Path to financial inclusion is better financial education, literacy

As finance becomes more inclusive, financial services will reach people who have no experience with formal finance structures, and they may fail to use the services fully or properly.

Financial education is a crucial component of successful financial inclusion. Even in advanced economies, significant gaps remain in financial literacy.

Japan's experience with financial inclusion shows the opportunities and constraints of combining new financial services with financial education. Japan's government initially employed World War II widows to sell life insurance and educate customers—the small business workers and agriculture sector workers—about their product. Further financial education was provided by Japan Post, one of Japan's main life insurance providers and a major repository of rural savings. When private insurers saw the profitability of reaching new customers, they were motivated to be more inclusive as well. Despite the successful expansion of financial services in Japan, financial literacy remains limited because schoolteachers themselves lack financial literacy skills; only 13% of economics and business graduates choose to teach. As a result of inadequate financial education in schools, small businesses in Japan often have to teach basic accounting and finance skills to their employees.

In Malaysia, the Credit Counseling and Debt Management Agency (APKP) found the main reason for loan defaults, at 52%, is poor financial planning. It identified priority issues by age group: younger people lacked awareness; middle-aged people lacked cash flow, credit management, and long-term planning; and older people needed greater understanding of retirement issues and retirement planning. In response, the agency developed separate modules to meet the needs of people in various stages of their lives to equip them with the knowledge needed to make sound financial decisions. The poor are most at risk because a financial mistake can cost them dearly. Because of its limited resources, the APKP is focusing on the most vulnerable groups to reduce the frequency and cost of financial missteps.

Financial education should be included in standard school curriculums at every level. Teachers need the appropriate training. Higher levels of financial capability increase worker confidence, work ethics, and productivity.

From Financial Inclusion in the Digital Age, by Shawn Hunter, manager, Inclusive Finance, The Foundation for Development Cooperation; Valdimir dela Cruz, ADBI associate; and David Dole, ADBI senior economist.