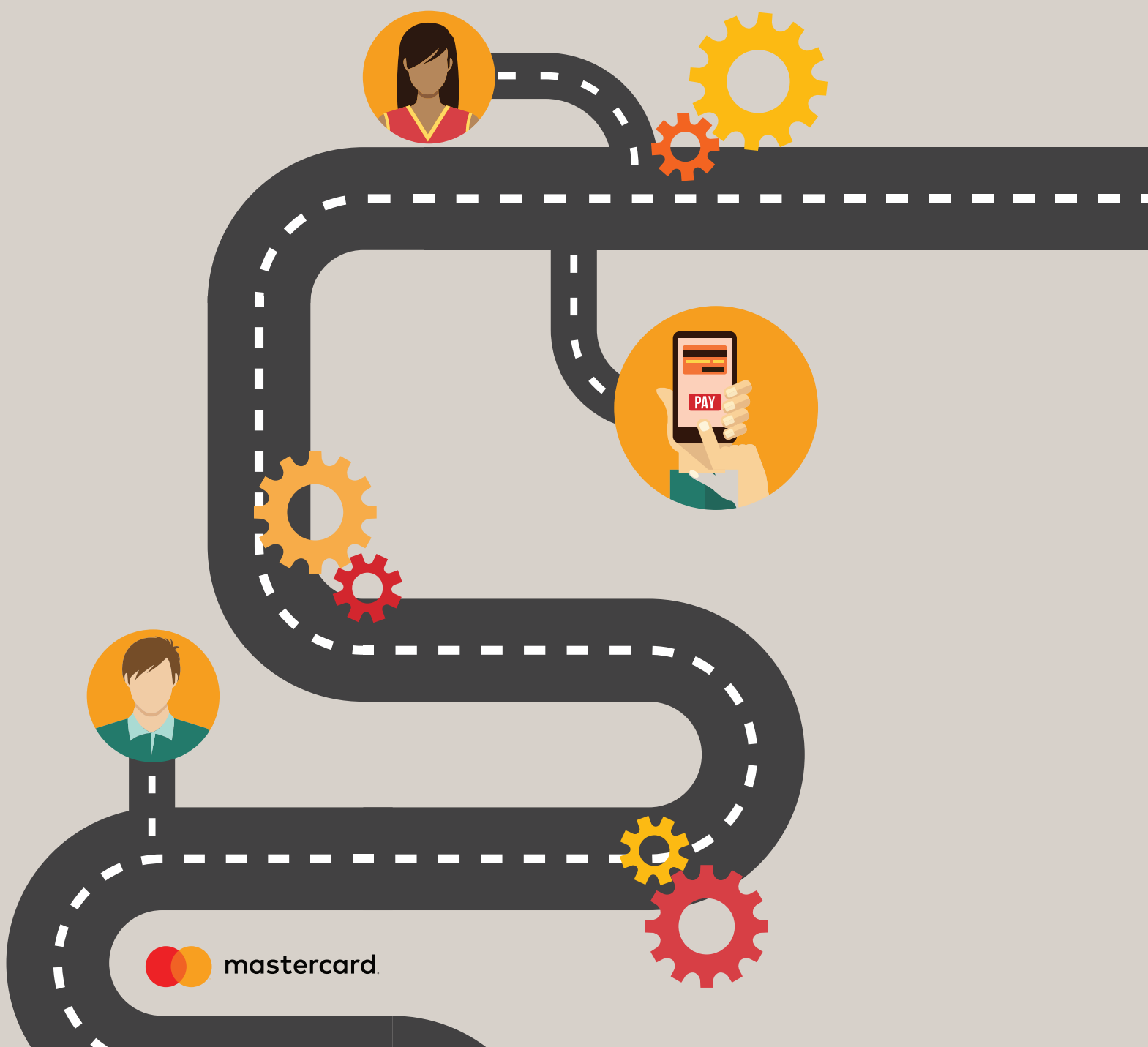


The Road to Inclusion

Mastercard Financial Inclusion Survey

Key Learnings Report | 5 December 2016



About this report

Financial exclusion defines those who are currently not able, or not willing, to fully participate in the banking services offered in their country. According to the World Bank, there are currently 138.6m people in this situation in Europe alone. This report revisits and expands upon the initial findings of Mastercard's 2013 'Road to Inclusion' research, conducted with the support of Ipsos MORI, whereupon the causes and effects of financial exclusion were explored using both quantitative and qualitative research methods. Mastercard was interested in further uncovering the reasons for financial exclusion, and what can be done to overcome them. The research focused on those without any access to formal banking services, and those who are financially underserved (i.e those who have some degree of bank account, but no access to any form of electronic payment method). These categorisations combine to form the financially excluded.

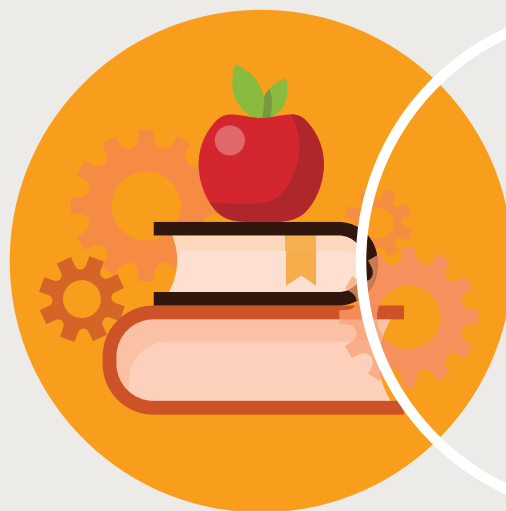
In the 2016 research, the financially excluded, by definition, remain unchanged. The objective of this continued research was to develop a more nuanced understanding of the factors behind financial exclusion, the attitudes and emotions that accompany it, and what part the corresponding pressures of digital and societal exclusion play. The investigation was also keen to understand how distrust toward traditional financial services contributes to voluntary financial exclusion among respondents. Additional questions to the 2016 survey centred on societal and digital inclusiveness, asking respondents what they believe is necessary for these conditions to be met within their market. Questions 1 to 13, around financial inclusivity, were kept the same from the 2013 survey to 2016 in order for sustained comparisons and developments to be drawn between the two.

As in 2013, the 2016 research was conducted across six European countries: the United Kingdom, France, Spain, Italy, Poland and Russia. In 2013, our research found that markets were more similar to each other than different, signifying that the lived experience of financial exclusion transcends cultures and defines an individual's identity, regardless of geographical location. In 2016, however, more noticeable distinctions across markets became apparent. From receiving wage payments, to feelings about the possibility of having a full bank account, there are fewer majority agreements across all markets surveyed. In Poland, for instance, only one in five agreed that having access to a full account would make them feel independent (21 percent), while in France three in four agreed with the same sentiment (76 percent).

Whilst conducting the updated 2016 research into financial inclusion, the respondents were also asked for their perception of the level of societal and digital inclusion in their country. There is a clear key market division when it comes to societal inclusion, with Poland, France, Russia and the UK generally feeling that their societies were either very or fairly inclusive. Meanwhile, only 3 percent of those in Italy and 8 percent in Spain would call their country 'very inclusive'.

These differences are not observed in digital inclusion, where most markets are split evenly (50 percent, 50 percent) between those who consider themselves digitally included and digitally excluded.

In 2013, we identified a perception gap across three key themes: money management, whereby respondents felt challenged by the limitations of storing and carrying cash; the varying levels of access to technology, which restricted their ability to participate in online financial services; and education around money management and financial rights. This report investigates how these themes have developed over the past three years, whether the perception gaps observed in the 2013 report have grown larger or smaller today, and what can be done to overcome the challenges to financial inclusion.



The sample profile for the study in each country was not controlled for or did not have quotas set to be nationally representative. The recruitment and profile of respondents reported here is based on a 'first available for recruitment' basis. This may, therefore, not be truly representative of the actual profile of the financially excluded or underserved.

Perception

Who are the financially excluded in 2016, and why are they in this position?

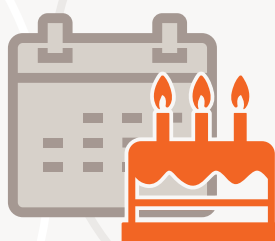
Time lived in country – all my life



2013 | **82%**

2016 | **87%**

Average age



2013 | **40**

2016 | **42**

In 2013, there were some unexpected demographic results from the study: The majority of respondents (82 percent) had been residents of their country for all their lives, and almost 30 percent were working. The notion here is that many would picture the financially excluded as recent immigrants, and/or unemployed, rendering them excluded by lack of cultural understanding, language skills or earnings. But these findings demonstrated a perception gap between who the financially excluded were expected to be, and who the research showed them to be.

The figures of those who have been in their current country all their life has increased, with 87 percent reporting this in 2016. The amount of those in work has also grown by 5 points study on study: in 2013 the figure for those currently in employment was 28 percent, in 2016 it is 33 percent. This is also reflected in the number of those who have received a wage / salary payment in the past month: from 34 percent overall in 2013 to 39 percent in 2016. Increasing employment and associated payments does not, however, seem to correlate with increasing use of, or trust in, financial services.

When it comes to employment for the financially excluded, improvements can be seen between 2013 and 2016 for both genders: In the 2013 research, 30 percent of men and 27 percent of women were employed for wages / salary, and in 2016 it has risen to 34 percent of men and 32 percent of women. However, the amount of men who claim to have received a wage payment in the past month (45 percent) is 11 points higher than the equivalent for women (34 percent). Both of these figures are an improvement on 2013, where 38 percent of men and 31 percent of women had received a wage payment – although the gap between genders in that research was less pronounced than it is in 2016. Women are still more likely than men to be home makers in 2016 (20 percent of those surveyed defined themselves this way, vs. 1 percent of men). This may account for the fact that the percentage of women out of work but looking for work (13 percent) is significantly lower than men in the same position (31 percent).

Although fewer women than men are employed, women are more in control of home finances, including paying



Financially excluded

2013:
45% | Male
55% | Female



2016:
46% | Male
54% | Female

Access to financial services is uneven

In the Money Ceiling findings, **less than half (45 percent)** of respondents agreed that **men and women** enjoy equal access to financial products and services

rent / mortgage and utilities bills. While they are less likely than men to receive formal wage payments, in 2016 only 24 percent say that someone else (a family member, friend or acquaintance) pays their rent / mortgage, and 31 percent say the same about their utilities costs. For men, these percentages are higher: 30 percent say that someone else pays their rent / mortgage and 36 percent say the same about utilities costs. This is not to say that women are paying these costs with their own earnings, but rather that women are more likely to be in control of household finances.

Perhaps because of their reduced participation in the workforce, women are more likely to state

Women:

Employed for wages/ salary: **32%**

Retired: **15%**

A home maker: **20%**

Men:

Employed for wages/ salary: **34%**

Out of work but looking for work: **31%**

Retired: **9%**

/// I pay my rent/mortgage with cash: **43%**

Someone else pays my rent/ mortgage: **24%**

Owners of my house: **19% //**

/// I pay my rent/mortgage with cash: **32%**

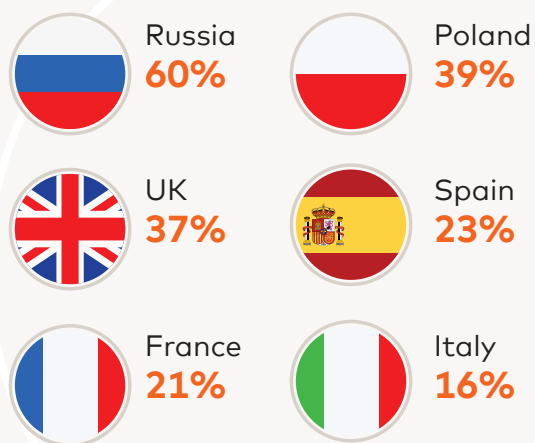
Someone else pays my rent/ mortgage: **30%**

Owners of my house: **15% //**

Perhaps because of their reduced participation in the workforce, women are more likely to state that the main reason they do not currently have a bank account is that they do not want / need an account (22 percent) than men (17 percent). When it comes to not liking or trusting banks both genders were similarly matched: 21 percent of women and 22 percent of men cited this as one of the main reasons why they do not currently have a full bank account. Lack of trust in financial institutions as a cause of financial exclusion was seen across markets, with an average of one in 10 respondents citing it as their main reason for lack of a current full bank account (10 percent). This rose to 16 percent in both Poland and Russia. This lack of trust implies that for some financial exclusion is a voluntary process.

Rates of employment and the types of payments that are received by the financially excluded vary significantly across different markets. For example, the financially excluded in Russia are more likely than all other markets to have received wages in the past month (67 percent) – compare this to Italy, where only 16 percent can say the same. In the UK (45 percent) and France (56 percent), government payments are fairly commonplace – in fact, 22 percent of the financially excluded in the UK state that they have their rent/mortgage paid by their local council/government. The financially excluded in the UK prefer to pre-pay for their utilities – 23 percent – against a European average of 5 percent. One in 10 (10 percent) in France say they don't have access to utilities at all.

Employed for wages/salary:



Market Case-Study: Italy

Of all markets surveyed Italians were the least likely to have received a wage payment in the past month (16 percent), and six in **10 say they have not received any kind of payment** in the past month. Despite this, they were the least likely to state that someone else helps them pay for their housing costs (18 percent). They are, however, the most likely to live with parents (18 percent) and over half say the owners of their house pay their housing costs (51 percent). This may explain why only 9 percent say they pay their rent with cash. When it comes to utilities this figure rises to 49 percent.

The youngest age demographic, 18-24 year olds, is most likely to be financially excluded at 21 percent, and 42 percent claim that their main reason for not having access to a full bank account was lack of money. Although 18-24 year olds are most likely to be *financially excluded*, they are the most *digitally included*: 80 percent have access to a smartphone, 51 percent to a laptop, and 29 percent to a tablet – far higher than the average for each product across all age groups. Whilst they score the lowest in terms of being in regular employment and receiving wage / salary payments (15 percent) – excluding the 65+ age group, who are likely to be retired – this does not mean that 18-24 year olds are uninterested in their financial options. In fact, they want the ability to shop in-store and online without having to carry cash – one in four cite a bank card as their main benefit of a full bank account (25 percent, 11 points higher than the average) – and 72 percent want the flexibility that a bank account affords in paying for things.

The pattern of digital inclusion among 18-24 year olds is part of an overall development in the adoption of new technology: Since 2013, smartphones, laptops and tablets have all seen an increase in overall access (possibly accounting for the decline in access to standard mobile phones, from 66 percent to 51 percent in 2016).

Therefore, as increasing adoption of technology is demonstrated among the financially excluded it becomes clearer that the path towards better access to, and engagement with, financial services must be digitally led.

Social implications of cash

It is challenging to make payments, such as rent and utilities, without access to online banking services and – in the case of the financially excluded – a bank account altogether. Generally, the financially excluded agree that they usually cover their housing costs with cash (44 percent in 2013, with a decline to 38 percent in 2016).

The amount of those who pay their rent or mortgage (38 percent) and utilities (54 percent) with cash may have decreased from 2013 to 2016, but a significant portion of this demographic continue to rely on physical payment for their living costs. Of those who are turning away from cash, they could be relying more on prepaid methods or simply not have the funds to make these payments at all. Unfortunately, both of these reasons do not demonstrate that the reduction in cash payments is improving quality of life for the financially excluded, but instead highlights the other social implications they face as a result of financial exclusion.

Someone else (family member / friend / acquaintance) pays for...



Rent / mortgage

2013: **31%**
2016: **27%**



Utilities

2013: **34%**
2016: **33%**



Goods / Services

2013: **10%**
2016: **11%**

I pay with cash for...



Rent / mortgage

2013: **44%**
2016: **38%**



Utilities

2013: **58%**
2016: **54%**



Goods / Services

2013: **89%**
2016: **88%**

Does the 2016 survey data suggest a move away from a cash economy towards a deeper interest in and heavier reliance on digital payments?

Even for the financially excluded, cash is becoming less useful and more of a burden. Although the amount of those who pay for goods with cash has remained stable from study to study (88 percent in 2016, from 89 percent in 2013), utilities payments by cash have fallen by 4 points (from 58 percent in 2013 to 54 percent in 2016) and payments made using a prepaid method such as coupons or a fob have increased by 4 points (from 1 percent in 2013 to 5 percent in 2016). This suggests that in certain situations respondents are looking for more convenient and safe ways to manage their money than by using cash as a default payment method.

For those who are financially included, a major benefit is the ability to make these sorts of payments automatically via direct debit or standing orders; however, quite surprisingly, overall interest among respondents in the ability to pay their bills electronically if they had access to a full bank account has not increased study on study, remaining steady from 9 percent in 2013 to 8 percent in 2016. It is surprising that despite the significant uptake in access to technological products, interest in online financial services which are accessed in this way has not correspondingly increased.

The financially excluded tend to have a greater dependence on others when it comes to covering living costs, and this is exaggerated by a lack of access to traditional and online banking services. For example, there were increases from 2013 to 2016 among those who rely on another family member, friend or acquaintance to cover their rent / mortgage. Although, when it comes to utilities payments and goods / services, figures have remained steady. In 2013, 9 percent of those surveyed said that the owners of their house cover the rent / mortgage payments, but in 2016 this figure has nearly doubled, rising to 17 percent. This figure is especially high among those aged 55 and over, suggesting that this age group are living with a partner, family or friends who own the house, but they themselves continue to be financially excluded.

In all instances of payment – housing, utilities and services costs – women are more likely to be using cash as their primary payment method than men. When it comes to paying for their rent / mortgage, women (43 percent) are 11 points more likely than men (32 percent) to pay with cash, correlating with their likelihood to be making these payments in the first place. However, if they had access to a full bank account, women (8 percent) do not claim to be more interested in paying utilities costs electronically than men (9 percent). This points to a lack of education and confidence around non-cash payments, which fits with data from the Money Ceiling, where only 50 percent of women in Europe claimed to currently have access to education around technology.

Using cash for payments



Women:

Rent: **43%**
Utilities: **59%**
Goods: **90%**



Men:

Rent: **32%**
Utilities: **49%**
Goods: **86%**

The financially excluded in Italy were the most likely to state that having reduced or no access to a full bank account made them feel liberated (39 percent); however, as stated previously, they also rely heavily on others to make their housing and living payments for them, which can be frustrating and limiting in itself. Interestingly, Italians (23 percent), along with the financially excluded in France (36 percent) and the UK (24 percent), cite their main benefit of having a full bank account as being able to make purchases in-store and online. For those in France – who claim to predominantly feel frustrated (42 percent), deprived (39 percent) and excluded (29 percent) by being financially excluded – it is understandable that they would feel excited about having access to a full bank account. However, for those in Italy, who claim to feel liberated by being excluded from financial services, their excitement around being able to participate in electronic payments betrays the social implications that using cash currently inflicts on them.

Distrust of financial institutions appears to be so ingrained in the financially excluded that any benefits around making payments easier do not outweigh their negative associations with banks (such as unexpected fees). Although they rely on others to help them cover their housing costs – despite an increase in the amount of those who are receiving wage / salary payments – they are still reluctant to use traditional and online financial services. This signifies a need for new terminology and greater focus on technology that enables financial services, reframing technology as an easy and helpful way to gain financial independence.

A sense of empowerment & financial security

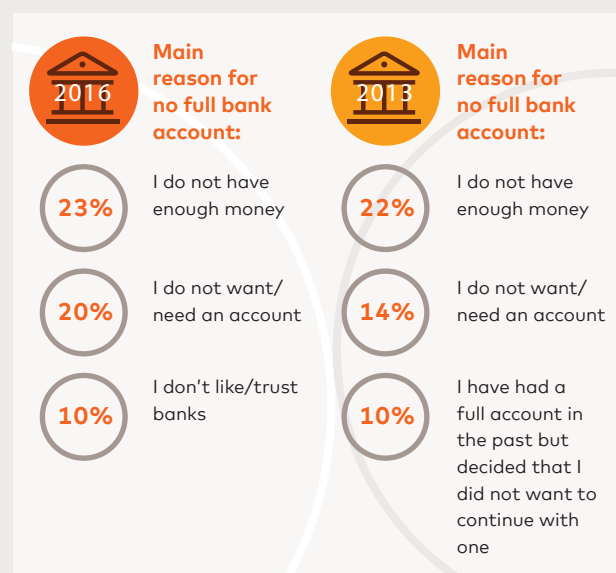


When asked what the main benefit of being able to access a full bank account would be for them, one in five respondents (20 percent) stated that keeping their money in an account would be safer than keeping their money in cash. Those in Spain were particularly keen to access their money this way, with 39 percent agreeing that carrying cash is not ideal. In general, there has been a decline since 2013 in those who believe that the possibility of earning interest on their money would be the main benefit of having access to a full bank account. In 2013, 15 percent of respondents chose interest as their main benefit, but in 2016 this fell to 12 percent and was overtaken by the ability to make purchases in stores and on-line (17 percent).

The desire to make purchases in store and on-line signifies the need for more flexibility in terms of payment methods which the financially excluded have access

to and feel confident using. Possibly as a result of the fluctuating economy and low interest rates, optimism in earning money from having access to a full bank account is declining, with respondents increasingly showing a preference for products such as bank cards which will allow them the security of not having to carry cash. Their need for convenience, as opposed to traditional financial advantages such as earning interest, suggests that the financially excluded may be voluntarily opting out of banking services because these services don't currently fulfil their needs.

Trust & lack of engagement



The most cited reason the financially excluded don't currently have access to a full bank account is lack of money, with the amount of those who gave this as the main reason for their financial exclusion remaining steady, from 22 percent in 2013 to 23 percent in 2016. However, there was a small increase among those who say that the main reason they don't have a full bank account is because they don't like or trust banks, from 8 percent in 2013 to 10 percent in 2016. In fact, in 2016 21 percent of respondents cited a dislike of or distrust in banks as one of their three main reasons as to why they don't currently have a full account. This is particularly high in Poland and Russia, where 34 percent and 30 percent respectively cited dislike/distrust as one of their main reasons for financial exclusion. This points to a continued dissatisfaction with the established banking system, whereupon people are choosing to opt out, and the need for an alternative which will suit the needs of the financially excluded.

Women were more likely to state that their main reason for lack of access to a full bank account was because they don't want or need one (22 percent) rather than because they don't have enough money (20 percent).

Main benefit of having a full bank account:



Poland: **15%**

Keeping money in a bank account is safer than cash



Italy: **23%**

A bank card would allow me to make purchases in store and online



UK: **24%**

A bank card would allow me to make purchases in store and online



Russia: **36%**

I could earn interest on my money



Spain: **39%**

Keeping money in a bank account is safer than cash



France: **36%**

A bank card would allow me to make purchases in store and online

This supports the assertion that although financially excluded women are more likely than financially excluded men to be making the payments for household costs and rent, they are perhaps not doing this through their own accounts and with their own earnings. Interestingly, women (19 percent) are less likely than men (27 percent) to agree that having access to a full bank account would give their family a better chance to succeed. Perhaps this can be attributed to the fact that they do not currently feel the need to have a bank account in order to help their family succeed. Once again, positioning digital services that help manage their home finances as an alternative to bank accounts might nudge the financially excluded towards working with and taking advantage of financial services.

The most agreed upon statement in relation to having access to a full bank account was increased flexibility in how respondents are able to pay for things, with 67 percent overall agreeing. Feelings of independence and security were less strongly associated with full bank account access overall, although there are key market differences. Respondents in France agreed strongly with the majority of the statements presented to them, with over 60 percent agreeing that access to a full bank account would make them feel more included in society and in control of their lives. At the opposite end of the spectrum, those in Poland were far more cynical about the role that a full bank account could play in their lives: Only 10 percent agree that it would make them feel more included in society, and a small 6 percent say it would give their family a better chance to succeed. While access to a full bank account does not define success for those in Poland, almost half of those surveyed in France believe that it would help their family to succeed (49 percent). The rest of the markets fell at a midpoint between France and Poland.

When it comes to alternative methods of banking there has been a twofold increase since 2013 in the percentage of those who agree that they are very interested in mobile banking, from 6 percent in 2013 to 13 percent in 2016. Although there is no difference between men and women – 13 percent of men and 13 percent of women are very interested in mobile banking – unsurprisingly, the younger generation is more interested in mobile banking than their elder financially excluded counterparts.

This correlates with the increasing uptake in smartphone ownership and digital inclusion. One in four 25-34 year olds (25 percent) claim to be very interested in mobile banking as an alternative to current financial services, and this is similarly higher than average among those who want more information around this service.

Digital inclusion

In 2013, the majority of respondents (66 percent) had access to a standard mobile phone, and only 29 percent had smartphone access. In 2016, the number of those accessing standard mobile phones has fallen, while exposure to smartphones has grown exponentially – now half of respondents have access to a smartphone (49 percent), including 80 percent of 18-24 year olds. Laptop and PC access has remained stable, and tablet access has risen 6 points from 9 percent in 2013 to 15 percent in 2016.

Access to technology:



Standard mobile phone:
2013 | **66%**
2016 | **51%**



PC:
2013 | **25%**
2016 | **25%**



Smartphone:
2013 | **29%**
2016 | **49%**



Tablet:
2013 | **9%**
2016 | **15%**



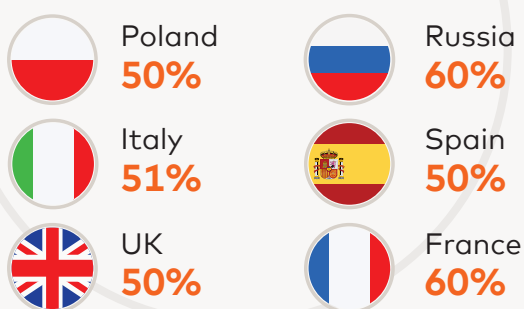
Laptop:
2013 | **28%**
2016 | **29%**

Therefore, when it comes to the use of digital services, flexibility is key: Although home PC / laptop access is steady, the increase in tablet and smartphone access means that people can increasingly use digital services while on the go. The increase in ownership and access to digital products is not confined to this study and can be observed among consumers in general. Not only are people accessing multiple devices throughout the day, they are having a different experience on each one, all of which needs to be taken into consideration when devising technological products that can benefit not only the financially excluded, but everyone else too.

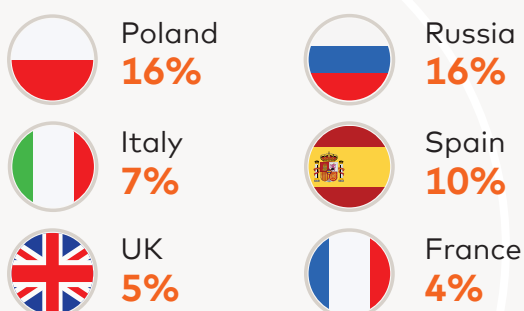
Three in four of those surveyed in 2016 agree that access to digital products and services has vastly increased people's ability to access financial products (74 percent), yet there still exists an element of suspicion around the relationship between digital services and traditional financial services. Only 18 percent of respondents are very interested in online banking, less than those who are very interested in a basic bank account (31 percent) or a savings account (30 percent). Similarly, just 15 percent consider the ability to buy products and services online one of their top three reasons for having access to a full bank account.

This reflects the current lack of enthusiasm around financial services in general, with one in 10 respondents (10 percent) saying they do not like / trust banks in 2016. It may be this dissatisfaction which affects the desirability of online financial services, even despite the uptake in access to various digital devices. Dissatisfaction with financial services, however, is not the only barrier to improving online banking services for those who are currently financially excluded. Digital exclusion remains a key issue, despite an increase in access to technology products. Although 88 percent of respondents consider digital inclusion to be important, among those who consider themselves digitally excluded 50 percent say that they have a lack of knowledge around how to use it and 34 percent do not have the money to buy and use technology products and services, thus effectively excluding them from the benefits it could provide. Indeed, education is needed in order to fully demonstrate to the financially excluded and digitally excluded how new technologies can improve their lives and increase their confidence in using them.

Yes, I consider myself to be digitally included



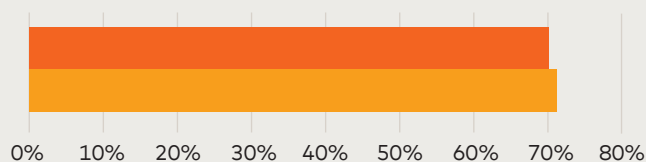
The main reason I don't have a bank account is that I don't like / trust banks



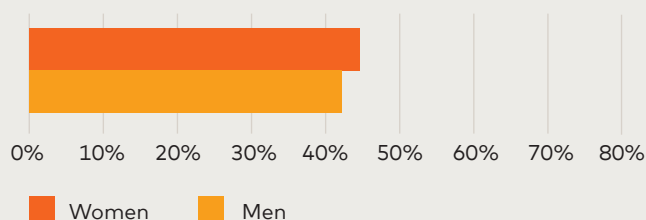
While more men consider themselves to be digitally included (57 percent) than excluded (43 percent), just as many women consider themselves to be digitally excluded as included. This sentiment is echoed in Poland, Spain and the UK, suggesting that digital exclusion does not immediately link to cultural and societal factors inherent in different markets, but is instead influenced more by respondents' level of technological knowledge and the amount of income they have to invest in digital products. These factors are not necessarily tied to gender, but there are differences when it comes to emotion: In fact, twice as many men (18 percent) as women (9 percent) feel embarrassed by their digital exclusion, while women are more likely to associate their digital exclusion with feeling helpless and scared.

When it comes to accessing financial products and services, there is a clear perception gap among men and women: One in four women believe that men have better access to financial products and services than women (24 percent), while only 15 percent of men believe that they have better access to financial products and services than women. However, both genders rate their ability to access financial products and services evenly in their society (44 percent for men, 45 percent for women), although this was low compared to the importance which they place on this ability (71 percent of men consider it important and 70 percent of women).

How important do you consider access to financial products and services in order for a society to be considered open and inclusive?



How would you rate your ability to access financial products and services in your country?



New technologies that bridge the gap between respondents' apprehension around conventional banking services and their desire to engage with digital technology need to be made apparent and accessible. With financial services, there is a fear that using these products will incur hidden fees and put the financially excluded into debt – the negative association between conventional financial services and online technology is currently too inextricably linked for the financially excluded to see the positive aspects. There has been a twofold increase in those who are very interested in mobile bank accounts survey on survey, demonstrating

that digital services are popular but currently hindered by a lack of education around them.

Those who think of themselves as digitally excluded gave lack of knowledge as the primary reason for this; therefore, it is clear that education around the benefits of technology needs to be made clear and more readily available to those who are currently financially excluded, so that they can access the services that they need. The rise in access to technology products – such as smartphones and tablets – needs to be accompanied by the availability of more digital services which distance themselves from traditional financial services offered by high street banks, and place an emphasis on empowering the user through education.

Indeed, the road to financial inclusion can and should be as digital as possible.

Conclusions

The financially excluded are not invisible in society, but they are still excluded.

There is no subset of society which can be presumed to be the 'financially excluded'. Research into their demographic status demonstrates that the causes of financial exclusion cannot be reduced to immigration (which results in a lack of cultural understanding and language skills) or unemployment (which brings about a lack of financial resource). Rather, a combination of education, awareness and confidence in new financial and technology services needs to be presented to those who are currently financially excluded.

Cash remains a primary payment method, convincing alternatives need to be presented.

The financially excluded continue to rely on cash for their payments in 2016, and although there is some consensus that this is ineffective and frustrating, they are not adopting alternative methods. This is linked in part to a reluctance to participate in what are seen as 'traditional' banking services, and a lack of confidence in digital banking services. The safety of keeping money in an account (as opposed to in cash) and the ability to make payments in-store and online are key motivations for the financially excluded to increase their current level of financial participation.

The flexibility which financial inclusion provides must be demonstrated.

Distrust around established financial systems is increasing, and this directly leads to, and indeed, encourages, financial exclusion. In order for this to be circumvented, the benefits of financial inclusion through new technologies must be demonstrated, before education in the use of these technologies can be provided. The financially excluded are aware of the limitations of cash as a payment form, and – although this sentiment varies by market – would like to feel more

included by being able to participate in some sort of financial management.

Digital inclusion must be utilised to increase financial inclusion.

The increase in access to digital products since 2013 clearly shows that enthusiastic adoption of new technologies is commonplace among the financially excluded. However, there is a gap between the use of technology and the use of digital financial services, demonstrated in the open ambivalence around the possibility of online utilities payments. This gap must be made smaller, using a combination of education around existing digital services, and reframing online financial services as being detached from the concept of high-street banking.

The road to financial inclusion is digital.

To be financially included in 2016, it is necessary to be digitally included. While over half of financially excluded respondents defined themselves as digitally included, a lack of knowledge around how to use digital technology was cited as the main reason for digital exclusion. As financial services increasingly innovate their digital offerings (mobile payments, 'cardless' payments) there is an opportunity to educate the financially excluded in financial technology which presents it as a feature of digital inclusion, as opposed to another development from traditional banking services.



