Digital Financial Inclusion: The Star Strategy Approach to Policy Formulation

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Abstract:
The research focuses on Digital Financial Inclusion and tools to achieve this critical key to economic and sustainable development. The STAR Strategy Approach for Financial Inclusion with its four thematic area is proposed by the researchers that in any policy to have the complete and comprehensive effect of achieving the right mix of Financial Inclusion within the digital space, then the policy must have demonstrable and measurable traces of unlocking access, unlocking usage, embedded quality and innovation and minimizes risk. The research also extensively explains the STAR Strategy Approach for Financial Inclusion policy and planning for policymakers and implementing partners.

The G20 High-level Principles for Digital Financial Inclusion adopted at the 2016 China Presidency is tested with the 4 thematic areas of the STAR Strategic Approach for financial inclusion and established the G20 High-level principles for digital financial inclusion meets the requirement of the thematic areas of the STAR Strategy Approach for which for specific financial inclusion actions and policies can be developed from.

The paper also exposes that though G20 High-level principles for digital financial inclusion meets the 4 thematic areas of the Star Strategic Approach to financial inclusion, it had Only one of its Eight principles, thus Principle 6: Strengthen Digital and financial literacy and awareness as efforts at improving quality.

Keywords: Digital Financial Inclusion, STAR Strategic Approach, Financial Inclusion

INTRODUCTION

Financial inclusion means people have access to financial services; they can use them, with such services in its best quality, and minimal risk of using the services. To reduce poverty and to achieve inclusive economic growth, financial inclusion is bedrock. Financial inclusion has been observed to be a core and critical area necessary for inclusive socio-economic development and transformation. Out of United Nations 17 Sustainable Development Goals (Shaping global economies development agenda), 7 of the goals cannot be achieved in earnest without enabling financial inclusion. Financial inclusion is therefore termed as the `n necessary enabler` in achieving the sustainable development goals.

Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer and Peter Van Oudheusden. 2015. “The Global Gindex Database 2014: Measuring Financial Inclusion around the World.” Policy Research Working Paper 7255, World Bank, Washington, revealed that 2 billion people are financially excluded globally; It is inferred that they are unbanked, having limited and in most cases no access to formalized financial service/products and bank account. The over 2 billion thus are directly excluded from some opportunities for them to improve their lives. Such people have common similarities as well as distinct features of poverty, with the lives seeing no much improvement and most are cut off from basic amenities and rights as access to `financial services and products``.

Barriers limiting their edge to have an account at a formal financial institution like high cost, physical distance, and lack of proper documentation within different reasons among regions. This means that financial services are not targeting low-income earners fairly and one reason perhaps such persons are mostly without enough money. Social issues, technological, cumbersome banking opening processes are other reasons.
These barriers do not only come with its negative correlation but also people rather hold cash more for a transaction with its associated risk and cost. Mas (2012) observed that financial inclusion is the process of bridging three clouds 1) The physical cash cloud which is the legacy of financial system where most poor people operate today 2) The digital cloud where money is stored in a virtual account and 3) a psychological cloud (ie. The brain) through which people interpret and plan the lives. Connecting Physical and digital clouds unlocks access whiles connecting psychological and digital cloud unlocks usage

Digitalization of Financial services is appropriate financial service part which could remove some barriers that people ascribe for reasons of their exclusiveness. Digital financial services are defined here as offering financial services to people (Unlocking access) to meet their expectation and needs of users (Unlocking Usage) delivered with Quality ( Sustainable, Innovativeness and in a responsible manner) with minimal risk through the use of the digital space.

Many groups and Institutions including the G20, World Bank, and nations financial inclusion efforts with programmes and activities to advance financial inclusion for inclusive development.


The World Bank launched the Global Financial Inclusion Database to provide data for comparing among countries by measuring how people use financial service across specific time using over 100 indicators. The 2014 edition of 143 country data made revealing reevaluations among which it recommended digitizing payments like paying school fees and utility bills creates additional of enabling already existing account holders to benefit from using financial service Moving from cash-based economies has its benefits: the report observed that it helps the efficiency of payments, increase speed, lowering of cost and enhance security with payments. Government (both central and local government) allowance system if when digitized completely can go to increase the numbers of new account openings.

MAYA Declaration by the Alliance for Financial Inclusion (AFI)

Launched at the AFI Global Policy Forum in Riviera Maya, Mexico in September 2011, and with membership institutions numbering over 130, the Maya Declaration is on record to have been the first commitment made globally by organized policymakers drawn developing and emerging countries. The Maya declaration broadly is commitment seeking to tap and correct economic and social potential of the poor through the use of sustainable and responsible financial inclusion activities. It specifically hopes to alleviate poverty and improve financial stability for more inclusive development.

Member institutions make measurable commitments Concrete targets under the commitments of the Maya Declaration. They submitted progress reports on the activities and commitment and measured based on "effective, primarily setting quantifiable national goals and measuring progress using AFI’s Core Set of Financial Inclusion indicators developed by AFI’s Financial Inclusion Data Working Group (FID WG)."

Currently "More than 80 institutions from developing and emerging countries – representing over 75% of the world’s unbanked population – have endorsed the Declaration. Institutions that sign the Declaration agree to make measurable commitments in four broad areas that have been proven to increase financial inclusion."

The four areas aligned with the G20 Principles for Innovative Financial Inclusion are

a. Create an enabling environment to harness new technology that increases access and lowers costs of financial services;
b. Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;
c. Integrate consumer protection and empowerment as a key pillar of financial inclusion; and
d. Utilize data for informed policymaking and tracking results.

The Maya institution in together put it as being committed to the following

a. Putting in place a financial inclusion policy that creates an enabling environment for cost-effective access to financial services that make full use of appropriate innovative technology and substantially lowers the unit cost of financial services;
b. Implementing a sound and proportional regulatory framework that achieves the complementary goals of financial inclusion, financial stability, and financial integrity;
c. Recognizing consumer protection and empowerment as key pillars of financial inclusion efforts to ensure that all people are included in their country’s financial sector;
d. Making evidence-based financial inclusion policy a priority by collecting and analyzing comprehensive data, tracking the changing profile of financial inclusion, and producing comparable indicators in the network.

Data from the 2014 Global Findex Database states “in countries where AFI member institutions made commitments to the Maya Declaration, the combined total reduction of the unbanked populations has gone from 56 percent in 2011 to 42 percent in 2014.”

The group number continues to increase, and it remains the largest institution of members globally taking on financial inclusion initiatives.

G20
At a G20 Summit in Seoul in 2010, financial inclusion, i.e., the use of formal financial services, was recognized by the group as one of the main pillars of the global development agenda of the G20. The G20, a group comprised of the 20 supposedly most important industrial and emerging economies, serving as a central forum for international cooperation in economic and financial policies aims at strengthening and broader sharing the benefits of globalization. The 2010 High-Level Principles for Innovation Financial Inclusion were first by the group which generated worldwide interest for financial inclusion.

During subsequent G20 presidencies, additional focus was put on digital financial inclusion, acknowledging that digitization can be one of the most important factors for increasing inclusive finance by leveraging the opportunities provided by new technologies with regard to financial services.

It was during the Chinese Presidency in 2016 that a giant leap on policy direction by the G20 group on financial inclusion was made. The China presidency summit under the theme “Towards the Innovative, Invigorated, Interconnected and Inclusive World Economy” approved the 8 High-Level Principles (HLP) for Digital Financial Inclusion to be followed through within the context of the various situations of individual countries. The 8 priority area for the group in the 2016 HLP are:

Principle 1: Promote a digital approach to financial inclusion
Principle 2: Balance innovation and risk to achieve Digital Financial Inclusion
Principle 3: Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion
Principle 4: Expand Digital financial service infrastructure ecosystem
Principle 5: Establish responsible digital financial practices to protect consumers
Principle 6: Strengthen Digital and financial literacy and awareness
Principle 7: Facilitate customer identification for digital financial services
Principle 8: Track digital financial inclusion progress
The G20 member countries committed themselves to taking concrete actions to promote digital financial inclusion at their own country level, based on the specific circumstance of each country within the Financial Inclusion Priorities of the German G20 Presidency in 2017. The three pillars of the German G20 Presidency in 2017 are: building resilience; improving sustainability; and assuming responsibility. For the G20 finance track, the following priorities have been defined: enhancing economic resilience; improving investment conditions: a partnership with Africa; shaping digitalization.

Questions have been asked of what mix of actions, policies priority areas is needed for a sustainable and strategic financial inclusive activities. This paper, therefore, proposes a star approach for policy on digitization of financial services. The approach considers Access, Usage, Quality, and Risk as most important to consider when coming out with financial services policy using the digital space.

LITERATURE REVIEW

Financial Inclusion

In its most basic definition, financial inclusion refers to the fact that a person owns an account at a formal financial institution. Such an account allows to save and borrow money formally, to contract insurance or to use payment services. Financial Inclusion generally is an enabler of economic development and opportunities and has generally been accepted as a global policy priority. Financial inclusion is critical in reducing poverty and achieving inclusive economic growth. When people can participate in the financial systems, they are better able to start and expand businesses, invest in their children’s education, and absorb financial shocks. “The Global Findex Database 2014: Measuring Financial Inclusion around the World” Policy Research Working Paper 7255.

According to the World Bank, 2014 financial inclusion is usually defined as the proportion of individuals and firms that have access to or use financial services (World Bank, 2014). Financial inclusion has been observed to be a core and critical area necessary for inclusive socio-economic development and transformation.

Globally 38% of adults are still unbanked. It is estimated that as at 2014 about 2 billion people are financially excluded globally; It is inferred that they are unbanked, having limited and in most cases no access to formalized financial service/products and bank account. The over 2 billion are excluded from financial services are directly excluded from some opportunities for them to improve their lives. Such people have common similarities as well as distinct features of poverty, with the lives seeing no much improvement and most are cut off from basic amenities and rights as access to “financial services and products”.

Across the globe, it is estimated that over 200 million MSME in emerging countries are without the needed finance to propel their business, with no credit history and no collateral to get financing.

On the Gender and Social rights to equal opportunities, some groups are disadvantaged than others. In 2011 47% of women had account whiles in 2014, 58 % of women had account whiles for men 54% had an account in 2011 and 65% in 2014. A gender gap of 7 globally. In a study of developing countries, 59% men have accounts whiles 50% of women had accounts in 2014. Meaning men were 9% likely to be financially included than women. Also, persons from most rural and remote areas are more likely to be excluded with about 80% of adults from conflict-prone areas not having an account.

The repercussions for financial exclusion are enormous in that it creates economic gaps between the included and excluded, therefore derailing efforts in improving lives. Being financially included leads therefore to economic benefits. Indeed, in the absence of inclusive financial systems, poverty traps can emerge and hamper economic development since access to financial tools allows people to invest in their education, finance projects.
and become entrepreneurs. It can favor disadvantaged and poor people allowing them to increase their income and the probability of being employed (Bruhn and Love, 2014).

In addition, financial inclusion can favor women empowerment and contribute to financial stability. It empowers the vulnerable especially the disabled. (Swamy, 2014) Research, therefore, to assess financial inclusion practically is one of searching an economic indicator for accelerated growth. “Financial inclusion” describes the pursuit of providing useful and affordable access to financial services to all individuals and businesses worldwide. As such, financial inclusion may contribute to economic growth and employment, may reduce inequality and could potentially increase financial stability.

It has been observed that with 17 Sustainable Development Goals, 7 of the goals cannot be achieved in earnest without enabling financial inclusion. Financial inclusion is therefore termed as the ‘‘enabler’’ in achieving the sustainable development goals.

While the World Bank Group views financial inclusion as a major key factor to reducing extreme poverty and boosting shared prosperity and put forward its global to reach Universal Financial Access (UFA) by 2020; the G20 nations have pledged their committed in the advancement financial inclusion each worldwide through digital financial inclusion.

There is a need for policymakers to adapt to cutting age strategy is as important as implement the activities through especially digital means.

Financial Inclusion and Local Economic Development

Financial inclusion enhances the economic lives of the local people. There have been several types of research that provide empirical evidence on the impact financial inclusion has at the local economy level.

(Bruhn and Love 2013 in the research showed that there were huge impacts in the local economy in Mexico by a 7% increase all income levels when Banco Azteca had rapid openings of branches in over thousand Grupo Elektra retail stores when compared to other communities that branches were not opened. And also the savings proportion by those households in the local community reduced by 6.6, a situation attributed to the fact that households were able to rely less on savings as a buffer against income fluctuation when formal credit became available https://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf

Another research , a study using state-level panel data in India provides evidence that local differences in opening bank branches in rural unbanked locations (driven by requirements of the Indian regulator between 1977 and 1990) were associated with a significant reduction in rural poverty (Burgess and Pande 2005). However, evidence available shows the programme supported by India government was unsustainable because of high debt and loan default rates

DIGITAL FINANCIAL INCLUSION

Digital financial inclusion is defined broadly as digital access to and use of formal financial services by excluded and underserved populations. Such services should be suited to customers’ needs, and delivered responsibly, at a cost both affordable to customers and sustainable for providers. In a paper by Timothy Lyman and Kate Lauer titled ”What is Digital Financial Inclusion and Why Does it Matter?” three components were deduced as necessary for any financial services bring provided within the digital space: a digital transactional platform, retail agents, and the use by customers and agents of a device – most commonly a mobile phone – to transact via the platform.
In explaining that:

A digital transactional platform enables a customer to use a device to make or receive payments and transfers and to store value electronically with a bank or nonbank permitted to store electronic value. That is the digital transaction platform makes it possible to receive or send money to a device, and as well store their money in a bank electronically.

Retail agents armed with a digital device connected to communications infrastructure to transmit and receive transaction details enable customers to convert cash into electronically stored value and to transform stored value back into cash. Depending on applicable regulation and the arrangement with the principal financial institution, agents may also perform other functions. Retail agents with their digital devices capable of communication and with the needed infrastructural support to give details of financial transactions.

The customer device can be digital (e.g., mobile phone) that is a means of transmitting data and information or an instrument (e.g., payment card) that connects to a digital device (e.g., POS terminal).

Beyond addressing new and shifting risks through effective regulation and supervision, policymakers will face additional issues as digital financial inclusion expands in reach, scope, and scale. With the prospect of reaching billions of new customers, banks and nonbanks have begun to offer digital financial services for financially excluded and underserved populations, building on the approaches that have been used for years to improve access channels for those already served by banks and other financial institutions. Innovative digital financial services involving the use of mobile phones have been launched in more than 80 countries (GSMA 2014).

In a report by GCAP the institution —Jaime Caruana, General Manager, Bank for International Settlements, welcoming remarks to the 2nd Global Partnership for Financial Inclusion (GPFI) Conference on Standard-Setting Bodies and Financial Inclusion, 30–31 October 2014 acknowledges that “Digital financial inclusion can be a game changer for un-served and under-served low-income households as well as micro- and small enterprises. The regulatory, supervisory and standard setting challenges—and likewise the solutions—include those we currently face, and others we can only imagine as billions of new digital finance users go online and projecting that We have the opportunity—and indeed the responsibility—to prepare for both the risks and the rewards of the digitization of financial services.

THE STAR STRATEGY APPROACH TO DIGITAL FINANCIAL INCLUSION POLICY

An important instrument for advancing financial inclusion is policy targets by government especially and businesses. Globally, efforts are being made to accelerate the rate of financial inclusion for sustainable and inclusive development. Among efforts made at meeting priorities in financial inclusion includes the MAYA Declarations by governments on specific financial inclusion policy direction that must be pursued.

Institutions as well, including NGOs, the private sector, and government agencies have developed policies within their working to propel inclusiveness.

The STAR Strategic approach to financial inclusion proposes a simple yet comprehensive ingredient for any financial inclusion Policy through digitalization to strive. The model approach looks at four key areas that must encompass in financial inclusion policies and guide.

The Star Strategy approach views that policies that are embedded in the actions, and well-thought formulation to make an impact in the digitalization of financial services must be able to unlock access, Unlock Usage, Provide for Quality (Sustainability and Innovation) and minimize risk. Below is the mathematical approach

\[ \text{FI} = (\text{Unlocking Access} + \text{Unlocking Usage} + \text{Quality}) - \text{Risk} \]

Whereby (with letters)
Fi = Financial inclusion 
UA = Infrastructure to unable access 
UU= financial Literacy and Psychological effects to accept usage 
Q= Services and products must meet the quality needs 
R= risk in the process must be the barest minimum

**Star Policy Strategy 1: Policies must unlock access to financial service**

Access to financial inclusion is critical in financial inclusion targeting as it is a means to expanding account ownership. It is impossible to use a service if there’s no access to it. Policymakers, therefore, need to formulate policies that promote access to financial services. Providing access is both physical infrastructure and digital infrastructure.

The Global Finance Index 2014 acknowledge in its finding that even though strides in expanding access or ownership of account, the gap still is a wide one. 38% still remained unbanked globally. With only 4% being unbanked willingly (They said they don’t need one), it means 34% are willing and ready but meeting barriers.

Having access to financial service is first and most important giant leap step towards financial inclusion. This is because, when people have financial products and services available, without barriers to usage, then, such people will be on the way to be financially included. The policy makes in designing financial inclusion strategies, therefore, needs to employ actions, programmes, that are measurable, within timelines to enhance access hence increase the number of new accounts for the underserved and unserved.

Government and private sector actions are critical stakeholders in promoting access to financial services. Data again shows that globally 400 million people (over 20% of the world unbanked) receive some form of remuneration, allowance from government agencies through cash. The government, therefore, can help in expanding access to these numbers should it channel such transfers digitally. For the private sector, innovative product designs that meet the needs of the different segments of people is needed. More interesting is that, in globally one segment, does those involve in selling agriculture goods, over 440 million (more than 23% of unbanked) people receive cash for sale of agriculture goods in developing regions, a high number of 125 million (36%) in sub-Saharan Africa, 160 million (33%) in East Asia and Pacific and 105 (17%) from South Africa receives cash for sales of agriculture goods. Unlocking access to financial services through policies that will aid in the opening of account for segments contributes to expansion of ownership.

On the 4 Star Strategic Approaches to DFI a score of 1 is given if policies by stakeholders unlocks access to financial services as compared to Star Policy Strategy 1 -Policies must unlock access to financial service

**Star Policy Strategy 2: Policies Must Unlock Usage of Financial Services**

Unlocking Usage is the hurdle needed to clear should financial inclusion benefit the underserved and unserved. Once the barrier of access is crossed, what is left is using the account opened in a way that benefits the individual. Questions asked is that are they necessary policies and programmes that will unleash the full benefits for people in using their financial services?

Usage of an account comes with many benefits: services as payment of school fees, donations, insurance payment of salaries, and payment for utilities are all benefit an account usage brings on. Policies must provide for infrastructure that encourages convenience in the use of financial services. For example whiles some may choose to pay service through cash; others will want to do it digitally at the comfort of their homes. The option to choose digital means that such infrastructure must exist, and possible to be used.
On the 4 Star Strategic Approaches to DFI a score of 1 is given if policies by stakeholders enhance usage of financial services as compared to Star Policy Strategy 2: Policies must unlock usage of financial services

**Star Policy Strategy 3: Quality (Sustainable, Innovativeness and in a responsible manner)**

People don’t want only access and financial services but financial services delivered with quality and in a responsible mate that has the potential; of benefiting them and it's sustainable. This should be achieved under the lowest cost

On the 4 Star Strategic Approaches to DFI a score of 1 is given if policies by stakeholders that enhances quality of financial services as compared to Star Policy Strategy 3: Quality (Sustainable, Innovativeness and in a responsible manner)

**Star Policy Strategy 4: Eliminate / Reduce Risk**

For financial inclusion especially in its digital forms to be used, then it must be assuring and demonstrated that the security of the service is not undermined. Psychologically highly thinking normal people tend to sheer away from the risky transaction which makes them vulnerable to financial losses and attacks.

For a financial sector to have stability and trust, enough policy regulations must be made and implemented. Such policies must follow consultative approach with stakeholders.

On the 4 Star Strategic Approaches to DFI a score of 1 is given if policies by stakeholders that enhances quality of financial services as compared to Star Policy Strategy 4: Eliminate / Reduce Risk

**METHODOLOGY**

Here, we test G20 High-Level Principles (HLP) for digital financial inclusion using the 4 thematic areas of the Star Strategic Approach to DFI. Our primary aim is to observe if the high levels principles unlock (improve) access, unlocking (improve) usage, embedded quality and have the potential for mitigating or minimizing risk in the G20 efforts at advancing digital financial inclusion through the 8 principles.

A score of 1 (otherwise 0) is given if a principle/policy/actions are observed to associate with star strategy ingredients for a holistic financial inclusion policy initiatives and actions.

The highest possible total score of 4 means the policy meets all the 4-star ingredients for guidance to policies formulation and concrete activities on financial inclusion.

A total score of 3, 2 1 and 0 means that 1, 2, 3 and 4 respectively of the star strategy are not duly considered or meet by a comparing policy initiatives and actions

**RESULTS, FINDINGS, AND DISCUSSIONS**
TESTING THE STAR STRATEGY APPROACH AND THE 8 HIGH-LEVEL PRINCIPLES (HLP) FOR DIGITAL FINANCIAL INCLUSION (DFI)

<table>
<thead>
<tr>
<th>Star Strategy Approach to DFI</th>
<th>G20 High-Level Principles (HLP) For Digital Financial Inclusion</th>
<th>Score</th>
</tr>
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<tbody>
<tr>
<td>Star Strategy 3: Enhance Quality</td>
<td>Principle 6: Strengthen Digital and financial literacy and awareness</td>
<td>1</td>
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TOTAL SCORE 4

THE G20 8 HIGH LEVEL PRINCIPLES (HLP) FOR DIGITAL FINANCIAL INCLUSION COMPARED WITH THE 4 STAR STRATEGY APPROACH THEMATIC AREA

The 8 High Level Principles (HLP) For Digital Financial Inclusion by the G20 scored 4 on the Star strategic approach to Digital Financial Inclusion- The principles therefore in a whole can unlock access, Unlock Usage, Provide for Quality (Sustainability and Innovation) and minimize risk meeting the mathematical approach. Thus: \( FI = (\text{Unlocking Access} + \text{Unlocking Usage} + \text{Quality}) – \text{Risk} \)

Whereby (with letters)

\( Fi = \text{Financial inclusion} \)
\( UA = \text{Infrastructure to enable access} \)
\( UU= \text{financial Literacy and Psychological effects to accept usage} \)
\( Q= \text{Services and products must meet the quality needs} \)
\( R= \text{risk in the process must be the barest minimum with activities safeguarding against them} \)

Even though the G20 High level principles for digital financial inclusion meet all the 4 thematic areas of the Star Strategic Approach squarely to financial inclusion, it had recorded only one thus- Principle 6: Strengthen Digital and financial literacy and awareness as efforts at improving quality. A lot of actions and activities can emanate from the Principles to enhance quality, but such activities may be limited to financial literacy and awareness only.

CONCLUSIONS
The Star approach is a simple approach yet comprehensive enough to guide policy formulation activities for financial inclusion through the digital means. An overall score of 4 means that a policy meets the four STAR strategy approach hence the 8 High Level Principles (HLP) For Digital Financial Inclusion, therefore, is a comprehensive policy guideline by the group as it scores perfectly on the 4-star strategic approach 4 thematic areas.

The Star strategic approach is a guide to policymakers on the broad areas to consider activities on. The specific activities under the 4 thematic areas of the Star strategic approach which policies are developed from, per the individual situational and country specifics will determine how effective and efficient and impactful the specific policies will perform in accelerating financial inclusion within the digital space with the aim of achieving broadly inclusive development and specifically alleviate poverty, gender imbalances and enhance sustainable development for all.

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