Formal account inactivity: a global overview, causes, consequences and effect on financial inclusion

Ozili, Peterson K

2024

Formal account inactivity: a global overview, causes, consequences and effect on financial inclusion

Peterson K. Ozili

Abstract

It is common to hear the phrase "I have a bank account, but I rarely use it". This phrase describes what formal account inactivity means. This study explores formal account inactivity and how it is a setback for financial inclusion. This study relies on the technology acceptance model and the technology impact model, and it draws insight from the 2021 global findex dataset. It was found that **f**ormal accounts may remain inactive if adults feel that they have no need for an account, or the bank or financial institution is too far away from them, or they don't have enough money to use an account, or they don't feel comfortable using the account by themselves or they don't trust banks or financial institutions. Women, uneducated people, unemployed people, and poor people are more likely to have an inactive formal account than men, educated, employed and rich people. Asian countries (e.g. India, Nepal, Sri Lanka, Lao DPR), African countries (e.g. Ethiopia, Comoros, Morocco), and South American countries (e.g. Ecuador) have higher number of inactive formal accounts. The consequences and costs of formal account inactivity include decrease in the financial and economic empowerment of the accountholder, increased reliance on cash-based transactions, lack of awareness about new financial services and products, increased reliance on exploitative informal financial service providers, decrease in economic growth, insolvency risk for financial service providers, and lower tax revenue for the government. This study contributes to the literature that examines the consequences of financial inclusion.

Keywords: inactive account, formal account, financial inclusion, digital financial inclusion, mobile money account, formal account inactivity.

April 2025

To cite: Ozili, P. K. (2025). Formal account inactivity: a global overview, causes, consequences and effect on financial inclusion. *Journal of Electronic Business & Digital Economics*.

1. Introduction

Financial inclusion has great benefits for countries. It leads to the financial and economic empowerment of individuals and small businesses. It alleviates poverty and stimulates economic growth (Bhatia and Dawar, 2024; Ozili and Mhlanga, 2024; Park and Mercado Jr, 2018; Van et al, 2021; Pal et al, 2022). The rising level of financial inclusion and digital financial inclusion in many countries have made it possible for a large number of people and businesses to enjoy access to a wide range of formal financial services such as insurance, savings, payments, checking, and credit products which they would not have been able to access without financial inclusion (Osabutey and Jackson, 2024; Demirgüç-Kunt et al, 2020). While financial inclusion is beneficial, it is worth noting that financial inclusion also has consequences. For instance, financial inclusion may lead to the financialization of poverty (Mader, 2018). It may also lead to over-indebtedness when banked adults have unrestricted access to multiple formal credit providers. Another consequence of financial inclusion that is often overlooked or ignored in the literature is that financial inclusion could give rise to higher formal account inactivity or a large number of inactive formal accounts where an inactive formal account is a formal account that has not recorded a deposit or withdrawal transaction in the past one year (World Bank, 2021).

A few years ago, the central question in many financial inclusion and development debates used to be: how can we bypass structural bottlenecks and barriers to increase financial inclusion for unbanked and underserved people in developing countries? The standard answer to this question is: we will use innovative digital technologies, such as bank apps, fintech apps and bigtech platforms, to reach unbanked and underserved people to give them access to basic, affordable formal financial services. This view is corroborated by many studies which advocate that digital technologies can help to increase financial inclusion (Osabutey and Jackson, 2024; Peric, 2015; Aziz and Naima, 2021). Thankfully, practitioners have solved this problem. However, solving this problem has given rise to a new problem which is the problem of inactive formal accounts, and it raises a major question which is: how can we increase financial inclusion through formal account ownership without experiencing a corresponding increase in the number of inactive formal accounts?

This new problem is challenging and difficult for policymakers to solve because the decision to make a formal account inactive is primarily the decision and choice of the individual or the accountholder. When a formal account becomes inactive, the individual is unable to enjoy the full benefits of financial inclusion. It also creates reputational risk and bad publicity for policymakers if the increase in the level of financial inclusion is followed by a corresponding increase in the number of inactive formal accounts because it could give the impression that policymakers do not care whether people use their formal accounts or not, and it could also give the impression that unbanked adults were coerced to own formal accounts that they do not need. Policymakers do not want such negative sentiments. As a result, they will entertain sound conversations or discussions on the causes of formal account inactivity, the consequences of formal account inactivity and how it affects financial inclusion, with the hope that the insights gained from such discussions will assist them in developing strategies to reduce formal account inactivity while also striving to increase the level of financial inclusion.

This study contributes to the literature that examines the consequences of financial inclusion, but which have not examined the issue of formal account inactivity as a consequence of financial inclusion. Two, this study provides a much-needed discussion of formal account inactivity and how it affects financial inclusion. This study further extends the literature by providing the reader with a strong sense of what is known about formal account inactivity around the world. Finally, the discussion in this article is divided into four categories: 1) the causes of formal account inactivity; 2) the state of formal account inactivity around the world; 3) discussion on how financial inclusion is a setback for financial inclusion; and (4) the consequences and costs of formal account inactivity. This careful categorisation of the discussion will provide the reader with a good sense of the state of formal account inactivity.

2. Causes of formal account inactivity: theory and evidence

2.1. Theoretical perspectives

Formal account ownership is the most important first step in achieving financial inclusion (Allen et al, 2016). Ownership of a formal account is the innovation or demand-based product that financial service providers give to unbanked adults to enable them to access a wide variety of financial services in the formal financial system (Ozili, 2018; Allen et al, 2016). After formal account ownership has taken place, the formal account may become inactive for various reasons.

The technology acceptance model, proposed by Davis (1989), offers some explanations for why a formal account may be inactive. First, it considers formal account ownership to be the innovation that enables financial inclusion to take place. In this context, the technology acceptance model (TAM) explains that the acceptance of an innovation (i.e., formal account ownership) is predicted by banked adults' behavioural intention, which is, in turn, determined by their perception of the usefulness of formal accounts and their perception of how easy or difficult it is to use formal accounts.

Regarding perceived usefulness, if banked adults feel that the formal account they own is not useful to them, they will rarely use it and after a while they will abandon it and the formal account will become inactive. For instance, the low-income banked adults who mostly perform only low-value transactions on their formal account may consider the formal account to be less useful to them if financial service providers introduce high transaction fees which are not affordable for low-income banked adults who have little money in their deposit or savings accounts. In this case, the perceived lack of usefulness will be linked to the high transaction fees associated with using specific formal accounts. It can lead banked adults to abandon their formal account, thereby rendering it inactive.

Regarding perceived ease of use, if banked adults feel that the formal account they own is difficult to access and use remotely on their digital devices and the bank is also far away, they will rarely use the formal account and after a while they may abandon it. For instance, if poor banked adults living in remote locations cannot regularly afford internet broadband connectivity, they will not be able to use their formal accounts due to internet access barriers.

This will make it difficult for them to access their formal account on their mobile phones or using other digital platforms. In this case, the decrease in ease-of-use will be linked to internet access barriers that make it difficult for banked adults to access their formal accounts. It can lead banked adults to abandon their formal account, thereby rendering it inactive.

Ozili (2024), in his technology impact model (TIM), extends the technology acceptance model (TAM) and propose that users will ~~also~~ consider the likely impact the innovation will have on them when deciding whether to use an innovation, where a positive impact would result if using the innovation solves a known problem and yield an outcome that is better than the previous state without the innovation (Ozili, 2024). The implication of the technology impact model for this study is that banked adults will stop using their formal account if it does not solve a known problem they face but rather yield an outcome that is worse than their previous state without using the formal account. Conversely, banked adults will continue using their formal account if it solves a known problem they face and yield an outcome that is better than their previous state without using the formal account. This means that, after formal account ownership has taken place, banked adults may periodically assess the impact of formal account ownership on their welfare. If the outcome of such assessment is positive, they will continue using their formal accounts. But if the impact assessment outcome is negative, they will discontinue using their formal accounts, thereby rendering the formal accounts inactive.

2.2. Methodology

The study used the descriptive analysis method to compare percentages of the level of formal account inactivity at the world level, regional level and country level to gain insights into the state of formal account inactivity around the world and also to gain some insights into the causes of formal account inactivity. We rely on the descriptive analysis approach because data on the level of formal account inactivity is only available for a short period which hinders the ability to conduct robust regression analysis. We obtained inactive accounts data from the World Bank's global findex database for the 2021 period. Data for the year 2021 is the latest available data at the time this research was conducted.

2.3. Evidence on the causes of formal account inactivity

In addition to the theoretical perspectives offered in section 2.1., the 2021 global findex data provide some data on the causes of formal account inactivity. A close examination of the regional 2021 global findex data in table 1 reveal that formal accounts may be inactive if adults feel that (i) a bank or financial institution is too far away, (ii) there is no need for an account, (iii) they don't have enough money to use an account, (iv) they don't feel comfortable using the account by themselves, and (v) they don't trust banks or financial institutions.

The regional data reveals that, among the percentage of people with inactive accounts, 49% of them in lower middle-income countries, middle income countries, developing countries and south Asia countries say that their formal accounts are inactive because the bank or financial institution is too far away. 46% of them in lower middle-income countries, middle income countries, developing countries and south Asia countries say that their formal accounts are inactive because they do not need a formal account. In other words, they were compelled to own a formal account even though they knew that they do not need a formal account. 37% of them in lower middle-income countries, middle income countries, developing countries and south Asia countries say that they do not have enough money to use a formal account. 29% of them in lower middle-income countries, middle income countries, developing countries and south Asia countries say that they don't feel comfortable using an account by themselves. 48% of them in lower middle-income countries, middle income countries, developing countries and south Asia countries say that they don't trust banks or financial institutions. Overall, it can be seen that the most dominant or prominent reason why formal accounts remain inactive is because of the long distance to a bank or a financial institution and the lack of trust in banks or financial institutions.

Table 1. Reasons for formal account inactivity based on 2021 Global Findex data

Regions	Bank or financial institution is too far away (% age 15+)	bank or financial institution is too far away (% with an inactive account, age 15+)	No need for an account (% age 15+)	No need for an account (% with an inactive account, age 15+)	Don't have enough money to use an account (% age 15+)	Don't have enough money to use an account (% with an inactive account, age 15+)	Don't feel comfortable using the account by themselves (% age 15+)	Don't feel comfortable using an account by themselves (% with an inactive account, age 15+)	Don't trust banks or financial institutions (% age 15+)	Don't trust banks or financial institutions (% with an inactive account, age 15+)
Lower middle income countries	18%	49%	17%	46%	14%	37%	11%	29%	18%	48%
Middle income countries	18%	49%	17%	46%	14%	37%	11%	29%	18%	48%
Developing countries	18%	49%	17%	46%	14%	37%	11%	29%	18%	48%
South Asia countries	18%	49%	17%	46%	14%	37%	11%	29%	18%	48%

Source: 2021 Global Findex data

3. State of formal account inactivity around the world: Evidence

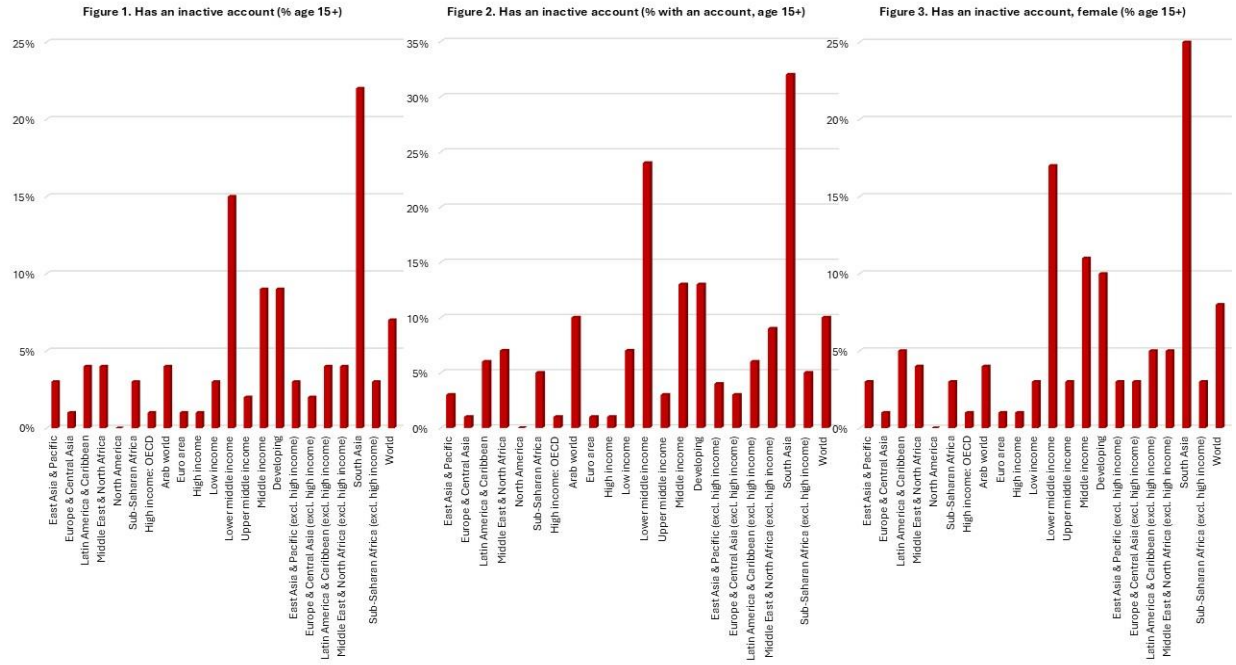
3.1. World and regional assessment of formal account inactivity

Relying on the 2021 global findex data, the regional data in figures 1 to 12 report the percentage of the adult population that have inactive formal accounts in most regions of the world. The highest level of inactive formal accounts can be seen in the south Asian region (see figure 1). Also, the percentage of the adult population with inactive formal accounts out of those with formal accounts reached an all-time high of 32% in the south Asian region in 2021, followed by lower middle-income countries at 24%, middle income countries at 13%, developing countries at 13% and the Arab world at 10% (see figure 2). The world average data in figures 1 to 12 shows that the percentage of the world adult population that have inactive formal accounts out of the total formal accounts was 10% in 2021. Across the demographics, the highest percentage of inactive formal accounts in the world was recorded among uneducated people (12%), unemployed people (11%) and poor people (9%). The lowest percentage of inactive formal accounts in the world was recorded among educated people (4%), the male population (6%) and the richest population (6%).

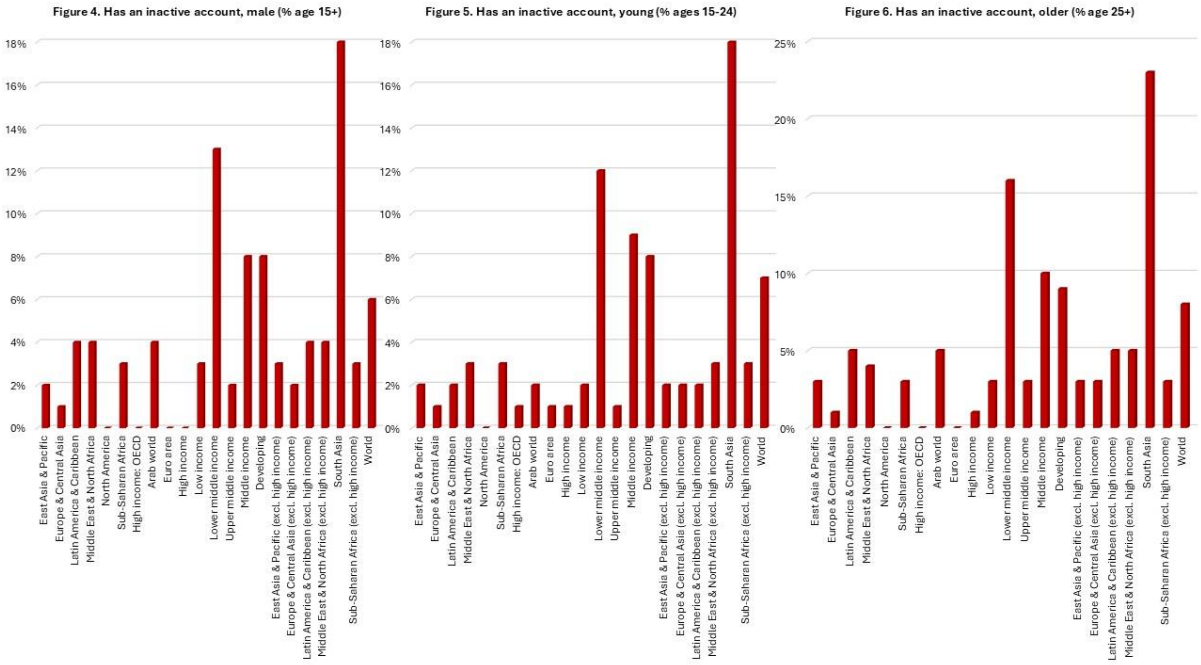
Furthermore, the regional assessment shows that the percentage of the adult population with inactive formal accounts exceeded 20% among the female population (25%), older population (23%), uneducated population (25%), poorest population (28%), unemployed population (23%) and the employed population (21%) in the south Asian region. The lowest percentage of inactive formal accounts was recorded among the male population (0%), older population (0%), educated population (0%), employed population (0%) and rich population (0%) in the North America and Euro Area regions.

In the female population category, the percentage of females with inactive formal accounts is highest in South Asia (25%), lowest in North America (0%) and ranges between 10% and 15% in developing countries, middle income countries and lower middle-income countries (see figure 3). In the male population category, the percentage of males with inactive formal accounts is highest in South Asia (18%) and lowest in North America (0%), Euro Area (0%) and in high income countries (0%) (see figure 4). In the young population category, the percentage of young people with inactive formal accounts is highest in South Asia (18%) and lowest in North America region (0%) (see figure 5). In the older population category, the percentage of

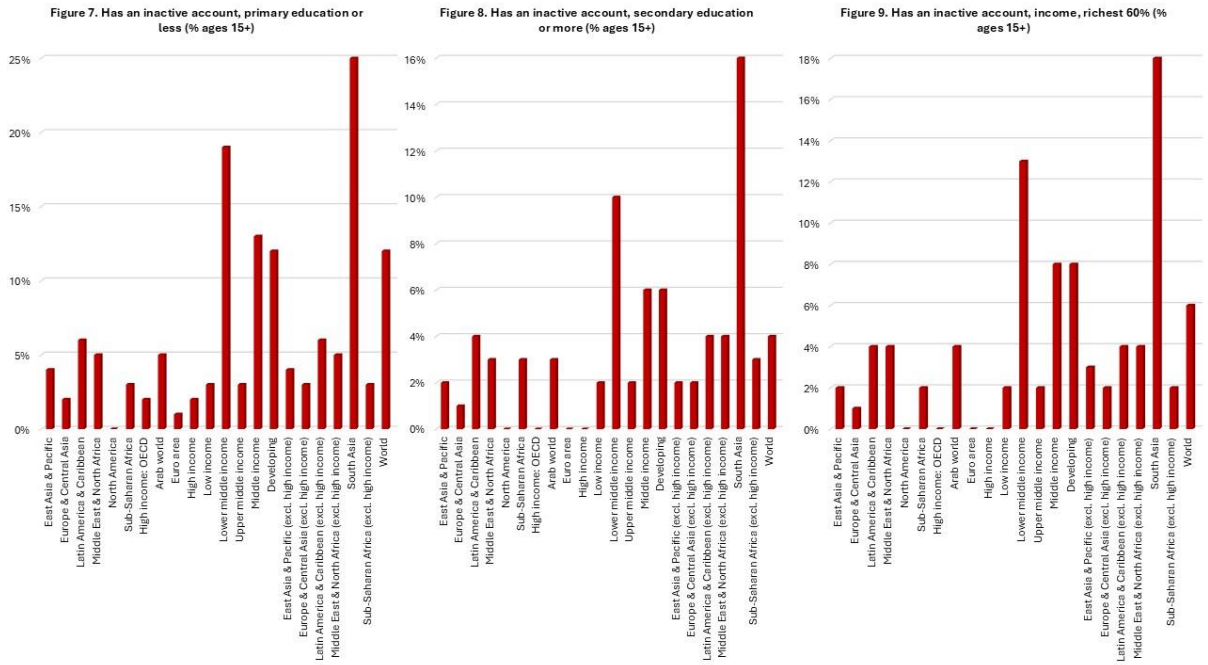
older people with inactive formal accounts is highest in South Asia (23%), lowest in North America (0%) and Euro Area (0%) regions (see figure 6). In the uneducated population category, the percentage of uneducated people with inactive formal accounts is highest in South Asia (25%), lowest in North America (0%) and ranges between 10% and 20% in developing countries, middle income countries and lower middle-income countries (see figure 7). In the educated population category, the percentage of educated people with inactive formal accounts is highest in South Asia (16%) and lowest in North America (0%), Euro Area (0%) and high-income countries (0%) (see figure 8). In the richest population category, the percentage of rich people with inactive formal accounts is highest in South Asia (18%) and lowest in North America (0%), Euro Area (0%) and high-income countries (0%) (see figure 9). In the poorest population category, the percentage of poorest people with inactive formal accounts is highest in South Asia (28%), lowest in North America (1%), Euro Area (1%) and high income (1%) countries and range between 10% and 20% in developing countries, middle income countries and lower middle-income countries (see figure 10). In the unemployed population category, the percentage of unemployed people with inactive formal accounts is highest in South Asia (23%), lowest in North America (1%), Euro Area (1%) and high income (1%) countries and range between 10% and 20% in developing countries, middle income countries and lower middle-income countries (see figure 11). In the employed population category, the percentage of employed people with inactive formal accounts is highest in South Asia (21%), lowest in North America (0%), Euro Area (0%) and high income (0%) countries and range between 10% to 20% in developing countries, middle income countries and lower middle-income countries (see figure 12). Overall, the regional results indicate that women, uneducated people, unemployed people, and poor people are more likely to have inactive formal accounts than men, educated, employed and rich people.



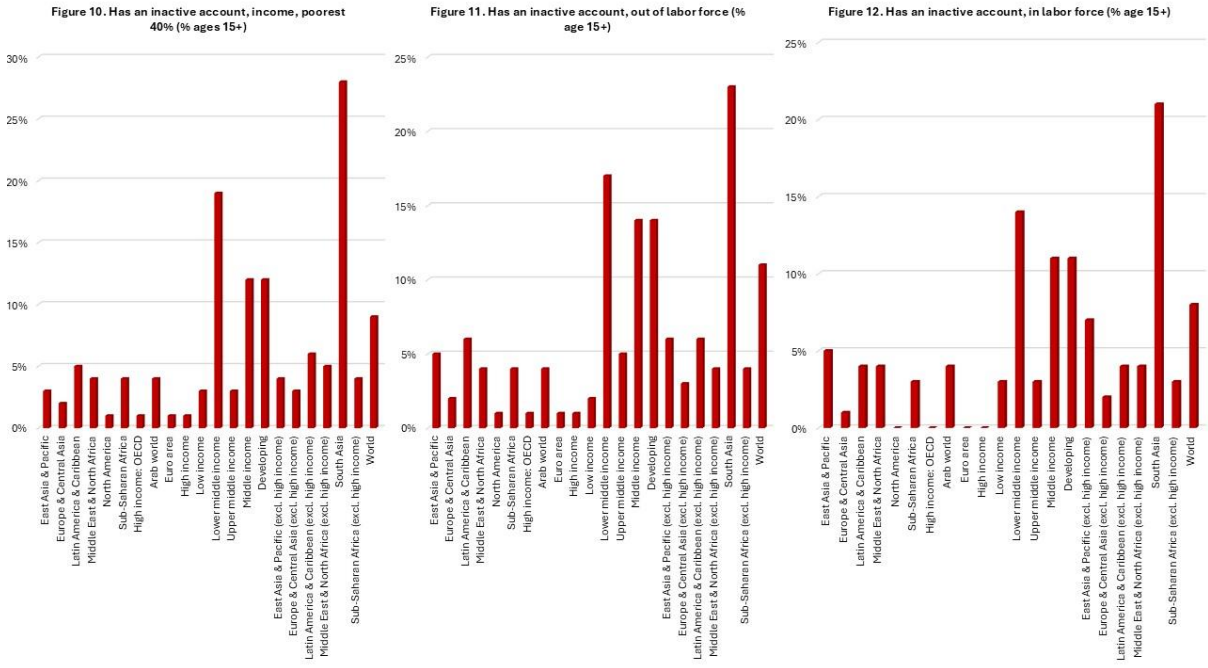
Source: 2021 Global Findex data



Source: 2021 Global Findex data



. Source: 2021 Global Findex data



Source: World Bank 2021 Global findex data

3.2. Country-level assessment of formal account inactivity

The country-level data in tables 2 and 3 report the top 20 countries with inactive formal accounts and their demographic segments. Panel A in table 2 shows that developing Asian countries have the highest percentage of inactive formal accounts. India has the highest percentage of inactive formal accounts in the world. 27% of India's adult population had formal accounts which remained inactive in 2021, followed by Sri Lanka (16%), Nepal (14%), Ethiopia (13%), Jamaica (12%) and Ecuador (10%). Across the demographics, the percentage of inactive formal accounts reached an all-time high of 35% in India, and exceeding 30% among India's poor, female, uneducated and rural adult population. In the female population category, the percentage of females with inactive formal accounts is higher in India (32%), Sri Lanka (22%), Jamaica (15%), Nepal (14%), Ethiopia (11%) and Comoros (10%) (see panel C, table 2). In the male population category, the percentage of males with inactive formal accounts is higher in India (23%), Ethiopia (15%), Nepal (15%), Ecuador (11%), Sri Lanka (10%) and Morocco (10%) (see panel D, table 2). In the young population category, the percentage of young people with inactive formal accounts is higher in India (23%), Sri Lanka (15%), Ethiopia (15%) and Malaysia (11%) (see panel E, table 2). In the older population category, the percentage of older people with inactive formal accounts is higher in India (29%), Sri Lanka (17%), Nepal (16%), Jamaica (13%), Ethiopia (12%), Comoros (12%), Ecuador (11%), Indonesia (10%) and Lao DPR (10%) (see panel F, table 2). In the uneducated population category (those with primary education or less), the percentage of uneducated people with inactive formal accounts is higher in India (31%), Sri Lanka (22%), Ecuador (17%), Nepal (16%), United Arab Emirates (15%), Jamaica (15%), Ethiopia (12%), Indonesia (11%), Comoros (10%) and Malta (10%) (see panel A, table 3). In the educated population category (those with secondary education or higher), the percentage of educated people with inactive formal accounts is higher in India (20%), Sri Lanka (15%), Ethiopia (15%), Jamaica (12%) and Cambodia (11%) (see panel B, table 3). In the richest and poorest population categories, the percentage of rich and poor people with inactive formal accounts are higher in India, Sri Lanka, Ethiopia, Nepal, Jamaica and Comoros (see panel C & D, table 3). In the rural and urban population categories, the percentage of people with inactive formal accounts living in rural and urban areas are higher in India, Nepal, Jamaica, Lao PDR, Indonesia, Dominican Republic, West Bank and Gaza, and Mozambique (see panel E & F, table 3). In the unemployed population category (i.e.,

those who are out of the labor force), the percentage of unemployed people with inactive formal accounts is higher in India (29%), Sri Lanka (26%), Jamaica (16%), Lao PDR (16%), Nepal (14%), Ecuador (12%), Ethiopia (12%) (see panel G, table 3). In the employed population category (i.e., those who are in the labor force), the percentage of employed people with inactive formal accounts is higher in India (26%), Nepal (14%), Ethiopia (13%), Indonesia (11%), Comoros (10%), Jamaica (10%), Ecuador (10%), and Morocco (10%) (see panel G, table 2). Overall, the country-level assessment shows that Asian countries (e.g. India, Nepal, Sri Lanka, Lao DPR), African countries (e.g. Ethiopia, Comoros, Morocco), and South American countries (e.g. Ecuador) have a higher prevalence of inactive formal accounts.

Table 2. Top 20 countries with inactive accounts and their demographic characteristics based on 2021 Global Findex data

	Panel A		Panel B		Panel C		Panel D		Panel E		Panel F		Panel G	
#	Countries with total inactive account		Countries with inactive account (% with an account		Countries with inactive account, female		Countries with inactive account, male		Countries with inactive account, young		Countries with inactive account, older		Countries with inactive account, in labour	
1	India	27%	India	35%	India	32%	India	23%	India	23%	India	29%	India	26%
2	Sri Lanka	16%	Ethiopia	28%	Sri Lanka	22%	Ethiopia	15%	Sri Lanka	15%	Sri Lanka	17%	Nepal	14%
3	Nepal	14%	Comoros	27%	Jamaica	15%	Nepal	15%	Ethiopia	15%	Nepal	16%	Ethiopia	13%
4	Ethiopia	13%	Nepal	26%	Nepal	14%	Ecuador	11%	Malaysia	11%	Jamaica	13%	Indonesia	11%
5	Jamaica	12%	Lebanon	21%	Ethiopia	11%	Sri Lanka	10%	Nepal	8%	Ethiopia	12%	Comoros	10%
6	Ecuador	10%	Lao PDR	21%	Comoros	10%	Morocco	10%	Ecuador	8%	Comoros	12%	Jamaica	10%
7	Comoros	9%	Iraq	20%	Ecuador	9%	Indonesia	9%	Jamaica	7%	Ecuador	11%	Ecuador	10%
8	Indonesia	9%	West Bank and Gaza	20%	Indonesia	9%	Jamaica	9%	Mali	7%	Indonesia	10%	Morocco	10%
9	Morocco	8%	Sri Lanka	18%	Dominican Republic	8%	Lao PDR	8%	Indonesia	6%	Lao PDR	10%	West Bank and Gaza	8%
10	Lao PDR	8%	Morocco	18%	Bolivia	7%	Comoros	8%	North Macedonia	6%	Morocco	9%	Sri Lanka	7%
11	West Bank and Gaza	7%	Chad	18%	Lao PDR	7%	West Bank and Gaza	8%	Finland	6%	West Bank and Gaza	9%	Lao PDR	7%
12	Dominican Republic	6%	Indonesia	17%	Mozambique	6%	Panama	7%	Iran, Islamic Rep.	5%	Dominican Republic	8%	Dominican Republic	7%
13	Mozambique	6%	Jamaica	16%	Myanmar	6%	Jordan	7%	Bosnia and Herzegovina	5%	Mozambique	7%	Jordan	7%
14	Bolivia	6%	Ecuador	16%	Mauritius	6%	Costa Rica	6%	Comoros	5%	Bolivia	7%	Algeria	6%
15	North Macedonia	6%	Gambia, The	14%	North Macedonia	6%	Mozambique	6%	South Africa	5%	Jordan	7%	Mozambique	6%
16	Jordan	6%	Mozambique	13%	Morocco	6%	Philippines	6%	Croatia	5%	Myanmar	7%	Botswana	6%
17	Philippines	6%	Dominican Republic	13%	West Bank and Gaza	6%	Mali	6%	Bangladesh	4%	Costa Rica	6%	Iraq	6%
18	Myanmar	6%	Cambodia	12%	Turkey	6%	North Macedonia	6%	Guatemala	4%	Philippines	6%	Philippines	5%
19	United Arab Emirates	5%	Jordan	12%	Bangladesh	6%	United Arab Emirates	5%	Mozambique	4%	Gambia, The	6%	Bolivia	5%
20	Costa Rica	5%	El Salvador	12%	Albania	5%	Tajikistan	5%	Uruguay	4%	United Arab Emirates	6%	Myanmar	5%

Source: World Bank 2021 Global findex database

Table 3. Top 20 countries with inactive accounts and their demographic characteristics based on 2021 Global Findex data

#	Panel A		Panel B		Panel C		Panel D		Panel E		Panel F		Panel G	
	Countries with inactive account, uneducated		Countries with inactive account, educated		Countries with inactive account, poorest 40%		Countries with inactive account, richest 60%		Countries with inactive account, rural		Countries with inactive account, urban		Countries with inactive account, out of labor	
1	India	31%	India	20%	India	35%	India	22%	India	31%	India	23%	India	29%
2	Sri Lanka	22%	Sri Lanka	15%	Sri Lanka	19%	Sri Lanka	15%	Nepal	14%	Nepal	13%	Sri Lanka	26%
3	Ecuador	17%	Ethiopia	15%	Nepal	16%	Ethiopia	15%	Jamaica	12%	Jamaica	11%	Jamaica	16%
4	Nepal	16%	Jamaica	12%	Jamaica	15%	Nepal	13%	Indonesia	11%	Lao PDR	10%	Lao PDR	16%
5	United Arab Emirates	15%	Cambodia	11%	Ecuador	14%	Jamaica	10%	Lao PDR	7%	Indonesia	8%	Nepal	14%
6	Jamaica	15%	Comoros	8%	Ethiopia	10%	Indonesia	9%	Mozambique	7%	Dominican Republic	7%	Ecuador	12%
7	Ethiopia	12%	Dominican Republic	8%	Comoros	10%	Comoros	9%	West Bank and Gaza	7%	West Bank and Gaza	7%	Ethiopia	12%
8	Indonesia	11%	Nepal	7%	North Macedonia	9%	Ecuador	8%	Mali	6%	Mozambique	5%	Malaysia	9%
9	Comoros	10%	Indonesia	7%	Bulgaria	9%	West Bank and Gaza	8%	Kosovo	6%	Panama	5%	Bolivia	9%
10	Malta	10%	Myanmar	7%	Morocco	9%	Lao PDR	8%	Nigeria	5%	Bangladesh	5%	Comoros	8%
11	Bolivia	10%	West Bank and Gaza	7%	Bolivia	9%	Morocco	7%	Malaysia	5%	Albania	5%	Mauritius	8%
12	Costa Rica	9%	Lao PDR	7%	Indonesia	8%	Philippines	6%	Liberia	5%	Tajikistan	5%	North Macedonia	8%
13	Poland	9%	Ecuador	6%	Lao PDR	8%	Jordan	6%	Albania	5%	Kosovo	4%	Argentina	8%
14	Hong Kong SAR, China	9%	Morocco	6%	Bosnia and Herzegovina	8%	Lebanon	6%	Peru	5%	Peru	4%	Costa Rica	7%
15	Morocco	9%	Jordan	6%	Dominican Republic	8%	Myanmar	6%	Tunisia	5%	El Salvador	4%	Panama	7%
16	North Macedonia	9%	Philippines	6%	Botswana	8%	Dominican Republic	6%	Tajikistan	5%	Armenia	4%	Myanmar	7%
17	Lao PDR	8%	Chad	5%	Mozambique	8%	Mozambique	5%	Cambodia	4%	Malawi	4%	United Arab Emirates	7%
18	Bulgaria	8%	Nigeria	5%	Kosovo	7%	Panama	5%	Dominican Republic	4%	Benin	4%	Bangladesh	6%
19	Botswana	8%	Bangladesh	5%	Costa Rica	7%	Albania	5%	El Salvador	4%	Iraq	4%	Mozambique	6%
20	Mauritius	7%	The Gambia	5%	Mauritius	7%	El Salvador	5%	Kyrgyz Republic	4%	Nigeria	4%	Morocco	6%

Source: World Bank 2021 Global findex database

4. Formal account inactivity is a setback for financial inclusion

The goal of policymakers and international development organisations is to increase the level of universal financial inclusion from 76% in 2021 to a higher level according to global findex data (see figure 13). But a corresponding increase in formal account inactivity in the world has the potential to set the world further back from achieving universal financial inclusion. Presently, 7% of the adult population globally have inactive formal accounts and this number is expected to increase in the coming years.

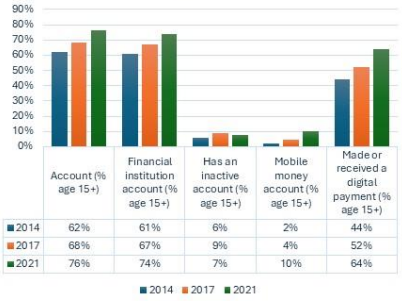
More people in the world had an inactive formal account (7%) than a mobile money account (2%) in 2021 as shown in figure 13. This situation was worse in South Asia where the percentage of people with an inactive formal account reached 22% while the percentage of people with a mobile money account was only 12% in 2021 as shown in figure 15. Developed countries experienced a similar situation in 2014 where the percentage of people with an inactive formal account reached 11% while the percentage of people with a mobile money account was only 5% as shown in figure 14. The rapid rise in the number of inactive formal accounts between 2014, 2017 and 2021 in some regions of the world suggests that many people are not using their formal accounts as much as they should. This means that they are not enjoying the full benefit of financial inclusion.

The above insight suggests that several efforts have been made to increase financial inclusion through greater formal account ownership of any type, financial institution account ownership and mobile account ownership, especially in South Asia and developing countries (see figure 13 to 18). However, little private and public sector efforts have been made to increase the frequency of formal account usage. Data from table 1 reveal that the reason why the percentage of inactive formal accounts are rising rapidly more than mobile account ownership is because banked adults, especially those in south Asia and developing countries, (i) don't have enough money to use a formal account, (ii) don't feel comfortable using the account by themselves, (iii) don't trust banks or financial institutions, (vi) do not have a need for a formal account, and because (v) the bank or financial institution they want to visit is too far away.

This implies that the aggressive advocacy, marketing and promotion of formal account ownership around the world has not been supported with policies that increase formal

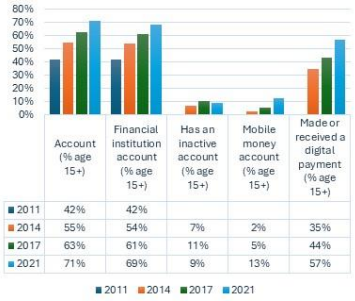
account activity especially in developing countries. These include (i) policies that increase the presence of microfinance banks and commercial bank branches in rural and remote locations, (ii) policies that protect customers and increase customers' trust in banks and other financial institutions, (iii) policies that create equal income-generating opportunities for everyone, (iv) financial/digital literacy programs that teach people to stop being reliant on others and learn how to operate their formal account themselves, as well as (iv) policies that link societal life to formal accounts to increase formal account usage. The goal is to reduce formal account inactivity as much as possible to zero percent so that people who own a formal account can frequently access and use high quality and affordable financial services.

Figure 13. World



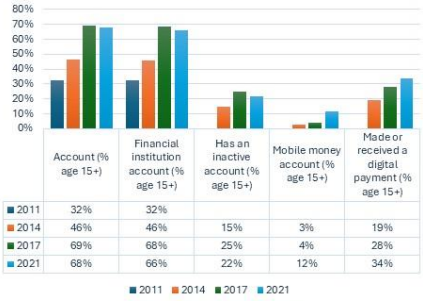
	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2014	62%	61%	6%	2%	44%
2017	68%	67%	9%	4%	52%
2021	76%	74%	7%	10%	64%

Figure 14. Developing Countries



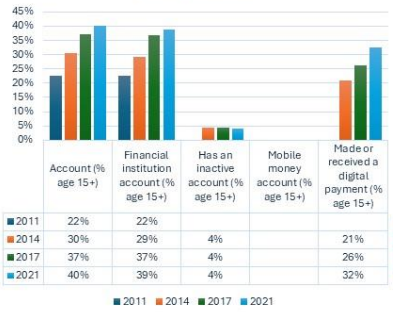
	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2011	42%	42%			
2014	55%	54%	7%	2%	35%
2017	63%	61%	11%	5%	44%
2021	71%	69%	9%	13%	57%

Figure 15. South Asia



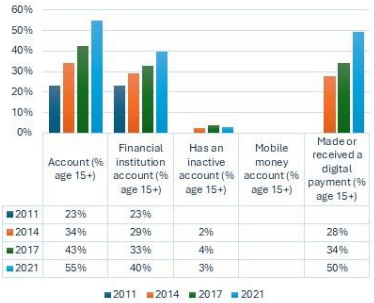
	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2011	32%	32%			
2014	46%	46%	15%	3%	19%
2017	69%	68%	25%	4%	28%
2021	68%	66%	22%	12%	34%

Figure 16. Arab World



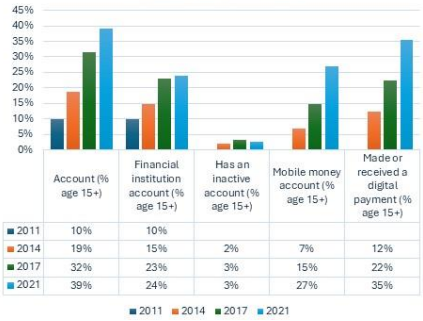
	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2011	22%	22%			
2014	30%	29%	4%		21%
2017	37%	37%	4%		26%
2021	40%	39%	4%		32%

Figure 17. Sub-Saharan Africa



	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2011	23%	23%			
2014	34%	29%	2%		28%
2017	43%	33%	4%		34%
2021	55%	40%	3%		50%

Figure 18. Low income countries



	Account (% age 15+)	Financial institution account (% age 15+)	Has an inactive account (% age 15+)	Mobile money account (% age 15+)	Made or received a digital payment (% age 15+)
2011	10%	10%			
2014	19%	15%	2%	7%	12%
2017	32%	23%	3%	15%	22%
2021	39%	24%	3%	27%	35%

Source: World Bank 2021 Global findex database

5. Consequences and costs of formal account inactivity

It is not enough to own a formal account, whether it is a financial institution account or a mobile money account. The account owner has to use the formal account frequently to enjoy the benefits of financial inclusion. If account owners abandon their formal accounts and the accounts become inactive, there are consequences and costs to both the user, society and the economy.

The consequences and costs to the individual include the following. One, greater formal account inactivity will decrease the financial and economic empowerment of the formal account holder (Bhatia and Dawar, 2024). For example, the individual who is not using their formal account won't be able to access formal credit to start a small business, earn income, acquire an asset, invest and improve their financial well-being. Two, prolonged formal account inactivity might mean that the formal account is dormant, and account owners are relying mostly on cash-based transactions (Schydlowsky, 2018; Kumar, 2024). Such account owners will be increasing their patronage of cash-based services in the informal economy which is a setback for policymakers' effort to shrink the size of the informal economy and transition to a cashless economy. Three, greater formal account inactivity leads to lack of awareness about new financial services and products. Digital financial service providers often communicate information about new financial services and product offerings via notification on bank apps, fintech apps or emails. Only frequent users of formal accounts will be able to view the notification and access information about new financial services and products offered by their financial service providers. Customers with inactive formal accounts will not be able to access such information until they log into their bank or fintech app. As a result, they will not be aware of new financial services and product offerings that could improve their financial welfare.

The consequence and cost to society is that greater formal account inactivity could signal that the owners of inactive formal accounts are relying more on exploitative informal financial service providers who charge exorbitant fees for simple transactions such as payday loan, or to send and receive remittances (Goedecke et al, 2018). Greater formal account inactivity can also increase systemic poverty if account owners are not using their formal accounts to access available financial products and services but are relying too much on friends and other

informal actors that are exploitative. They may lose their little savings and assets in the process and plunged into poverty.

The consequences and cost to the economy include the following. One, greater formal account inactivity decreases economic growth because banked adults who are not using their formal accounts are not able to access credit to undertake entrepreneurial activities that increase productivity, output and contribute to economic growth (Fonseca and Matray, 2024). Two, greater formal account inactivity could threaten the survival of financial service providers because an inactive formal account, or a dormant account, means that financial service providers are not earning transaction fee income on that account. If a large number of formal accounts linked to specific financial service providers remain inactive, it would reduce the fee income of financial service providers. It will reduce their profitability, increase solvency risk and threaten their stability and survival. The social cost of this is that financial service providers will cut down labour cost to remain solvent and this will lead to loss of job and higher unemployment in society.

Three, greater formal account inactivity will decrease tax revenue to the government because non-usage of formal accounts by customers will decrease the transaction fee income to financial service providers (Ren et al, 2025). This will decrease their profit which, in turn, will decrease the tax revenue to the fiscal authorities.

6. Conclusion

This study explored formal account inactivity and how it might be a setback for financial inclusion and the economy. The study draws insight from the 2021 global findex data, and found that formal accounts become inactive when adults feel that they have no need for an account, or the bank or financial institution is too far away from them, or they don't have enough money to use an account, or they don't feel comfortable using the account by themselves or they don't trust banks or financial institutions. It was also observed that women, uneducated people, unemployed people, and poor people are more likely to have an inactive formal account than men, educated, employed and rich people. Furthermore, it was found that Asian countries (e.g., India, Nepal, Sri Lanka, Lao DPR), African countries (e.g.

Ethiopia, Comoros, Morocco), and South American countries (e.g. Ecuador) have higher inactive formal accounts. The consequences and costs of formal account inactivity include the decrease in the financial and economic empowerment of the accountholder, increased reliance on cash-based transactions, lack of awareness about new financial services and products, increased reliance on exploitative informal financial service providers, decrease in economic growth, insolvency risk for financial service providers, and lower tax revenue for the government.

The study identified formal account inactivity as a challenge to financial inclusion and it can be overcome by introducing (i) policies that increase the presence of microfinance banks and commercial bank branches in rural and remote locations, (ii) policies that protect customers and increase customers' trust in banks and other financial institutions, (iii) policies that create equal income-generating opportunities for everyone, (iv) financial/digital literacy programs that teach people to stop being reliant on others and learn how to operate their formal account themselves, as well as (iv) policies that link societal life to formal accounts to increase formal account usage. Together, these policies can increase the usage of formal accounts, deepen financial inclusion and improve people's financial well-being. Governments should also invest more in financial inclusion programs that require people to use their formal account.

Practitioners can also help to reduce formal account inactivity. They can contribute to this effort by increasing their interaction with customers or banked adults to obtain information and understand why their accounts become inactive. This will assist practitioners in developing the right mix of products, processes and customer service support that can help to reduce the incidence of formal account inactivity among banked adults. Scholars can also contribute to reducing the incidence of formal account inactivity. Scholars can undertake empirical research on the determinants of formal account inactivity and suggest solutions that policymakers and practitioners will find useful in combating the rising incidence of formal account inactivity. Finally, addressing the formal account inactivity problem is a medium to long-term goal. Therefore, all stakeholders, including regulators, policymakers, academics and practitioners or financial service providers, should work together to devise initiatives to reduce formal account inactivity

Reference

Allen, F., Demirguc-Kunt, A., Klapper, L., & Peria, M. S. M. (2016). The foundations of financial inclusion: Understanding ownership and use of formal accounts. *Journal of financial Intermediation*, *27*, 1-30.

Aziz, A., & Naima, U. (2021). Rethinking digital financial inclusion: Evidence from Bangladesh. Technology in Society, 64, 101509.

Bhatia, S., & Dawar, G. (2024). The impact of financial inclusion on social and political empowerment: Mediating role of economic empowerment. *Journal of the Knowledge Economy*, *15*(3), 13727-13744.

Davis (1989). Davis, F.D. (1989). Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology. MIS Quarterly, 13 (3), 319.

Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2020). The Global Findex Database 2017: Measuring financial inclusion and opportunities to expand access to and use of financial services. The World Bank Economic Review, 34(Supplement_1), S2-S8.

Fonseca, J., & Matray, A. (2024). Financial inclusion, economic development, and inequality: Evidence from Brazil. *Journal of Financial Economics*, *156*, 103854.

Goedecke, J., Guérin, I., d'Espallier, B., & Venkatasubramanian, G. (2018). Why do financial inclusion policies fail in mobilizing savings from the poor? Lessons from rural south India. *Development Policy Review*, *36*, O201-O219.

Kumar, I. (2024). Banking services and financial inclusion in India's poorest regions. *Journal of Banking Regulation*, *25*(2), 145-159.

Mader, P. (2018). Contesting financial inclusion. Development and change, 49(2), 461-483.

Osabutey, E. L., & Jackson, T. (2024). Mobile money and financial inclusion in Africa: Emerging themes, challenges and policy implications. *Technological Forecasting and Social Change*, *202*, 123339.

Ozili, P. K. (2018). Impact of digital finance on financial inclusion and stability. *Borsa istanbul review*, *18*(4), 329-340.

Ozili, P. K. (2024). Technology impact model: a transition from the technology acceptance model. *AI & SOCIETY*, 1-3.

Ozili, P. K., & Mhlanga, D. (2024). Why is financial inclusion so popular? An analysis of development buzzwords. *Journal of International Development*, *36*(1), 231-253.

Pal, M., Gupta, H., & Joshi, Y. C. (2022). Social and economic empowerment of women through financial inclusion: empirical evidence from India. Equality, Diversity and Inclusion: An International Journal, 41(2), 294-305.

Park, C. Y., & Mercado Jr, R. (2018). Financial inclusion, poverty, and income inequality. The Singapore Economic Review, 63(01), 185-206.

Peric, K. (2015). Digital financial inclusion. Journal of Payments Strategy & Systems, 9(3), 212-214.

Ren, P., Moumbark, T., Appiah, E., & Koudalo, Y. M. (2025). Financial Inclusion, Mobile Money, and Tax Revenue in Africa. *SAGE Open*, *15*(1), 21582440251315222.

Schydlowsky, D. M. (2018). Converting Dormant Bank Accounts into a Dynamic Force in Latin America.

Van, L. T. H., Vo, A. T., Nguyen, N. T., & Vo, D. H. (2021). Financial inclusion and economic growth: An international evidence. Emerging Markets Finance and Trade, 57(1), 239-263.

World Bank (2021). Global Findex Database.