Luigi Federico Signorini: The journey to financial well-being through financial inclusion

Introductory speech by Mr Luigi Federico Signorini, Senior Deputy Governor of the Bank of Italy, at the seminar "The journey to financial well-being through financial inclusion", organised by the Bank of Italy, Rome, 4 November 2024.

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Today's event will explore the connection between financial inclusion and financial well-being. Why is this important?

Financial inclusion has become a widely shared goal of government policies and a topic of interest for central banks and financial authorities at the international level. It has received a lot of attention over the years as an instrument to foster growth, reduce inequalities, increase employment, and alleviate poverty.[1] Financial inclusion may help people cope with macroeconomic and idiosyncratic shocks, as it facilitates financial planning and the intertemporal shift of financial resources.

From the policymaker's standpoint financial inclusion is important as it improves the individual's economic and financial well-being, whilst having a positive impact on the economy as whole. Studies find that the benefits of financial inclusion can be substantial even in countries with well-developed financial markets, because it can translate into higher wealth accumulation and greater resilience of low-income households. Other studies, focusing on emerging and developing countries, find that increased usage of bank accounts via debit cards has boosted the saving rate significantly because it reduces transaction costs for people to access their money.[2]

The digitalisation of finance has significantly contributed to promoting financial inclusion through more efficient and effective technologies and through increased competition, which leads to higher quality products and services and to lower costs. Over the last decades, notable progress has been made around the world in increasing access to financial products and services for more individuals, with 76 per cent of people worldwide having a bank or mobile money account in 2021. This represents a significant increase from 2011 when the figure stood at 51 per cent.[3]

Nonetheless, progress has been uneven across regions, even controlling for income levels. Increased access to digital financial products and services has not translated, in some cases, into higher actual usage of financial products and services. Moreover, in some instances, financial innovation has resulted in the lower financial inclusion of rural households[4] or in the worsened financial well-being of individuals, particularly as the result of over-indebtedness and exposure to fraud and scams.[5]

Possible causes include market failures, lack of competition, inadequate consumer protection rules and an insufficient level of digital and financial literacy.[6] Even in advanced countries – where the offer of financial services is regulated and transparent, and consumers are better protected from intermediaries' improper behaviour – authorities continue to consider how to improve the regulatory environment to manage new risks.

A specific matter of concern is the exclusion of those who do not possess adequate digital skills for accessing and using the financial services. The data show that the elderly, those with lower education levels, and those living in rural areas suffer from limited access. The shift to digital channels will continue; appropriate actions need to be put into place to ensure that everybody can reap its benefits.

It is generally understood that financial inclusion has three dimensions: access, use and quality. The first is the possibility for individuals to access basic financial services and products. The second is the actual ability of individuals to use such services and products in an effective way. The third (and subtler) dimension consists in creating the conditions for financial services and products to work best to improve people's financial well-being.

Progress along all three dimensions – access, use and quality – should ideally be simultaneous. Achieving better results on all three fronts is important to ensure the empowerment of consumers, so that markets can actually work in their best interest.

The first dimension requires good infrastructures, which are a prerequisite for enabling the efficient and secure provision of financial services. It also requires a competitive environment, to foster higher cost-efficiency, a more diversified offering of financial products and services, and greater consumer choice.

The second and third dimensions require consumer protection measures and financial education.

Ex ante transparency rules work to ensure that customers are well informed before purchasing a financial product. Ex post rules need to envisage effective recourse if something goes wrong. Conduct supervision monitors the correct implementation of rules. Free and open competition is once again essential to enable consumers to exploit the full potential of transparency and conduct rules.

Nothing, however, will work very well unless consumers are endowed with the minimum knowledge that is necessary (1) to make effective use of the information provided, (2) to activate in practice the tools through which services are offered, (3) to compare in a meaningful way the products offered on the market, and (4) to take full advantage of consumer protection rules. Therefore, financial and digital education initiatives are important.

Given the growing complexity of financial markets, and the new opportunities offered by digitalisation, the Global Partnership for Financial Inclusion (GPFI) has shifted its focus from simple access to financial services, which was originally its main objective, to fostering the use of financial services and understanding the conditions under which financial inclusion can enhance financial well-being.

Last September, Her Majesty Queen Máxima of the Netherlands, Honorary Patron of the GPFI, after having spent 15 years as United Nations Special Advocate for Inclusive

Finance for Development was given a new role focusing specifically on financial health (Secretary-General's Special Advocate for Financial Health). This also marks a change in perspective towards the need to focus on the actual outcomes of financial inclusion.

Data are useful. The Global Findex database, maintained by the World Bank, is a valuable tool for evaluating progress on access and usage of financial services. More work may be needed on the quality dimension; concepts, statistics and pre-conditions for comparability are all thorny issues, and it is probably appropriate to rely on a set of different indicators rather than concentrate on a single one.

Once again: the issue is empowerment, not paternalism – or, as one should perhaps say, parentalism. In all this, there should be no presumption that the regulator, even the best intentioned one, is in a position to take decisions for the consumer. Comprehensive financial education and a robust framework of consumer protection rules are the best tools available to us to enable consumers to make their choices in full awareness of the opportunities and risks.

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