

# The role of data in supporting financial inclusion policy

## Overview of the IFC Satellite Seminar<sup>1</sup>

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## Introduction

### Financial inclusion: a worldwide policy priority

The **Great Financial Crisis (GFC) reflected a widespread lack of financial literacy across society**. As financial illiteracy and the associated market abuses exacerbated the fragilities that emerged in the run-up to the GFC, policymakers have tightened their focus on strengthening financial literacy and consumer protection. **Policymakers also sought to improve access to financial services** for underprivileged or underserved groups. Two key objectives are to ensure credit access for small and medium-sized enterprises (SMEs) and to provide basic financial services to unbanked households. Meeting these objectives has created **new data collection needs**.<sup>4</sup>

The **rapid pace of financial innovation**, in addition, has reinforced policymakers' interest in financial inclusion. New digital payment systems (eg via smartphones), in particular, have improved access to financial services, especially in developing countries where take-up for "traditional" banking services has been lower. This has attracted significant attention among regulatory bodies and standard setters.<sup>5</sup>

<sup>1</sup> The views expressed here are those of the authors and do not necessarily reflect those of the Bank for International Settlements (BIS), the Bank of Morocco (BoM), the Center for Latin American Monetary Studies (CEMLA) or the Irving Fisher Committee on Central Bank Statistics (IFC). We thank Aurel Schubert, Katherine Hennings, and Stephan Müller for their comments and suggestions.

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<sup>4</sup> For policy recommendations at an early stage see International Finance Corporation, "Towards universal access. Addressing the Global Challenge of Financial Inclusion", 2010; and GPFI, "GPFI 2017 Progress Report", 2017, for a summary of recent activities and a description of ongoing initiatives.

<sup>5</sup> The BIS's Financial Stability Institute (FSI) has hosted three Global Partnership for Financial Inclusion (GPFI) Conferences on Standard-Setting Bodies and Financial Inclusion. For an overview of the most recent discussions see GPFI, "Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape", *GPFI White Paper*, 2016, and also J Caruana, "New frontiers in the supervision and oversight of digital financial services", Basel, 26 October 2016; welcoming remarks at the Third GPFI-FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion.

## Large data needs

**Large and diverse information needs** must be addressed if these issues are to be tackled. Detailed data are required *ex ante* to identify the appropriate policy measures, as are consistent time series to evaluate their effectiveness *ex post*.<sup>6</sup> Fortunately, a wide range of information sources already exists. For instance, data that can be used to assess the supply of financial services are widely available. More recently, a number of initiatives have started to complement this information with survey-based indicators (covering both households and firms), for instance, to assess financial literacy issues and the quality of users' access to financial services. Nevertheless, significant efforts are still required to exploit the full opportunities provided by existing administrative data sources.

**Central banks have played a pivotal role** in collecting financial inclusion statistics. At the global level, they have actively contributed to the G20 Financial Inclusion Action Plan (FIAP) that is pushing data collection initiatives in various areas – including digital financial services, SMEs finance, and financial literacy.<sup>7</sup> But the local data needed to cover financial inclusion issues can differ significantly across countries – depending, for instance, on their degree of financial deepening. Accordingly, many central banks have also taken steps to compile additional, domestic statistics to complement the global indicators; these can help to facilitate the centralisation of the various data sets that may already exist in a country.

## The workshop: enhanced data to support financial inclusion policy

The experience of the Irving Fisher Committee on Central Bank Statistics (IFC) is that **sharing national experiences** can bring important benefits to the international statistical community. A major one is the identification of best practices – particularly useful when authorities are struggling to implement global initiatives locally. International discussions are also key to disseminating new techniques and raising awareness of related achievements and limitations.

Focusing more specifically on financial inclusion, a key conclusion of previous IFC work is the **importance of the role played by data**. This is because of the broad aspects to be considered when dealing with financial inclusion issues (eg financial supervision, consumer protection, economic policy), and also because of the close interaction between measurement and policy actions in this area.<sup>8</sup>

Central banks are in a unique position to promote the use of data for financial inclusion purposes, reflecting the extent and diversity of their mandates and policies in this area. Against this backdrop, the IFC, in cooperation with the Bank of Morocco (BoM) and the Center for Latin American Monetary Studies (CEMLA), organised a

<sup>6</sup> For an overview of the related data aspects, see B Tissot, "Statistical challenges related to financial inclusion", 2015; paper presented at the 60th congress of the International Statistical Institute in Rio, <http://unstats.un.org/unsd/acsub-public/Session-ISI/Documents%202015/Paper-BIS-Tissot.pdf>.

<sup>7</sup> Many central banks take active part in the GPMI, which is carrying forward the FIAP; this strategy was first endorsed at the Seoul G20 Summit in 2010 –see G20, "The G20 Seoul Summit Leaders' Declaration", November 11-12 2010. As a result, many central banks have an active role in the Alliance for Financial Inclusion (AFI), the OECD International Network on Financial Education, the IMF Financial Access Survey, or the World Bank Global Findex Initiative.

<sup>8</sup> For a summary of previous discussions, see IFC, "Financial inclusion indicators", *IFC Bulletin* no 38, January 2015.

workshop in July 2017 to discuss **how statistics can be better used to support financial inclusion policy needs**. Almost 100 participants convened, representing 34 central banks and several international financial organisations and other institutions.

In his opening remarks, Abdellatif Jouahri, Governor of the BoM, emphasised that **policies to promote financial inclusion need to be guided by data**. To this end, three aspects were essential. First, international data collection initiatives are instrumental if one wants to use globally harmonised data sets. The World Bank Global Findex and the IMF Financial Access Survey (FAS) are good examples of such global initiatives designed to assess financial inclusion – from the supply and the demand side, respectively. Second, local authorities should conduct data collection exercises to measure aspects that are specifically relevant in their jurisdictions. For instance, the collection of high-quality data on very small, small, and medium-sized enterprises (VSMEs) is a key objective of the BoM in order to support enterprises' access to finance. Since VSMEs play an important role in Morocco, the BoM has launched an initiative to centralise and analyse data on this particular segment. Third, local authorities and international institutions can usefully cooperate to improve the quality of the data collected on financial inclusion. For instance, the BoM has conducted, in cooperation with the World Bank, a survey to assess households' perception of financial services. The BoM also interacts with the central banking community on those topics. Such cooperation efforts have been particularly useful for developing the National Financial Inclusion Strategy.

Claudia Buch, Vice President of the Deutsche Bundesbank and Chair of the IFC, emphasised in her remarks that financial inclusion can promote economic prosperity and help strengthen economic opportunities. At the same time, it requires consumers and investors to acquire additional skills and abilities. Widespread access to financial markets and to a greater variety of products can increase the likelihood of uninformed financial decisions or fraud. A certain level of financial literacy is therefore required to properly manage risks. This is particularly important for young people, whose financial decisions can affect lifetime income and wealth. Thus, young cohorts have an important stake in current policy decisions on fiscal policy and pension reforms. From this perspective, **effective financial education** is important, not least to ensure informed financial decision-making. The challenge is that educational programmes have to be properly implemented in order to deliver the intended results. In particular, they need to take account of national educational systems. Successful approaches can vary between countries, given the differences in educational systems and other institutional features affecting financial literacy. In this context, the 2017 German G20 presidency contributed to the improved analysis, sharing and design of information on financial literacy programmes.<sup>9</sup>

The meeting was organised **in four parts covering various aspects of the role that data can play to support financial inclusion policy**. The first part emphasised the importance of capturing local characteristics of financial inclusion when setting policies. The second part focused on the need to measure financial literacy, which has proved important when assessing financial resilience. The third part discussed how the evolution of financial markets can create new data gaps, and the efforts to address

<sup>9</sup> Policymakers, researchers, and practitioners will benefit from the new data promoted by the OECD/International Network on Financial Education (INFE): see C Buch, "Financial literacy and financial inclusion: Priorities of the G20 German presidency" speech at the fourth OECD/GFLEC Global policy research symposium to advance financial literacy, 2017.

them. The last part dealt with the importance of the initiatives to construct globally harmonised, and historically comparable, data sets on financial inclusion.

## Key takeaways

The discussions highlighted a number of key issues regarding the compilation of statistics for effective policy implementation to promote financial inclusion, with specific implications for central banks:

- **Policymakers need harmonised cross-country data to design and evaluate financial inclusion policies.** Several sets of statistics are already available, thanks in particular to the ambitious post-crisis international data collection initiatives. These statistics can help, for instance, in assessing the potential of digital innovation to provide services to financially excluded groups.
- **Time consistency is also key, not least to assess the effectiveness of financial inclusion policies.** Global harmonisation can help from this perspective, by providing a stable framework for collecting data over time.
- **National authorities often need to launch additional data collection initiatives to capture aspects of local interest.** For instance, advanced countries have a great interest in financial inclusion aspects related to economic fragilities (eg risk of excessive indebtedness). Similarly, countries that seek to promote access to financial services for certain population segments need specific data related to the groups being targeted.
- **Central banks play an important role in the production of financial inclusion data.** They are in an almost unique position to exploit administrative data sets, especially on the financial system, thanks to the information reported by banks and other financial institutions. They can also complement such supply side statistics with other sources, leveraging their experience in conducting surveys and measuring financial literacy.
- **Data needs can rapidly change because financial markets are constantly evolving** – witness the pace of innovation in digital payments and financial services (eg via smartphones). This can result in unexpected data needs, because of the limitations of “traditional” administrative sources of information (such as banking data) to capture these changes. Besides, innovation can lead to new ways of collecting data (eg big data techniques).<sup>10</sup>
- Countries should focus on an **integrated view of financial inclusion statistics**. This is because they involve several policy areas, such as financial infrastructure provision or consumer protection. As a result, the data are often scattered across different institutions within a country.
- Significant **coordination is required to address these issues, although international experience is quite diverse**. One way is to better formalise data cooperation between the various stakeholders; another is to clarify that one institution is in charge of centralising country information in the context of a clearly defined financial inclusion strategy. In any case, central banks can,

<sup>10</sup> See IFC, “Big data”, *IFC Bulletin*, no 44, September 2017.

and have indeed done so already in many places, play a useful role in fostering such a coordinated approach.

## 2. Capturing local aspects of financial inclusion

The first session, chaired by Aurel Schubert, IFC Vice-Chair and European Central Bank, emphasised that financial inclusion **data collection has both a global dimension and also important domestic aspects**. First, local policy priorities might differ significantly across countries. Domestic specificities should be carefully considered to ensure time series are compiled consistently, a prerequisite for effective policy evaluation.<sup>11</sup> Furthermore, there is a need for adequate local frameworks for cooperation and data-sharing especially in countries where data on the use of financial services are dispersed among several authorities.

These issues were highlighted in the first presentation, by the Bank of Portugal (BoP), which stressed the importance of **enhancing granular information on borrower quality**. In particular, a key policy objective is to identify the types of borrower that run a risk of losing access to formal financial services, noting that these groups may differ across jurisdictions. The Central Credit Register (CCR) set up by the BoP is an important source of information in this respect. Its data on credit liabilities on a loan-by-loan basis can be used by financial institutions to assess borrower risk profiles.

The Bank of France also underlined the **importance of capturing country-specific data on households' financial fragilities** as a way to support the provision of basic financial services to them. Monitoring these fragilities is a policy priority in many advanced economies, where access to financial services is relatively widespread but can be suddenly interrupted for certain groups of households. In France, the Banking Inclusion Committee, a tripartite council chaired by the central bank's Governor, is coordinating a national strategy to address this issue and facilitate the continuous provision of basic financial services (eg specific bank accounts with reduced fees and minimal services; microcredit facilities; and answers to questions about financial issues) to financially fragile households. This requires the collection of data with many local characteristics.

This was echoed in the presentation from the Central Bank of Malaysia (CBM), which stressed the **need for consistent time series data to evaluate financial inclusion policies**. This is particularly important for the CBM, which has been formally tasked with setting up a strategic plan to foster financial inclusion in Malaysia. This plan seeks to develop new financial services and products, enhance financial infrastructure, and improve financial literacy. To monitor progress, specific data sets and indicators will need to be designed, collected, analysed and, for policy evaluation purposes, monitored over time. This means that local considerations have to be carefully considered, for instance, to ensure that the same indicator can continue to be monitored even if it is not part of a globally harmonised financial inclusion data set.

<sup>11</sup> See also the "Sasana statement" ([www.bis.org/ifc/publ/ifcb38v.pdf](http://www.bis.org/ifc/publ/ifcb38v.pdf)) as well as B Gadanec and B Tissot "Key messages of the Sasana Workshop on Financial Inclusion Indicators – Promoting financial inclusion through better data", *IFC Bulletin*, no 38, February 2015.

Lastly, the BoM emphasised that **cooperation is key to carrying out national financial inclusion strategies**, in particular when there is a need to centralise the data collected by various distinct institutions. Almost by definition, this cooperation has a very domestic character. For instance, the BoM is gathering and centralising financial inclusion data, across several dimensions (eg access, usage and quality). Complex domestic information must be assembled from a variety of sources, for instance on the concrete barriers to accessing financial products, the actual needs of the population, financial behaviours and the various measures taken by local authorities. Geospatial Information System-type tools are used to document these local characteristics. The BoM also takes part in global networks, not least with the aim of identifying and implementing best practices.

### 3. Compiling data on financial literacy

The second session, chaired by Katherine Hennings, IFC Vice-Chair and Central Bank of Brazil (CBB), discussed **the importance of financial knowledge measurement as part of national strategies to promote financial inclusion**. By preventing financial mistakes, financial literacy could help to counter the build-up of vulnerabilities. As a starting point, the OECD International Network on Financial Education (INFE) has set common rules for compiling relevant data. These standards can be complemented in various ways, for instance to enhance the quality of the information collected from households, to better incorporate the impact of life-cycle or macroeconomic factors, to monitor consumer protection issues and to assess how financial services are responsibly used. In this context, country-wide coordination is often the key to success, since national-level measures to enhance financial literacy often involve several institutions.

As an example of recent initiatives to assess financial literacy, the Bank of Spain presented the Spanish Survey on Financial Competences and the **importance of the associated quality challenges**. This survey has been based on the global questionnaire coordinated by the OECD-INFE, complemented by features to address the problem of non-responses. Interviewers have been specially trained, and the quality of interviews has been checked to address this issue pre-emptively.

The Bank of Italy also showed that **financial literacy measurement should take into consideration a variety of factors such as the state of the economic cycle or life-cycle considerations**. The global OECD-INFE questionnaire can be usefully complemented by domestic considerations to adjust for such factors, for instance to better understand how financial decisions are taken by Italian households and the associated potential vulnerabilities.

Furthermore, and as argued by the CBB, it was **important to go beyond “simple” financial literacy indicators** in order to gauge the soundness of households’ usage of financial services. To get the big picture and measure “financial citizenship”, one should consider additional information on the real availability of financial services and their effective use. To this end, the CBB combines administrative information from bank records with survey results on financial education and consumer protection.

Lastly, the Dutch National Bank presentation stressed that **coordination among institutions is a key factor to consider when promoting financial literacy**. For

instance, the measures taken in the Netherlands aim to foster resilience – a concept encompassing access to services, consumer protection, and appropriate behaviour – involve about 100 public and financial institutions, as well as universities, that need to be coordinated.

## 4. Closing data gaps in an evolving environment

The third session, chaired by Gülbin Şahinbeyoğlu from the Central Bank of the Republic of Turkey, emphasised the urgency of closing data gaps in areas where measures have been taken to promote financial inclusion. For instance, various countries have made efforts to facilitate financial access for SMEs, but information on this sector is still relatively limited. This information gap needs to be filled if the impact of these policies is to be properly assessed. However, **data gaps related to financial inclusion can rapidly change with the financial and economic environment.** Changes can also be triggered by the effects of the financial inclusion measures themselves. In particular, the introduction of new financial instruments to facilitate access to the underserved can transform financial markets (eg by opening the door to new types of financial product supplier), creating additional information needs. Innovation in retail payments has, for example, given rise to new data requirements.

Indeed, the Central Bank of Chile presentation highlighted how **policy actions can rapidly and significantly change the financial inclusion situation.** The recent introduction of CuentaRut, a sight deposit account at a state-owned bank, has facilitated financial access for low-income households in Chile. Accounts are easily opened, free of charge, and all major types of payment can be processed. This has been considered a success, with more than half of the population now holding such an account. But one consequence is that traditional financial inclusion indicators, such as the number of accounts held in commercial banks, may have lost some of their relevance.

The **Moroccan Observatory of Small and Medium-sized Enterprises** (VSMEsO) focused on the data gaps related to small firms. To evaluate their impact, policy efforts to support access to finance have to be accompanied by adequate data collection. To this end, the VSMEsO sought to centralise all the relevant data, for instance, in the administrative records of different public institutions. This necessitated the implementation of a common identification system.

As argued in the third presentation, by a private Nigerian firm, a growing information need relates to **digital retail payments, which are expanding rapidly.** This is key in Nigeria, since payments are increasingly made outside the regular banking system eg through mobile money operators. This not only opens up new data gaps, for instance, in measuring the activities of these new market participants, but it also makes some previous data sets obsolete. For instance, traditional indicators such as the number of ATMs per inhabitants understates the progress of financial inclusion.

The complexity of this issue was emphasised by CEMLA, building on recent experience in Latin America and the Caribbean region. Even if households have increasing access to digital payment systems, central banks must still ensure that households can actually hold a formal bank account. From this perspective, innovation **calls for more financial inclusion indicators, not fewer.**

Another challenge as argued by the BIS, is that **progress on financial inclusion may lead to additional data needs in other areas, for instance with respect to monetary policy**. Indeed, greater access to financial services could affect the aggregated prices of goods and services, leading to a reassessment of monetary policy objectives and indicators. This could have important data implications, for instance, if central banks needed to monitor inflation volatility more intensively.

## 5. The need for cross-country harmonised time series

The fourth session, chaired by Hock Chai Toh, CBM, showed that **effective policy evaluation requires cross-country and historically comparable financial inclusion indicators**. Several international initiatives have boosted the availability of such data sets, thanks to the harmonisation of administrative records by central banks and other regulators. One outcome is that it is now possible to compute synthetic or multidimensional indicators in order to make valid comparisons between different countries. In addition, an increasing number of data points are being collected, allowing the impact of financial inclusion policies to be more consistently evaluated.

A key data set in this regard is the **Financial Access Survey (FAS)**, which is based on coordinated international work to harmonise administrative data on access to finance. As emphasised by the IMF, the FAS has already been used to explore trends in financial inclusion, since the time series are internationally comparable and go back to 2004. This has been particularly useful in measuring areas of improvement (eg use of mobile money by financially excluded groups) as well as emerging policy issues (eg non-bank service providers, gender gaps in financial access).

Another important data set is the **Global Findex survey**, which covers up to 150,000 individuals to shed light on usage of financial services worldwide. The World Bank confirmed the usefulness of this data set in assessing informal financial services – as a complement to “traditional” administrative sources, which are by construction more geared to capturing formal financial services. The data set also helps to illuminate household financing needs (eg revealing the importance of housing loans in higher-income economies as compared with borrowing for health and education reasons in developing countries), as well as differences in financial literacy across countries.

Such global data sets open up new opportunities for research, as highlighted by the BBVA’s presentation of **a synthetic multidimensional index on financial inclusion**, which combines a large number of demand and supply side statistics. This index is comparable across countries and over time, and it is easy to interpret – an important advantage, given the rapidly expanding number of financial indicators. Moreover, the synthetic index allows countries to be consistently and comparably ranked over time, facilitating analysis of contributing factors. Thus, it can be useful in guiding policy and evaluating its impact.

As summarised in the final presentation, from the BIS, **both internationally harmonised statistics and the ability to capture national characteristics are important when evaluating financial inclusion policies**. This was a clear message of the IFC’s 2016 survey of member central banks.<sup>12</sup> Because of differences in financial

<sup>12</sup> See IFC, “Measures of financial inclusion – a central bank perspective”, *IFC Report*, June 2016.

inclusion policy mandates, data collection initiatives should be tailored to local needs. But national policymakers also benefit from globally consistent data sets, for instance, when seeking to formulate policy priorities, conduct benchmarking exercises and identify best practices.