

A Broader Approach to Financial Inclusion

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Key Components

Households

- Financial literacy
- Access to advice
- Means to build capability

Markets

- Payment systems
- Consumer protections
- Equitable access

The “Three Legged Stool”

1. Access to affordable, scalable products
2. Consumer financial literacy and capability
3. Consumer protection and enforcement



Financial Inclusion, Broadly Defined

In the broadest sense, financial inclusion encompasses individuals’ access to tools, products, and services needed to achieve financial well-being. For households, inclusion includes financial literacy, advice, and capability. At the market or government levels, inclusion includes infrastructure

for payments, transactions, and consumer protection. Successful financial inclusion approaches allow people to access savings, insurance, or credit when they need it, and in turn provide opportunities for people to achieve their financial goals and secure their well-being.

Global Financial Inclusion Integrates Domestic and International Agendas

International and domestic financial inclusion efforts are often detached from one another. A broader geographic perspective for financial inclusion has several advantages. For example, domestic policies and regulations reverberate internationally, often through financial institutions, to influence households directly and indirectly.

Standards and practices, aid, and international development programs all have the potential to enhance financial inclusion—or act as a barrier to it (including, but not limited to, Know Your Customer). In addition, domestic policy can take advantage of insights from strategies employed internationally, particularly in terms of targeting

Financial Inclusion Is Broader than Bank Accounts or “Digital Solutions”

U.S. domestic policy, along with international development programs, launched financial inclusion efforts that focused on banking the unbanked. This remains a goal for some efforts, but the nature of banking has changed, including consumers’ access to mobile technologies to transfer and manage funds. Like bank accounts, digital strategies are a means, not an end. Digitization can reduce the costs of delivery, thereby expanding access for some consumers. Nonetheless, digitization, much like basic banking

accounts alone, is not sufficient to achieve the full potential of financial inclusion. Digitization may exacerbate some problems, such as market failures due to information asymmetries (e.g., customers no longer have personal relationships with financial institutions). Even the best FinTech products and services rely on a high degree of consumer financial capability and an efficient (and secure) transaction network. People may continue to struggle with fundamental behavioral challenges, such as procrastination and a lack of planning and

Carrots and Sticks: Financial Inclusion in the Market

Regulation of and trust in institutions are critical for a well-functioning financial services marketplace. Product-side regulations have costs, however, that may constrain markets and increase the price of services. Consumer protection, legal remedies, strong property rights, and transparent verification systems can shift liability away from firms to

consumers. In exchange, this shift should expand access to financial services overall. Other regulatory issues are more nuanced, such as balancing deposit-taking with the provision of credit within markets. If encouraging innovative ways to expand access to services is a priority, then finding ways to facilitate regulatory compliance and

The Value of Financial Inclusion

Access + Financial Capability + Consumer Protection are the three legs of the stool that supports greater financial inclusion. Expanded financial inclusion supports several domestic policy goals. First, it enhances human capital investments by individuals and families, including access to higher education. Second, it improves financial security and stability, facilitates consumption

smoothing, and increases asset building opportunities. Third, greater financial inclusion supports investment in entrepreneurship, self-employment, and small businesses. Finally, financial inclusion increases economic participation and ultimately provides greater opportunities for economic mobility.