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THREATS TO FINANCIAL INCLUSION AND WAYS FOR REDUCING THEIR IMPACT

Financial inclusion has become a critical issue for governments and financial institutions around the world as it seeks to enhance the lives of the poor by providing access to credit, savings, and insurance services. It has numerous benefits, including reducing poverty levels, increasing economic growth, and promoting financial stability.

According to OESD financial inclusion “means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way”. It is also the process of providing financial services to individuals and businesses who are excluded from the mainstream banking system [3].

Financial inclusion enables people to save, invest, borrow, and protect themselves from financial shocks, thereby improving their quality of life and contributing to the growth of the economy. Despite the progress made in expanding financial services, over two billion people globally remain excluded from the formal financial system. The exclusion is most prevalent among low-income households, rural populations, women, and vulnerable groups [6].

However, to achieve sustainable financial inclusion, it is important to define and address the threats that hinder its progress. These threats may vary from one country to another, but some common challenges include inadequate financial infrastructure, limited access to financial services, and low financial literacy levels among the population. These threats are very different and the most significant of them are [1; 2; 5]:

- Over-indebtedness.
- Fraud and Scams.
- Lack of Financial Literacy.
- Discrimination.

– Lack of Infrastructure.

Over-indebtedness. One of the most significant risks of financial inclusion is over-indebtedness. Many low-income individuals are unaware of the risks associated with taking on too much debt, leading to high levels of indebtedness. When borrowers cannot repay their loans, it can lead to defaults, which can negatively affect their credit scores and lead to financial exclusion. Over-indebtedness can also result in social and economic problems, such as reduced household consumption, increased poverty levels, and social exclusion.

Fraud and Scams. As more people are brought into the financial system, there is a risk of fraud and scams. Low-income individuals are particularly vulnerable to financial fraud as they lack financial literacy and are often desperate for credit. Fraud and scams can result in significant financial losses for individuals and businesses, which can lead to financial exclusion.

Lack of Financial Literacy. Another challenge of financial inclusion is the lack of financial literacy. Many low-income individuals lack the knowledge and skills necessary to manage their finances effectively. This lack of financial literacy can lead to poor financial decisions, such as taking on too much debt or investing in high-risk ventures, leading to financial losses.

Discrimination. Discrimination against certain groups of people is another threat to financial inclusion. Some individuals may be excluded from the financial system due to their gender, race, or ethnicity, which can result in social and economic exclusion. Discrimination can also result in reduced access to credit, savings, and insurance services, which can negatively affect economic growth and development.

Lack of Infrastructure. The lack of financial infrastructure is another challenge of financial inclusion. Many low-income individuals live in rural areas where there is limited access to financial services. The lack of financial infrastructure can make it difficult for individuals to access credit, savings, and insurance services, leading to financial exclusion.

Despite the many threats to financial inclusion, there are ways to mitigate and combat them.

One key approach is education and awareness. Financial institutions and governments can work to educate individuals and communities about financial literacy, emphasizing the importance of responsible financial behavior and the risks of lending, fraud scams, and overindebtedness. This can include providing financial education and counseling services, as well as developing financial products and services that are tailored to the needs of low-income and underserved populations [2].

Another approach is to leverage technology to improve access to financial services while minimizing risk. For example, biometric identification and blockchain technology can help to increase security and reduce the risk of fraud, while mobile banking and digital payment systems can expand financial access without requiring physical infrastructure or costly intermediaries. Similarly, fintech startups can provide innovative solutions for underserved communities, such as peer-to-peer lending platforms that connect borrowers with investors, or microfinance platforms that offer small loans and financial services to entrepreneurs in developing countries [1].

Regulatory and policy interventions can also play a critical role in addressing the threats to financial inclusion. Governments can enact consumer protection laws and regulations that prohibit predatory lending practices and promote transparency and fairness in financial transactions. They can also establish regulatory frameworks for digital payments and fintech, ensuring that these emerging technologies are secure and trustworthy while also enabling innovation and competition. At the same time, governments can support financial inclusion initiatives through targeted subsidies and tax incentives, as well as through partnerships with financial institutions, NGOs, and other stakeholders [4].

Finally, building partnerships and collaborations among stakeholders can help to promote responsible financial behavior and address the risks of financial inclusion. This can involve cooperation between financial institutions, government agencies, NGOs, community groups, and other stakeholders to develop and implement effective financial education and outreach programs, as well as to coordinate efforts to combat fraud, money laundering, and other financial crimes.

In conclusion, financial inclusion holds great potential for promoting economic growth and reducing poverty and inequality. However, it also faces significant risks and challenges, including overindebtedness, fraud, and other forms of financial exploitation, discrimination, lack of financial literacy and infrastructure. By pursuing a multifaceted approach that combines education, technology, regulation, and collaboration, countries can work to maximize the benefits of financial inclusion while minimizing these risks and ensuring that everyone has access to the financial services they need.

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