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ROUND TABLE

Financial inclusion: Policies and practices

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Abstract As a key enabler for development, financial inclusion is firmly placed on the agenda of most governments as a key policy priority. Against this background, this round table provides a global and regional perspective on the policies and practices of financial inclusion. Using macro data, the collection reveals the diversity in the efforts towards achieving financial inclusion and the need for a progressive approach in financial inclusion. Further to this, the round table provides the regional perspectives on the policies and practices of financial inclusion in India, South Africa, and Australia.

Financial inclusion: policies and practices—an overview

Thankom Arun and Rajalaxmi Kamath

Globally, financial inclusion is a major policy concern with governments across the world. The lack of access of a large percentage of working age adults to the formal financial sector is a genuine global policy concern (as evidenced in the G20 Pittsburgh Summit in 2009 and Alliance for Financial Inclusion's Maya Declaration in 2011). However, other than the aspect of providing access, financial inclusion includes issues such as helping people manage their resources in a better way and building financial capabilities. A comprehensive approach by the Center for Financial Inclusion defines full financial inclusion as a "state in which everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity" (http://www.centerforfinancialinclusion.org/).

The financial reforms of the 1980s and 1990s that took place in most economies were expected to improve financial depth and the use of formal financial services such as loans, savings, payment services, and other related services. However, the degree of access to and use of formal financial services is still very low. Although we have theoretical and empirical support for financial market liberalisation (McKinnon, 1973; Shaw, 1973), there are concerns about the way in which the reforms have been carried out (Stiglitz, 2000). One of the main causes of the difference between the financial liberalisation theory and evidence rests with the idealistic assumptions, such as perfect information (Arestis & Demetriades, 1997), without considering the challenging nature of legal and institutional frameworks in countries. It is worthwhile to note that the global economy could be boosted by additional savings of up

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to $157bn a year, if the "unbanked" adults save through microfinance programmes (Allan, Massu, & Svarer, 2013). Furthermore, a broader outreach of finance enables talented newcomers from disadvantaged groups to be empowered (Beck & de la Torre, 2006), and can have a larger impact on the design and implementation of other development policies. Financial inclusion can improve the efficacy of government payment of social safety net transfers and the new types of financial innovation can lower transaction costs which can bring more private sector involvement in international development (Cull, Ehrbeck, & Holle, 2014). In all likelihood, the financial inclusion agenda will have a major role in the post 2015 sustainable development agenda.

Many national governments and international institutions have been leading major policy initiatives to bridge the gap between financial inclusion and the poor. The Pradhan Mantri Jan Dhan Yojana in India is an example of a state-led initiative towards universal financial inclusion taken up on a mission mode. There is no denying that this ambitious aim of a universal zero-balance, no-frills bank account faces many a hurdle. Banks and their staff have to gear up to meet the large increase in accounts, especially in the remote regions of the nation. There are still large sections of the population with no access to a bank-branch. However, this much-publicised initiative sends an important message that formal financial institutions such as banks are best suited to take forward the mission of financial inclusion. The access to credit, savings, and remittance instruments begins with the existence of a bank account. It is a break from the past where most financial inclusion initiatives were supply-led. Here, by asking people to open no-frills bank accounts, this process has willy-nilly become demand-driven. Technology could also play a role in enhancing the financial inclusion agenda, as in sub-Saharan Africa, where 12% of adults have a mobile money account and 45% of them rely on mobile phones alone for formal banking.

Against the background of growing supply side initiatives and the increasing awareness of the demand side barriers, this round table attempts to understand the global picture of financial inclusion and the intricacies of the challenges involved in achieving full financial inclusion. The round table includes three papers that were presented in the track on financial inclusion at the ninth Annual International Conference on Public Policy and Management at the Indian Institute of Management Bangalore (IIMB), India, in 2014. It also includes two other contributions that have been included to provide a global macro perspective of the situation on policy and practice.

The article by Elisabeth Rhyne shows that despite countries taking measures for financial inclusion, a wide diversity of performance exists across countries. The paper uses Global Microscope data to assess the financial inclusion policies. In addition, the paper presents a sample of Peru, India, Kenya, and China, and highlights the area in which each country excels and one in which it lags. The Microscope data used in the paper reveals a strong correlation between the countries that performed well in supporting microfinance and on financial inclusion. Furthermore, the 2014 Microscope data endorse the global trend towards regulation which is reassuring in the context of the efforts made towards greater inclusion. This measure takes forward the idea of expert-judgemental scorecards, where lacking historical data, businesses use expert judgements to assess new or potential market segments. This is a subjective measure as it relies on country expertise and organisational know-how of experts. However, there have to be purposeful attempts in the selection of experts to make the measure unbiased. Statistical indices, on the other hand, by their very formulation take into account all data points and tend to be objective and unbiased.

The paper by Jain, Zubenko, and Carotenuto is an inquiry into the policy environment for financial inclusion and measures adoption and degree of usage of financial products for 30 countries. The paper follows a progressive approach to financial inclusion, enabling access to and driving usage of the different financial products such as payments, lending, long-term savings/investments, and insurance. The study reveals the progression of financial inclusion in the countries, based on usage of payment products. Such a framework enables the countries to have an indicative and a reflective appraisal of the requirements for the implementation of the financial inclusion agenda.

The paper by Rao and Anand sheds light on the development of the financial inclusion agenda in the context of financial sector reforms in India since 1991. The paper rightly identifies the concern regarding high interest rates, one of the most relevant issues in an uneven rural credit market. Furthermore, the paper discusses the lack of transparency about and information on the functioning and financing of microfinance institutions (MFIs). The suggestion of a single point regulator with a mechanism for monitoring activities of lending entities, and the discussion on the emergence of newer organisational forms in the journey of financial inclusion offers valuable insights into the future policy developments in the sector.

The paper by Kostov, Arun, Annim, and Adjasi discusses the potential lack of demand for financial services, providing a demand perspective into the access to finance debate. In South Africa, a behavioural lethargy towards new and emerging financial institutions exists due to the perceived high cost nature of financial services. Even the entry level accounts such as Mzansi become increasingly dormant, affected by voluntary non-participation. The paper highlights a careful reconsideration of behavioural constraints on financial inclusion.

The paper by Godinho, Singh, and Russel discusses the case of Indigenous people in Australia who are socio-economically marginalised and financially excluded. Their situation has been aggravated by the lower physical and digital access to banking and other service infrastructure, which restricts the capacity of user centred financial inclusion policies. This paper reminds us that financial exclusion, induced by social, cultural, and geographical exclusion is not a problem of the developing world alone. There are pockets of such socially and geographically induced financial exclusion even in the developed countries, which could learn from the chequered history of financial inclusion in the developing world. The paper suggests measures such as the sustainability of remote financial service delivery practices and culturally relevant policies to enhance the financial capability of indigenous communities which would enable their financial inclusion.

The papers have taken stock of the progress made so far in promoting financial inclusion globally and at country levels, and provided multiple perspectives of financial inclusion. The combined efforts of the entire financial sector in developing viable business models and in setting financial inclusion targets may take financial inclusion agenda to newer heights. The country level papers have suggested the need for responsive regulatory frameworks, digital access to finance, and more consideration of behavioural constraints in financial inclusion programmes. The in-depth understanding provided in these papers on policies and practices of financial inclusion will set the agenda for the future pathways of financial inclusion discourse.

The Economist Intelligence Unit's Global Microscope: a tool for assessing financial inclusion policy

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Over the past few years, the global policy community has increasingly embraced financial inclusion as an objective for the financial sector and general economic development. The G-20 first agreed to pursue a financial inclusion agenda in 2008, and in 2010 it established the Global Partnership for Financial Inclusion to carry the agenda forward. In 2008, the Alliance for Financial Inclusion (AFI) was founded as a peer exchange body for regulators from developing countries. The AFI created the Maya Declaration process through which governments announce specific national financial inclusion commitments. As a result of these global movements and many local factors, several governments around the world have developed financial inclusion strategies. But have these efforts progressed beyond high level rhetoric?

The Economist Intelligence Unit's (EIU's) "Global Microscope on Financial Inclusion, 2014" assesses the policy environment for financial inclusion in 55 countries. The Microscope examines 12 policy dimensions essential for creating a solid regulatory and institutional framework within which financial inclusion can develop. As a group, these 12 dimensions address financial inclusion holistically, from the perspective that full financial inclusion involves extending access to the previously excluded to a range of financial products that they can use safely, affordably, and conveniently. With this perspective, financial inclusion is more than just mobile payments or "banking the unbanked". It includes access to credit, savings, and insurance products that meet the needs of lower income people. As they signal intent by launching financial inclusion strategies with concrete goals, governments actively pursue financial inclusion by ensuring that their regulatory and supervisory capacity adequately covers the institutions that serve the poor, by welcoming the technology innovations that will bring costs down and broaden outreach, and by ensuring that systems are in place to protect consumers. The Microscope's indicators are built around these elements.

The methodology for the Microscope study involves the creation of a scoring model by a small team made up of the EIU and financial inclusion experts from the Microscope's sponsoring organisations: the Inter American Development Bank, CAF, Citi Financial Inclusion, and the Center for Financial Inclusion at Accion. This team, in consultation with additional subject matter experts, selected the 12 key dimensions, identified sub-indicators for each, and laid out the criteria used to judge performance. The EIU then applied its own experience in constructing rankings to develop a robust scoring model based on this input, and mobilised its analysts around the world to collect relevant data. In each case, the analysts sought to know: Are there adequate policies in existence which are recorded or on the books? Are the policies being implemented well? In the view of industry participants, are they working? Data were gathered from both written laws and regulations, and interviews with regulators, providers, and other sector participants. The resulting model, data, and rankings represent the best readily available source for judging the state of financial inclusion policy around the world.

One of the most important observations to come from the Microscope's 2014 results is the wide diversity of performance across countries. For each country a summary score is computed on a scale from 0 to 100. The actual scores range from top-ranked Peru, with a score of 87, to lowest-ranked Haiti, with a score of 16. This wide range reveals that while a few countries have addressed financial inclusion more successfully, many have substantial gaps, and some have barely begun to address the challenges. The countries in the top 10 group, led by Peru, Colombia and the Philippines, generally have highly capable financial sector regulators who have made sustained effort over years to expand the reach of financial services. A number of countries at the bottom of the rankings have experienced recent political instability (notably several in the Middle East), or have governments whose guiding principles do not prioritise the development of a strong, independent financial sector. The large number of countries in the middle ranks suggests that regulators in those places have worked on one or more aspects of financial inclusion policy, but the countries do not have consistent strong policies in all areas.

The Microscope's overall country rankings have captured the attention of regulators and financial inclusion experts, and are the subject of many subsequent discussions. But there is much more to the Microscope than the summary scores. The depth of information available in the model allows a closer diagnosis of the strengths and weaknesses of any given country. To illustrate, I present here a sample of three relatively high-scoring countries from different world regions—Peru, India, and Kenya—and one relatively low-scoring country—China, singling out for each country an area in which it excels and one in which it lags.

Peru: Peru received the highest possible scores in 7 of the 12 categories, including most of the categories measuring regulation and supervision of savings and credit, reflecting the depth and quality of regulation and supervision of financial inclusion in the country. This results from the sustained efforts of a strong and independent supervisory authority that prioritises both financial system stability and outreach to the lower segments of the population. Peru's weakest score is in the area of electronic payments, reflecting the fact that it has only recently put the elements needed to foster such payments into place. In 2013, Peru passed a comprehensive electronic money law, which allows the issuance of e-money from mobile phone companies and others. Taking advantage of this legislation, in late 2014, the banking association launched a new electronic payments initiative. These important developments lay the groundwork for growth in electronic payments, and will undoubtedly result in an even higher score for Peru in the future.

India: India scored very well overall (tying with Mexico for 5th place), thanks in part to reforms adopted in response to the Mor Committee's recommendations in 2013. India scored at the very top in only one area, micro-insurance, reflecting longstanding attention to the need to provide insurance cover to lower income people. Since 2002, Indian regulations have directed insurance companies to attend to the low end of the market, and over the years Indian micro-insurance has developed a depth of experience that is unrivalled across the world. However, it is noted that the regulations are highly directive, which at this later stage in the sector's development may have an effect on slowing innovation.

India's weakest score was in the core area of prudential supervision, due to two factors—first, the use of directed mandates to banks to fulfil policy aims (rather than reserving the scope of prudential regulation to ensuring solvency and liquidity) and second, the regulatory preference given to commercial banks, leaving weaknesses among the smaller institutions catering to lower income consumers. While the former is politically difficult to change, the latter is the subject of a number of reform proposals now in the process, such as the introduction of specialised payment banks.

Kenya: It is not surprising that Kenya, where mobile money first took off in a big way, would merit the top score in electronic payments. Kenya is well into its second generation of regulatory guidance on electronic payments, building on and seeking to improve upon its first generation. New regulations in 2014 encourage interoperability and introduce a new form of virtual mobile network operators. Both measures foster a more competitive marketplace to counter the market-dominant position of Safaricom's MPesa mobile money service. On the other hand, Kenya scores poorly on consumer protection, especially market conduct regulation. It does not have dedicated financial consumer protection legislation or specialised supervision. In a positive step, however, regulators are working to introduce systematic interest rate disclosure rules that would enable consumers to compare rates more easily across institutions.

China: China is a relative newcomer to financial inclusion, having identified it as a formal policy aim only in 2013, after making a number of reforms throughout the previous decade to extend the features of a market economy to the lower income population. Its low rank on the Microscope (42nd out of 55 countries) reflects its early-day status. China scores relatively well on micro-insurance, though its experience there is relatively new. It began testing micro-insurance regulations in several provinces in 2008 and in 2012 rolled out a plan to cover the whole nation. China's large, state-owned insurance companies can expand coverage quickly in response to such policy directives, though there are numerous smaller private companies that are also making bids to cover more people.

One of the areas in which China scores lowest is regulation of deposit-taking. China imposes a low ceiling on deposit rates, which discourages savings, and it lacks deposit insurance, which tends to concentrate savings in the largest, safest institutions. In order to create a more competitive marketplace, plans have been announced to eliminate the ceiling and instal deposit insurance, which would encourage savings and make it possible for smaller financial institutions to compete. With these reforms in place, China's score on the deposits indicator would undoubtedly rise.

For those wishing to use the Microscope as a research tool, the Microscope offers two formats for analysis. The Microscope report provides scores, rankings, and summaries at regional and country levels. Researchers wishing to investigate individual countries or topics will want to explore the Microscope model, an interactive excel-based model that contains every score on every sub-indicator, a brief explanation of the specific policies, initiatives and implementation status that led to the score, and references to supporting documents.

Readers of the Microscope may ask whether better policies actually lead to greater financial inclusion. As of today, this question is difficult to answer. The Global Findex, a cross-country database on use of financial services in 150 countries, provides the best measure available. However, data are only available for one year (2011), and thus it is not possible to examine the dynamics of policy. The Findex data may reflect the historical status of economic and financial sector development, rather than the more recent policies specific to financial inclusion. However, the Findex is set to publish a second round of data sometime in 2015. Comparison of the two data sets will allow analysts to investigate the correlations between the growth in usage of financial services and the existence of good policies.

An analysis of the pre-2014 versions of the Microscope, which were focussed specifically on microfinance, found strong correlations across countries between the Microscope's indicators and measures of microfinance penetration and the health of provider institutions. The 2014 Microscope found that countries which scored well on support for microfinance (now a subset of the whole scoring model) also tended to score well on financial inclusion more broadly, providing grist for a hypothesis to be tested that strong financial inclusion policies yield greater inclusion.

Creating conducive regulations is an iterative task, as policy makers correct shortcomings of first versions and react to a rapidly changing scene, especially in the area of technology. Countries cannot rise to the top of the rankings in a single year. Nevertheless, the level of engagement captured in the Microscope's analysis confirms that there is a broad global trend towards regulation supportive of greater inclusion. Thus, it falls to providers to respond with product offerings that reach lower income people. And that brings up a host of questions of a different sort, involving the business case for financial inclusion and the effective design of financial service offerings and delivery channels that will appeal to new users as tools for managing their economic lives.

A progressive approach to financial inclusion

Amit Jain, Olga Zubenko, and George Carotenuto, Master Card Foundation

Financial inclusion has emerged as a key global priority. Governments, international development agencies, academics, and the private sector, have all brought financial inclusion to the top of the agenda. The World Bank has made universal financial access by 2020 as one of its goals, and reports that more than 50 countries are actively developing financial inclusion plans and policies.

The urgency around financial inclusion is not surprising, given that 50% of the world's adult population is still unbanked

(Financial Access Initiative, 2010). Governments and businesses can be more efficient, and unbanked populations will find a better quality of life if financial products are extended to them. To give a sense of the magnitude of the benefits, South Africa's government is expected to save close to $400 million in administrative costs over five years by shifting disbursement of social grants from cash to cards in 2011 (MasterCard Analysis, 2012).

Significant progress has been made towards financial inclusion; however, more work needs to be done. Practitioners and decision makers have been continuously discussing the most effective strategies for developing financial inclusion. Two issues at the forefront include treating financial inclusion as a progression with dominant on-ramps versus a binary state, and the importance of emphasising usage in addition to access. Using a data-driven approach, this study demonstrates three key principles to provide some answers to these issues as well as new insights on specific actions to expedite financial inclusion.

Framing the dialogue on measuring financial inclusion

The key to demonstrating the two principles is to effectively measure the progress countries have made in enabling access to and driving usage of the different financial products—payments, lending, long-term savings/investments, and insurance. The first step is to define access and usage in a way that is accurate and comprehensive. To achieve this, the study identified that access and usage can be measured at multiple levels.

Following is a detailed view of the levels that highlights the appropriate definitions for access and usage:

1. Availability of products/Infrastructure: Level of product availability (e.g., number of bank branches or agents per 100 000 adults).
2. Adoption of products: Actual ownership of the product (e.g., a bank account).
3. Is the product used? (Occurrence): Has the consumer used the product over a specified time period (e.g., past 30 days)?
4. Degree to which a product is used: How much is the product used to address the consumer's needs (e.g., share of consumer's payments made with a payment product versus cash)?

Based on these levels, "Adoption of products" is more relevant as the definition of access because it is more quantifiable than availability. Also, in this digital age of widely available and distributed platforms such as mobile money/banking, level of availability is becoming less relevant. Adoption is what gives consumers the ability to use a product; availability may not lead to adoption and hence, usage. Based on these levels, the "Degree to which a product is used" is more relevant as the definition of usage because it more accurately reflects the amount of benefit derived from the product.

The other level of usage defined by "Is the product used?" is an either/or question and therefore very limiting. For example, a customer who makes one transaction a month using a payments product is different from a customer who makes all transactions using the payments product. They are both using the product, but they are in fact very different. Kenya, which is discussed later in the paper, highlights this issue well. Most people in Kenya have a payment product (e.g., M-Pesa) and use it; however, most transactions are still in cash and very few transactions flow through Kenya's electronic payments system. This view of usage is a unique way of thinking about financial inclusion. The next step is to define the metrics for measuring the adoption and degree of usage of the different financial products (Fig. 1).

Payments product adoption is defined as the ownership of a secure transactional account where people can store, receive, and use money (e.g., prepaid cards, mobile money accounts, and current accounts). Payments usage is divided into payments inflows and payment outflows. Usage for inflows refers to the use of payment products to receive salaries, government benefits, and remittances via non-cash methods. Usage for outflows refers to the use of the payments products to make non-cash purchases (e.g., retail payments, bill payments) and non-cash remittances. While the notion of defining usage in terms of outflows is widely known, it is important to measure usage in terms of inflows—first, because receiving money in an account versus cash has its benefits for consumers like preventing leakage, and second, because people are more likely to use the payments product for outflows if there is money in the account than if there is none.

Study scope and approach

The study measures adoption and degree of usage of financial products for 30 countries globally.[1] The study covers the entire adult population in the countries, including salaried employees, self-employed, owners of businesses, welfare/benefits dependent, and farmers. The findings of the study apply not only to consumers but also to businesses, especially small and medium-sized businesses. The study leverages current industry research and supplements it with additional secondary research and expert interviews.

Key principle #1: Financial inclusion is a progression with payments as the optimal entry point.

Fig. 2 shows the level of adoption of the different financial products in the 30 countries. In almost all countries, payments product adoption exceeds adoption of other products, suggesting that payments are the optimal entry point for financial inclusion globally. For example, in all these countries there are many people who only have a payments product (e.g., in Kenya at least 40% of adults and in the US, at least 20%). As adoption of products builds over time, higher payments product adoption reinforces the uptake of payments products as the first financial product.

A few countries at very low levels of adoption, such as Peru, Colombia, and Bangladesh, have made greater progress than in payments by providing a savings product through Microfinance Institutions (MFIs). But even in these countries, the savings account is a pseudo payments product, as it is typically the only account that people have to hold funds, and they make frequent cash withdrawals to make payments. As these countries advance, they would be

[1] The countries covered in the study are the United States, Mexico, Colombia, Peru, Brazil, Sweden, the UK, Belgium, Spain, Poland, Germany, Italy, Egypt, Nigeria, Uganda, South Africa, Kenya, Tanzania, Saudi Arabia, UAE, Pakistan, India, China, Russia, Bangladesh, Singapore, Indonesia, Malaysia, Philippines, and Japan.

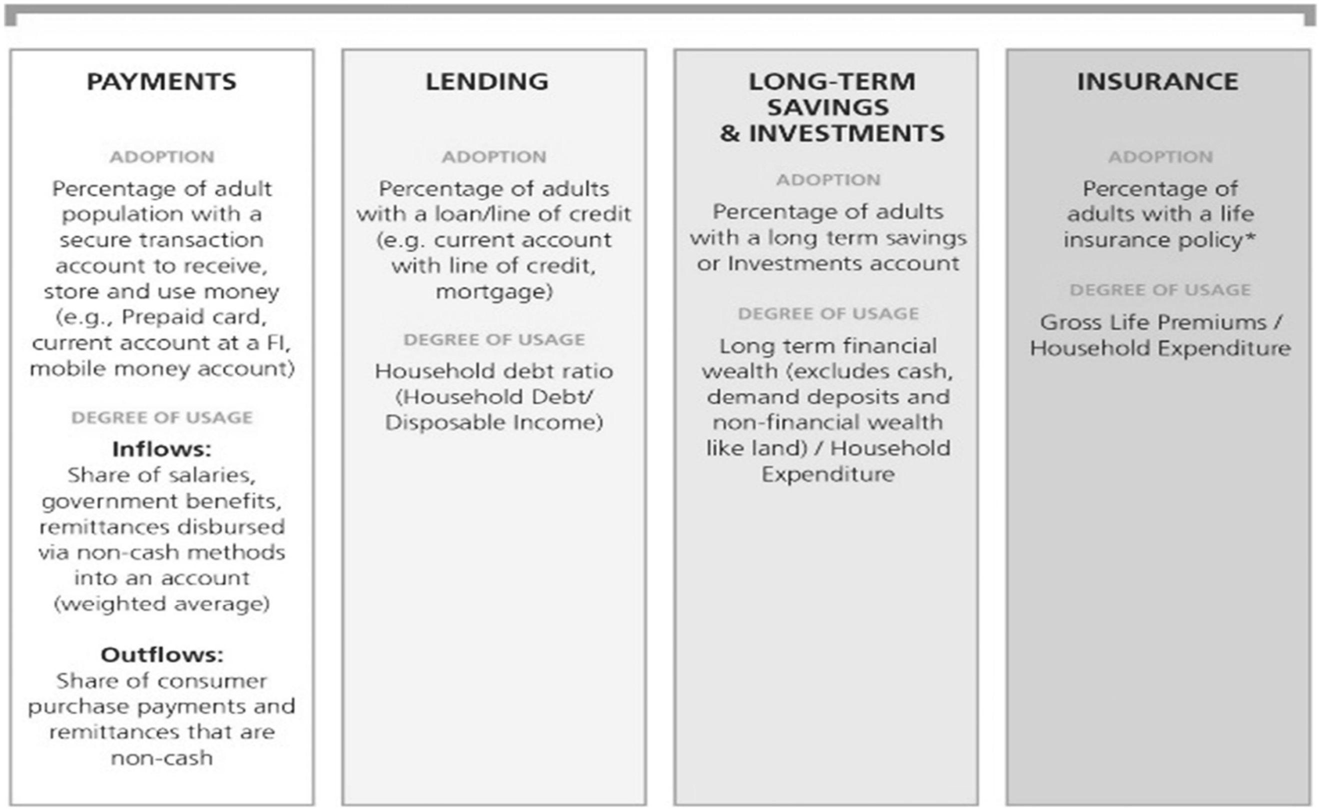

Figure 1 Metrics for adoption and degree of usage of financial products.

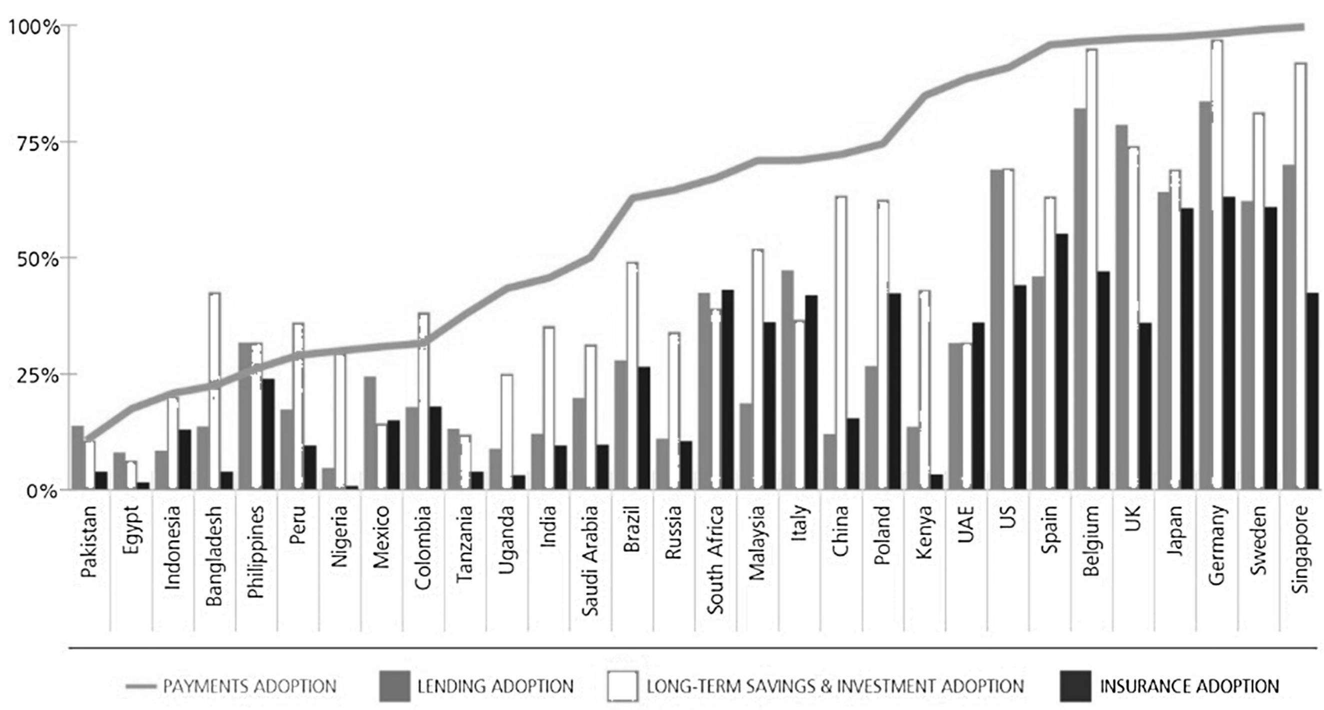

Figure 2 Adoption of financial products by country—2012. Sources: World Bank Findex and Databank, CIA Factbook, RBR Global Cards Data, MIX, Euromonitor Passport, Credit Suisse Global Wealth Databook, Swiss RE, Country Statistics Bureaus, Local Interviews, Advisors Analysis.

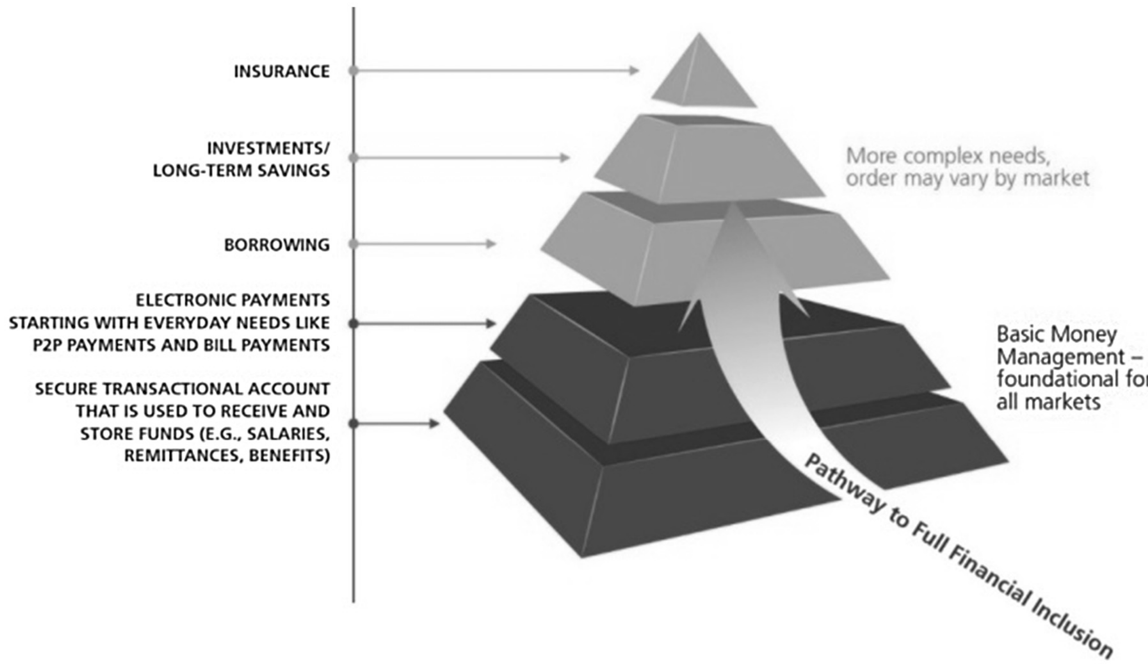

Figure 3 Hierarchy of consumer financial needs. Source: MasterCard Advisors Analysis 2014.

expected to behave like other countries in focussing on true payments products that enable non-cash payments.

While the adoption of a payments product is the first step, some usage is the next likely step. Getting the product will typically be driven by a specific payment need (e.g., receiving salaries), and the customer is likely at least to use the product to address that need. Using the payments product also may serve as a conduit for consumers to adopt other products. Electronic payment transactions can provide useful insights about consumers (e.g., creditworthiness) and enable providers to offer other products. All other products involve payments and the use of efficient electronic payment mechanisms to improve the economics for both consumers and providers. A higher correlation between the usage of payments products (versus their adoption) and adoption of lending, long-term savings/investments, and insurance products among the countries in the study further supports this notion.

Payments as the first step towards financial inclusion are also supported by empirical data. Services like Alipay, PayPal, and M-Pesa started as pure payments products before morphing into broader financial product platforms. Beyond payments, a country's path depends on local factors. For example, long-term savings/investments appear to follow payments in Brazil whereas in Italy, it is lending. This analysis demonstrates that financial inclusion occurs in steps with payments at the optimal entry point. This also validates earlier research from MasterCard that stated that financial inclusion develops along a hierarchy of consumer financial needs with payments being the first step (Fig. 3).

Progression in action

Let us see how this progression manifests in the real world. Fig. 4 shows the financial inclusion progression of the 30 countries based on adoption. It appears that countries follow four stages of progression. Given that payments are the optimal entry point for financial inclusion, these four stages are primarily characterised by the level of payments product adoption.

The four stages are as follows.

Early days: This stage represents the beginning of the progression. In all countries, adoption of a payments product is less than 50%, and adoption of other products is typically very low (less than 25%). Peru, Bangladesh, and Colombia are further ahead than their peers in savings through their MFI focus, as discussed earlier.

Transitioning: In this stage, payments adoption starts to breakout with over 50% penetration. In several countries, adoption of one or more products also begins to gain traction and catch up with payments adoption (e.g., long-term savings/investments in China, credit in Italy).

Payments ready: In this stage, payments adoption reaches a critical threshold of mass adoption (greater than 75%). Countries are expected to be ready from a payments perspective (e.g. infrastructure) to enable advanced levels of some other products. Here advanced levels vary by product and are based on current levels of adoption in the 30 countries, specified as over 60% for lending, over 70% for long-term savings/investments, and over 45% for insurance. This shows the expected behaviour, with lending reaching advanced levels and investments and insurance approaching it.

Most advanced: In this stage, payments adoption is ubiquitous, and adoption of all other products is expected to be at advanced levels. Germany, Belgium, and Sweden show this expected behaviour while Japan and Singapore are very close to it. The UK is at advanced levels in lending and long-term savings/investments, but lagging a bit in insurance. Market-specific factors may be driving this and must be further investigated.

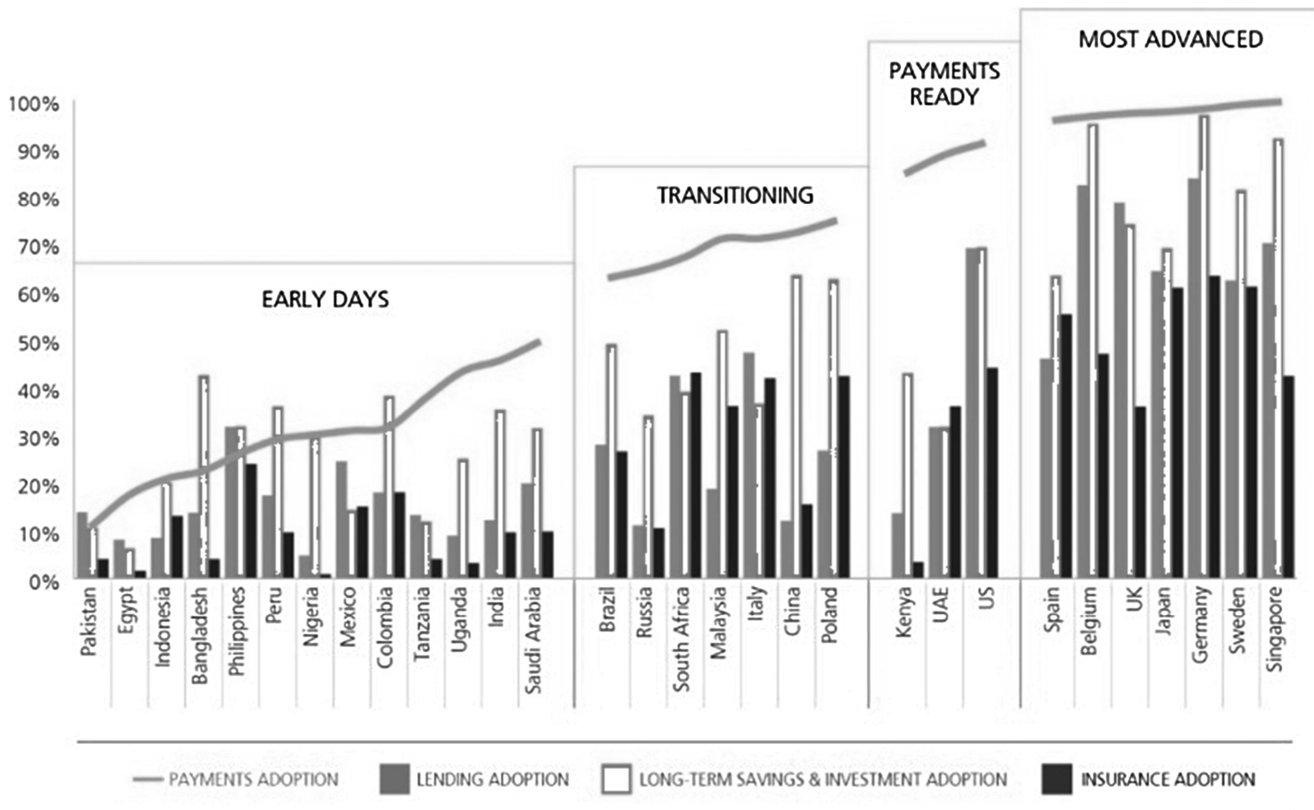

Figure 4 Stages of financial inclusion progression based on adoption-2012. Sources: World Bank Findex and Databank, CIA Factbook, RBR Global Cards Data, MIX, Euromonitor Passport, Credit Suisse Global Wealth Databook, Swiss RE, Country Statistics Bureaus, Local Interviews, Advisors Analysis.

Key principle #2: Usage of products is not guaranteed because of adoption and must be an explicit goal.

Adoption of products is an important first step for financial inclusion, but usage and the degree of usage are equally important. As discussed earlier, usage of payments products can also facilitate the adoption and usage of additional products. Adoption, however, does not automatically lead to usage and not everyone owning a payments product uses it for inflows. Usage needs to be proactively pursued. Across all countries of the study, the number of adults who use a payments product for receiving any of their inflows is less than the number of adults who own a payments product. The gap varies across countries. For example, Saudi Arabia and India have large adoption, usage gaps, and Sweden and the UK show a much smaller gap.

Further, across all countries, the share of consumer outflow transactions that are non-cash is significantly less than the share of adults who have a payments product (all countries lie below the equilibrium line, the line on which share of non-cash transactions is the same as share of adults who own a payments product). While developed countries like Singapore and Belgium also have a large gap, in several countries, including emerging countries like UAE and Kenya, people are hardly using their payments products for non-cash outflows.

The gap between payments adoption and usage also has implications on where countries fall in the financial inclusion progression. Fig. 5 shows the financial inclusion progression of the 30 countries based on usage of payments products (indexed values). While countries still follow the four stages of progression based on usage, there are significant shifts in the position that several countries occupy on usage as compared to adoption.

Six countries move back in the progression.

Kenya: Kenya moves back from Payments Ready to Early Days. While Kenya has performed well through innovation in enabling the adoption of payments products (e.g., M-Pesa), payments products are used for limited flows and have not significantly penetrated large dollar value flows (e.g. at point of sale [POS], salary disbursements).

UAE: The UAE moves back from Payments Ready to Transitioning. The UAE has made significant progress in enabling the adoption of payments products and their usage for receiving inflows through initiatives such as wage protection for immigrants that mandate usage of salary cards for receiving salaries.

Singapore, Spain, Japan, and Germany: All these countries move back from Most Advanced to Payments Ready despite having all the elements of a modern payments system. In Germany and Japan, consumers' preference for cash for purchases, driven by a low crime rate and extensive, inexpensive ATM networks, is hindering the usage of the payments product. In Spain, the financial crisis has significantly hit consumers' confidence in banks and moved more people outside the formal economy, driving high cash usage.

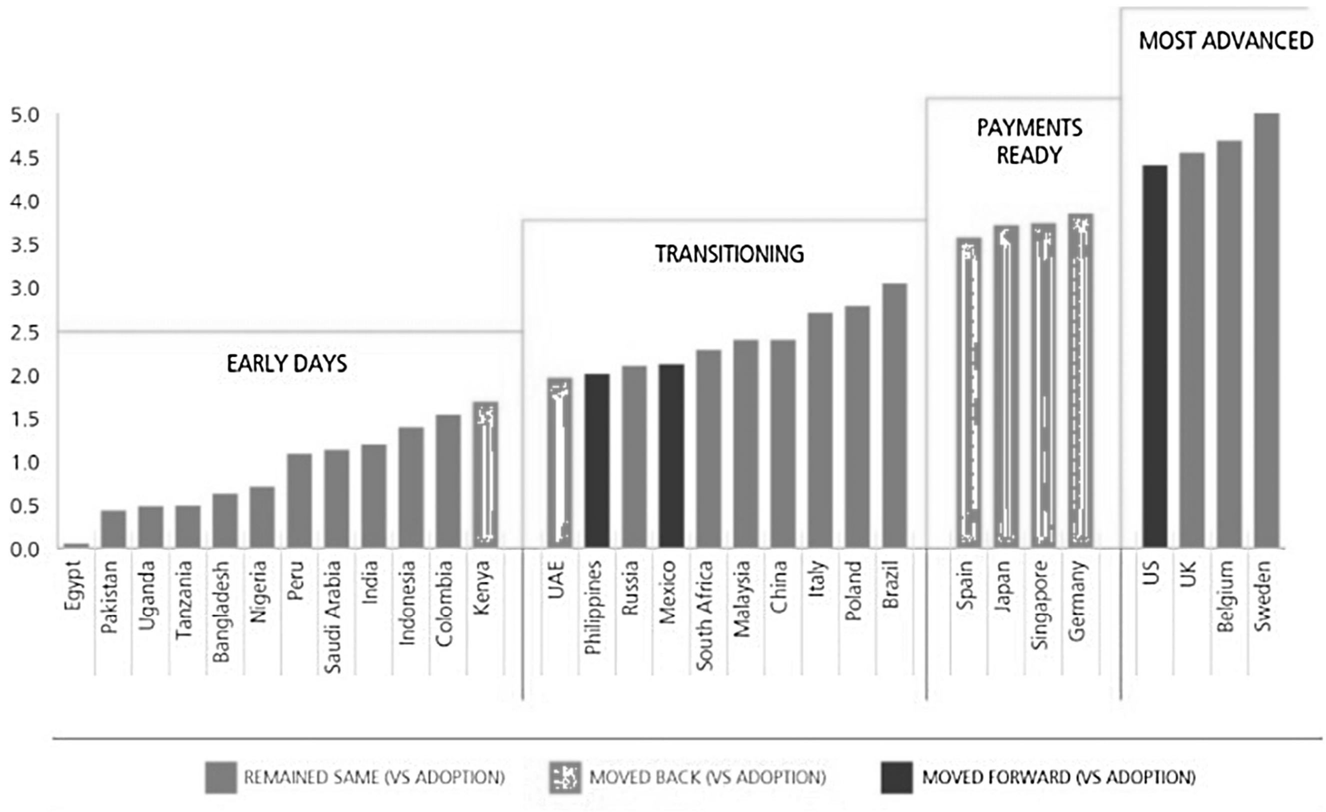

Figure 5 Stages of financial inclusion based on degree of payments usage-2012. Note: Degree of payments usage is a weighted average of usage for inflows and outflows that was indexed on a scale of 0 to 5. Sources: World Bank Findex and Databank, CIA Factbook, RBR Global Cards Data, MIX, Euromonitor Passport, Credit Suisse Global Wealth Databook,Swiss RE, Country Statistics Bureaus, Local Interviews, Advisors Analysis.

In Singapore, it is an issue of timing. In the MasterCard Advisors Cashless Journey study, Singapore is the fastest-moving developed market of all countries of the study.

Three countries move forward in the progression.

US: The US moves up from Payments Ready to Most Advanced. The US has a large unbanked population (8 to 10% of all adults) (FDIC, 2011), which makes it lag behind other developed nations on payments adoption. But on usage, the US has achieved significant success in driving usage from people who have the products; these people also account for the bulk of dollar flows as financial exclusion is concentrated at the lower income tiers.

Philippines: The Philippines has moved up from Early Days to Transitioning. The reason appears to be that the Philippines has made better progress than its peers (based on adoption) in driving the usage of payments products for receiving inflows (e.g., salaries, remittances). A high penetration, trust, and engagement of banks by the middle class could be some reasons.

Mexico: Mexico has also moved up from Early Days to Transitioning. But in this case the reason appears to be that Mexico has made much better progress than its peers (based on adoption) in driving the usage of payments products for outflows (e.g., consumer purchases).

Conclusions

Applying these principles will increase the chances of success of driving higher financial inclusion and realising its benefits. Full financial inclusion will still take time to develop but is more likely to happen with tangible benefits. This study helps set the strategic direction for the efficient development of financial inclusion in a country. This is just a starting point, and more work within the framework provided by this study will need to be done to identify the specific tactics and execute them.

Financial sector reforms and financial inclusion in India

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Financial sector reforms in India were introduced in the early 1990s, with the objective of improving efficiency in the allocation and pricing of credit by allowing a greater play of market forces. During the initial years, issues relating to financial inclusion did not find much prominence in policy. The Government and multilateral aid agencies began to advocate financial inclusion vigorously. The themes of "inclusive growth" and "financial inclusion" came to figure prominently in the 11th and 12th Five Year Plan documents (Government of India, 2008, 2013). The idea of inclusive growth is, however, neither new nor novel (Rao, 2008). An examination of policies in India suggests that the idea of financial inclusion had existed in essence, albeit, without the nomenclature, even before the reforms.

The committee set up under Dr. Rangarajan (Report of the Committee on Financial Inclusion, 2008) defined financial inclusion to be a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups, at an affordable cost. Financial services have come to span a range of instruments, organisations, and payment mechanisms. Apart from regular forms of financial intermediation, financial inclusion may include a basic no-frills bank account, savings products to suit cash flows of poor households, money transfer facilities, small loans and insurance, life and non-life. Information technology (IT) has made it possible to enable payments and reduce transaction costs. The direct benefit transfer system based on "Aadhaar" uses IT for transfer of funds which has made targeting possible. Financial inclusion has become individual centric as compared to the sector based approach adopted earlier.

This paper is an attempt to review the changes in policy since 1991. The outcomes in terms of the spread of financial infrastructure, supply and availability of credit to the poor and to rural areas during 1991–2007 are traced. Next, the emergence of new organisational forms and new programme initiatives are examined. Observations on the strengths and weaknesses of some of the new modalities for financial inclusion follow.

Financial sector reforms and rural sector

The first phase of financial sector reforms followed a road map provided by the Report of the Committee on the Financial System (1991). The guiding principle was to reduce State intervention in the allocation of credit that endangered the health and solvency of banks. The Report of the Committee on Banking Sector Reforms (1998) emphasised that only robust and vibrant rural financial institutions can cope with stringent norms at par with the international structure.

From social banking to efficient banking: In the pre reform period, the Reserve Bank of India (RBI) consciously played a developmental role by encouraging banks to mobilise savings through deposits and promoting institutions, namely commercial banks, regional rural banks, and cooperative banks so that credit through formal sources could be made available to agriculture, rural areas, small scale industry, and weaker sections. To ensure supply, the RBI had stipulated that 40% of credit be reserved for the priority sector. The priority sector got continuously redefined to cover a number of new activities such as software, food processing, venture capital, housing, construction and repair. This gave banks a wide and profitable choice of activities and facilitated easier compliance with priority sector obligations; however, they were inconsistent with the original idea of the priority sector. From 1995 to 1996, banks with a shortfall in lending to priority sector were allowed to contribute to the Rural Infrastructure Development Fund established of the National Bank for Agriculture and Rural Development (NABARD). Lending rates were gradually freed, except for interest rates on export credit and small direct loans up to 2 lakh rupees.

Impact of banking reforms on rural sector

The increase in outreach of the formal sector institutions in rural areas, especially after nationalisation of banks in 1969, is well known. From 1977 to 1990, the RBI required commercial banks to open four branches in unbanked locations to qualify for opening a branch in an already banked location. In 1991, this requirement was repealed. Through the reforms, banks began to close down unviable branches. There was a decline in relative terms and in absolute terms as the number of rural branches declined from 35 206 in 1991 to 30 236 in 2007 (RBI, 2009a).

Deposit and credit accounts: During the reform period, there was a sharp slowdown in deposit mobilisation in rural and semi urban areas. On the other hand, there was a marked increase in the share of the metros which came to account for 56% of the deposits (by amount) in 2012 compared to only 39.4% in 1991. In case of credit, even the absolute number of rural credit accounts declined from 32.4 million in 1991 to 25.6 million in 2004 after which there has been a reprieve (RBI, 2009a). The credit deposit ratio showed a persistent decline from 60% in 1991 to 51.6% in 2005 in rural areas.

Decline in the share of credit to agriculture: In consonance with the trends of rural credit, the share of agriculture in outstanding credit of scheduled commercial banks also declined from 15% of the gross bank credit in 1991–1992 to 10% in 2000–2001, after which it has shown a marginal increase to 11.3% in 2007–2008.[2] There was also a qualitative change in lending to agriculture away from direct finance. The cooperative banks had faced problems even before the reforms. During and post reforms, the positioning of cooperative banks in the financial system remains unclear.

The withdrawal of formal banking had an impact on the source of credit to cultivator households. The share of institutional sources for cultivator households, such as commercial banks and cooperative banks that had increased from 7.3% in 1951 to 66.3% in 1991, declined to 61% in 2002 (NSSO, 2006). In effect, the reorientation of the formal credit system had the impact of negating the benefits of the expansion of the credit infrastructure over the previous decades. The rural poor, particularly the small and marginal farmers, began to be further marginalised and the reforms appear to have resulted in driving the poor again into the clutches of the money lender. The non-availability of credit, adding to the risks of price and technology, accentuated the problem and contributed to a larger socioeconomic malaise in rural India. The slowdown in the coverage of formal credit institutions led to a rise in indebtedness. According to the All India Debt and Investment Survey (NSSO, 2006), the relative share of institutional sources in total cash debt of rural households which had risen from 7.1% in 1951–1952 to 61.2% in 1981 increased further to 64% in 1991 but declined to 57% in 2002. The gradual shrinkage of formal credit institutions in rural areas caused the increasing dominance of private players in the credit market.

From policy drift to a policy stance: Through the 1990s until 2007, there was a withdrawal of the formal banking system, particularly from the rural areas. The distress of the rural and agriculture sector may be gauged from over 1.83 lakh suicides by farmers reported between 1997 and 2007 due to indebtedness (Sainath, 2009). By 2003–2004, the need to refocus on increasing credit to agriculture and rural areas and other vulnerable sections started to get recognised. The

[2] Computed from RBI: *Basic Statistical Returns*, Various issues.

Finance Minister announced in the budget speech (July 2003) a reduction in the lending rate for agriculture. The Indian Banks Association advised public sector banks to reduce their rate to a single digit of not more than 9% on crop loans up to a ceiling of Rs.50 000. The Government of India announced a package for doubling the credit flow to agriculture in three years (Government of India, 2004). From 2007, the number of bank branches in rural areas increased to reach 39 718 in 2013 (RBI, 2014c). The number of loans in rural and semi urban areas and rural deposits started to increase. But the share of rural and semi urban areas in bank credit continued to decline in contrast to rise in credit flowing to the metros. In 2008, an agriculture debt waiver was announced under which farmers whose loans were written off by lending institutions under the scheme became eligible for fresh finance from lending institutions.

Financial inclusion: the new focus

The 11th Five Year Plan (2007–2012) had already reflected the concern that outcomes resulting from reforms were iniquitous, especially for rural and agriculture sectors. After one and half decades of reforms, a Committee under the Chairmanship of Dr. C Rangarajan was appointed to suggest measures for financial inclusion. Meanwhile, new institutional and organisational forms such as self help groups (SHG) and micro finance institutions (MFI) had emerged.

SHG-Bank linkage: NABARD launched the SHG Bank Linkage Programme (SHGBLP) in 1992 to organise the rural poor into SHGs and build their capacities to manage finances. In 1996, RBI advised banks to treat lending to SHGs as a normal lending activity. Consequently, loans could be extended to SHGs for all purposes, About 85% of the groups were formed exclusively by women (RBI, 2005). Working through SHGs came to be adopted in other government programmes. From 1999, SHGs were provided a combination of credit and subsidy to undertake a cluster of activities at the Block level under the Swaranajayanti Gram Swarojgar Yojana (SGSY) and this has been continued as the National Rural Livelihoods Mission (NRLM). (Sources for the sub sections SHG-Bank linkage and Micro finance institutions include NCAER, 2008; NABARD, 2012.)

Micro finance institutions: MFIs are bodies registered as trusts, societies, and companies. In 2000–2001, the Micro Finance Development Fund (MFDF) with a corpus of Rs.100 crore was established in NABARD and later re-designated as the Micro Finance Development and Equity Fund in 2005–2006 with an additional corpus of Rs. 200 crore for scaling-up of SHGBLPs, and refinance and capital support to MFIs. The initial contribution for setting up MFIs has come from public funds. The Government allowed external commercial borrowing to MFIs/NGOs engaged in micro finance in 2005 up to USD 5 million per year and raised it to USD 10 million in 2011. The MFIs have come to be used by private banks to fulfil priority sector targets; MFIs lend to individuals and to SHGs. The micro credit organisations have moved into areas with well developed rural and banking infrastructure. The southern region has a high proportion of SHGs and MFIs. Ghate (2007) found that half the SHG members and 30% of MFI borrowers were below the poverty line.

The RBI did not place any ceiling on interest rates until 2011. Commercial banks do not, as a practice, collect information on interest rates of MFIs/SHGs. In the absence of regulations, MFIs negotiated interest rates with clients and SHGs with borrowing members. Hence, information on interest rates is based on whatever is disclosed by lending bodies. The "Lights and Shades" study shows that the interest rate charged by SHGs was over 24% and the repayment period between 3 and 6 months; SHGs also lend to non members (EDA and APMAS, 2006). The MFI, SKS Microfinance charged 28.3% per annum in 2010 (Economist, 2010). Bandhan provided loans at 22% in 2014 (Rajashekhar & Ray, 2014). Insurance has become an ancillary activity of microfinance. Many MFIs offer life insurance products tagged with loans. A form of inter-linkage of credit with insurance has come to be followed, resulting in high cost and has also tied credit to the borrower. The Indian microfinance sector has been reported by JP Morgan to be among the most leveraged in the world with debt-equity ratio of 7.2 in contrast to a global average of 3.3 (CGAP et al., 2012). The commercial success of MFIs has attracted private capital and enabled SKS Microfinance to go in for an IPO. Micro finance institutions require little physical investment for business. But there is no reliable source of data even on the numbers operating in the country. The number of MFIs reporting to Sa-Dhan, an industry body, was 264 in 2010, 170 in 2011 and 167 in 2012 (Access, 2013, p. 48). This was an indication of the churning taking place in the sector.

The high rate of interest charged by MFIs along with their coercive practices in lending and recovery created a crisis, and by 2010, more than 200 suicides by borrowers from MFIs in Andhra Pradesh were reported (Kinetz, 2012). The State government promulgated the AP Micro Finance Institutions (Regulation of Moneylending) 2010 Ordinance (later, the Andhra Pradesh Micro Finance Institutions [Regulation of Money Lending] Act), which required all MFIs to register and prohibited loan collectors from visiting people's homes. The MFIs had to move to a monthly repayment cycle from a weekly, with repayment monitored by the State government. The RBI set up a committee which submitted its report in 2011 (Malegam Committee Report). The RBI brought MFIs under its supervision in December 2011, and stipulated that there would be only three components in the pricing of loans—an Interest rate cap of 26%—on reducing balance; processing charge—1% of loan amount; and insurance premium.

In addition, a maximum of two MFIs could lend to the same household. For loans from banks to non-banking financial companies (NBFCs) to be considered part of the priority sector, the RBI specified the quantum of household annual income at Rs. 60 000 in rural areas and Rs. 1.2 lakhs in non rural areas and also loan limits of Rs. 35 000 in the first cycle and Rs. 50 000 in subsequent cycles. In February 2014, the RBI revised the formula for pricing of credit by NBFC-MFIs, declaring that the ceiling on interest rate would be the average base rate of the largest five commercial banks by assets multiplied by 2.75, applicable from April 2014 (RBI, 2014d). The Government sought to make RBI the regulator in the sector by introducing a bill. The Parliamentary Standing Committee, however, returned the bill and suggested the constitution of a unified and independent regulator for the entire micro finance sector, with representatives from all agencies and institutions such as RBI, NABARD, Small Industries Development Bank of India (SIDBI), the Central Government and the MFIs. At present, the MFI sector continues to function without any central regulation, which is a matter of concern.

New payment mechanisms and unique identity: A major innovation that has taken place is the use of digital and telecommunication technologies for transfer and remittance of money. Under the Direct Cash Transfer programme introduced in the Twelfth Five Year Plan (2012–2017), benefits under a range of social sector programmes were envisaged to be transferred to accounts of beneficiaries, electronically minimising the tiers involved in fund flow and reducing delays and leakages. The Direct Benefit programme uses the Unique Identity called Aadhaar, a 12 digit id-number issued to individuals by the Unique Identification Authority of India to identify beneficiaries.

The Jan Dhan initiative: The Government of India, in August 2014, introduced a national financial inclusion programme named "Pradhan Mantri Jan Dhan Yojana"[3] (Government of India, 2014). The programme is being implemented in mission mode with the target of providing bank accounts to at least 75 million people by January 26, 2015. Since the target was achieved in November 2014, the target was re-fixed at 10 million accounts. Under Jan Dhan Yojana, a person from an unbanked household who opens an account (maximum balance Rs. 50 000) is given a RuPay debit card, a Rs.1 lakh accident insurance cover and an additional Rs. 30 000 life insurance cover, and a credit limit of Rs. 5000. To get the benefit of accident insurance cover, the RuPay Debit Card has to be used at least once every 45 days. The rapid pace at which the accounts have been opened is also an indicator of the latent demand for bank accounts that remained unmet so far. The simplification of the process and active outreach programme has provided an impetus towards financial inclusion.

The programme was introduced in two phases. In the first phase, until April 2015, bank accounts were opened on a large scale. In the second phase, the effort has included extending direct transfer of subsidies and the introduction of insurance and pension products. As far as opening bank accounts is concerned, Jan Dhan Yojana has been a success. (The Jan Dhan Yojana was recognised in the Guinness Book for achieving the maximum number of bank accounts [18.1 million] in just one week.) By April 2015, 144.3 million bank accounts were opened and by August 2015, 175.7 million accounts were opened. However, the average balance, at Rs. 1182, is just over the minimum required for a savings account (Rs. 1000) and about 46% of accounts have zero balance.

The Economic Survey of 2014–2015 recommended that the JAM Trinity comprising Jan Dhan Yojana, Aadhaar and Mobile numbers should be linked for transfer of subsidies to intended beneficiaries. In May 2015, two insurance schemes were launched, called Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana, to provide insurance cover in the event of death by any cause or disability due to accident. Again, these schemes are linked to a bank account.

The rapid pace at which accounts have been opened is a clear indicator of the latent demand for bank accounts. The simplification of processes and the active outreach programme have indeed provided an impetus towards financial inclusion. While these initiatives have made a bank account central for financial inclusion, a bank account by itself is no guarantee of having regular financial transactions, for which one needs access to bank infrastructure and a steady stream of income. There is also a need to ensure that back end connectivity exists for Aadhaar based identification to work.

Business facilitators and correspondents: In 2006, the RBI permitted banks to make use of services of NGOs, SHGs, MFIs and civil society organisations and other specified individuals (e.g. ex-servicemen) to function as business facilitators and correspondents. In June 2014, RBI relaxed conditions for banks to engage MFIs as business correspondents. This followed from the Nachiket Mor Committee on accelerating the flow of funds to the bottom of the pyramid and enlarging the catchment area of business correspondents. Using the guidelines, private banks themselves started to lend at 22% to 26% close to ceiling rates applicable to MFIs (Ray, 2014).

New banks, small banks and payment banks: The RBI decided to allow new banks to be set up in 2013 with a view to extend the geographic coverage of banks and improve access to banking services. After scrutinising 25 applications, two entities were given in-principle approval. In November 2014, RBI brought out notifications on two new categories of banks, namely, small banks and payment banks and invited applications (RBI, 2014a, RBI, 2014b). This also followed from the Nachiket Mor Committee, which recommended differentiated entities as compared to the earlier system of having universal banks.

Conclusion

The sequence of interventions and experience in India in the arena of financial inclusion gives valuable insights and can guide future policy. Financial inclusion cannot be taken for granted since financial institutions when left to themselves will prefer profitable market segments. Even with the entry of MFIs, NGOs and SHGs in rural credit, interest rates continue to be high. High interest rates have been justified as reflecting transaction costs and the cost of finance. However, with rural credit markets remaining fragmented, high interest rates may well reflect risks and costs (unrelated to borrowers) that may have simply been passed on. There is a lack of transparency and information on what the MFIs are charging, even as their financing, at least in part, is from the banking system. A single point regulator with a mechanism for monitoring activities of lending entities with regular data collected on interest rates and loan tenure needs to be put in place.

Micro finance has provided a way of increasing the outreach at grass root level with the ability to recycle resources through better recovery rates. But to expect informal and semi-formal intermediaries to deliver on the formidable task of achieving financial inclusion, without the backbone of a formal network of banks, is a recipe for financial fragmentation and losing the advantage of risk pooling. The spread of formal banking is necessary not only to serve as a backbone around which the new institutions could grow, but also to act as a counterweight to informal intermediaries so that they remain under pressure to keep margins in check. The formal sector will need to remain and should not be allowed to withdraw to serve only the metros. In that sense, the recent initiative under the Jan Dhan Yojana is welcome.

For efforts towards greater financial inclusion to be meaningful, credit should support real sector activity which is linked to livelihoods and income generation. On the latter issue, it

[3] www.pmjdy/gov.in/scheme_details.

has been argued that financial exclusion is also caused by demand side factors in the real sector. The supply of financial services by themselves cannot assure inclusion unless the poor have livelihoods that enable them to access these services. Unless steps are taken to deal with such constraints, mere supply side solutions of pushing credit will not work. The continuing gaps in the delivery systems in supporting income generating activities for the poor require resurrecting a developmental financing approach with financial services being just one important component integrated with other services using newer technologies and not just of delivering financial services on a standalone basis.

A related issue pertains to the creation of new organisations, instead of building on the strengths of existing institutions. It may be prudent to strengthen existing structures, including those in the public sector even as new entrants are allowed. Another pertinent point to note is that foreign funding to MFIs for lending to poor has not been allowed in many countries. In this context, an important difference that marks the Indian financial sector today is the greater openness to external capital. The increasing openness and dependence of MFIs on external capital, including private equity, imply that flows will depend on interest rate differentials with attendant risk of reversals due to changes in conditions in the home country or from market sentiments which are something that need to be guarded against. Finally, if the process of financial inclusion is to be sustainable, increase in access to financial services needs to be accompanied by trust, compliance to standards, and sound financial regulation since financial inclusion cannot proceed without financial stability.

Voluntary participation and access to finance: a South African view

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There is a long standing consensus that financial systems and structures are beneficial to growth. The development of an improved access financial system is deemed important in contributing to growth and poverty alleviation (Beck & Demirguc-Kunt, 2008; Beck, Demirguc-Kunt, & Levine, 2007). Financial inclusion is hence an important objective of a well-functioning financial system. In the developing world and in Africa in particular, the importance of financial development is crucial, given the growth and development needs of these economies. Traditionally, empirical studies investigating the financial development relationship to growth have focussed on financial depth. This fact conforms to an implicit assumption of universality and to some extent, uniformity of financial systems in terms of their functions. Focussing on financial depth essentially assumes that all financial systems work in the same way (i.e. possess the same functions) and the overall (growth inducing) impact is simply a measure of magnitude, a magnitude that can be directly related to a measure of the development of the relevant financial systems. More recently, analytical attention has turned to the issues of financial outreach and inclusion, referred to as access to finance. This is an important conceptual shift with far-reaching consequences.

And yet the standard view of improving access to finance has been through the removal of supply-side constraints. This kind of logic postulates that "those who have access, but choose not to use services pose less of a problem for policymakers" (Beck & Demirguc-Kunt, 2008). Relaxing the supply-side barriers would, however, bring the potential lack of demand for financial services to the forefront with important policy implications. Coordinated policy interventions designed to expand access to finance are costly and such costs will need to be compared to the potential benefits. When the barriers to access are removed, voluntary non-participation reduces these benefits. We review the situation in South Africa and conclude that taking voluntary participation into account is essential if improved access to finance is sought and is desirable.

Financial sector in South Africa

South Africa has a relatively well developed economy compared to the rest of Africa; the value of economic activity is fairly high with GDP at US$ 1870 billion in 2010. Furthermore, the financial system in South Africa is also quite well developed, with the assets of financial intermediaries being as much as 252% of GDP in 2010 (see Table 1). Bank assets are the main drivers of the sector, making up nearly half of economic activity or GDP. Financial institutions accounted for 39% of the formal employment and contributed 15.3% of the total corporate tax in 2010. This bears evidence to a fairly large and vibrant sector. Equally noticeable is the growth in the assets of the financial intermediaries since 2000. Thus, the financial landscape has seen some rapid transformation over the period and is worth examining. Another important aspect of the system is the presence and contribution of the insurance sector and pension fund industry. The combined assets of the long term insurance sector and pension funds were close to that of banks in 2010. This is a good development for long term savings. The size and depth of the stock market activity in the sector are also substantial and more than twice the size of economic activity (278%).

Table 1 Selected financial sector indicators.

	Jun 2000	Jun 2010	Relative size 2010
Share of GDP	68.6	203.8	10.5%
Size	1880	6050	252%
Assets of banks	730	3040	127%
Long term insurers*	630	1440	60%
Short term insurers	50	90	4%
Pension funds	470	1480	62%
Share of formal employment			
Employment**	286000	356353	39%

Source: South African Reserve Bank (2012).
*The long-term insurer assets figure includes assets of pension funds managed by an insurance company.
**Financial intermediation, insurance, pension funding and auxiliary services.

While one notices the commendable economic and financial structure of South Africa, it is also important to note that 33% of South Africans live in the rural areas (locations with little access to basic social and economic infrastructure), 54% are dependent on others for their income, and 31.3% live below the poverty line of $2 per day (World Bank, 2012). This shows a financial system with insufficient financial reach and inclusion. Hence focussing too much on the financial depth could be misleading.

Developments in South African financial market

By 2003, South Africa had 58 banks (41 domestic, 2 mutual banks and 15 branches of international banks). Currently this number has reduced to 30 banks consisting of 11 local banks, 2 mutual banks, 5 foreign banks and 12 branches of international banks in South Africa. The banking sector in South Africa is dominated by four main banks, Absa bank (recently acquired by Barclays), FNB, Nedbank and Standard Bank (which has recently had significant share acquisition by China's Industrial Development Bank), which together control a little over 80% of total market share. The Gini and Herfindahl–Hirschman Index (HHI) (Table 2) indicators also confirm the strong hold of the Big Four banks in the industry and are indicative of a structure that leans towards a monopolistic situation, with market power concentrated in the hands of the four major banks. In such situations, banks are likely to charge high fees and earn high profits. Indeed, banking in South Africa is profitable as the magnitude and trends in return on equity (ROE) and interest margins indicate (Table 2). How does this affect the structure of the banking industry in South Africa?

Empirical studies into the structure of the banking system in South Africa show the presence of a monopolistic structure, which has been gradually evolving towards competitive market structure. These studies have largely used the Panzar-Rosse H statistic (between 0 and 13), a measure of market structure typically estimated to gauge whether markets are monopolistic or competitive. In the immediate post-Apartheid era (1994–2001), the structure of the system was largely monopolistic with an H-stat of 0.81 (Claessens & Laeven, 2004). Studies on latter periods like that of Bikker, Shaffer, and Spierdijk (2009) and Kupukile and Ncube (2011), however, show that this monopolistic structure had shifted substantially, though the new structure is not necessarily very competitive. The study by Kupukile and Ncube (2011) posits a trend which is more in the nature of monopolistic competition in structure. There has been a reduction in the level of concentration in the market and competition is indeed present in the South African banking system, albeit limited to the big four banks.

The depth of the banking system in South Africa has been growing over the years and is comparable to that of other emerging countries such as Brazil and India. The banking system provides substantial credit to the economy, with the amount of domestic credit extension exceeding GDP. For instance, South African banks' domestic credit to GDP was 182% in 2010, much higher than that of India (71%), Brazil (97%), and a little higher than China (146%) (Mlambo and Ncube, 2011). Such high levels of credit extension are important in driving economic activity, especially when the credit is extended towards private sector activity. In this respect, the banks in South Africa are able to meet significant financing needs of firm activity in South Africa. This is especially useful for an emerging country where firms would be engaged in capital expansion projects and would require greater access to bank finance.

Access to finance

Despite the sophisticated level of the banking system, there are gaps when one observes the level of access to banking and banking products in South Africa—an indication of skewed intermediation and/or substantial financial exclusion. The number of commercial banks per 100 000 adults is quite low at 10.1 in 2010. Though this is a significant increase from the 2004 level of 4.8, it is still low when compared to other emerging countries. For instance, in 2008 South Africa had 7.9 bank branches per 100 000 adults whilst that for India was 10.13 and Brazil had 13.5 bank branches per 100 000 adults. Similarly,the number of ATMs per 100 000 adults, though, has more than doubled from 24.9 in 2004 to 59.58 in 2010 and is also low. Again, compared to other emerging economy markets, while South Africa had 44 ATMS per 100 000 adults in 2008, Brazil had 112 ATMs per 1000 adults in the same year. This is further indicative of low financial access (World Bank, 2012).

South Africa appears to do much better than Brazil and India on the number of bank borrowers and depositors per 1000 adults (South Africa—borrowers per 1000 adults: 340.71 in 2004 and 414.67 in 2010; depositors per 1000 adults: 383.51 in 2004 and 978.4 in 2010). Certainly, population could play a role in this, given that the respective populations of Brazil and India are at least four times that of South Africa. What is significantly interesting to observe is the gap between borrowers and depositors. The proportion of bank borrowers in South Africa is less than half the number of depositors. This could be a sign of various obstacles to accessing financial services. Borrowers may be seeing higher costs and transaction fees from banks and may therefore be shying away from borrowing. This trend can easily arise in situations where a few

Table 2 Structure of banking industry.

	2003	2004	2005	2006	2007	2008	2009
Gini	82.9	83.2	83	83.1	83.4	84	83.6
HHI			0.18	0.18	0.19	0.19	
Market share of top 4 banks	80.9	83.6	83.8	84.1	85.1	84.4	84.6
ROE	11.6	16.2	15.2	18.3	18.1	28.7	15.8
Interest margin/gross income	38.3	41.6	38.2	43.9	58.5	44.6	49.5

HHI: Herfindahl–Hirschman Index; ROE: return on equity.

banks dominate the market and may compete for deposits using innovative products but not necessarily extend cheaper loans. The nature of competition in the South African banking industry appears to favour high profits, high fees and charges, and not so much the widening of financial services to the lower income earners. Thus, competition in the industry is biased towards the middle to upper income segment of the market and is based on more of product and service innovation or competition rather than price competition as is typical of firms in an industry characterised by monopolistic competition.

Recent trends in banking in South Africa, however, show a growing competition for banking customers, particularly in the lower income segment of the market. Microfinance banks such as Capitec and Africa Bank are doing extremely well in attracting the lower income market. Anecdotal evidence shows that Capitec may be competing with the Big Four banks on some lower middle income earners in South Africa. Teba Bank, which has traditionally concentrated its banking services to the mine worker population in South Africa, was recently rebranded and re-launched as Ubank in 2010 with a major objective of broadening its clientele base beyond the mineworkers.

Policy developments

The financial sector in South Africa has witnessed significant policy developments (besides the initial general liberalisation reforms to integrate the economy into the global financial system following independence in 1994). Some of the policy initiatives include the Financial Services Charter (FSC), the National Credit Act and the recently promulgated Consumer Protection Act. Together, these policies have shaped and directed the evolution of the financial system landscape in South Africa.

The FSC of 2003 came out of voluntary agreement between the Big Four banks, and the government to assist in deepening financial intermediation and increasing access in South Africa. Even though the financial sector was highly developed and was extending credit substantially, there was a gap in credit extension and financial intermediation. This gap was the result of the low financial access and high level of financial exclusion of a substantial proportion of South Africans (mostly the poor and predominantly black populace). The FSC was designed for the provision of development finance and specifically aimed at financing infrastructure development and rural development (social and economic amenities), small businesses, and to help bridge the housing gap by financing housing for low income earners with a monthly income of between R1500 to R7500. The initial agreements had commitments made by the Big Four to provide over R70 billion in development finance from 2003 to 2008, of which R42 billion would be to finance housing of low income individuals, R25 billion towards infrastructure finance, R5 billion for small business finance, and Rs1.5 billion to finance rural development (Bankable Frontiers Associates, 2009; CGAP, 2012).

As a way of showing their level of commitment to the FSC course, South Africa's four banks teamed up with Postbank, a state-owned financial institution and other financial market players in 2004, to launch a banking product (Mzansi) specifically aimed at low-end consumers, who had no access to banking. The Mzansi account (a common brand) offers an ATM card and basic, but limited, bank functionality at lower and affordable cost to the consumer.

The Mzansi initiative was a success, making some significant impacts in access to finance in South Africa. About six million South Africans had opened a Mzansi account by December 2008 (Bankable Frontiers Associates, 2009). The banking sector could offer financial services to the previously unbanked through the Mzansi account and thus increased the level of intermediation in the financial sector. Close to 80% of South Africans now have transactional banking services as a result of the Mzansi account. However, recent reports show that the Mzansi success story may be slowing down or fading away. Though six million accounts were opened, it appears that fewer than that number continue to exist in the bank books. Only about 3.5 million Mzansi accounts existed on bank books by 2008 (FinMark Trust, 2011). While there has been an upward trend in the number of account holders (from 2.5 million accounts in 2007, the figures had risen to a little over 4.5 million Mzansi accounts by 2010), about 33% of the Mzansi accounts are dormant. Further, there is an increasing number of inactive accounts noticeable from 2007 onwards. It appears that there are considerable psychological barriers to the uptake and usage of Mzansi (Kostov, Arun, & Annim, 2012, 2014a, 2014b). Nonetheless, the Mzansi initiative has helped widen financial access to an extent in South Africa. A report by Bankable Frontier Associate (2009) notes that while there may appear to be a slow-down in the zeal and tempo of Mzansi, it has created an important signal on the usefulness of being innovative and creative in extending financial services to the previously unbanked. Another major policy change is the National Credit Act, introduced in 2007. The Act is meant to improve opportunities for asset accumulation for previously disadvantaged South Africans by 1) improving access to finance, 2) reducing the cost of finance, and 3) increasing the levels of protection available to consumers.

Other acts to improve financial services and protect consumers have been the Financial Advisory and Intermediaries Services Act (2002) and the Financial Services Ombuds Schemes Act (2004). A more recent act is the Consumer Protection Act, 2008 (Act No. 68 of 2008), which came into effect on 1 April 2011. The act is primarily aimed at promoting a fair, accessible, and sustainable marketplace for consumer products and services. Furthermore, the Financial Sector Code based on the Financial Sector Charter and which seeks to align the FSC with the Codes of Good Practice for black economic empowerment was gazetted for public comments in December 2010.

Conclusion

In South Africa, irrespective of significant policy initiatives in the financial sector, the financial exclusion (the percentage of adults who have no access to products/services from either the formal or informal sectors) increased from 23.4% (7 816 691 adults) in 2010 to 27% (9 096 492 adults) in 2011 (FinMark Trust, 2011). FinMark Trust (2011) points out that South African banks are perceived to be charging high fees for transactions and concurrently, awareness and usage of the Mzansi account have decreased. These two tendencies seem contradictory. While the banks are committed in principle to initiatives such as the FSC and the Mzansi account, the nature of the industry (monopolistic competition) would preclude them from being competitive on price (fees) and rather, and favour competition on product types and lines. In this regard, numerous innovative products and services would evolve rapidly from the Big Four banks, but this does not necessarily occur either at low cost or with low cost versions which will increase access and financial inclusion. Indeed, even in the event of the existence of relatively cheaper products like the Mzansi account, there could be a behavioural lethargy towards new and emerging financial institutions due to the perceived high cost nature of financial services in South Africa. As a matter of consequence, some existing holders of products like the Mzansi account could also be affected by these perceptions and become increasingly dormant as is noticed from the trend in the dormancy level of Mzansi account holders. All this strongly suggests that the behavioural constraints on access to finance are increasingly important and deserve careful reconsideration.

Financially excluded in the "Lucky Country": lessons from under-banked Australia

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Access to financial services facilitates economic growth and reduces income inequality, and is critical to development (Demirguc-Kunt & Klapper, 2012). Inclusive financial systems allow people, particularly those on lower incomes, to smooth their consumption and insure themselves against vulnerabilities. Effective financial access also enables people to save and to borrow small amounts more often, allowing them to build assets, invest in education and entrepreneurial ventures, and improve their livelihoods (Collins, Morduch, Rutherford, & Ruthven, 2009). Inclusive finance is especially likely to benefit disadvantaged groups such as women, youth, those from marginalised communities and those living in remote/rural locations. Financial inclusion has therefore gained prominence in recent years as a policy objective to improve the lives of the poor.

Globally, almost 2.5 billion adults have no formal account with a financial institution or are un-banked, and most of them live in developing countries (Demirguc-Kunt & Klapper, 2012). This study finds significant gaps in access to finance—people in high-income economies are twice as likely to be banked (89%) as in developing economies. Gaps also emerge in account usage between demographic groups, particularly in developing economies. Men are more likely to have an account (46%) than women (37%), and those in the highest-income quintile are more than twice as likely to have access than those in the lowest quintile. Australia, with 99.1% of its adult population banked, ranks among the most financially included economies in the world, even in comparison to other high-income economies (average 89.4% banked). However, domestic research highlights that nearly 17% of Australian adults are under-banked, and lack access to the mainstream financial system (Connolly, 2014).

Financial exclusion in Australia

While most Australians have a formal account with a financial institution, under-banked adults are unable to access safe, affordable, and appropriate financial services, particularly effective credit and insurance (Connolly, 2014). Indigenous people are over-represented among financially excluded Australians, as are those from non-English speaking backgrounds, the young, the elderly, single women with dependent children and the "working poor" (Connolly, Georgouras, & Hems, 2012). Under-banked Australians rely on the informal or fringe sector, including payday lenders, rent-to-buy operators or money lenders, for their daily financial needs (Connolly & Hajaj, 2001). This is similar to the one in five (20%) households in the United States (US) who also use alternative financial services (Federal Deposit Insurance Corporation, 2014).

Similar to Australia, community groups in the US and other developed countries which are disproportionately likely to be excluded, include those from culturally, ethnically or linguistically diverse backgrounds, and the young. Under-banked Australians also share socio-economic and demographic characteristics in common with un-banked populations in developing countries, including geographic exclusion due to remoteness, and lower education, literacy/numeracy skills, employment, income, savings and wealth status (Connolly, 2014).

In developing countries with large un-banked populations, research is leading the way to evidence-based policy (Samarajiva, 2011). Policymakers, central bankers and regulators recognise the important role they play in creating conditions to promote financial inclusion, and unlock the economic potential of their populations (Singh, 2013). In Australia, however, financial inclusion is not yet enshrined in regulatory or policy frameworks. Instead, it is recognised as a "shared responsibility" across multiple sectors, including the financial services industry, the government, the community, and academia. Public policy has focussed on improving financial literacy and consumer education (Australian Securities and Investment Commission, 2014). A broader focus on financial exclusion and the needs of the under-banked has come from industry, social and consumer researchers.

Longitudinal studies measuring national financial exclusion (Connolly, 2014) and financial capability among the adult population (The Social Research Centre, 2011) have been funded by banks. However, further studies exploring the needs of under-banked groups among the population, and longer-term consumer behaviour are needed (Australian Securities and Investment Commission, 2014). Technology-led models for rapidly scaling financial inclusion have not yet been fully explored, and there is little research on the design of user-centred financial products and services which better meet the needs of the under-banked (Godinho & Singh, 2013). Sustainable access to financial services also remains a challenge for remote Indigenous communities.

Indigenous financial exclusion and policy challenges

Indigenous people living in remote communities are among the most socio-economically marginalised Australians—they have lower literacy/numeracy skills, lower employment, income and savings outcomes, and poorer health, when compared to national averages (Productivity Commission, 2014). Cultural barriers including language difficulties exacerbate this disadvantage (National Indigenous Money Management Agenda, 2007). A growing digital divide between urban and rural/remote Australia and a lack of banking infrastructure in remote communities also disproportionately disadvantages Indigenous people (Department of Broadband Communications and the Digital Economy, 2012). Lower access

Table 3 Comparison of financial exclusion levels—Indigenous Australians and national average.

	National average	Indigenous Australians	
Financially excluded (combined unbanked + underbanked)	17.2%	43.1%	Source: Connolly, Georgouras, & Hems (2012)
Financial literacy score (FLS)	Mean 83.1	Mean 63.9	Source: The Social Research Centre (2011)
Financial knowledge and numeracy	Mean 91.9	Mean 70.7	Source: The Social Research Centre (2011)

and usage of information and communications technology (ICT) combined with lower digital literacy further restrict Indigenous financial inclusion by limiting their ability to access electronic banking delivery channels (National Indigenous Money Management Agenda, 2007).

Mainstream banks lack information about Indigenous consumers, including an awareness of their cultural needs. Indigenous people lack confidence in banks, and may prefer to deal face to face with informal service providers, despite incurring higher costs (McDonnell, 2003). Although Indigenous people comprise 43.1% of the under-banked (Table 3) in Australia, there is little academic focus on Indigenous people and finances (Gerrans, Clark-Murphy, & Truscott, 2009). Studies have measured the "gaps" in Indigenous financial knowledge and literacy, yet few investigate why these gaps persist. Indigenous cultural norms, particularly those related to family and kinship obligations, are identified as a barrier to greater inclusion. Yet there has been little research on how Indigenous people themselves want to use and manage money.

This lack of knowledge compromises the ability to develop effective and evidence-based policy for promoting Indigenous financial inclusion. The "Closing the Gap" policy framework outlines government commitments to reduce Indigenous disadvantage; however, financial inclusion is subsumed into a broader economic participation and sustainability agenda (Productivity Commission, 2014).

Industry efforts to promote Indigenous inclusion are also hampered by a lack of evidence examining their specific financial needs. Social policy researchers call for fairer and culturally appropriate financial product and service design which can better engage Indigenous consumers and offer alternatives to fringe service providers (First Nations Foundation, 2011). However, there is not much discussion on how this can be implemented in practice. Recent policy measures such as income management introduced under the Northern Territory Emergency Response to Indigenous communities in 2007, may have inadvertently exacerbated Indigenous exclusion. This policy quarantines half of many government benefits for approved uses only, including food, clothing, travel and education expenses; dictating how money is to be used may have further compromised Indigenous financial capability (Russell, Yoosuf, & Cattlin, 2011). Changes to social and ICT policies now favour a centralised approach to service delivery via hub towns instead of offering local services in remote locations. However, the lack of local access and content may have worsened digital inclusion and compromised the adoption and usage of electronic banking delivery channels among remote Indigenous consumers (Thomas & Rennie, 2012).

Global research findings: under-banked and policy implications

A study on under-banked households in the United States (Federal Deposit Insurance Corporation, 2014) highlights how better understanding of differing characteristics and varying demand for banking services among under-banked population groups can inform the design of effective financial products and economic inclusion strategies. Knowledge of common challenges they face such as unemployment and lower education can inform collaborative efforts between policymakers in industry and public/private entities (such as employment and social service agencies) that also serve their needs. Having a bank account does not guarantee long-term participation in the banking system, as households can and do cycle in and out the banking system over time. Economic inclusion efforts not only require banking the un-banked, but also retaining and better engaging current bank customers to prevent them from becoming un-banked/under-banked. Also, households with banking experience have more positive perceptions of having an account and rely less on alternative financial services.

Financial institutions should more clearly demonstrate the value in having a bank account, as the under-banked often perceive non-bank financial services to be more convenient, faster, less expensive and presenting lower barriers to qualification. Banks could promote mobile technology to increase convenience, expedite the availability of deposited funds, and make affordable small-dollar loans available with streamlined but solid underwriting.

Sociological study of under-banked Indigenous Australians in remote communities

Our sociological study addresses many of the challenges discussed above, by exploring the understanding of money in remote communities from an Indigenous perspective (Indigenous money). We also consider policy implications for promoting financial inclusion, particularly strengths-based approaches using Indigenous culture as an enabler, rather than a barrier, to enhancing the Indigenous financial inclusion. Our methodology can be extended to study money in other culturally and linguistically diverse under-banked community groups, not just in Australia but across the globe.

Research design and methodology

This paper is based on ethnographic doctoral research using a post-colonial, relational Indigenous research paradigm (Chilisa, 2012), which argues that research should reflect Indigenous priorities, and cultural sensitivity should apply to all aspects of research design. Indigenous knowledge and intellectual property should increase as a result of research, enabling communities to work through their own concerns. Building these learnings into our research has enabled us to progress this important topic collaboratively with Indigenous and non-Indigenous stakeholders. We consulted with community elders who invited us to undertake research in their communities, facilitated introductions, and provided guidance on cultural protocols, particularly those related to gender and respectful communication. We used methods familiar to the participants, including "yarning circles" (discussions with community members typically conducted over the course of a shared meal) and informal conversations, alongside interviews and participant observation. Participants' stories about money and banking were audio-taped wherever permission was obtained, and supplemented with field-notes and an electronic journal. Data were stored and interrogated using NVivo 9.2, a computer program that aids the analysis of qualitative data.

This Indigenous-centred approach enabled a more thorough investigation of community needs and preferences than previous policy and industry approaches, which start from policy imperatives and providers' perspectives. Findings from this study have policy implications for the design of culturally appropriate financial products and services, including consumer education programmes.

Field-work and knowledge-making

Fieldwork was undertaken in Darwin and two remote Indigenous communities (referred to as Inland Town and Coastal Town) in Northern Territory between July 2011 and September 2013. Fifty-three people participated in the remote study, via five yarning circles with sixteen participants, thirty-one interviews and observation at a private workshop with six participants. Key informants included consultants, academics, and service providers with expertise in remote communities.

The majority of the population of Inland Town and Coastal Town is Indigenous, with more than a third being under 20 years of age. Each town has a distinctive language and traditional culture, and a history of pre-colonial trade with Macassan traders from Indonesia. These remote communities face common challenges; limited employment opportunities cause high unemployment and welfare dependency, while expensive freight rates drive up prices of everyday necessities. Chronic housing shortages have led to overcrowding and high maintenance costs. Both towns have limited banking and digital infrastructure. Inland Town has a bank branch while Coastal Town has none. Each town also has a single community store, which provides Electronic Funds Transfer at Point of Sale (EFTPOS) and Automated Teller Machines (ATMs).

Findings from our study: Indigenous money

This study highlights the cultural distinctiveness of "Indigenous money", and sets the context for an exploration of how culture and money are inter-related. Indigenous money is different in crucial ways from mainstream, primarily Western understandings of money, which are at the centre of policies relating to banking, payments, and welfare in Australia (Singh, 1997). Participants say that money has been imposed on them from outside their culture, and does not connect with traditional Indigenous knowledge systems. Money had no place in pre-colonial, traditional Indigenous lives, and was introduced to remote communities in the late 1960s, alongside welfare policies. Although the government has now introduced financial education into school curriculum, Indigenous elders, as traditional holders of knowledge, say they are confused about money and unable to lead their people in using money wisely. Participants particularly lack knowledge of how to control and grow money (wealth creation and investing). Despite the challenges, participants have adapted money into their daily lives in culturally distinctive ways.

The domestic financial unit in remote Indigenous communities is larger than the nuclear-household of Western families—it is better described as household clusters of extended family and kin. Indigenous money is regularly shared across these households, alongside other resources, including food, clothing, and shelter. These households manage and control Indigenous money in an informal manner, with residents "chucking-in" (contributing) whatever amount they feel they can towards common household expenses. Caring for the family, rather than money, is the top priority for participants. Yet regular sharing means that little money is left over for personal discretionary spending or saving. Cultural obligations can also compete with individuals' need for control of their own money. Demand sharing, whereby family can demand that money and personal banking information be shared with them, is prevalent in indigenous communities (Peterson, 1993). Refusal to share can create conflict, yet routinely sharing banking information can heighten privacy and security concerns. Participants try to cordon off money for their own use while maintaining relationships, by hiding money in different bank accounts and prepaying regular expenses to reduce income at hand. Repeated balance enquiries are made to check that accounts have not been compromised, and money is withdrawn as soon as it is received. This usage pattern leads to a distinctive style of banking, whereby people incur higher fees yet earn little interest.

Demand sharing, lower incomes and fewer employment opportunities also reduce the motivation to save and compromise the ability to achieve individual goals. Money is seen by many as a "problem" and source of conflict, so people avoid engaging with money matters.

Implications for policy

Our study shows we need to influence two main areas of policy in the context of under-banked Indigenous people living in remote communities, as summarised in Fig. 6. The first is industry/provider policies relating to ensuring culturally appropriate design and delivery of financial products and services. The second is government policies relating to enhanced consumer education and awareness.

Indigenous money is disconnected from traditional Indigenous knowledge, including laws governing the management of values resources. Financial education programmes must find ways to connect with and build upon these traditional knowledge systems, which elders still hold in remote communities. Reinforcing positive aspects of existing social norms (such as community obligations to provide collective support or individual obligations to ensure collective benefits)—for example, developing family and community-based financial/consumer education, may better connect with the needs of remote consumers. Education programmes that can tailor budgeting tools and ways of keeping track of money to

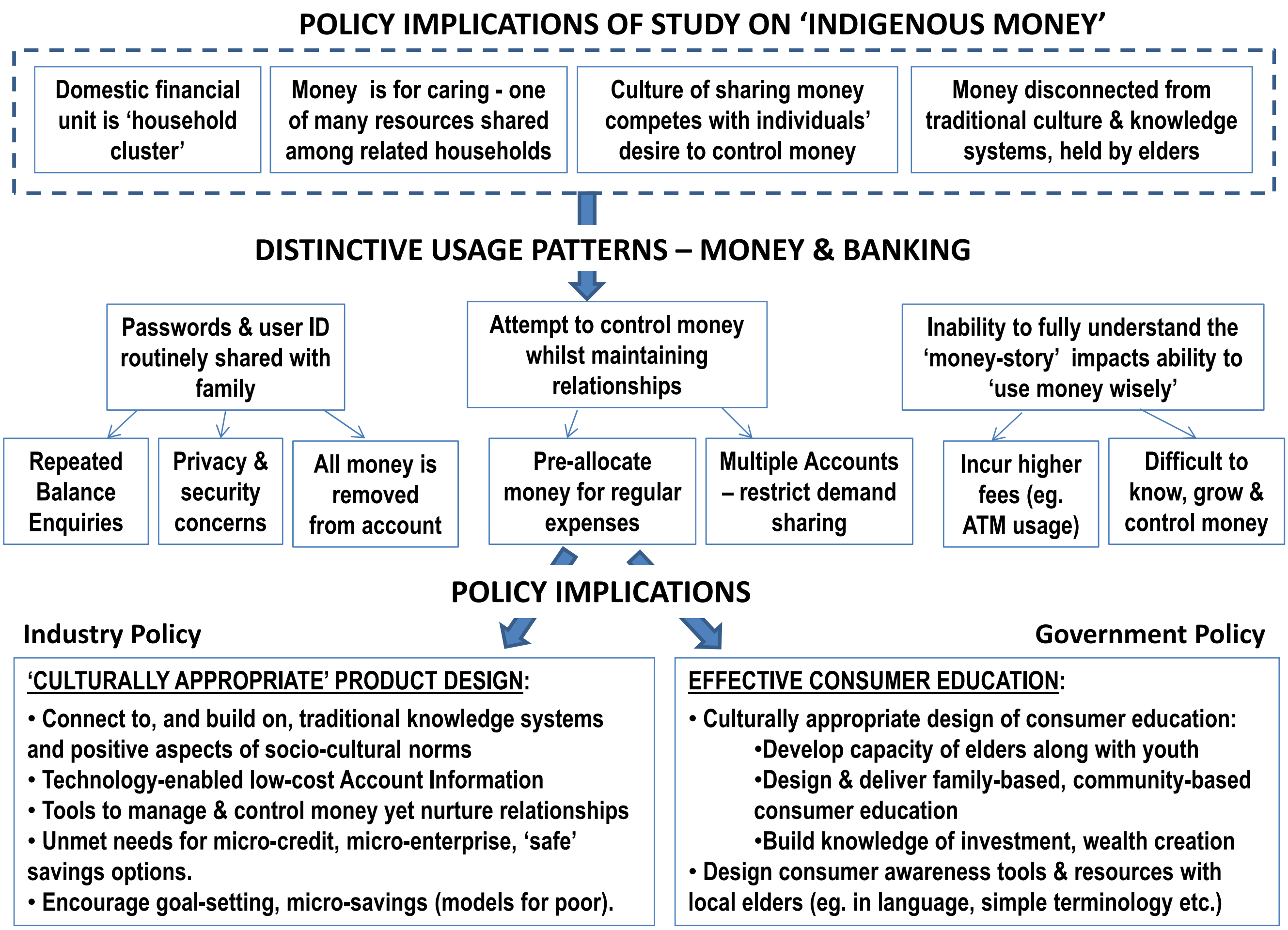

Figure 6 Indigenous money and policy implications.

the distinctive chuck-in style of making ends meet across related Indigenous households may prove more relevant and useful. Programmes enabling Indigenous participants to envision family and community-based goals for money could encourage financial skills to be practised within families. Developing tools that facilitate "learning by doing", including the use of innovative technology, may be more likely to succeed. Building the financial capacity of elders can empower them to role model effective ways to use and preserve money.

The path to achieving individual success with managing Indigenous money is inextricably linked with the collective. The financial ecosystem should provide ways for Indigenous people to control their own money without compromising relationships by offering personalised and affordable banking delivered in local language, and low-cost balance enquiry and account information. Also, acknowledging saving as caring for oneself and managing money as an important component of well-being could better motivate Indigenous people. Mobile phones, already a popular means of communication for remote Indigenous users, could also enable mobile banking services. Unmet user needs, including access to micro-credit, micro-enterprise services and opportunities for micro-savings should be addressed by the industry, based on successful models developed for the poor in developing countries.

Conclusions—extending our findings to global under-banked policy

Our study shows that by exploring how Indigenous culture influences the participants' understanding of money, and their world-views on financial capability and well-being, we can draw conclusions for the design of culturally appropriate policies that better meet their needs. These findings can be extended to studying other under-banked groups in Australia and world-wide, and inform the design of user-centred financial products and services (including financial/consumer education) that meet the needs of different cultural groups.

Australia is one of only a handful of countries where virtually the entire population is banked, yet some areas experience significantly lower physical and digital access to banking and other service infrastructure, more akin to conditions in developing countries. Given that policymakers in developing countries face significant challenges in providing financial access to large un-banked populations, even in urban and regional areas, studying the needs of rural/remote and culturally diverse population groups is a particularly vexatious area. This is where our research, focussing on user-centred financial inclusion policies for harder-to-reach rural and remote populations, can contribute. Additional areas of contribution could include policies focused on enhancing digital access to finance, ensuring sustainability of remote financial service delivery and culturally appropriate models for enhancing the financial capability for communities with lower literacy/numeracy, and cultural and language barriers.

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