ST. KITTS BRANCH
Financial Services Regulatory Commission

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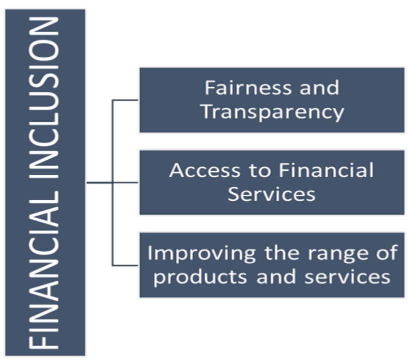
FINANCIAL  INCLUSION

Expanding Access to Financial Services

Financial Institutions have a mandate to reach maximum market participants in order to make financial services like payments, transfers, credit, insurance, etc all inclusive. A country's economy is more likely to grow if people have unlimited access to financial services.

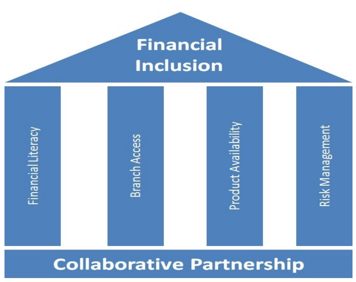


Financial Inclusion:

- Involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups who have been underserved or excluded from the formal financial sector.
- Involves making a broader range of financial products and services available to individuals who currently only have access to basic financial products.
- Ensures that there is access to appropriate financial products and services at an affordable cost in a fair and transparent manner.

Pillars of Financial Inclusion

Financial Inclusion is experienced when individuals can access:



- ♦ financial facilities:
- ♦ financial education;
- ♦ bank accounts;
- ♦ insurance facilities;
- ♦ credit availability and guarantee against default; and
- ♦ income/security in old age.

Examples of Financially Excluded Groups

- ♦ Low-income households;
- ♦ Persons with disabilities;
- ♦ Undocumented migrants;
- ♦ Persons living in rural communities;
- ♦ Underserved: Access to limited financial services; and
- ♦ Persons who have access to financial services but are not using them due to various barriers (e.g. illiteracy)

Global State of Financial Inclusion

According to the latest FINDEX Data, great strides have been made toward financial inclusion worldwide and 1.2 billion adults worldwide have gotten access to a bank account between 2011 and 2017. As of 2017, 69% of the world's adults had a bank account. Digital financial services have now been launched in more than 80 countries. As a result, millions of formerly excluded and underserved poor customers are moving from exclusively cash -based transactions to formal financial services using a mobile phone or other digital technology to access these services.

However, close to one-third of adults – 1.7 billion – were still unbanked in 2017. Fifty six percent (56%) of the unbanked are women, sixty two percent (62%) have primary school education or less and forty seven percent (47%) are out of the labour force.

Since 2010, more than 55 countries have made commitments to financial inclusion and more than 60 have either launched or are developing a national strategy. Countries that have achieved the most progress toward financial inclusion have:

Leveraged government payments;

Allowed mobile financial services to thrive;

Welcomed new business models such as leveraging e-commerce data for financial inclusion;

Took a strategic approach by developing a National Financial Inclusion Strategy (NFIS) which brought together stakeholders including financial regulators, telecommunications and education ministries; and

Paid attention to consumer protection and financial capability to promote responsible, sustainable financial services.

Achieving Financial Inclusion

The following are ways to achieve financial inclusion. This ensures better monetary plans and the ability to handle financial emergencies to improve living standards.

Making Documentation Easy: The documentation process for using financial services such as opening bank accounts and taking loans should be easy, affordable and fast.

Spreading Financial Education: It is important to spread financial awareness so that people understand the importance of saving, investment and budgeting.

Opening Branches and Points of Service in Remote Areas: There should be offices and departments where people can visit and conduct business to promote financial inclusion.

Focusing on Aiding Women and Low Income Groups: Women and other financially excluded groups should also be given an equal opportunity to utilize available financial services.

Implementing Security Features: The use of technology in financial services is expanding. Therefore, platforms should be secure and fully protected to avoid the misappropriation and misuse of funds by fraudsters.

Financial Inclusion and the Risk Based Approach (RBA)

A risk-based approach means that countries, competent authorities and regulated entities identify, assess and understand the money laundering, terrorist financing and proliferation financing risks to which they are exposed and take the appropriate mitigative measures in accordance with the level of risk.

This allows for the more efficient use of resources as regulated entities, countries and competent authorities can decide on the most effective way to mitigate the risks they have identified.

It also enables them to focus their resources and take enhanced measures in situations where the risks are higher or apply simplified measures where the risks are lower and exempt low risk activities.

A risk-based approach to AML/CFT/CPF safeguards may help to build a more inclusive financial system by allowing financial institutions to apply certain simplified measures to those persons or groups who may present a lower risk.

Financial institutions can avoid having disproportionate and unnecessary requirements including those that may hinder access to appropriate services for underserved groups.

Although vulnerable groups may present a lower risk due to the type and frequency of transactions they conduct, financial institutions still need to be aware of conditions, products and transactions so that the appropriate measures can be applied to clients.

Challenges in Implementing Financial Inclusion

Consumer Perspective

1. Financial constraints;
2. Costs associated with conducting business;
3. Distrust in the financial system;
4. Indirect Usage—Family member or close friend has an account;
5. Religious Beliefs; and
6. Belief that Financial Services are unnecessary

Business Perspective

1. AML/CFT/CPF obligations increase the cost of providing services;
2. Lack of proper documentation provided to open an account;
3. Distance—The financial institution's location is too far away or not easily accessible.

References

What Is Financial Inclusion? - CFATF Research Desk. December 1st 2021.

[Financial Inclusion - Meaning, Objectives, Examples, Advantages (wallstreetmojo.com)]

Advantages and Disadvantages of Financial Inclusion

a. The process will expand the banking system making it more stable and smooth.

b. Excluded groups would have access to financial services.

c. The customer base will increase.

d. There will be greater access to financial education and planning.

e. More businesses will be set up and expanded.

f. It will promote more savings and investments.

a. Funds may be misused through over-lending without proper credit checks of the borrower.

b. Using financial technology for services may lead to fraud if not adequately secured.

c. Increased risk and fraudulent activities may lead to reputational issues and in extreme cases, the collapse of the institution.