Financial Inclusion and Financial Education

Comments by
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The views contained in this material reflect the personal views of the author and not necessarily those of the institutions he is affiliated with.
Financial Inclusion and Financial Stability

- Historically, lending to low-income borrowers considered as low-risk

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Source: International Finance Corporation; MIX
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• Historically, lending to low-income borrowers considered as low-risk

• Perceptions changed after Andhra Pradesh microfinance crisis

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• Problem: not financial inclusion, but inadequacy of existing market infrastructure in ensuring sound lending practices with expansion of access to finance
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• Key issues:
  – Financial education
  – Credit information
  – Consumer protection
Financial Education

• Important principles:
  – Multi-stakeholder approach
  – Lifelong financial education
  – Complementary roles of financial education, consumer protection and financial access
Financial Education

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  – Multi-stakeholder approach
  – Lifelong financial education
  – Complementary roles of financial education, consumer protection and financial access

• Financial education strategy needs to:
  – Reflect constantly changing landscape of financial services
  – Expand the frontiers (e.g., migrant labor, rural population
  – Progressively become more cost-effective
Credit information

- Studies (e.g., WB, IDB): making more data available to lenders leads to:
  - Lower default rates
  - Wider lending, especially to small businesses
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• Effective credit reporting systems
  – Full file (negative+positive) vs. negative-only
  – Comprehensive (multi-sector) vs. segmented (one sector only)
  – Need sound legal and regulatory framework that:
    • Protects privacy and consumers
    • Allows efficient permissible use of data
Financial Inclusion and Innovation

- Innovation: important for success of financial inclusion
Financial Inclusion and Innovation

• Innovation: important for success of financial inclusion
• Complementary role of regulation and financial education
Financial Inclusion and Innovation

• Innovation: important for success of financial inclusion
• Complementary role of regulation and financial education
• Value of public-private partnership