the efforts being made by governments, charitable institutions and banks to promote financial inclusion – bringing unbanked, or underbanked people into the financial system. Notably in Tuesday's Big Issue Debate on financial inclusion, delegates were told that in extending their reach into emerging markets banks should leverage existing technology infrastructure to drive down costs and increase access. Furthermore, tapping into mobile phone technology, which has become ubiquitous across many parts of the developed and developing world in the past decade, should form the backbone of any strategy to extend financial services to the unbanked.



"By moving from cash to digital payments, you can cut your costs by around 90%."

Rodger Voorhies, Bill & Melinda Gates Foundation

Building momentum

In the week before Sibos, some significant steps were taken in the area of financial inclusion. At the fifth annual global policy forum of the Alliance for Financial Inclusion (or AFI, a global network of 108 financial inclusion policy makers) eleven more countries signed up to the Maya Declaration Commitments. Just a week before Rodger Voorhies, director of financial services for the poor at the Bill & Melinda Gates Foundation, was telling Sibos delegates in Dubai "by moving from cash to digital payments, you can cut your costs by around 90%", his boss assured the AFI conference in Kuala Lumpur that it was "on the cusp of another breakthrough innovation".

To date 45 countries have signed up to the declaration, which sets out measurable commitments to financial inclusion. Signatories to the declaration are committed to using technology to lower the cost of financial services, integrating consumer protection into a framework for achieving financial inclusion and utilising data "for informed policy-making and tracking results".

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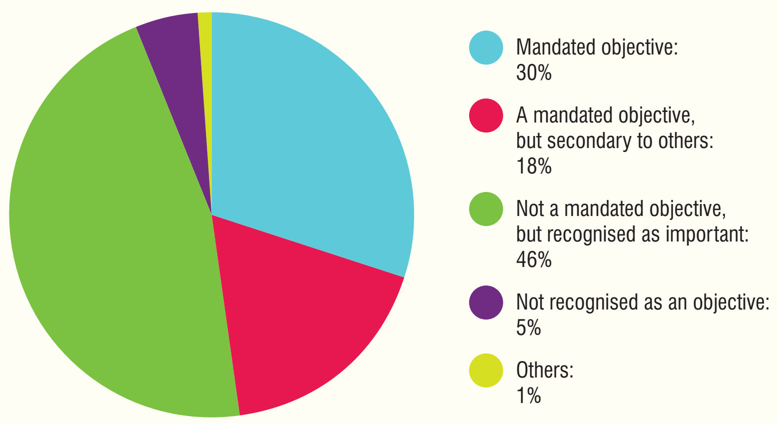
Klaus Prochaska, Alliance for Financial Inclusion

Banks have a pivotal role to play in financial inclusion, says Klaus Prochaska, senior policy analyst at AFI. "Smart government policies are crucial in enabling banks to leverage new technologies like mobile or agent banking to bring in previously unbanked people and serve the bottom of the pyramid sustainably," he says. Conducive government policies are probably the single most important factor that determines the scope and ability for banks to sustainably serve the low income market segment, he adds.

Inclusion through technology

Prochaska points to a number of initiatives that were made possible by the involvement of financial sector regulators. For example, in Brazil and India in particular, regulations governing agents have enabled commercial banks to use non-bank outlets such as post offices, lottery houses or small convenience stores to provide financial services on their behalf via a point-of-sale device. Each country has around 150,000 such agents providing financial services, often in locations where there is no bank branch to serve the local population.

Figure 1: % of AFI members for which financial inclusion is a mandated objective



Source: Alliance for Financial Inclusion

In Kenya, the Commercial Bank of Africa and Safaricom have launched M-Shwari. Offered to customers of the M-PESA mobile money transfer system, M-Shwari enables users to save and borrow money through their phone while earning interest on money saved. Users can also apply for short-term emergency loans. M-Shwari customers never have to see a loan officer or visit a bank branch as lending decisions are based on a credit-scoring algorithm. Prochaska says M-Shwari has experienced unprecedented uptake which has reached several million users so far.

In Bangladesh a joint venture between BRAC Bank and US company Money in Motion has launched a mobile wallet dubbed bKash. More than 70% of the population of Bangladesh lives in rural areas where access to formal financial services is difficult. Less than 15% of Bangladeshis are connected to the formal banking system, but more than 50% have mobile phones. bKash enables users to send money anywhere in Bangladesh, make payments and deposit money in a savings account. All accounts are set up and maintained in BRAC Bank and the system operates across all mobile network providers in Bangladesh. As a bank-led model, bKash was able to accredit almost 50,000 agents in two years and reach over 2.2 million clients, says Prochaska.

"Financial inclusion has been on the agenda of the international financial institutions and big philanthropic institutions for a while, but the big and groundbreaking change arrived when developing and emerging countries themselves put the topic high on their agenda," says Prochaska. "Some 30% of AFI's members have an explicitly mandated objective to pursue financial inclusion. For another 18%, it's a secondary mandated objective." (see graph)

Shared commitments

The World Bank's Global Financial Inclusion Database measures how people in 148 countries save, borrow, make payments and manage risk. Funded by the Bill & Melinda Gates Foundation, the database has revealed that 75% of the world's poor do not have a bank account – not only because of poverty, but also due to costs, travel distance and paperwork involved. The World Bank believes that evidence on the effectiveness of financial inclusion targets is still emerging. However, it says some examples already indicate that significant improvements can be achieved through shared public and private sector commitments to financial inclusion.

It points to the South Africa Financial Sector Charter, which helped increase the percentage of banked adults from 46% to 64% in four years, with six million Mzansi basic bank accounts opened. In the UK, a Financial Inclusion Taskforce successfully halved the number of unbanked adults, through e-money regulation, government-to-person payments linked to bank accounts and access to financial services through post offices.

The widespread use of informal-savings mechanisms in poor countries, says the World Bank, suggests a missed opportunity for the traditional banking market to provide safe and affordable financial products to the unbanked. It argues that adults who don't use banks or other formal financial institutions often turn to fairly sophisticated methods to manage their finances, such as rotating-savings clubs or credit associations. Mobile banking, it says, may help historically unbanked regions to gain access to financial services and the wider benefits they bring.