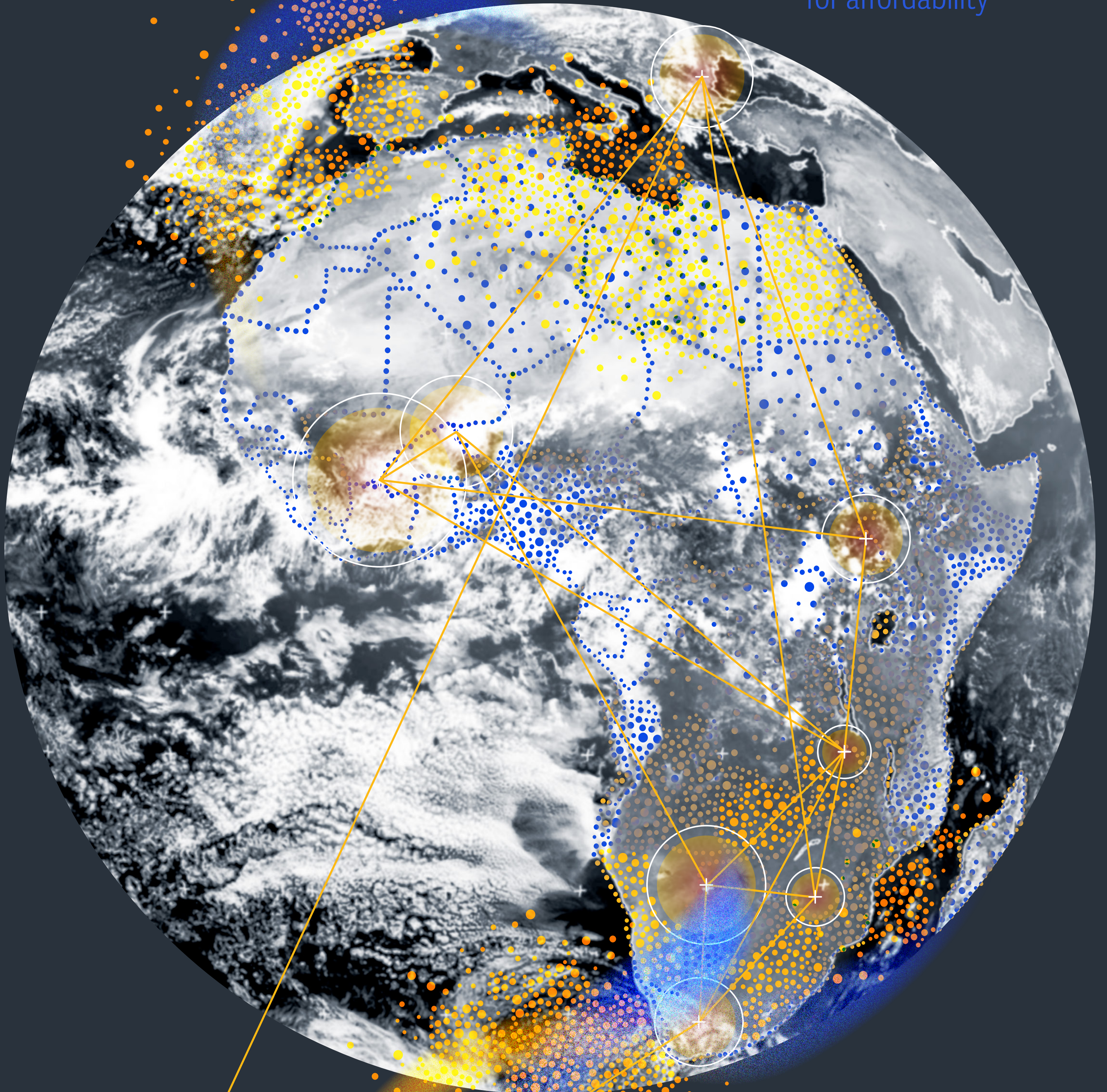
Banks and bank pricing as financial inclusion's interface with consumers:

Towards a framework for affordability



UNSEEN

Why is banking unaffordable for so many – and what can be done about it?

Financial inclusion as a policy instrument serves as a 'bridging solution' in that it enables developing countries and their governments to grow inclusive, market-based systems that increase national capacity for self-determination and for generating sustainable solutions into the future. Financial inclusion is key to such governments' ability to stabilise sustainable financial systems by more deliberately including low-income consumers at the kind of scale needed to constitute viable opportunities for investors that can spearhead inclusive growth. Though developments in technology are already transforming financial markets, and might in time prove to be the required 'game changer' in achieving massively increased financial inclusion, banks remain a key mechanism whereby consumers, especially the low-income, *should* be able to interface with financial services; and the cost of banking services – and, by extension, an individual's ability to access formal financial services – is an important determinant of whether that person engages in the formal economy or not.

Certainly, there are many non-pricing-related factors that can discourage the low-income from accessing and using formal financial services. But price and cost of access continue to be a significant barrier, typically showing up, for instance, in cost of opening the bank account, monthly fees, fees levied on transactions, requirements around minimum balances in deposit accounts, and/or restrictions on minimum loan amounts. In short, the MAP research unequivocally indicates that affording a bank account – *importantly, despite being of nominal cost* – is often beyond the income capacity of low-income consumers.

Furthermore, for such consumers, the *full cost of access* to banking often differs substantively from the actual pricing set by financial institutions. There are a number of possible reasons for this higher actual cost of access, including, for instance, for those living in rural areas lack of proximity to banking infrastructure, which means high transport and opportunity costs incurred to access banking services; and/or the high cost of mobile data in some countries that is an unwelcome addition to the fees consumers must already pay for mobile banking.

In other words, *affordability* of accessing financial services is complex in least developed countries (LDCs). Many do not enter the formal financial system and the formal economy because they simply cannot afford to. And yet, to the wider society the true cost of exclusion is far higher.

It is precisely the complexity of affordability that makes it important to better understand the dynamics and contribution of bank pricing. Bank behaviour, including competition levels and transparency/opacity, becomes an important focus for understanding to what extent LDC domestic financial markets are fit for purpose, in terms of meeting the financial services needs of the population – as well as what might be done differently and better towards sustainable financial systems. How do these core institutions of societal inclusion function – and how well are they working to unlock the potential of financial inclusion to support sustainable development outcomes?

While much has been done to unpack different factors that impact on affordability in developing markets, up to now there has been a lack of cross-country comparisons of the pricing of financial institutions themselves (even before such things as the full cost of access can be determined). This is largely because, despite the ubiquity of data, there is a lack of data *being made available between the public and private sectors* on the pricing of financial institutions, thus making it difficult to pronounce on the affordability of services as experienced by different demographic groups (including the socioeconomically vulnerable).

It has proven difficult to obtain detailed data on bank pricing at a national or regional level within a methodical and coherent framework that allows for analytical reflection on markets. MAP argues that this is a massive missed opportunity in that it is simply not possible to devise new business models for serving the low-income without having clear and comparative data on bank pricing in relation to consumer incomes, which in turn allows for an understanding of affordability.

Affordability is a big part of the financial inclusion/inclusive growth conundrum, because in countries where the majority of the population are low-income, only *affordable* financial services are likely to achieve financial inclusion at a scale significant enough to promote inclusive growth and support government efforts to deepen the domestic financial systems; and yet, equally and for the same reasons, the pricing models must work from a commercial banking point of view.

Financial inclusion's reticulating interface with low-income consumers and the financial services sector is a huge part of the puzzle to be solved through increased uptake and usage of formal financial services. While financial inclusion alone cannot solve deeply engrained poverty dynamics, securing inclusion can act as a springboard to greater prosperity; over time, this can shift the distribution of income across different quintiles while also growing the domestic financial system by bringing on board a greater number of people.

In order to understand the dynamics of the financial services sector with regard to serving low-income consumers, UNCDF's MAP programme commissioned the collection of bank pricing data. Based on the successful pilot data collection in 2017, this was extended into a larger database in 2021 and 2022. This data has proved useful for identifying differences in pricing and pricing strategies, specifically in the low-income market, across the 35 countries included in the study (across three regions: ASEAN, SADC and WAEMU),[1] but has also started to point toward trends in pricing across the four years that data was collected for all 35 countries (2019 to 2022). Of most value though, the pricing data can be used for a detailed understanding of affordability across markets, including regionally, which provides a background to the financial services markets in which UNCDF MAP operates; this starts to highlight existing financial ecosystems and their appropriateness for meeting the needs of the low-income. The data for 2021 was used for the analysis as 2022 data collection has not been finalised at the time of writing.

1. Association of Southeast Asian Nations, Southern African Development Community, and West African Economic and Monetary Union

The MAP affordability and bank pricing framework and findings

The MAP affordability and bank pricing framework rests on a number of key assumptions building on the programme's ongoing and extensive research into financial inclusion in developing country contexts:

- Within financial inclusion efforts, bank pricing is a key focus. It is necessary to gather – and, crucially, share between the private and public sector partners - clear and compelling data on bank pricing in order to illuminate barriers and enablers to financial inclusion for inclusive growth.

- Unpacking 'affordability' in low-income countries requires also understanding livelihoods, and an analysis of bank pricing in LDCs needs to take into account the larger context of people's livelihoods, especially given high levels of poverty in many instances.

- The complexity of LDC financial ecosystems means a focus on bank pricing alone will always be insufficient. The potential of financial inclusion can only be fully realised if financial services are *available, accessible and affordable* – and understanding this triple challenge for the private and public sectors entails understanding the interplay of a number of underlying factors, including market dynamics and, crucially, competition.

- At a higher level, it is necessary to understand global financial flows and dynamics in terms of how they determine country-level and regional possibilities for inclusive growth through financial inclusion.

- A policy of promoting financial inclusion is in effect encouraging a sociopolitical change, in that markets that are left to their own devices most likely lead to the exclusion of the low-income (or a situation where the economically vulnerable are only able to access microfinance).

- Country governments have a responsibility to incentivise and derisk accelerated financing and inclusion, partly through increasing the depth of financial markets and more equitably distributing financing across a broader range of individuals, households and firms.

- While business models for low-income (especially rural) markets are quite unclear using a conventional lens, what constitutes healthy economies will need to be rethought, to include the metrics of economic, financial and social inclusion – societal inclusion – and operation within planetary boundaries.

With development in need of broader thinking around the social complexities of formal economic growth, somehow or other lower-cost business models that enable uptake and usage of financial services at scale will need to be developed for reaching the 'unbanked'. At the same time, disrupting entrenched market obstacles that impede inclusion will need to be made a key policy focus. While the mobility of capital is largely driven by shareholder interest, the allocation of that capital as a public good must remain an issue for the public sector, assuming it is motivated by the need to overcome social and gender exclusion.

UNCDF's affordability and bank pricing framework provides a tool for investigating and understanding the extent to which bank pricing is acting as a barrier to or enabler for increasing access to financial services – in particular bank services. From the data, particular insights on affordability emerge, alongside other insights useful for understanding how market dynamics might be improved so as to extend financial inclusion.

Affordability methodologies used

Over time and based on changing consumer preferences and sophistication, bank pricing analysis has used various methodologies for affordability. Two methodologies that correspond with MAP's experience across countries were also leveraged for UNCDF's affordability and bank pricing framework:

2%. While there is no formal affordability rule for financial inclusion, Beck (2016)[2] cites an affordability measure of 2% of annual income for the cost of financial services to low-income households, as a rule-of-thumb analysis. This is congruent with MAP's findings across countries.

Minimum affordability analysis. As an indicator of the most basic cost of access, the monthly account fee plus the cost of one ATM withdrawal per month can be used. This corresponds with MAP's findings (see Note 4, Volume 1 in the MAP Global Insights series) that most low-income customers use their bank accounts as a mailbox, whereby they receive their income in a bank account but then immediately withdraw all the money and spend it as cash. Any usage of bank accounts over and above this minimum will likely incur higher fees on average, as many banks charge usage fees on top of the monthly account fee, so this methodology allows for an assessment of the minimum cost of having a bank account. This also corresponds with a trend observed for banks included in the study, where higher fees are charged for in-branch withdrawal of cash than for withdrawals via ATMs.

The basket of products and services for minimum affordability analysis consists of:
- Monthly account fee on a personal account.
- Cost of one ATM withdrawal per month at a customer's own bank ATM.

The results are depicted in Figure 1, for countries where the above data was available (and excluding Brunei Darussalam and Singapore, given their high per capita GDPs).

Figure 1: Bank pricing: minimum actual affordability versus implied affordability in 28 of 35 low-income markets (2021)

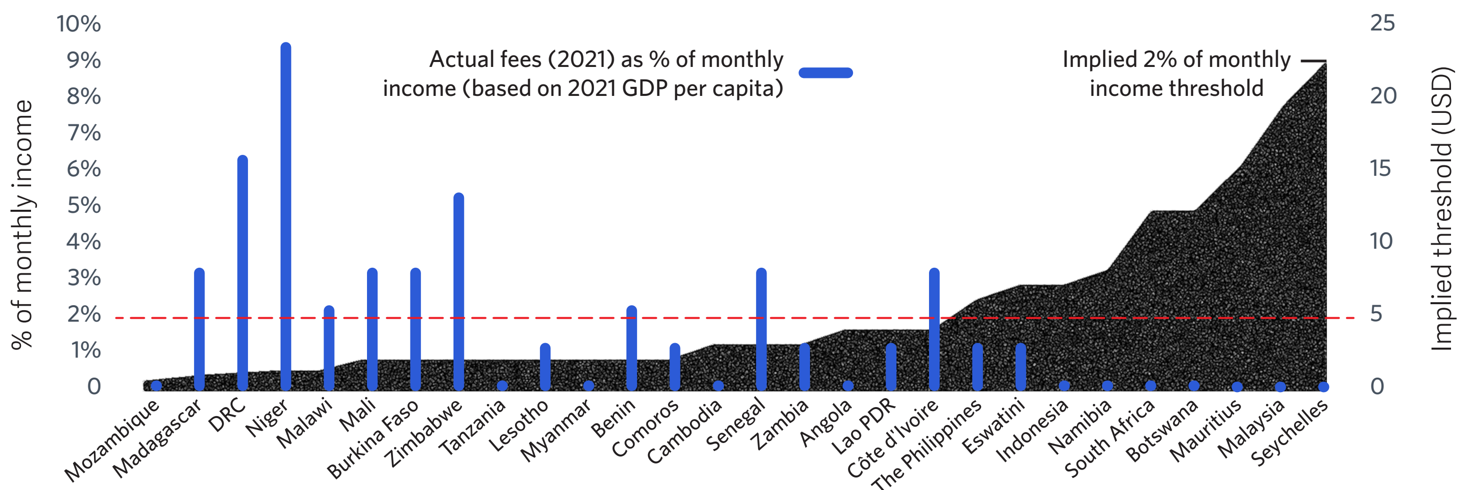


Figure 1 shows the combined cost of a monthly account fee and one ATM withdrawal for low-income bank products (as % of monthly income, on the left axis), as collected for MAP's study, and compares this to an implied 2% of monthly income affordability threshold (in USD, on the right axis), both calculated using countries' GDP per capita as a proxy for annual income. The implied threshold in US Dollars (USD) demonstrates that higher-income countries can more easily address affordability, as the majority of citizens in these countries can afford monthly fees of USD 5 to USD 10. The 2% threshold is also depicted as a vertical line for the left axis. Countries are arranged from lowest GDP per capita (on the left) to highest GDP per capita (on the right).

2. Beck, T. (2016). Financial Inclusion: Measuring Progress and Progress in Measuring. Paper delivered to the Fourth IMF Statistical Forum 'Lifting the Small Boats: Statistics for Inclusive Growth'. Available online.

Findings on affordability through applying the MAP affordability and bank pricing framework

The following key affordability-related takeaways can be derived from this analysis:

1. The affordability of services varies by country, and in some countries the cost of the basket of products and services exceeds the 2% affordability threshold.

2. At the 'minimum fees' level, most of the 35 countries demonstrate good affordability. However, if products and services at minimum fees are not available to a consumer (e.g. access to the bank offering low fees is limited because of poor proximity to infrastructure), then affordability decreases significantly (based on average fees for higher-priced accounts across banks).

3. Countries with lower per capita GDP (and thus lower average incomes) are more likely to exceed the 2% affordability threshold. By the same token, countries with higher GDP are much less likely to exceed the 2% threshold. This presents a big part of the financial inclusion/inclusive growth conundrum: that the countries that could benefit the most from increased access to formal financial services struggle the most with the affordability thereof.

The research found distinct regional characteristics of affordability:

• ASEAN

Overall, ASEAN countries demonstrated better levels of affordability than the SADC and WAEMU regions. This is as a result of income levels in the Asian countries being higher than in the African countries, while bank fees in many ASEAN countries are comparatively low or even zero-rated.[3]

• SADC

Overall, countries in SADC tended to have lower affordability than those in ASEAN:

- The majority of SADC countries fall below the 2% threshold.
- Three countries (Madagascar, DRC and Zimbabwe) substantially exceed the 2% threshold. A fourth country (Malawi) is close to the 2% threshold. However, all four of these countries fall at the low end of the GDP per capita spectrum, suggesting that low affordability could be driven by general low income levels in these countries.

• WAEMU

Countries in the WAEMU region showed the lowest levels of affordability:

- All six countries (for which there is data) exceed the 2% threshold – meaning that lack of affordability will be a barrier to access across the entire region.
- What is more, half of these countries fall in the mid-range of GDP per capita, meaning that the lack of affordability cannot be explained solely by low national income levels. In the WAEMU region, lower affordability is driven mainly by the monthly banking fees charged on personal accounts.

The MAP research and data from the three regions sheds light on some of the actual mechanisms of pricing strategies as they impede financial access.

3. Affordability data for Nepal was not available.

Minimum cost of access

ASEAN and SADC: Most countries in the ASEAN and SADC regions either have zero-rated or low monthly personal account fees.

However, withdrawal of cash, whether in the bank branch or at an ATM, attracts transaction fees.

WAEMU: In contrast to this, most countries in the WAEMU region do have monthly personal account fees, and these fees are typically higher than in the other two regions.

On the other hand, WAEMU region countries have no cash withdrawal transaction fees, meaning banks do not charge transaction fees for cash withdrawal at a teller in the bank's own branches or from an ATM that belongs to the customer's bank. These fees may be included in the flat monthly fee, and the objective might be to encourage customers to use automated modes of transaction as much as possible (without the involvement of bank personnel).

However, clearly this pricing strategy results in higher levels of minimum cost of access to customers; i.e. it increases the direct cost to (particularly low-income) customers.

Actual cost of access

An important MAP finding over time has been that where banks fail to price for the use of distribution infrastructure (e.g. ATMs), they negatively impact on the indirect cost to customers by effectively disincentivising provider rollout of such infrastructure; the result is that consumers' actual cost of access to financial services is further increased when, for instance, they must travel to more distant access points (see MAP Malawi 2014; and MAP Mozambique 2014).[4]

Recommendation arising from the MAP research

In general, and particularly in the SADC countries, the research found a high incidence of zero-rated products and services targeting low-income consumers. The minimum fees, in particular, are often zero-rated. The research points to a growing effort among banks to provide low-income consumers with more affordable products and services as a way of expanding their customer bases and driving financial inclusion.

The data suggests that when it comes to pricing for financial inclusion, a rational strategy would be to focus on low-cost or no-cost monthly fees but retain differential pricing strategies for infrastructure usage and for additional value-adding services. In this way, newly included consumers are given control over their bank account and choice of services, while still having a low-cost minimum package of services that is more affordable for them.

Affordability further complicated

The affordability analysis looks at the basic cost of access to a transactional bank account, and does not take into account the cost of specific bank products, such as a deposit account, or getting a loan from a bank. In most LDCs, the cost of credit tends to be substantial, even though banks typically offer the lowest interest rates in these markets (compared to MFIs, for instance). Nevertheless, these costs would be added on top of the cost of basic financial access, often making additional products – and in particular credit – only accessible to (and affordable by) a small minority of the population.

4. UNCDF. (2014). MAP Malawi 2014. Available online; and UNCDF. (2014). MAP Mozambique 2014. Available online.

Furthermore, while digitalisation offers solutions to the challenge of decreasing the cost of access for low-income consumers (by decreasing handling costs for banks, and negating the need for customers to travel to branch locations, which as already highlighted is often the highest cost component of access), in the case of digital access to bank accounts, the cost of mobile data could create an additional barrier for the lowest income groups, in the process further undermining the affordability of accessing a bank account.

MAP findings on variation in affordability over time (2019 to 2021)

From the perspective of variation in affordability levels over time, decreased affordability of bank products and services generally occurred in 2020, most likely due to the COVID-19 pandemic.

In the post-pandemic recovery phase (starting during 2021), affordability levels appear to be stabilising, although not in all instances:

- Some banks have not decreased prices for a range of products. In fact, the prices of some products and services increased in 2021.
- Countries in the ASEAN and WAEMU regions have seen overall greater price decreases than in the SADC region in terms of monthly personal account fees, as well as cash withdrawals either in-branch or at an ATM (own bank).
- Fees for cash withdrawal (at own bank) are already zero-rated in many countries in the ASEAN and WAEMU regions and remained so in 2021.

Beyond affordability: context counts

An analysis of bank pricing in LDCs can only really be understood in the larger context of people's livelihoods because the reality is most people in those countries operate outside the formal economy, deriving their income instead in the informal economy. As a result, a large proportion of the population have very low levels of income, in addition to having highly variable income, and are also very price sensitive. This is important to take into consideration in LDC contexts, including for the fact that as a result of low incomes on the part of the majority of the population, banks typically target the small minority of individuals and businesses in a country that enjoy higher, more stable incomes.

Despite the availability of low- or zero-fee bank accounts across most of the countries, and most countries falling below the 2% affordability threshold, the banked population in many countries remains low. This underscores the fact that increasing bank account uptake among low-income consumers is not a simple matter of decreasing bank pricing, and that factors beyond affordability also play a role in determining whether a person is banked or not, and their potential bankability. From both a consumer and a provider perspective, low-income communities living in rural areas, for example – where all transactions in the informal economy are cash based – undermine the business case for being banked. And where consumers are not in possession of a national ID card, this restricts mobile phone ownership, which can also block financial inclusion via blocking access to mobile money.

Further evolving the MAP affordability and bank pricing framework

Given not only the complexity of affordability but also that bank pricing alone cannot explain financial exclusion, in future the MAP pricing data should be used for performing more granular country-level affordability calculations: for instance, affordability by income quintile and based on the observed financial behaviour of different income groups (using MAP's livelihoods financial inclusion data). Such analysis could demonstrate the exact proportion of a country's population that are excluded from financial services purely on the basis of bank pricing strategies, which could prove invaluable in informing product design as well as more deliberate market-based policy and regulation to enhance inclusion.

Low-income market dynamics and affordability

Bank competition

Where market competition is limited, where monopolies form, or where banks only target higher-income groups, financial exclusion becomes a fact of life. If access to banking is in effect priced out of the market for low-income people, the financial system risks not only contributing to but potentially causing inequality, which in turn hinders an inclusive growth trajectory for a country. Understanding the extent of market competition becomes critical for understanding banks' pricing policies and behaviour in those markets.

Bank product pricing is influenced by profit considerations, price and quality ratios, risk aversion, costs of delivery, and regulatory compliance. However, a provider's market share, as well as the level of competition it faces in the market can also influence pricing. In many LDCs, conventional markets are often far from competitive and demonstrate a high degree of inefficiency. As argued in MAP's new round of financial inclusion refresh diagnostics, financial service industries play a crucial role in growth and national economic development because financial service outputs feed into other industries (see, for instance, the 2021 MAP Lesotho financial inclusion refresh diagnostic).[5] Economies with highly priced and inefficient financial sectors will find their competitiveness in (for instance) extractive and manufacturing industries affected as well. At a household level, people use financial services to meet their basic needs; but the financial services and mechanisms they use depend, among other things, on the affordability of those services in relation to alternative mechanisms at their disposal – mechanisms that are often informal and, while seemingly expensive, more appropriately meet low-income consumers' financial needs while offering a richer mix of benefits (see Note 2, Volume 3 in the MAP Global Insights series).

Market competition stimulates financial service providers to cater to multiple layers of the market at a sectoral level and thus extends – and potentially deepens – the financial system, contributing to expanding services, lowering prices and stimulating innovation. Competition – including in the form of new financial service market incumbents, providers in new forms (e.g. fintechs and mobile network operators), and broadened roles for non-traditional providers (e.g. non-bank financial institutions) – is thus a key market lever for extending the reach of financial products to the low-income market. And, in the process, the domestic financial environment is stimulated, with the added benefit of further extending access to formal financial services, which in turn supports the achievement of inclusive growth.

MAP's findings on number of banks and competition in the 35 countries

Secondary data from the IMF Financial Access Survey (FAS 2021) on the number of commercial banks per country, and the World Bank Global Financial Development Database (GFDD 2021) on bank competition levels (share of total bank assets of the top five banks in each market) in the 35 countries in which the bank pricing study had been undertaken, further contextualise the findings on bank pricing.

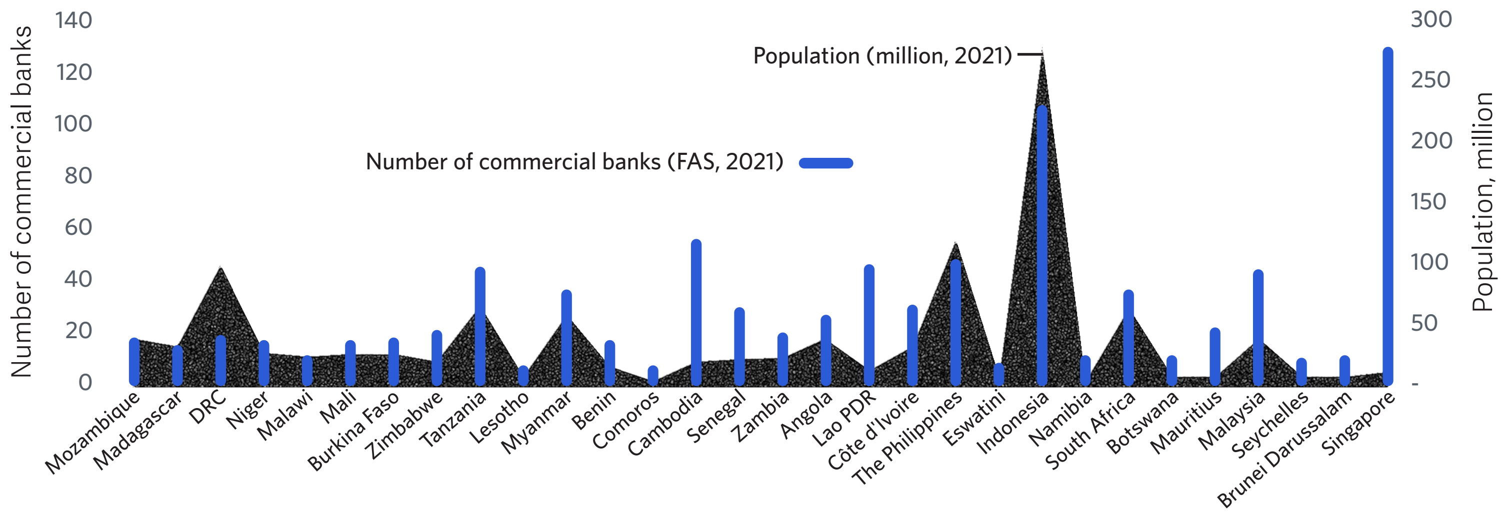
The number of commercial banks in each country in the three regions is quite high, at an average of 27 banks per country. Even if Singapore and Indonesia are excluded (having the most banks of all of

5. UNCDF (2021). Lesotho Financial Inclusion Refresh. Available online.

the countries), the average is 21 banks per country. This number varies substantially across countries, largely driven by a countries' population size; nevertheless, even the smallest countries have at least four banks. Some of the countries have comparatively more banks than their population size would imply. In other words, in these countries, presumably levels of competition would be higher.

However, regardless of the number of banks per country, in most of the markets only a few banks seem to dominate; the majority market share is enjoyed by a limited number of banks. In other words, more banks is not necessarily resulting in higher levels of effective competition. For instance, the average share of all bank assets of the top five banks in each country is 89%, with a median even higher: 93%. Furthermore, none of the 35 countries that were included have a combined five-bank market share less than 50% (minimum is 53%).[6]

Figure 2: Number of commercial banks per country vs population size, in 30 of 35 low-income markets (2021)



Market competition is, therefore, not based solely on the number of banks in these markets but driven by a number of other factors, including (national and regional) political economy, banking infrastructure availability, country's stage of market development and income dynamics, among others. Given that the market concentrations across all of the countries included are quite substantial, this could impact on bank pricing, despite the presence of sometimes large numbers of smaller banks in a country.

The fact that levels of financial inclusion in MAP countries are on average under 50% indicates that it is largely the high end of the market that can access and use formal financial services. In such cases, dominant market players would be able to maintain preferential pricing arrangements *due to consumer loyalty and lack of choice*, particularly if it is limited to a high-income market segment that is unlikely to switch in any event.

Clearly, banks with large market share are under little pressure to undertake the considerable effort required in taking on the riskier, low-income markets (including MSME financing) through new business models.

6. The analysis used the World Bank GFDD (2021).

Facing up to the true costs of financial and social exclusion

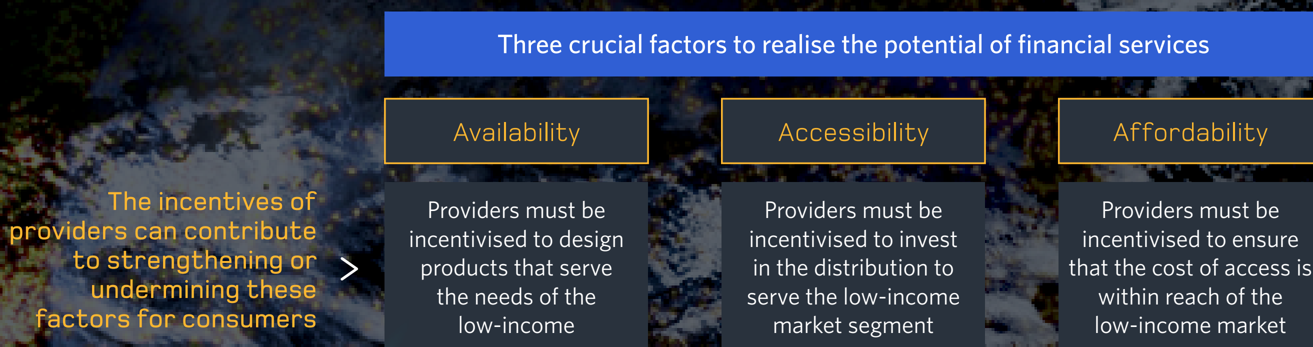
While, as private entities, commercial banks are under no moral obligation to better serve the poor, from a governance point of view underserving low-income communities has knock-on implications for public spending and negative impacts on the potential to grow the formal economy, inclusively. More importantly, MAP argues, underserving low-income communities significantly disables social cohesion, creating massive divides between those that can afford formal financial services and those that cannot.

From an economic rate of return point of view, the costs of social exclusion are far higher than the cost – though considerable – of doing the work to derisk reaching the unbanked.

While the financial sector, as the leading decision maker on the allocation of financing, is a powerful enabler of/obstacle to inclusive economic growth, governments also have extensive influence on markets and the rules of the marketplace, through the policies and regulations they set and enforce. Governments also impact on markets via things like providing stability and security, and through their investments in infrastructure development and maintenance. Furthermore, governments have the ability to incentivise and derisk accelerated financing and inclusion. Market actors such as banks, in turn, respond to the conditions in the market environment as they arise. There is, therefore, an unavoidable interplay between political and financial factors in any marketplace. There are also entrenched market features and realities – existing structures and incumbents – that dictate what can be achieved at any particular time.

Therefore, even within free market economies, a complex interplay of policy and institutional factors shape the trajectory of capital and (market) power accumulation, leading to certain banks holding dominant market positions. The interplay of these factors can have a powerful impact on the effectiveness and efficiency of markets, especially if it suppresses the level of competition in an industry or market and impacts on capital mobility, innovation, the adoption of new technologies and, ultimately, the incentive of providers to see a business case in serving the low-income. In other words, these factors can impact on the incentive of providers to design products that *serve the needs* of the low-income (to make products *available*), to invest in the *distribution* to serve this market segment (to make products *accessible*), and to ensure that the *cost* of access is within reach of the low-income market (to make products *affordable*).

Figure 3: The impact of provider incentives on the availability, accessibility and affordability of financial services



These incentives are driven/influenced by the level of competition in the market. Dominant banks with a degree of market power can essentially earn rents from their dominant market position, which means there is less incentive for such banks to explore new product lines, invest in better distribution, and innovate and invest to drive down costs for consumers.

Furthermore, dominant banks can (and often do) use their market power to lobby governments to reduce the speed of market transformation (e.g. slowing down the adoption of new technologies that can increase availability and accessibility and decrease costs), in order to buy extra time for incumbents to adapt or consolidate. These banks can further use their position to crowd out existing competition or impact on the barriers to entry. Lastly, from a demand-side perspective, market leaders can adjust prices upwards based on customer loyalty, branding and/or lack of alternatives.

This ultimately implies not just an overall higher cost of financial services but a lack of the type of innovation and market movement necessary to make products more available, accessible and affordable for the low-income. A lack of competition can, therefore, be assumed to have a detrimental impact on financial inclusion as well as on the availability of financing for households and MSMEs.

Other factors can impact on the incentives of providers, in turn having implications for financial inclusion:

- Lack of data on consumer risks, or provider perceptions of elevated risk among low-income groups, can make it more costly to serve the low-income.

- In LDCs, commodity extraction can contribute to financial sector development, but also impacts on the focus and specialisation of financial sectors, particularly where the (retail bankable) market size is small. Often, investment remains largely within the commodity sector, with the potential to contribute to domestic finance for development remaining unaddressed (see also, for instance, MAP Mozambique 2014).

- Imbalance in the costs of capital between global and developing markets impacts on the cost of finance for the low-income, making credit less affordable for this group.

- Informal (i.e. unregulated) credit markets cater better to the needs of consumers, despite charging higher interest rates.

Finally, there are certain social and demand-side factors that also impact on availability, accessibility and affordability of financial services. For instance, whole political communities and demographic groups, including by gender, can be systematically denied market access based on cultural or societal norms, with such norms being cited as justification for their exclusion. Similarly, lack of consumer financial literacy, a lack of consumer awareness of formal financial products available, and customer behaviour in general are often touted as barriers to provision for the low-income. Furthermore, the often low collective bargaining power of the poor can undermine the ability of this segment to lobby for its own interests.

These barriers are not insurmountable, though, as innovation, entrepreneurs and capital are rapidly reshaping the fast-growing electronic payments landscape in LDCs (for example), and the fact of new market entrants in financial markets has the potential to disrupt the status quo and increase inclusion. However, current and future policy supportive of financial inclusion has to be cognisant of and work within existing market structures and incumbents, while attempting to shape and guide institutions and markets to evolve towards enabling inclusive growth.

Guaranteeing financial inclusion to safeguard social inclusion

The global economy is at a crossroads. Guaranteeing financial inclusion will soon be necessary in order to covenant social inclusion. Yet MAP's affordability and bank pricing framework shows that pricing strategies can have a double impact: both disincentivising rollout of the infrastructure necessary to expand inclusion and directly contributing to exclusion through the lack of affordability of financial services. Furthermore, the bank-related findings across the 35 countries point to entrenched banks with market interest unlikely to move.

The rapid acceleration of technology promises a transition to an evolved financial services sector, in which more equitable relationships are are more likely. Increased competition and innovation is good for consumers, at least in principle, and should therefore be good for accelerating financial inclusion. With these and other emerging technologies, financial markets are evolving into new financial ecosystems: larger, more varied, and potentially healthier. These ecosystems provide a much wider range of products and services than has ever existed, with new hybrid banking products and instruments emerging with increased regularity, especially at the retail level.

This could be very good news for the unbanked and financially excluded. However, challenges remain, given that low-income groups are often poorly digitalised, and communities are concerned about the security of online banking; and also given low levels of digital literacy, and the absence of infrastructure and resources to support digital banking. It would be wrong to assume that digitalisation by itself will overcome the problem of the unbanked; instead, a more proactive approach to securing access will be needed, including considering the supporting infrastructure required for digitalisation as well as the impact that pricing can have on this.

Regardless, the current evolution in financial markets is set to alter historic structural market power as well as the trajectories of market power accumulation in many markets. These structural changes could even have implications for development institutions in terms of how they operate and whom they partner with.

Will banks, as powerful institutions and symbols of societal stability, see merit in increasing their relevance to low-income market segments by devising the requisite new business models? Given the real threat to banks of losing market share to mobile network operators and fintechs, will they engage more proactively with the challenge of serving the low-income – or tend to become bastions of the old order as society moves on?

Increasing financial inclusion is in some senses about solving the 'equation' between consumer and provider needs and constraints. Yet, given the complexity, a simple two-sided equation model is insufficiently rich. More helpful would seem to be a multipartner and ecosystems perspective, in which a large number of relationships (equations) between and across different financial ecosystem partners and sub-systems are being worked on (and solved) simultaneously – to achieve the required balance and stability, sustainability and depth within the ongoing dynamism necessary for the ecosystem's health.

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About the design: In the banking world, financial inclusion draws a parallel to the way astronomers look at our universe. We spend more time studying what we see rather than what we don't. And in both these worlds there exist more unknowns than there are knowns. The universe is made up predominantly of 'dark matter', the unknown or indefinable. Likewise, the economic potential that exists outside of the system of traditional banking is vast and needs to be explored. Increasing access and inclusion in the economies not currently reached by the proximity or data-reliant constraints of banking are needed for both socio-economic and institutional growth. The design of Note 3 is based on the rewards for all of us that lie beyond the event horizon of formalised banking.