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FINANCIAL INCLUSION IN WORLD: A CROSS COUNTRY ANALYSIS

Submission of Manuscript in the Area of Management (Banking and Finance)

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Abstract

Banking and financial services play very crucial role in the growth and development of an economy. Moreover, a non-inclusive financial system is a barrier to attain high economic growth rate with sustainability, causing serious economic implications **(Mehrotra et al., 2009).** In all Economies of the world, it is important to build Financial Inclusive systems for increasing access to finance, access to capital, and resources. This study is an effort to investigate the status of financial inclusion in world. It gives a clear picture of the status of financial inclusion in India as well as other countries of world. It shows data on how adults save, borrow and manage risk all over world. It also analyzes global supply-side data on financial inclusion, encompassing data on access to and usage of financial services by firms and households and compared it across countries and overtime. It compares branch penetration, credit penetration, deposit penetration and insurance penetration in India with other countries of world. This study is mainly based on the secondary data and exploratory in nature. The data for the study is collected for the period 2011 to 2017, from the Global Findex database, the financial access survey, the website of ministry of finance and reserve bank of India. After this, data was analyzed with the help of percentage method and shown in form of table and graphs. It is observed that financial inclusion in the world is increasing every year. It is also seen from all economies of world, total number of adult with an account is increasing but there is large disparity between high income economies and low income economies. Account ownership is nearly universal in high-income economies, where 94 % of adults have an account and in low income economies only 34.9% adults have an account.

Keywords: Branch Penetration, Credit Penetration, Deposit Penetration and Insurance Penetration.

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Introduction

Banking and financial services play very crucial role in the growth and development of an economy. Financial development is widely recognized as an important determinant of economic growth **(Levine, 2005).** Enhancement in growth rate can be obtained through circulation of financial and banking facilities **(Sharma & Tuli, 2012).** Access to financial services help in development process through the reduction in income inequality. Financial inclusion has become an issue of worldwide concern, relevant equally in economies of the under developed, developing and developed nations. Many countries like India, the United Kingdom (UK) and International organizations like the United Nations (UN), World Bank (WB) etc. have set up task force/committees to understand financial inclusion and to improve its scope.

The term financial inclusion is perceived in different ways under different contexts. Various financial experts argue that bank account is the most basic step of bringing excluded people under financial mainstream. So the primary objective of financial inclusion should be to open bank accounts of unbanked people. These people have remained aloof from financial and banking mainstream and they don‘t possess bank account, don‘t have knowledge about financial and saving instruments and are unable to reap benefits on whatever large or small amount of money they have at their disposal. In simple language financial inclusion stands for including the people lying on the lowest strata of our social pyramid into the financial mainstream. **Chakrabarty K. C.(2010) ,**reserve bank of India defined Financial Inclusion as the" process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players".

In all Economies of the world, it is important to build Financial Inclusive systems for increasing access to finance, access to capital, and resources. An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and, thus, can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help reduce the growth of informal sources of credit (such as money lenders), which are often found to be exploitative. Thus, an all-inclusive financial system would enhance efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services. Financial inclusion is important simply because it is a necessary condition for sustaining equitable growth **(Subbarao, 2009).**

Review of literature

Review of literature is likely to provide bird's eye view of the study conducted on the subject matter. It provides an insight into the previous research work done on financial inclusion.

As far as the literature on the role of finance in economic development is concerned, it is recommended that, financial development creates pro-growth conditions in an economy, through the demand-following or supply leading channels. **Adam Smith (1776)** had expressed his view about the remarkable and key contribution of high density of banks in Scotland for encouraging the development of the Scottish economy. **Levine (1997)** explored the linkages and the transmission mechanism through which finance and economic growth are connected. **Kumar and Mishra (2011)** in their study measured the financial inclusion by looking at the supply as well as demand side indicators. Supply side indicators include no. of deposit and credit accounts, no. of bank branches, average deposit and credit amount per count and credit utilized. Demand side indicators include proportion of households having savings, credit and insurance facilities etc. He developed a separate Financial Inclusion Indices for all States /UTs of India. **World Bank (2012)** identified "Number of commercial bank branches per 1000 sq.km.; Number of commercial bank branches per 100000 adults and Number of ATMs per 1000 sq.km; Number of ATMs per 100000 adults" as International Financial Inclusion Indicators (Access Indicators). The Usage Indicators were identified as "Number of borrowers from commercial banks per 1000 adults; Outstanding loans from commercial banks as percentage of GDP; Number of depositors with commercial banks per 1000 adults and Outstanding deposits with commercial banks as % of GDP".

Statement of the Problem

Financial Inclusion in World: A Cross Country Analysis

Objectives of the Study:

- To investigate the status of financial inclusion in world.

- To compare branch penetration, credit penetration, deposit penetration and insurance penetration in India with other countries of world.

Research Design

The present study is explorative in nature. An exploratory research "provides insights and understanding of the research phenomena. The research process is flexible, unstructured and the data analysis can be qualitative and quantitative in nature. It may result into specific, conclusive findings and may act as input for further research**" (Malhotra, N. K. and Birks, D. F., 2006)**. Present study basically seeks to extract information about financial inclusion. It provides an insight on how adults save, borrow and manage risk all over world.

Data Collection and Statistical Tools:

Data for the study collected from secondary source. Secondary data were obtained from various academic journals, books, the Global Findex database, the financial access survey, the website of ministry of finance and reserve bank of India. . It was collected from 2011 to 2017. After this, data was analyzed with the help of percentage method and shown in form of table and graphs.

Findings of the Study

Financial inclusion in world

Financial Inclusion means provision of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. These include access to savings, credit, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded **(World Bank, 2008).** Globally, 69 % of adults have an account till 2017. Accounts provide a safe way to store money and build savings for the future. They also make it easier to pay bills, make purchase, access credit and send or receive remittances. Having an account is therefore used by the World Bank and others as a marker of financial inclusion.

Table1.1: Account ownership around the world according to income group

Adults with an account (%)				
Year	**World**	**High income economies**	**Low income economies**	**Middle income economies**
2011	50.60	88.30	13.4	43.4
2014	62.00	92.80	22.9	57.5
2017	68.50	93.70	34.9	65.3

Source: The Global Financial Inclusion Data Bank, The World Bank, Retrieved From *http://databank.worldbank.org/data/reports.aspx?source=global-financial-inclusion*

Above table shows, globally, 69 % of adults have an account till 2017. Account ownership is nearly universal in high-income economies, where 94 % of adults have an account. In middle income economies, the share is 65.3% and it is only 34.9% in low income economies. It is clearly evident from the above table that account ownership is higher is high income economies and is very less in low income economies. It reveals there is large gap in account ownership around the world according to income group.

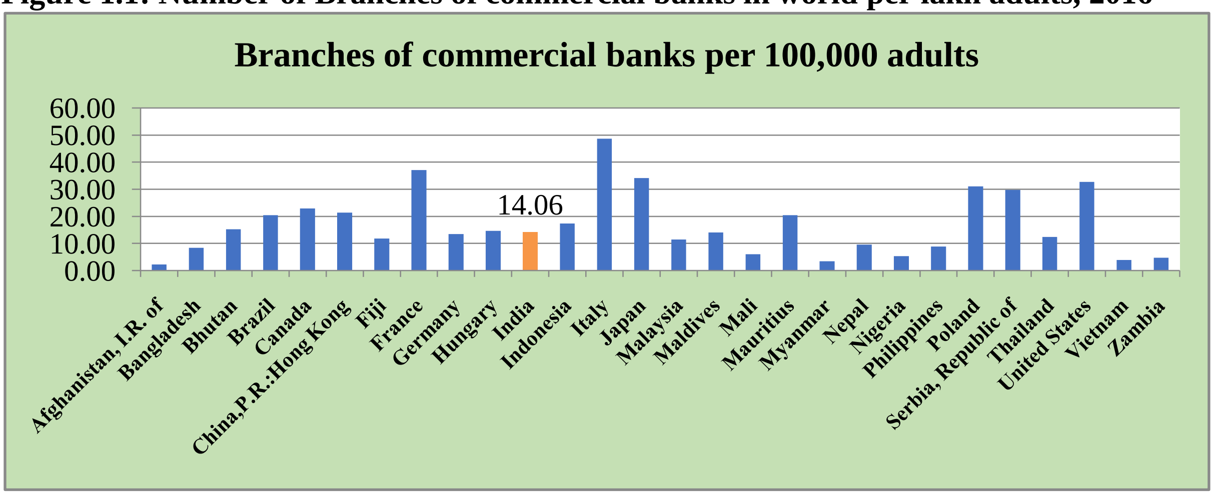
Table 1.2: Total No. of branches of commercial banks in world per Lakh adults, 2016 (Branch Penetration)

Country	Branches of commercial banks	Branches of commercial banks per 100,000 adults
Afghanistan, I.R. of	416	2.22
Bangladesh	9,722	8.44
Bhutan	84	15.27
Brazil	32,863	20.40
Canada	6,918	22.94
China,P.R.:Hong Kong	1,242	21.43
Fiji	70	11.84
France	20,010	37.06
Germany	9,407	13.46
Hungary	1,189	14.70
India	1,33,491	14.06
Indonesia	32,730	17.39
Italy	25,210	48.66
Japan	37,591	34.10

Malaysia	2,657	11.49
Maldives	37	14.08
Mali	557	6.07
Mauritius	186	20.40
Myanmar	1,283	3.41
Nepal	1,869	9.58
Nigeria	5,552	5.36
Philippines	6,195	8.87
Poland	9,969	31.03
Serbia, Republic of	1,719	29.72
Thailand	6,986	12.37
United States	80,389	32.67
Vietnam	2,719	3.87
Zambia	407	4.68

Source: Financial Access Survey 2016, International Monetary Fund, *www.imf.org*

Figure 1.1: Number of Branches of commercial banks in world per lakh adults, 2016



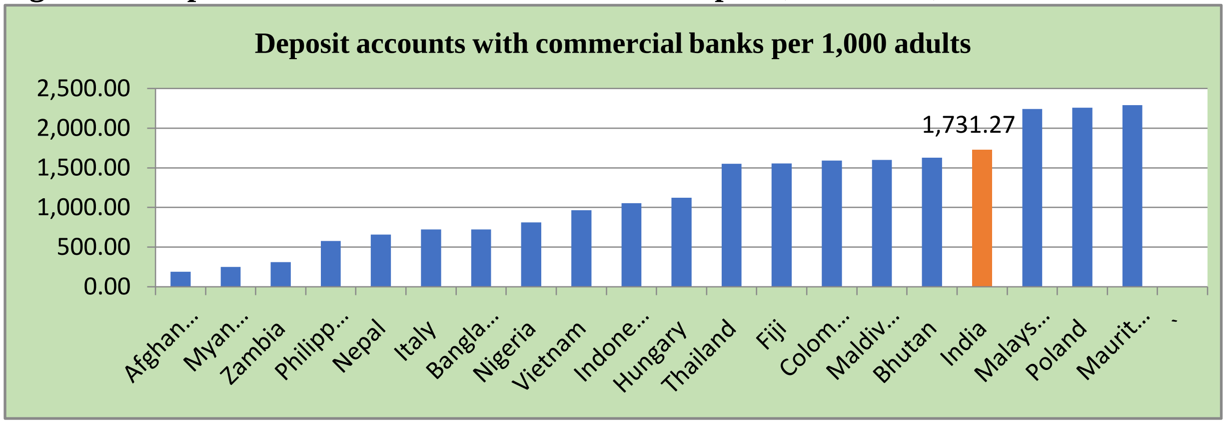
As seen from the figure above, the total numbers of commercial banks branches are very high in India which is 1, 33,491 but, owing to the large population of India, number of commercial bank branches per lakh adult is only 14. But if we see the number of bank branches in Italy, there are only 25,210 commercial bank branches in Italy but due to their low population there are 48 commercial bank branches per lakh adults which show highest penetration of formal banking in Italy in comparison to other developed and developing countries. Number of branches per lakh adult in under developed countries like Afghanistan, Vietnam and Zambia are even less than 5 showing the less penetration of Formal banking in these countries. While the developed countries like USA, Italy, France, Japan etc have a high banking penetration with more than 30 branches per lakh adult.

Table 1.3 Number of Deposit accounts with commercial banks in world, 2016(Deposit Penetration)

Country	Deposit accounts with commercial banks	Deposit accounts with commercial banks per 1,000 adults
Afghanistan, I.R. of	36,76,890	188.98
Bangladesh	8,39,85,062	724.90
Bhutan	9,47,628	1,625.78
Colombia	5,89,89,871	1,592.98
Fiji	9,96,966	1,553.45
Hungary	94,44,315	1,123.17
India	1,64,61,16,065	1,731.27
Indonesia	19,94,09,207	1,055.58
Italy	3,79,10,292	724.12
Japan	79,50,24,659	7,190.45
Malaysia	5,27,14,063	2,242.34
Maldives	5,11,170	1,599.10
Mauritius	23,46,551	2,290.29
Myanmar	96,73,070	251.84
Nepal	1,30,10,175	657.04
Nigeria	8,46,06,550	813.59
Philippines	4,05,66,054	577.09
Poland	7,30,26,383	2,258.78
Thailand	8,78,57,511	1,549.30
Vietnam	6,86,97,601	963.38
Zambia	28,17,004	309.22

Source: Financial Access Survey 2016, International Monetary Fund, www.imf.org

Figure1.2: Deposit accounts with commercial banks per 1,000 adults, 2016



As seen from the graph, Number of Deposit Accounts in underdeveloped and developing countries like Afghanistan, Myanmar, Zambia etc is less than 1,000 accounts per thousand adult. In Afghanistan there are only 189 deposit accounts with commercial banks per 1,000 adults which are lowest in number in comparison to other countries. While countries like Malaysia, Poland, Mauritius etc have more than 2,000 accounts per thousand adult. Although India has approx 164 crores deposit accounts which is among the highest in the world but, due to its high population it has only 1,731 accounts per thousand adult. 1,731 accounts on 1,000 adult is quite good number but this number still needs to be increased in range of 2,000-2,500 accounts per 1,000 adult to be at par with many developing and developed countries.

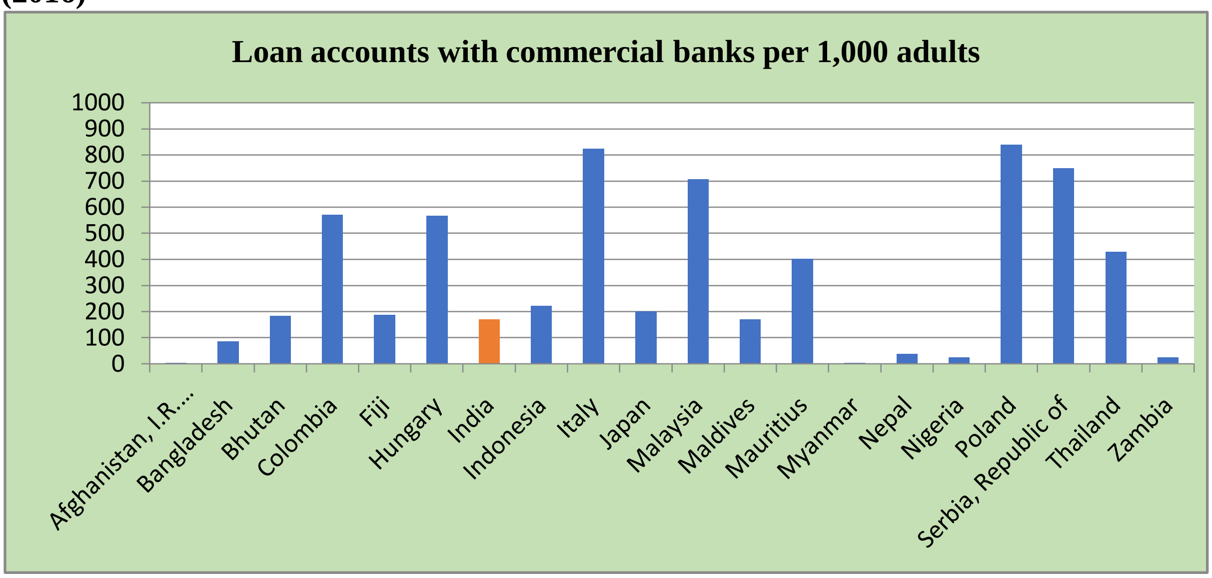
Table 1.4: Total number of loan accounts per 1000 adults with commercial banks in world, 2016(Credit Penetration)

Country	Loan accounts with commercial banks	Loan accounts with commercial banks per 1,000 adults
Afghanistan, I.R. of	59,478	3.06
Bangladesh	1,00,55,326	86.79
Bhutan	1,07,011	183.59
Colombia	2,11,26,820	570.51
Fiji	1,19,764	186.61
Hungary	47,61,061	566.21
India	16,23,73,917	170.77
Indonesia	4,18,62,245	221.60
Italy	4,31,12,662	823.48
Japan	2,23,31,332	201.97

Malaysia	1,65,98,669	706.07
Maldives	54,173	169.47
Mauritius	4,11,667	401.80
Myanmar	1,70,010	4.43
Nepal	7,53,636	38.06
Nigeria	24,75,177	23.80
Poland	2,71,30,530	839.17
Serbia, Republic of	44,04,005	747.99
Thailand	2,43,37,801	429.18
Zambia	2,22,604	24.44

Source: Financial Access Survey 2016, International Monetary Fund, www.imf.org

Figure 1.3: Total number of loan accounts per 1000 adults with commercial banks in world (2016)



Source: Financial Access Survey 2016, International Monetary Fund, www.imf.org

It can be inferred from the above graph, with 839 Loan accounts with commercial banks per 1,000 adults, Poland has achieved the highest credit penetration among all. On the other side, Loan accounts per thousand adults in India is approx 170 which is much less than countries like Thailand, Italy, Malaysia, Poland etc. it can be observed from the graph above, under developed and developing countries like Afghanistan Nigeria, Zambia etc have very low Loan accounts per thousand adults showing the low penetration of Formal Banking and credit availability in these countries.

Table 1.5: International Comparison of Insurance Penetration

INTERNATIONAL COMPARISON OF INSURANCE PENETRATION*												
(In Percent)												
Countries	2013			2014			2015			2016		
	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life
World	**6.30**	**3.5**	**2.8**	**6.2**	**3.4**	**2.7**	**6.2**	**3.5**	**2.8**	**6.28**	**3.47**	**2.81**
Australia	5.2	3.0	2.1	6.0	3.8	2.2	5.7	3.5	2.2	6.52	2.99	3.53
Brazil	4.0	2.2	1.8	3.9	2.1	1.9	3.9	2.1	1.8	4.04	2.28	1.76
France	9.0	5.7	3.2	9.1	5.9	3.1	9.3	6.2	3.1	9.23	6.06	3.17
Germany	6.7	3.1	3.6	6.5	3.1	3.4	6.2	2.9	3.4	6.08	2.75	3.33
Russia	1.3	0.1	1.2	1.4	0.2	1.2	1.4	0.2	1.2	1.38	0.25	1.13
South Africa	15.4	12.7	2.7	14.0	11.4	2.7	14.7	12.0	2.7	14.27	11.52	2.74
Switzerland	9.6	5.3	4.4	9.2	5.1	4.1	9.2	5.1	4.1	8.85	4.72	4.12
United Kingdom	11.5	8.8	2.8	10.6	8.0	2.6	10.0	7.5	2.4	10.16	7.58	2.58
United States	7.5	3.2	4.3	7.3	3.0	4.3	7.3	3.1	4.2	7.31	3.02	4.29
Hong Kong	13.2	11.7	1.5	14.2	12.7	1.4	14.8	13.3	1.5	17.60	16.20	1.41
India#	**3.9**	**3.1**	**0.8**	**3.3**	**2.6**	**0.7**	**3.4**	**2.7**	**0.7**	**3.49**	**2.72**	**0.77**
Japan#	11.1	8.8	2.3	10.8	8.4	2.4	10.8	8.3	2.6	9.51	7.15	2.37
Malaysia#	4.8	3.2	1.7	4.8	3.1	1.7	5.1	3.4	1.7	4.77	3.15	1.62
Pakistan	0.7	0.5	0.3	0.8	0.5	0.3	0.8	0.5	0.3	0.89	0.63	0.26
PR China	3.0	1.6	1.4	3.2	1.7	1.5	3.6	2.0	1.6	4.15	2.34	1.81
Singapore	5.9	4.4	1.6	6.7	5.0	1.6	7.3	5.6	1.7	7.15	5.48	1.67
South Korea#	11.9	7.5	4.4	11.3	7.2	4.1	11.4	7.3	4.1	12.08	7.37	4.72
Sri Lanka	1.1	0.5	0.7	1.1	0.5	0.7	1.2	0.5	0.7	1.12	0.52	0.60
Taiwan	17.6	14.5	3.1	18.9	15.6	3.3	19.0	15.7	3.2	19.99	16.65	3.34
Thailand	5.5	3.8	1.7	5.8	3.6	2.2	5.5	3.7	1.8	5.42	3.72	1.70

Note : * Insurance penetration is measured as ratio of premium to GDP
data relates to financial year.

Source: Handbook on Indian Insurance Statistics, 2016-17. https://www.irdai.gov.in

As seen from the graph above developed countries like UK, JAPAN, France, USA etc have high penetration of insurance policies than India. In 2016, Taiwan has the highest insurance penetration with 19.99%, when it is 6.28% in world. India is nearly just above the half of world's average with 3.49 percent. It can also be seen that in India penetration to non life insurance is really low, it is only 0.77%. India needs to work more to target and penetrate non life insurance sector. Also a stagnant growth of overall insurance sector can be seen from 2013 to 2016. In countries like Japan penetration ratio is continuously decreasing, it has decreased from 11.5 to 9.5. The countries like South Africa, South Korea, Taiwan, UK and Hong Kong have more than 10 percent insurance penetration.

Conclusion

Increase in financial inclusion is important for growth and development of an economy. Accounts provide a safe way to store money and build savings for the future. They also make it easier to pay bills, make purchase, access credit and send or receive remittances. It is seen that level of financial inclusion in the world is increasing every year. Account ownership of adults around the world has increased from 50.60% to 68.50 % from 2011 to 2017, which in itself a good sign. But along with that it was found, account ownership is nearly universal in high-income economies, where 94 % of adults have an account. But in middle income economies, the share is 65.3% and it is only 34.9% in low income economies. It reveals there is large gap in account ownership around the world according to income group. Further there is a less penetration of Formal banking in under developed countries, while developed countries like USA, Italy, France, Japan etc have a high banking penetration with more than 30 branches per lakh adult. In India number of commercial bank branches per lakh adult is only 14(less than half of developed countries). Also low penetration of Formal Banking and credit availability found in under developed and developing countries like Afghanistan Nigeria, Zambia. On the other side, Loan accounts per thousand adults in India is approx 170 which is much less than countries like Thailand, Italy, Malaysia, Poland. Developed countries like UK, JAPAN, France, USA etc have high penetration of insurance policies than India. In 2016, Taiwan has the highest insurance penetration with 19.99%, when it is 6.28% in world. India is nearly just above the half of world's average with 3.49 percent. It is aso seen that in India penetration to non life insurance is really low, it is only 0.77%. India needs to work more to target and penetrate non life insurance sector.

Also a stagnant growth of overall insurance sector can be seen from 2013 to 2016. In countries like Japan penetration ratio is continuously decreasing, it has decreased from 11.5 to 9.5. In nutshell we can say, even at present there is a difference in level of financial inclusion between developed (high income economies) and developing economies (middle and low income economies). In comparison to developed economies, developing economies need to make more effort to increase financial inclusion.

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