Post-Pandemic Risks to Financial Inclusion

Speaker:

Galina Carroll
Program Leader, Toronto Centre

Host:

Patricia Vargas
Program Director, Toronto Centre

Date:

July 25, 2022

Transcript:

Opening automation:

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Patricia Vargas:

Hello, and welcome to this Toronto Centre podcast. We will be talking about the post-pandemic risk to financial inclusion. My name is Patricia Vargas, I'm a Program Director with Toronto Centre. I'm joined by Galina Carroll, who is a Program Leader in the Toronto Centre. I will let Galina introduce herself. Welcome, Galina, it's a pleasure to share the microphone with you again.

Galina Carroll:

Oh, Patricia, it's lovely to be back and chatting with you. My name is Galina Carroll, I'm a regulatory economist, and I've worked with regulators, technology firms, and regulated firms on a range of financial services issues, including reg tech and digital financial supervision. I'm also teaching the online course on digital financial inclusion supervision with you, Patricia, which is a Toronto Centre and CGAP partnership course. And it's a real pleasure to be here.

Patricia Vargas:

Thank you, Galina. But now let's dive straight into our podcast topic. First of all, can you clarify what we mean by financial inclusion?

Galina Carroll:

Absolutely. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs, and these are delivered in a responsible and sustainable way. The products and services can include transactions, payments, savings, credit, and insurance. I'd also like to emphasize, Patricia, that financial inclusion is a huge global issue. For example, according to the 2021 Global Index Database there are 1.4 billion adults in the world that are financially excluded. Most of the excluded or unbanked are women. For example, the gender gap in account ownership across developing countries is currently six percentage points.

Patricia Vargas:

Galina, I would like to highlight that, listeners may not know that 6% is an improvement in the gender gap, as it was 9% for many years. So, this is something important. But moving forward, now we have defined financial inclusion and the scale of the problem, 1.4 billion unbanked adults. So, what are the key post-pandemic risks to financial inclusion from your point of view?

Galina Carroll:

So, Patricia, I know that we're not in the same space that we were in March 2020 when the World Health Organization declared COVID-19 to be a global pandemic, but we're still seeing new and potent COVID variants, and some cities and regions are still going into periodic lockdown. So, I just don't feel that we are really post-pandemic yet. If you agree with my thinking, I'd like to reframe the question for this podcast as, what risks is the pandemic currently posing to financial inclusion and how are those risks being addressed?

Patricia Vargas:

Yes, that makes sense, as I believe at the time of recording, we are in our seventh or maybe our eighth wave.

Galina Carroll:

I don't know. There are so many waves it's ongoing, isn't it?

Patricia Vargas:

Yes. So, making sure that this is not over yet.

Galina Carroll:

Indeed.

Patricia Vargas:

But let's continue. How would you like to classify the risks?

Galina Carroll:

I think if we're going to engage with our intended audience, that's financial services supervisors, I'd suggest we separate the risks into three types. First, macroeconomic risks, second, organizational risks, and third, individual or personal risks. How would that work for you?

Patricia Vargas:

Okay, that's interesting. So, what do you see as the key risk to financial inclusion at macroeconomic level?

Galina Carroll:

So, at this top level, if you think that in July 2022, so very recently, the IMF, the International Monetary Fund, reported that the world is on the brink of a global recession. We're also seeing strong inflationary pressures due to energy price hikes and food price increases. Governments, central banks, and other regulatory authorities around the world are working hard to address these pressures while at the same time supporting economic growth. But I feel that there's a risk that financial inclusion will get lost or severely deprioritized while we try and navigate our way out of this global recession.

Patricia Vargas:

So, is there anything we can do at this level, Galina? Is it a foregone conclusion?

Galina Carroll:

I don't think it's a foregone conclusion, Patricia. I think we need to remind our governments and the regulatory authorities that we work in that financial inclusion is not just a nice to have. It's actually a powerful economic tool and one that can help economies grow. This is not just my opinion. Indeed, the World Bank Group has said that it considers financial inclusion to be a key enabler to reduce extreme poverty and also to boost shared prosperity.

Patricia Vargas:

Possibly we need greater efforts towards financial inclusion, not less, to help us get out of this global recession.

Galina Carroll:

I completely agree, Patricia. I think now it's the time to double down and to really progress financial inclusion because there are macroeconomic benefits, absolutely.

Patricia Vargas:

Absolutely, more than ever. Okay, let's next move on to next risk type. What are the key risks to financial inclusion at an organizational level now?

Galina Carroll:

So, if we take a step back from the organization and just think about how men and women treat their finances, actually research has shown that men and women treat their finances differently. For example, female controlled finances are more likely to be spent on household items such as food, utilities, school tuition, and medical care. Now let's go back to the organizational level. If we want to deliver financial products and services that are suitable for men or women and so enable financial inclusion, organizations need to collect and analyze gender disaggregated data. When I'm talking about organizations I mean supervisory authorities, regulated firms, research institutes, national statistical authorities. Just lots of organizations need to collect and analyze gender disaggregated data. But the reality is, at the moment we just don't collect enough gender disaggregated data. And then we go back to that first risk. Because we're at this stage in the pandemic and being on the brink of a global recession, it's going to be very challenging for organizations to prioritize initiatives to collect gender disaggregated data. There's always going to be other things to do.

Patricia Vargas:

So, Galina, what I'm hearing is that at organizational level, a key risk to financial inclusion is the continued lack of gender disaggregated data?

Galina Carroll:

Yes, absolutely. That for me is the key organizational level risk.

Patricia Vargas:

And what has been done about this risk?

Galina Carroll:

Okay. So, there is a perception that collecting and analyzing gender disaggregated data is complex and very costly. I think what we can do about this is make it easier and more cost-effective for all types of organizations to collect gender disaggregated data. And we can do this by providing case studies and toolkits, for example for supervisors. Supervisors can use their regulatory powers to ask firms to collect this data and can use the same toolkits to explain to regulated firms why this data is needed. Honestly, there are some excellent toolkits out there that explain the value of gender disaggregated data to a range of different types of organizations. They often include practical guides on how to collect and use this data.

For example, and it's one that you and I have talked about before, Patricia, it's the Toronto Centre's toolkit for supervisors that was published in 2021 on gender aware supervision. It's a fantastic toolkit, very practical, and it helps to explain why gender disaggregated data is relevant for the prudential conduct of business, consumer protection, and financial inclusion dimensions of a supervisor's mandate. It's fantastic.

Patricia Vargas:

Okay. And also, I would like to add that there is also a great case study from Kenya on how to use this toolkit. So please take the time to review it. Okay. Now we have addressed the risk from macroeconomic and organizational level. Move to the third risk to financial inclusion, the risk at an individual level.

Galina Carroll:

Absolutely. Let's make this personal, Patricia, because it's not an abstract concept. Enabling financial inclusion is not a theoretical thing. Giving women and men access to financial services and products that are tailored to their needs is a real and tangible thing. We're often talking about how important technology and digital financial services can be in driving financial inclusion. But I'd like to remind listeners that financial inclusion is also driven by and achieved by the actions of real people. Given our audience, I'd like to focus on one type of person or persona we often say, supervisors. I think and I believe strongly there is a risk that supervisors won't have the time or head space to get the new skills needed to deliver financial inclusion.

Patricia Vargas:

And why is that?

Galina Carroll:

For me there's two key reasons. First, and you know this firsthand, Patricia, being a former supervisor yourself, supervisors are always very busy. There is always more work for a supervisor to do. Second, supervision for financial inclusion can mean a big change in how supervisors work. For example, supervisors may need to start looking and overseeing new types of digital financial services providers instead of looking at traditional banks or insurance firms. This type of supervision often requires getting new skills and working with new teams.

Patricia Vargas:

Absolutely, Galina, I couldn't agree more with you. As we know from teaching our online course, there is also a huge behavioral aspect to inclusion supervision. For example, supervisors need to understand the many personas of the financial excluded. This can be a different approach that we as the supervisors are not used at all to do.

Galina Carroll:

And this amount of change in the supervisory approach can be very difficult for individuals to manage at a personal level while also trying to manage the other impacts of the global pandemic on their work, their workload, and also just trying to manage their normal lives. It's a lot to be dealing with.

Patricia Vargas:

Absolutely, I hear you. But what can we as the supervisors do to address this risk?

Galina Carroll:

So again, I think there's two things. Just like risk-based supervision is focused on looking at the key risks and allocating resources accordingly, I think for us as supervisors, if we need to develop and implement supervision for financial inclusion, we need to prioritize those activities that will help us do that. So, the first thing would be to apply a form of risk-based supervision to our own personal actions. The second thing I think we can do is look at online learning. I know from our experience that online learning can be a very time-effective way to reskill or upskill when you're trying to gain new competencies for financial inclusion. Specifically self-paced learning we have found to be super helpful. In this case supervisors can follow a course in their own time and at a time of day that suits them. Some courses also offer the option to interact with other people through secure online notice boards and class calls. And this can allow knowledge sharing, where supervisors and other students can increase their business networks but also their knowledge bank.

Galina Carroll:

For me personally, these types of online courses have been essential for me to keep up with new developments in financial inclusion supervision and also other key topics like regulatory technology and big data analytics.

Patricia Vargas:

Okay. I agree with that, but it's hard to sit in front of a screen for more training when you have been doing this all day for work. So, I would suggest listeners maybe look for other podcasts or webinars, so then when you are not sitting in front of the screen maybe you can multitask while learning new subjects.

Galina Carroll:

You mean go for a walk and listen to a podcast to learn about gender disaggregated data at the same time, Patricia?

Patricia Vargas:

Absolutely. You can use your time in very imaginative and different ways. Well, thank you, Galina, for talking to me about the key risks to financial inclusion at this stage of the pandemic and not at the level of post-pandemic that we already mentioned at the beginning. Thank you also for your thoughts on what we can do to address this risk.

Galina Carroll:

My pleasure, Patricia. It's a real joy to be sitting down with you to talk about financial inclusion and thank you for inviting me to this podcast to discuss the important topic of what we as individuals can do to enable financial inclusion.

Patricia Vargas:

Fantastic. And finally, thank you to our audience for listening, and have a great day.