Financial Inclusion Expectation Gap

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The Financial Inclusion Expectation Gap

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Abstract

The objective of this article is to define the financial inclusion expectation gap, offer some insight into the nature and the causes of it, and suggest ways to reduce the gap. The discussion in the article provides helpful insights into this problem towards achieving the United Nations Sustainable Development Goals. It is hoped that such an attempt can provide insights to understand the expectation gap in financial inclusion.

Keywords: Access to finance - banked adults – development - expectation gap - financial inclusion - financial institutions - formal financial services - unbanked adults.

1 Introduction

The objective of this article is to discuss the definition of the financial inclusion expectation gap, the nature of it, and the ways in which it can be reduced.

Formal financial institutions provide financial services to banked customers while other promoters of financial inclusion such as NGOs, banks, or government agencies make some attempt to reach unbanked adults to bring them into the formal financial sector. Numerous financial inclusion studies have argued that formal financial institutions can promote financial inclusion more efficiently (see, for example, Brown et al. 2016; Gopalan and Rajan 2018; Lal 2018; Ozili 2020, 2021d), while other studies have consistently indicated that providers of formal financial services may be exploitative in offering financial services to banked customers (e.g., Bateman 2012; Bateman and Chang 2012; D'Espallier et al. 2013; Guérin et al. 2015; Martin 2002; Ozili 2021b, 2021c). The divergent perspectives are due to differences in expectations about the role of providers of formal financial services.

In contemporary societies, banked customers have high expectations from providers of formal financial services than what providers perceive to be their responsibility to banked customers. Banked customers typically expect providers of formal financial services to take into account the personal situation of customers when offering formal financial services to them. For instance, banked customers expect providers of formal financial services to show empathy in the pricing of formal financial services, particularly for low-income and poor customers. The providers of formal financial services, on the other hand, take the viewpoint that their primary role is not to introduce empathy into their business, but to ensure that financial services are provided to those who can afford to pay for it. Hence, a financial inclusion expectation gap emerges, which is the difference between the expectation of banked customers and the expectation of providers of formal financial services.

At the policy level, there is also concern that the government and unbanked adults hold different beliefs about what financial inclusion should be. Several policy studies on financial inclusion show that the government holds the view that financial inclusion is achieved when individuals, households, and businesses own a formal account in a financial institution (see Allen et al. 2016; Arun and Kamath 2015; Atkinson and Messy 2013; Mehrotra and Yetman 2015; Ozili 2018, 2021a; Subbarao 2009). Meanwhile, unbanked adults feel that financial inclusion is much more than just owning a formal account. For them, it entails having money, which they can use to participate actively in the formal financial system, and access to such monies does not have to be granted through a formal account at all times. Some think that owning a formal account without having money in the account to spend achieves nothing for them.

These differences in expectation between the government and unbanked adults arises because there is an expectation gap in financial inclusion. The government expects everyone to own a formal account because the government considers formal account ownership to be a reliable indicator of financial inclusion. But unbanked adults don’t feel their welfare will improve even after owning a formal account. They feel that financial inclusion should entail much more, such as giving free cash transfers to newly banked adults so that the newly banked adults can use the cash transfers to improve their welfare by spending on consumption, healthcare, education, or to save and invest for the future. Hence, a financial inclusion expectation gap emerges, which is the difference in the expectation of policy makers and unbanked adults.

The financial inclusion expectation gap should be a major concern to policy makers in every country because a government might think it is helping its citizens by ensuring everyone owns a formal account in the interest of financial inclusion. But, in actual fact, the citizens might feel the government has done nothing meaningful in the interest of financial inclusion because the citizens may not consider ownership of a formal account to be a true indicator of financial inclusion.

Today, many policy makers pay almost no attention to the financial inclusion expectation gap problem. Most times, they end their financial inclusion programs at formal account ownership. They hardly go beyond formal account ownership. They rarely offer cash transfers to newly banked adults because they feel that the cash transfers do not empower new unbanked adults to be self-independent as it can make them dependent on the government for more cash transfers in the future.

Given the different expectations and the continuing presence of the financial inclusion expectation gap problem in society, it is surprising that there is no prior research on the financial inclusion expectation gap problem. There is no discussion about the financial inclusion expectation gap problem in the financial inclusion and development literature. This article fills this gap in the literature.

This article contributes to the literature by offering some insight in understanding the meaning and nature of the financial inclusion expectation gap. The discussion in this article contributes to a better understanding of the concept of the expectation gap in financial inclusion.

The rest of the article is structured as follows. Section 2 defines the financial inclusion expectation gap. Section 3 offers some insight into its nature. Section 4 offers some insight into the causes of the gap. Section 5 suggests ways to reduce the gap. Section 6 offers some concluding remarks.

2. Defining the Financial Inclusion Expectation Gap

The financial inclusion expectation gap may be viewed as the difference in the level of financial inclusion as envisioned by the government and citizens. This gap can also be defined as the difference in beliefs between banked customers and the providers of financial services about the duties and responsibilities of providers of formal financial services to banked customers. This is also the gap between citizens' expectations of providers of formal financial services and the providers' actual performance as perceived by citizens.

For banked adults, the financial inclusion expectation gap is the gap between what banked adults expect or need from formal financial institutions and what formal financial institutions actually provide to banked adults. The gap is also the difference between what banked adults expect from providers of formal financial services and what banked adults actually get from providers of formal financial services. For example, poor banked adults expect a low, single-digit interest rate on loans from formal lenders because they are poor and they have very low income while providers of formal financial services expect to charge interest rates on loans at the prevailing market interest rate. So, rather than lowering the interest rate, providers of formal lenders will charge a high interest rate to poor borrowers because formal lenders consider poor borrowers to be high risk customers and they want to make profit from lending to all customers irrespective of their income level.

For unbanked adults, the financial inclusion expectation gap is the difference between what unbanked adults expect the government to do in providing access to formal finance for them and what the government actually does. The government is not the only agent interested in promoting financial inclusion for unbanked adults. International financial institutions, non-governmental organizations, and corporate financiers such as the World Bank, USAID, ACCION International, and Wells Fargo also promote financial inclusion for unbanked adults. Many of these institutions believe that financial inclusion reflects the free-market ideologies of these institutions and agencies, as well as their interests to integrate the 'bottom of the pyramid' into global markets. This explains their interest in promoting financial inclusion. Thus, the definition of the financial inclusion expectation gap for unbanked adults can be expanded to mean the difference between what unbanked adults expect the promoters of financial inclusion to do for them and what the promoters of financial inclusion actually do.

3. The Nature of the Financial Inclusion Expectation Gap

The financial inclusion expectation gap is comprised of two components: (i) the reasonableness expectation gap, and (ii) the performance expectation gap.

3.1. The reasonableness expectation gap

The reasonableness expectation gap is about the different expectations about the range of formal financial services that can be reasonably offered. The reasonableness expectation gap describes the gap between the range of formal financial services that banked customers expect providers of formal financial services to offer and the range of services these providers can reasonably offer to banked customers given their cost and profit considerations. For example, banked adults expect financial institutions such as banks to provide personalized customer care service to customers 24 hours a day and seven days a week so that customers can reach out to banks to make complaints or inquiries about existing financial products and services at any time. On the other hand, banks may be able to meet only some of the customer care service expectations within the limit of their budget, cost, and number of bank staff constraints.

With regards to unbanked adults, the reasonableness expectation gap describes the gap between what unbanked adults expect the promoters of financial inclusion to do in providing access to formal financial services and what the promoters of financial inclusion think they can do to promote financial inclusion within their own resource constraints. These differences in reasonable expectation creates a financial inclusion expectation gap. For example, assume that unbanked adults in a community expect the government to bring three banks and two savings societies into the community to serve the members of the community. But the government has limited resources and can only bring in one bank to the community and the government wants the bank to serve four communities instead of only one community. In this example, it can be seen that the intended customers of the bank as envisioned by the government is different from what the community expects—the community expects the bank to serve their community, not the other communities—hence, a reasonableness expectation gap emerges. Similarly, commercial banks, NGOs, and international financial institutions like the World Bank, USAID and Wells Fargo may plan to promote financial inclusion for unbanked adults living in rural areas by offering them mobile phones and free Internet, which they can use to access digital financial services remotely. These promoters of financial inclusion would think this is a reasonable approach to promote financial inclusion. But unbanked adults may think otherwise. They know what they really want. They don't believe that a phone is a priority for them—all they want is physical money, which they can see and hold or at least a more tangible and direct access to real money, which they can use to improve their welfare. These divergent expectations between unbanked adults and the promoters of financial inclusion about how best to achieve financial inclusion creates a reasonableness expectation gap since the promoters of financial inclusion are not willing to distribute free money directly to unbanked adults even though unbanked adults would love to receive free cash handouts. Notwithstanding the reasonableness of the expectation gap, it is important to note that what is a reasonable financial inclusion expectation is somewhat predetermined by the dictates of a free market. For example, governments could subsidize interest rates, as many borrowers would like, but the aforementioned promoters of financial inclusion might frown upon that if they think it is not reasonable to do that. In general, what is considered to be a reasonable financial service or range of financial services is subjective, and may be influenced by economic agendas and ideologies.

3.2. The performance expectation gap

The performance expectation gap relates to the different expectations about how financial services are offered. In other words, the performance expectation gap describes the gap between the actual financial inclusion outcome and the expected financial inclusion outcome. The performance expectation gap can also be viewed as the gap between the actual financial services that banked adults received from the providers of formal financial services and what banked adults expect to receive from the providers of formal financial services. In other words, banked adults may receive less than they expect from the providers of financial services. The performance expectation gap is caused by two factors: (i) the deficient standards gap, and (ii) the deficient performance gap.

The deficient standards gap occurs when banked adults expect providers of formal financial services to provide services that are outside the providers' main duties as defined by law or as specified by the license granted to providers. This gap is caused by banked adults' fundamental misunderstanding about the role of providers of financial services. For example, banks are mostly licensed to carry out core banking services. However, banked customers may expect banks to offer add-on non-banking services, such as insurance, investment, and mortgage services, so that banks become a one-stop shop where banked customers can get all types of financial services they need. In this scenario, banks will insist that their license only permits them to carry out only core banking services, thereby, not meeting the expectation of their banked customers.

The deficient performance gap is the gap between the expected standard of duties performed by providers of formal financial services and the providers' performance as perceived by banked adults. For example, banks often claim that they have a duty to charge a fee for the services offered to banked customers. Banks hold the position that customers signed an agreement that gives the bank the mandate to debit customers' account to collect fees for transactions performed on behalf of banked customers. Meanwhile, banked adults expect banks to send an advance notice to customers informing them that they will be debited prior to being debited. In the above example, failing to notify customers before being debited constitutes deficient performance because it falls short of what banked adults expect from banks while performing their duties.

4. Causes of the Financial Inclusion Expectation Gap

4.1 Poor understanding of the changing roles and responsibilities of providers

The financial inclusion expectation gap may be caused by banked adults' poor understanding of the changing roles and responsibilities of providers of formal financial services. The changing role of providers may be attributed to changing socio-economic factors, financial crisis, economic crisis, technological development, or other events that have taken place. These contextual factors introduce changes that make providers of formal financial services adjust their service offerings to banked customers; meanwhile, banked customers do not understand why the changes have occurred. Their lack of understanding of why the changes have occurred contributes to the existence of a financial inclusion expectation gap.

4.2 Changing nature and complexity of formal financial services

Formal financial services have witnessed some changes over the years, such as changes from visiting the bank branch to remote banking through digital banking and Internet banking. These changes have left behind banked customers who are not tech savvy and feel that banking ought to be more physical than digital. The changing nature and complexity of formal financial services can create confusion among those who aren't tech savvy and among those who have limited knowledge on why formal financial services are changing. This can also create a financial inclusion expectation gap.

4.3 Time lag in responding to complaints of banked customers

A financial inclusion expectation gap can occur as a result of time lags between when banked customers make complaints about formal financial services and when providers actually respond to the complaints of banked customers. Frictions in offering financial services lead to more customer complaints, which in turn leads to new demands by customers about what providers of formal financial services ought to do which they are not doing right. This then creates a financial inclusion expectation gap.

4.4 Lack of banked customers' association

The absence of a banked customers' association is another cause of the financial inclusion expectation gap. The non-existence of an association for banked customers will make it difficult to moderate, and lower, the unreasonable expectations of banked customers. A banked customers' association can help to disseminate information to banked customers about the reasonable formal financial services they can get from providers of formal financial services. Also, the association can act as a pressure group to influence providers of formal financial services to meet the reasonable expectations of banked customers. But when such association is non-existent, it contributes to the expectation gap in financial inclusion.

4.5 Unreasonable expectations about the purpose and responsibilities of providers

The expectation gap in financial inclusion may be caused by misconceptions about the purpose of formal financial services and the responsibilities of providers of formal financial services. The ignorance of banked customers can lead them to have unreasonable expectations. They might think that providers of formal financial services can solve all the complaints brought to them, but banked customers fail to understand that providers of formal financial services can only do their best to resolve the issues that can be resolved within their ability. The unreasonable expectations that banked customer have about formal financial services can make banked customers fail to recognize the moral contribution of providers of formal financial services to society.

4.6 Scope and extent of formal financial services coverage

A financial inclusion expectation gap may arise due to lack of clarity about the scope and extent of formal financial services coverage. Some banked adults incorrectly assume that providers offer all types of financial services. They visit a bank to obtain a mortgage loan only to be told that the bank does not offer mortgage loan. The disappointment faced by banked customers shows that there is an expectation of wider coverage of formal financial services.

4.7 Different stakeholders’ expectations

Stakeholders may have different expectations about the roles and responsibilities of providers of formal financial services. For example, some stakeholders believe that financial inclusion is a pro-poor development agenda, therefore providers should ensure that formal financial services are available and affordable to the poorest and to those who are neglected in society. Others think that the providers of formal financial services should not offer financial services that discriminate between the rich and the poor. Meeting the expectations of all stakeholders would satisfy stakeholders in the capitalist economy and will also satisfy stakeholders in the moral economy. But there is a moral obligation to meet the expectations of unbanked adults and poor banked adults who constitute a large part of the moral economy. The financial inclusion agenda cannot be achieved if unbanked adults and the poor are left behind.

5 Reducing the Financial Inclusion Expectation Gap

Some ideas to reduce the financial inclusion expectation gap are presented below. One, there is need to improve knowledge responsibilities between banked adults and providers of formal financial services. Increasing banked adults’ knowledge and awareness of what they can get and cannot get from providers of formal financial services will help to narrow the financial inclusion expectation gap.

Two, there is need to communicate clearly what banked customers can expect from providers of formal financial services, and banked customers should be aware of such services. Banked adults should know the meaning of financial inclusion, they should understand the reach of financial inclusion, and be aware of any boundaries and scope of the provision of formal financial services.

Three, education about the workings of the formal financial system can greatly influence the size of the expectation gap in financial inclusion. Educated banked adults will have less expectation from providers of formal financial services than uneducated banked adults. Education can increase awareness and understanding of the reach of formal financial services, what providers can offer to banked adults and what providers cannot offer to banked adults.

Four, mutual evaluation or shared governance by banked adults and providers is another way to reduce the financial inclusion expectation gap. This requires promoting debates about the role of providers and the scope of financial services offered to banked adults. The expectations about financial inclusion should be re-examined jointly by both the providers of formal financial services and banked adults, and they should all agree to close the expectation gap.

Five, a multi stakeholder approach can help to reduce the financial inclusion expectation gap. Stakeholders have a role to play in reducing the financial inclusion expectation gap. They need to spend more time talking to providers of formal financial services so as to understand what capabilities they have today. Such understanding can help stakeholders to know how to intervene to reduce the expectation gap. Stakeholders such as regulators can intervene to lower the interest rate on loans so that banked customers can get the cheap loans they expect. Tax authorities can intervene by lowering the value-added tax on formal financial services in an attempt to reduce the cost of financial services. Journalists can intervene by publishing media articles about the services providers can reasonably offer to citizens. Other stakeholders include customer associations, politicians, etc.

Six, there is need to set a performance standard for providers of formal financial services. This can be achieved through regulation.

Seven, it might become necessary to expand the duties of providers of formal financial services to meet the demand of banked and unbanked adults. This may require expanding the statutory duties of providers of formal financial services because the expectation of banked and unbanked adults is likely to be met when additional financial services are provided to them. However, there is a need to consider the cost implication of expanding financial services because the cost of the additional financial services will be borne by banked customers.

Eight, there is need for shared ownership of the income derived from financial inclusion activities. When providers of formal financial services share part of their income with the community they operate in, the shared income will improve the social wellbeing of the community, it will reduce the perception that providers of formal financial services are exploitative, and such action will prevent the community from having unreasonable financial inclusion expectation from providers of formal financial services.

Finally, providers of formal financial services should offer forward-looking formal financial services to banked customers. Providers of formal financial services should not only offer what banked customers need, they should also anticipate what banked customers might need, and offer it to banked customers and allow customers to decide whether they want the suggested financial service offering or not. This will help to lower any unspoken expectations, thereby lowering the financial inclusion expectation.

6. Conclusion

This article discussed the financial inclusion expectation gap. In the article, I argued that a financial inclusion expectation gap exists because banked adults expect providers of formal financial services to offer financial services in ways which are different from what providers of formal financial services would offer it. The expectation gap arises from a combination of excessive expectations and insufficient performance.

The implication is that banked adults tend to generally have a higher expectation of what providers of formal financial services should offer than what most providers of formal financial services would consider reasonable to offer. The persistence of a financial inclusion expectation gap can be detrimental to the financial inclusion agenda. Differences in financial inclusion expectation will continue to be a major concern in the years to come unless a lasting solution is offered. Steps should be taken to lower banked adults' expectations as well as to improve the nature and quality of formal financial services offered to banked adults.

Future research should solicit responses from banked adults about the financial inclusion expectation gap. Future studies can also investigate other factors contributing to the expectation gap, and propose solutions to narrow the financial inclusion expectation gap. Future studies can also evaluate the effectiveness of certain solutions in narrowing the financial inclusion expectation gap.

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