REACHED LEVEL OF FINANCIAL INCLUSION IN SELECTED EUROPEAN COUNTRIES

Milka Grbić[1]
Milena Jovanović-Kranjec[2]
Natalija Jovanović[3]

DOI: https://doi.org/10.31410/EMAN.2019.459

Abstract: *Generally accepted viewpoint is that for the realization of economic growth and decrease of poverty, among other things, the inclusion of individuals in the formal financial flows is necessary. The concept of financial inclusion, as the subject of paper research, is being considered at the example of the selected European countries out of which some have successfully finished transition process and have become the members of European Union (advanced countries in transition), while a number of them is on the road of European integrations (the countries of Western Balkans). In accordance with the subject, the objective of the paper is to carry out comparative analysis of the reached level of financial inclusion of individuals in advanced countries and the countries of Western Balkans. Paying respect to the complexity of the stated problem, the qualitative methodology is applied, based on the dominant application of the methods of analytical description and methods of comparative analysis. In the paper it is concluded that the average values of selected indicators of financial inclusion of the individuals in the case of Western Balkans countries are significantly lower in comparison to the advanced countries in transition. In the context of the measures of economic policy and the elements of development strategies it is necessary to provide the conditions for the increase of financial inclusion, primarily in the countries of Western Balkans. Regarding this, what is necessary, among other things, is financial education for the purpose of improvement of financial literacy of population, implementation of new technologies of mobile banking and electronic payment, designing of financial products that meet the needs of clients and provision of financial services at prices that individuals can afford.*

Keywords: *financial inclusion, advanced countries in transition, countries of Western Balkans*

1 INTRODUCTION

One of the global subjects that, in contemporary conditions, is in the focus of decision makers, the creators of social policies and researchers across the world, is financial inclusion. In developed countries the strategies of financial inclusion are focused on the most vulnerable in order to make the percentage of inclusion near 100%, while in developing countries they are focused not only on the inclusion in financial system of as many citizens as possible, but on the availability of the most various financial services as well. As the result of bigger and bigger knowledge on its significance, financial inclusion was the subject of the Report of World Bank on global financial development for the year 2014.

The purpose of this paper is to carry out comparative analysis of the reached level of financial inclusion of individuals in the chosen European countries. For the needs of comparative analysis, the group of sixteen countries was singled out from the areas of Southeast Europe, Central Europe and Baltic. The chosen countries can be divided to advanced countries in transition, the

[1] Faculty of Economics University of Kragujevac, Liceja Kneževine Srbije 3, Serbia
[2] Faculty of Economics University of Kragujevac, Liceja Kneževine Srbije 3, Serbia
[3] Faculty of Philosophy University of Niš, Ćirila i Metodija 2, Serbia

members of European Union and the countries in transition that are the potential candidates for the admittance to the European Union. The structure of advanced countries in transition is made of: Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia, Slovenia, Croatia and Czech Republic, while the structure of the second group is made of: Albania, Bosnia and Herzegovina (BIH), Macedonia, Serbia and Montenegro, that at the same time represent the group of the countries of Western Balkans.

2. CONCEPTUAL FRAMEWORK OF FINANCIAL INCLUSION

The use of financial services represents an important segment of everyday life of a man in contemporary world. Sarma (2008) defines financial inclusion as the process that ensures an easy access, availability and the use of services of formal financial system for all economy members. Financial inclusion in most general way is defined as the percentage of individuals that use financial services (World Bank, 2014). According to Ben Naceur et al., (2015) this definition enables the measurement of financial inclusion on comparative basis in all countries.

In the consideration of financial services that are considered essential, World Bank (2012) marked four main types of services that individuals need to have access to, and these are: bank transactions, savings, credits and insurance. Main institutions that offer these services are banks, although some of these services are offered by posts, saving banks and insurance companies as well. The first step to financial inclusion is opening of bank account, while next steps are taking credits, keeping savings or purchase of insurance.

The accessibility of financial services has getting more in significance in the past years, setting the essential part of development strategy. One of the reasons is that contemporary theory of development sees the lack of accessibility to finances as the key mechanism for generating constant inequality of incomes, as well as slower economic growth. Another reason is the note that small companies and poor households worldwide are faced with bigger obstacles when it comes to the possibility to access finances, especially in developing countries.

3. LIMITING FACTORS AND CATALYSTS OF FINANCIAL INCLUSION

There are many different reasons due to which the poor do not have the accessibility to finances – credits, savings accounts, insurance services. Social and physical distance from formal financial system can have the significance. The poor may not have anyone in their financial surrounding that knows what different services are at disposal. The lack of education can make it difficult for them to overcome problems of filling up credit request, and small number of transactions that they can probably undertake can influence their credit officer to think that they are not worth of help. Since financial institutions are probably in richer neighborhoods, physical distance can be significant. More precisely, when it comes to the accessibility of credit services, there are two important problems. Firstly, the poor do not have collateral and cannot be indebted on the basis of their future income since in most cases they do not have constant employment or income flows that can be monitored. Secondly, the business with small transactions is expensive for financial institutions. Ceiling rates that financial institutions can calculate even more reject and limit the accessibility for the poor.

One of the basic preconditions of financial inclusion is financial literacy. Financial literacy of individuals implies the possession of knowledge and skills necessary for efficient management of money and use of financial services. In that sense, financial education has for its purpose the improvement of financial literacy on both personal level and the level of financial sector and society in total, and accordingly the increase of the degree of financial inclusion. From the point of view of individual, the aim is raising awareness on the significance of timely management of personal finances, as well as gaining understanding of the characteristics of financial products and skills on the comparison, for the purpose of making financially responsible and sustainable decisions of individuals (Sredojević, 2016).

The last two decades are marked with the fast growth of new technologies, such as mobile payments, internet banking and technology of biometric identification. The mentioned technology innovations enabled significant decrease of both transaction costs and geographic barriers in the use of financial services.

Wider use of financial services can, also, be stimulated by innovative product design for the purpose of overcoming market imperfections and satisfying customer needs. One of the examples of such product design are mandatory saving account or the account with limited money withdrawal on which an individual deposits certain money amount and denies the access to cash for certain time period (Beshears et al., 2015). Primarily, such accounts represent the mean of promotion of savings. At the same time, they enable overcoming the problems of self-control regarding money spending and absorb the pressure in case of unfavorable events.

Another example of innovative product design is the insurance based on time indexes (Bokusheva & Breustedt, 2012). Unlike traditional insurance, the insurance based on time indexes refers to the certain meteorological parameters. In this case, the reimbursement is done if certain limit value (e.g. the quantity of precipitation or average temperature) is transferred or not reached. Index insurance decreases the problem of moral hazard, since the reimbursement is done according to the measurable index that is out of control of insured. The benefits of such insurance are precise and as such it represents the increase factor of both financial inclusion and agriculture production.

4. COMPARATIVE ANALYSIS OF FINANCIAL INCLUSION

For the purpose of perceiving the reached level of financial inclusion for the chosen countries sample, the comparative analysis of some of the most important indicators of the use of financial services by individuals has been carried out. The indicators have been taken over from the data base on global financial inclusion (Global Findex) and they refer to the year 2017.

Global Findex is the part of the data base on global financial development and represents first publicly published set of indicators that measure the possibilities of access to financial products and services by individuals worldwide. The collection of data is done through a survey that is based on detailed conversations with at least 1.000 people, in about 150 economies, on their financial behavior. The sets of data collected in this way can be used for the monitoring of influence of the policies of global financial inclusion and enable deeper understanding of how people across the world save, borrow and pay.

As the main indicator that reflects the degree of financial inclusion the number of bank accounts on 1.000 grown up persons is used (Čihák et al., 2012). Other indicators in this category include:

the possession of accounts according to groups (old, young, highly educated, lower educated), the number of branches of commercial banks and the number of ATMs on 100.000 grown up persons, as well as the number of those who use debit cards. In the analysis are, as afore mentioned, included European transition economies. The comparison of chosen indicators has also been carried out in relation to Eurozone and world in whole.

When we comparatively observe the percentage of citizens older than 15 that have opened an account (Image 1), among advanced countries in transitions, the best position has Estonia, while among countries of Western Balkans the best positioned is Macedonia.

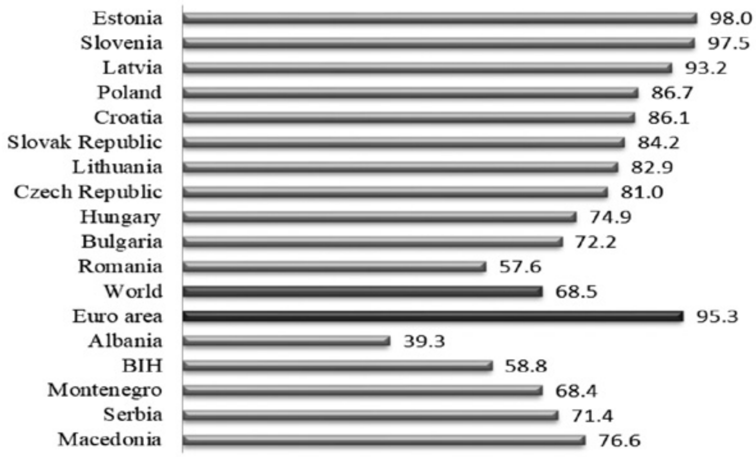

Image 1: Percentage of citizens older than 15 that have opened a bank account
Source: Authors, on the basis of: World Development Indicators database, World Bank, 2019.

However, the success of financial inclusion cannot be measured only by the indicator of the percentage of accounts in banks. It is necessary to observe the position of special groups, especially vulnerable ones. When the level of vulnerability of certain citizen categories is being analyzed, according to the data of World Bank the most vulnerable are the persons with elementary and lower education and the young of age 15-24.

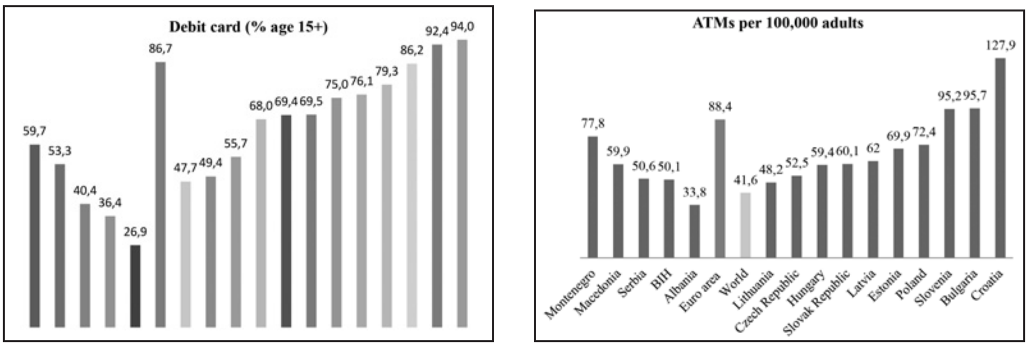

Image 2: Percentage of citizens older than 15 that use debit cards
and the number of ATMs per 100,000 adults
Source: Authors, on the basis of: World Development Indicators database, World Bank, 2019.

The development of electronic banking is related to wider and wider application of computer and telecommunication technology in the process of data and information processing and transferring. It leads to the implementation of new procedures and technologies that carry with themselves new challenges and possibilities. In this regard, in Slovenia and Estonia debit card is used by over 90% citizens older than 15. However, in Serbia it is only 59,7%, which tells about unfavorable use of new payment methods (image 2). Debit card are used mostly by highly educated, while in this regard the most vulnerable are lower educated and the young of age 15-24.

Easier use of debit cards enables high number of ATMs, since in this way citizens can easily use banking services when a branch is not working or there is not any in the neighborhood. The number of ATMs, as well as the use of debit cards, is the lowest in Albania (image 2). Relatively low number of ATMs on 100 thousand citizens speaks about poor developed financial infrastructure. Optimal number of ATMs cannot be easily suggested, but in certain countries it surely should be higher.

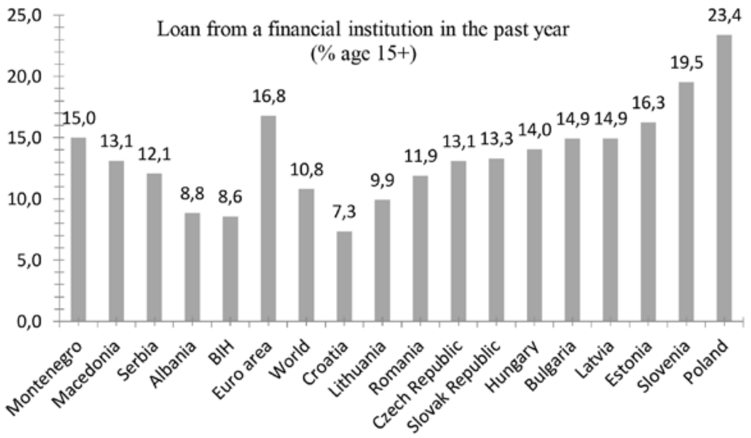

Image 3: Indebtedness of individuals with financial institutions
Source: Authors, on the basis of: World Development Indicators database, World Bank, 2019.

When it comes to the indebtedness of persons older than 15, it is noticeable that the biggest percentage of those that have loans is in Poland and Slovenia (image 3). On the other hand, the smallest percentage of indebtedness of population is in Croatia. The average level of indebtedness in the countries of Western Balkans is on the level of world average. The lack of accessibility to credits prolongs the poverty since the poor households decrease the level of education of its children (Jacoby and Skoufias, 1997).

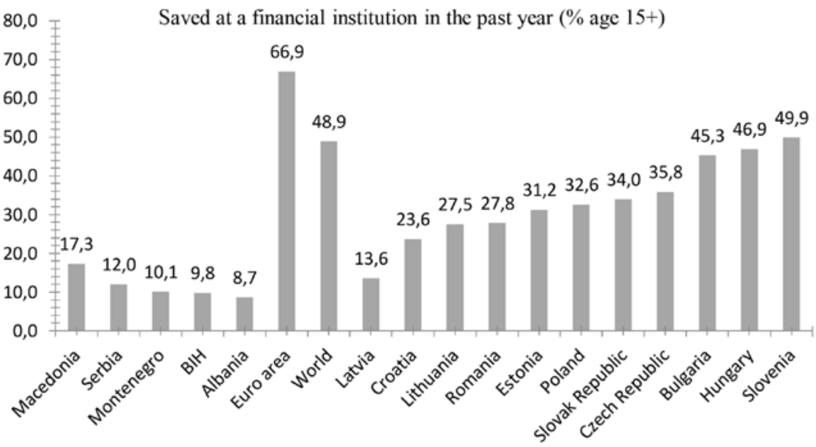

Image 4: Savings of individuals in financial institutions
Source: Authors, on the basis of: World Development Indicators database, World Bank, 2019.

On the basis of savings indicators in financial institutions (image 4), the countries of Western Balkans show lower degree of financial inclusion in relation to the average of Eurozone and in relation to the world average, while in all advanced countries in transition the savings are on lower level of the savings in Eurozone.

5. CONCLUSION

The analysis of the reached level of financial inclusion, based on the data of World Bank, implies the lagging of the countries of Western Balkans in relation to the advanced countries in transition, new members of European Union. In order for the observed countries to continue its development and get closer to the countries of Eurozone it is necessary to increase their financial inclusion. The positive effects of financial inclusion, among other things, are: higher economic growth, lower interest rates, lower costs, bigger payment safety, higher consumption, higher level of territorial and social inclusion, bigger savings and the use of interest, credits that provide for the poor citizens to finance the education of their children and extraordinary needs.

In order to expose the positive effects of financial inclusion it is necessary to firstly improve financial literacy of citizens. This implies education and protection of consumers in order to avoid the creation of expensive mistakes when signing financial contracts. In fact, the households should know finances so that they could with the same amount of money realize higher degree of satisfaction of needs. Then, it is necessary to increase the use of new technologies of mobile banking and electronic payment as main potential for the increase of financial inclusion. Also, insufficient financial inclusion opens the space for designing financial products that meet the needs of clients and offer financial services at prices that individuals can afford. For the realization of the mentioned measures the cooperation of private sector and government is necessary in order to improve financial inclusion of individuals.

REFERENCES

[1] Ben Naceur, S., Barajas, A., & Massara, A. (2015). Can Islamic Banking Increase Financial Inclusion?. IMF Working Papers 15/31, International Monetary Fund.
[2] Beshears, J., Choi, J.J., Harris, C., Laibson, D., Madrian, B.C & Sakong, J. (2015). Self Control and Commitment: Can Decreasing the Liquidity of a Savings Account Increase Deposits? NBER *Working Paper* No. 21474.
[3] Bokusheva. R. & Breustedt, G. (2012). The Effectiveness of Weather-Based Index Insurance and Area-Yield Crop Insurance: How Reliable are ex post Predictions for Yield Risk Reduction? Quarterly Journal of International Agriculture, 51(2), 135-156.
[4] Čihák, M., Demirgüç-Kunt, A., Feyen, E., Levine, R. (2012) Benchmarking Financial Development Around the World, *Policy Research Working Paper* 6175, World Bank, Washington.
[5] European Commission. (2008). Financial services provision and prevention of financial exclusion. Report by the Director General for Employment, Social Affairs and Equal Opportunities, European Commission.
[6] Sarma, M. (2008). Index of Financial Inclusion, ICRIER Working Paper, August 2008.
[7] Sredojević, S. (2016). Institutional contribution to financial inclusion through financial education activities – case of the banking sector of Serbia. Bankarstvo, 45(2), 56-75.
[8] World Bank (2012). Financial inclusion strategies reference framework. Washington.
[9] World Bank (2014). *Global Financial Development Report 2014,* Washington.
[10] World Bank (2019). World Development Indicators database, http://www.worldbank.org/