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The Role of Commercial Banks on Financial Inclusion in Malawi

Onelie Nkuna*, **Angella Faith Lapukeni**, **Paxon Kaude**, **Grant Kabango**

Reserve Bank of Malawi, Lilongwe, Malawi
Email: *onelienkuna@yahoo.co.uk, aflapukeni@yahoo.com, ppkaude@gmail.com, kabangogrant@yahoo.co.uk

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Abstract

Financial inclusion is said to be a panacea for lowering poverty and income inequality. In most developing countries, commercial banks are considered to be the traditional channel of including the unbanked into the formal financial system. This study aims to investigate the role of commercial banks in financial inclusion in Malawi. The study used both primary and secondary data in which a qualitative questionnaire was administered to all banks. Using a combination of stratified and judgement sampling methods, data were collected from 16 bank branches. The results of the study reveal that over the past years there has been dismal performance in terms of expansion of commercial banks' branch network, though the number of ATMs has significantly increased. The study also reveals that agent banking has significantly expanded even in the rural areas suggesting that banks have significantly contributed to reaching the unserved population. The study further finds that most banks provide financial literature to their customers, set very low minimum or zero balance requirements for certain categories of accounts, have consumer protection mechanisms and are also engaged in various initiatives aimed at enhancing financial inclusion. Nonetheless, the study finds that customer fees and charges, distance to bank outlets, Know Your Customer (KYC) requirements and low literacy levels, in that order are perceived by most banks as major barriers to financial inclusion.

Keywords

Financial Inclusion, Banks, Agent Banking

1. Introduction

Developing countries are promoting financial inclusion in their economies due to the potential benefits associated with financial inclusion. Vast literature is suggesting that, among others, financial inclusion plays a critical role in poverty reduction, reducing income disparities and increasing economic growth. For instance, [1] [2] [3] argue that financial inclusion is a panacea for lowering poverty and income inequality.

The term financial inclusion is quite broad and there is no consensus on a single definition. For instance, from the supply side perspective, [4] defines financial inclusion as "the process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". [5] defines financial inclusion as the process that aims at drawing the "unbanked" population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments. In this paper, we define the term of financial inclusion in line with [4] as the process of ensuring timely and adequate access to financial services to the vulnerable groups at an affordable cost.

Poverty in Malawi remains quite high, with about 65 percent of the population living below the poverty line [6]. It is more prevalent in rural areas, as about 95 percent of the poor and 97 percent of the ultra-poor live in rural areas [7]. Further, inequality is said to have worsened as evidenced by the worsening Gini coefficient per capita for Malawi from 0.390 in 2004 to 0.452 in 2011 [8]. Meanwhile, more than half of the adult population are reliant on income from agriculture, which makes them vulnerable to economics shocks. In view of this, and considering that the majority of the population have lower levels of education but also living in remote areas, it is obvious that the majority of the population have limited access to formal financial services. As such, the need to promote financial inclusion which is said to have the potential of alleviating poverty but also promoting economic growth need not be overemphasized. The Government of Malawi also recognizes that the provision of financial services, particularly to the excluded, would increase social inclusion, inclusive growth and generally increase income in the wider economy by mobilizing savings and providing loans which can be used to support the creation of small businesses in urban and rural areas [9].

Commercial banks are considered to be the traditional channel of including the unbanked into formal financial system in most developing countries. Some researchers like [10] [11] [12] [13] [14] found that commercial banks enhanced financial inclusion through a number of channels, particularly branch expansion. In Malawi, the Government of Malawi and the central bank has been undertaking a number of initiatives aimed at enhancing financial inclusion in the country. Meanwhile, the banking system dominates the Malawian financial system and accounts for 92 percent of total credit and holds 89 percent of total deposits [15]. This demonstrates their crucial role in the financial inclusion agenda, but only if they can provide suitable financial products. However, a number of questions can be asked, for instance, what has been the role of Malawi's commercial banks in financial inclusion? What are the banks' perceived barriers to financial inclusion? In this regard, the main hypotheses to be tested therefore are that commercial banks do not play a role in financial inclusion in Malawi.

This paper investigates the role of commercial banks in financial inclusion in Malawi. Specifically, the paper assesses the role of branch expansion, no frills services or products, Know Your Customer (KYC) requirements, mobile banking, agent banking, financial literacy and consumer protection in promoting financial inclusion in Malawi. Secondly, the paper assesses perception regarding barriers to financial inclusion in Malawi. Both primary and secondary data are used in the study. Primary data was obtained by administering a survey questionnaire on commercial banks whilst secondary data was obtained from various other sources including online and from Reserve Bank of Malawi.

Despite the importance of assessing the role of commercial banks in financial inclusion in Malawi, most of the existing research work has focused on the demand side factors, like [16]-[23]. There is therefore limited research that has been done for the supply side. A key contribution of this paper is that it provides an in-depth understanding of the commercial banks activities that enhances financial inclusion and also identifies barriers to financial inclusion that would help in the formulation of policies and programmes aimed at improving financial inclusion in Malawi.

The rest of the paper is organized as follows; Section 2 outlines the Malawi's financial sector and regulation, Section 3 provides literature review, Section 4 describes the methodology and data, Section 5 provides findings of the research; Section 6 outlines conclusion and policy implications.

2. Malawi's Financial Sector and Regulation

The legal and regulatory framework for the banking sector was first stipulated in the Reserve Bank of Malawi Act and the Banking Act of 1965. Entry requirements for commercial banks included paid-up capital of K500,000 (US$663.79) and banks were not allowed to have liabilities of more than ten times their paid-up capital. Further, entry and extension of branch network was subject to ministerial approval [24]. The market was dominated by two banks. The Act was very restrictive to entry thus largely contributing to a bigger population being unbanked. Further, interest rates were administered by the Government, who also set credit ceilings, preferential rates were extended to the agricultural sector and other Government-favoured activities. Whilst this repressed the economy, on the other hand, it encouraged people to borrow and also aided the agriculture sector (which is usually shunned in terms of credit extension as it is a risky sector) to increase its loan uptake.

Malawi implemented economic reforms in the late 80s among which included the financial sector reforms. In 1989 a number of reforms occurred and this included liberalization of interest rates to influence and encourage borrowing and which also raised the cost of funds to all financial institution [24]; decontrol of lending and deposit rates; abolishing of preferential interest rates to the agriculture sector; abandonment of credit ceilings and rationing. The elimination of credit control was expected to further increase private sector credit [25]; enactment of the Reserve Bank Act and Banking Act of 1989; and also privatisation and restructuring of banks and other financial institutions. Consequently, a more conducive and competitive environment was created and the financial system saw entry of new players. And as end-December 2016, a total number of 10 banks were operating in the market. Despite the increase in the number of commercial banks, the market is oligopolistic and dominated by two banks.

The liberalization of the financial sector was meant to increase competition and hence reach out to the larger unbanked population. Further, liberalization was meant to increase allocation of credit to the private sector. However, whilst credit to the private sector increased between 1989 and 1990 by about 36.4 percent [26], further analysis indicates that credit to households was very limited as credit was mostly provided to large-scale enterprises. In fact, credit under the "Personal Account" category declined by 17.4 percent during a similar period [26]. It is argued that even where financial institutions have sufficient resources, lending to small scale businesses and households is seen to be costly and considered risky [25]. This is supported by findings of a study by United Nations Development Programme (1999) that found that liberalisation has little effect on improving credit availability in Malawi.

Recently the financial system has seen the coming in of other players such as the Mobile Network Operators (MNOs) and services such as Branchless Banking and Agent Banking. In early 2012 the Reserve Bank of Malawi (RBM) introduced Agent Banking regulations aimed at governing the operations of bank agents which have proved to be a new delivery channel for offering banking services to the rural poor in a commercially viable manner. [27] states that agent banking systems are up to three times cheaper to operate than branches.

Other Initiatives Related to Financial Inclusion

There are quite a number of initiatives that the Government and RBM have implemented with the aim of enhancing financial inclusiveness. For example, the National Microfinance Policy and Action Plan was implemented in 2002 and revised in 2008. The aim of the policy was to bring about a dynamic and inclusive financial sector that provides a wide range of microfinance services to low income people. Despite its implementation, microfinance services remain rather limited. Most of the microfinance institutions are constrained by limited financial resources and hence have been limited in terms of outreach. Government was also involved in provision of microfinance services. For example, in 1993, it established the Malawi Rural Finance Company (MRFC), which was the major supplier of credit but has since ceased active operations due to financial management related problems.

In 2010, Government instituted the Financial Sector Development Strategy with the aim of bringing greater alignment of the financial sector with those sectors that drive economic growth. In January 2011, the RBM issued a directive on disclosure of information by banking institutions and non-deposit taking microfinance institutions. The directive requires these institutions to publish their charges and tariffs on various products and services, for the general public to make informed decisions, in a way also helping the unbanked and the unsophisticated.

Currently, the RBM is reviewing existing laws and drafting new laws aimed at improving the regulatory and supervisory framework that would enhance inclusion. These include the Credit Reference Bureau Act, the Financial Services Act, the Insurance Act, the Securities Act, the Microfinance Act, the Pensions Act, the Financial Cooperatives Act, the Payments Systems Bill and the RBM and Banking Act. The Bank in collaboration with other stakeholders is also in the process of drafting the National Strategy for Financial Literacy.

3. Literature Review

The term financial inclusion is quite broad and there is no consensus on a single definition. However, literature is divided into two broad categories thus the demand and supply perspectives. However, most of the empirical work on financial inclusion is on the demand perspective, like [16] [17] [18] [19] [21] [22] [28] [29], among others.

On the other hand, there is very scanty literature on the supply perspective of financial inclusion. Nonetheless, proponents of this view put a lot of emphasis on the role of banks in financial inclusion. [10] in their study for India, noted that banks could enhance financial inclusion through the following channels; branch expansion, no frills services or products, simplified Know Your Customer (KYC) requirements to the vulnerable groups and low income earners, mobile banking, agent banking, and financial literacy, among others. Similarly, [13] found evidence that credit costs and branch proximity were important determinants of financial inclusion in Brunei. Consistent with these two studies, [11] found evidence that branch density had a significant impact on financial inclusion in India. Moreover, [14] found evidence that banking is a key driver for financial inclusion but a large proportion of the population excluded from the formal financial system also shows higher poverty ratios and higher inequality. Further, [11] assessed commercial Bank's performance on the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme. The PMJDY was a Government financial inclusion scheme whose objective was to ensure access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections (the weaker sections and low income groups). They concluded that, the PMJDY scheme had created an impressive result in the banking sector with regard to eradication of "financial untouchability" in the country. Also [29] results suggest that branch network has unambiguous beneficial impact on financial inclusion.

Meanwhile, [23] in experimenting the impact of expanding access to back accounts in Malawi, Uganda and Chile, found that even when bank accounts were completely subsidized, the majority of individuals in the unbanked, rural households found them unappealing, suggesting that high account balance was not a barrier but some other factors. They further found some suggestive evidence that barriers such as transaction costs and distance also limit usage of accounts. In line with the [23] results, [30] in exploiting reasons for dormancy in no frills account found that it was mostly distance that was a major barrier as the respondents were willing to pay for convenient banking services closer to home. Other studies to financial inclusion on Malawi include [31] [32] [21] though from demand perspective, and [33], to mention a few.

From the foregoing literature, the role of commercial banks in Malawi in financial inclusion in terms of enhancers and barriers has not been fully investigated. As such, this study aims to investigate the role of commercial banks in financial inclusion in Malawi.

4. Methodology and Data

In order to assess the role of commercial banks in financial inclusion in Malawi, the study used both primary and secondary data. Primary data was obtained through conducting a qualitative survey on banks. The overall objective of the survey was to assess banks' perception regarding their role on financial inclusion. Secondary data was obtained from various databases and reports including Reserve Bank of Malawi microfinance reports and Financial Inclusion Malawi project reports and other reports, IMF Financial Access Surveys, World Bank Findex database, USAID reports, Finscope surveys and related study reports on financial inclusion in Malawi, World Bank reports, the Ministry of Finance through the Financial Sector Policy Unit, 2015 Brookings financial and digital inclusion project report and other relevant literature.

The study used a combination of stratified and judgement sampling techniques. Thus all three regions of the country: Northern, Central and Southern region, were covered. In each region it was ensured that the three districts sampled covered a city or town, a border districts and a very remote district that is not readily accessible. Therefore, the total number of districts covered was nine out of Malawi's twenty-eight districts. The sampled districts were as follows; Lilongwe, Blantyre and Mzuzu (these are cities); Karonga, Mchinji and Mulanje (these are border districts); Dowa-Mponela, Rumphi, Mzimba and Mwanza-Neno (these are very remote districts).

The survey was conducted between September and December 2016. A structured questionnaire was designed covering 15 open-ended questions (see **Appendix A**). Banks were requested to respond to questions relating to the following areas; Financial literacy/Education; No frills accounts; Usage of accounts; Barriers to usage of services; Perceived trends in credit; Provision of credit/loans to customers; Assessment of non-performing loans; Special initiatives; Consumer protection; and challenges faced.

The survey instrument was sent to headquarters of all ten banks that were operating in the country at the time the survey was being conducted. Only two banks allowed the team to send the questionnaire directly to the targeted branches, while the rest (eight banks) responded from their respective headquarters. This might have somewhat biased the responses. Nevertheless, all ten banks operating in the country had responded to the questionnaire representing a response rate of 100 percent. Survey responses were confirmed through extensive follow-ups with banks, where need arose. The responses from each bank were coded, and grouped by number of banks.

5. Results and Discussion

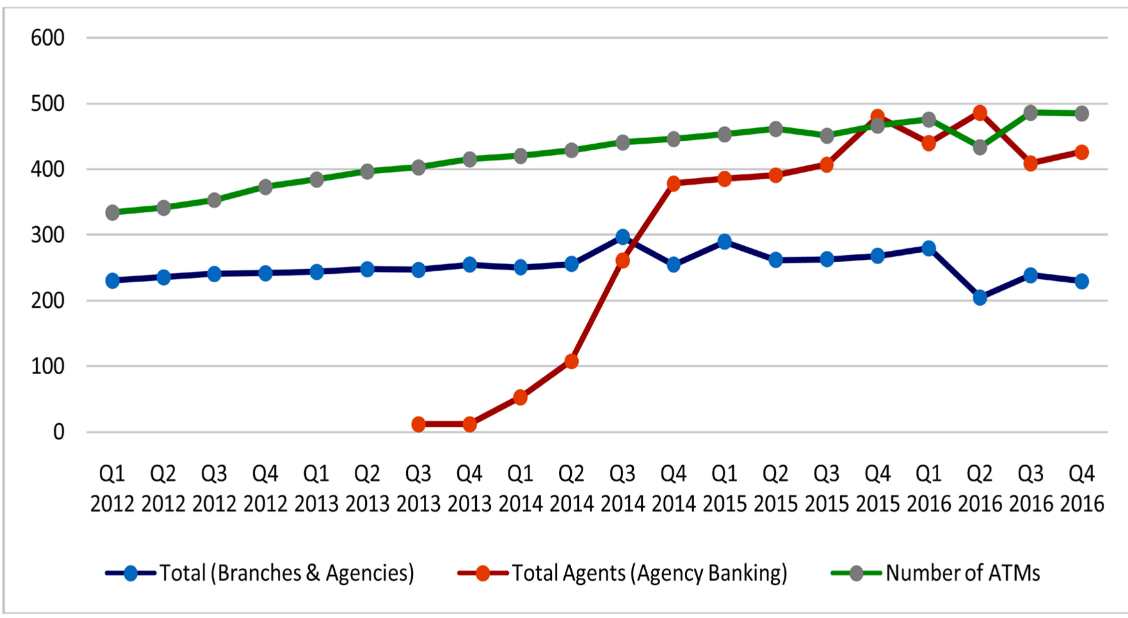
To investigate the role of commercial banks on financial inclusion, the study used both secondary and primary data. Section 5.1 analyses the role of banks on financial inclusion using secondary data. Section 5.2 analyses the role of banks in financial inclusion using survey results. Section 5.3 analyses the perception results from the survey on barriers to financial inclusion.

5.1. Role of Banks on Financial Inclusion: An Assessment of Access Indicators

5.1.1. Branch Network

Over the past years the banking sector performed poorly in terms of expansion of physical access points. For instance, the number of bank branches remained around 200 between 2012 and 2016 (Figure 1).

The non-expansion in branch network confirms the notion that banks in the country are not eager to reach out to the significant part of the population that



Source: Reserve bank of Malawi (2016).

Figure 1. Commercial banks' branches, agencies and ATMs, 2012-2016.

do not have access to the most basic opportunities and services provided by the banking sector. Further to this, most of the banks are located in the urban areas. For instance as of December 2016, out of 238 bank outlets (branches and kiosks), 117 (49.2 percent) were located in the urban and 105 (44.1 percent) in the semi urban areas, whilst only 17 (3.3 percent) were located in the rural areas (**Table 1**). As such, with a proportion of the rural population of 85 percent, it is no surprise that about 64 percent of adults in Malawi have never heard of an ATM, while 58 percent have never heard of a savings account [34]. The performance is dismal compared to the Sub-Saharan African countries average of around 5.3 branches per 100,000 [35]. Similarly, in other countries branch network is the major avenue to expanding financial services. For instance, [11] found that branch density had a significant impact on financial inclusion in India. Therefore, considering that a number of reasons might be hampering banks to expand the branch network, this therefore calls for banks to continue innovating other channels that would be viable but reaching the large unbanked population.

On the other hand, ATMs access points increased from 334 in 2012 to 485 in 2016. However, this performance is also dismal when compared to other countries in the Sub Saharan African region with higher averages.

5.1.2. Branchless Banking in Malawi: Agent Banking and Bank-on-Wheels

Following the introduction of supportive legislation that enable banks to cost effectively increase their distribution network, agency banking services have rapidly increased. As at end-2016, the total number of recruited agents was at 426 from 12 in 2013. Out of this total, 234 of them were active of which half were in the rural areas (**Table 1**), contrary to other access points where only a small percentage was served in rural areas. Meanwhile, as at end 2016, only two banks were offering agent banking services[1]. This therefore is suggestive that there is scope for other banks to enhance financial inclusion through the introduction of this service. Further, out of the total bank access points served to the rural population, agent banking comprised 71.3 percent of the access points, whilst ATMs were the least access points for the rural areas as at end December 2016

Table 1. Total access points as at December 2016.

Total Access Points	Bank Branches, Agencies, Kiosks, Vans	No. of ATMs	No. of POS Devices	Agent Banking—(90 day) Active	Total
Urban	117	338	1011	75	1541
Semi-urban	105	140	191	40	476
Rural	8	7	33	119	167
Mobile Vans	8	0	0	0	8
Total	**238**	**485**	**1235**	**234**	**2192**

Source: Reserve Bank of Malawi (2016).

[1]Of the two one bank was not charging monthly charges, and clients could open an account using voter's registration card, or a letter from the chief of the village.

(**Table 1**). Agency banking therefore has a great potential to reaching out to the unbanked and hence accelerating financial inclusion process in Malawi.

5.1.3. Bank-Led Mobile Services and Partnership with MNO's

There has been a notable increase in the use of bank-led mobile banking services, as the number of subscribers increased from 176,739 in 2012 to 503,198 in 2016 (**Table 2**). Despite this increase, only 4.9 percent adults were subscribed to bank-led mobile banking services as of December 2016 [36]. This low level coupled with the fact that this channel serves only those that are already banked has limited impact to financial inclusion, except one may be attracted by the availability of convenient services.

5.2. Survey Results on the Role of Banks in Financial Inclusion

This section analyses results from the survey undertaken on banks on their perception regarding their role in financial inclusion.

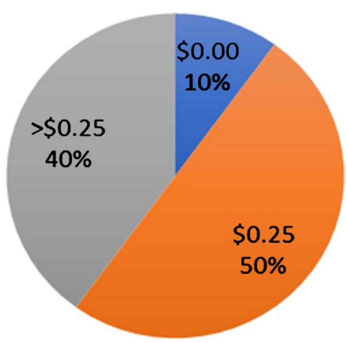
5.2.1. No Frills Accounts

It is widely believed that increasing access to accounts that could be opened with zero or minimum balances (no frills accounts) is a way of bringing the unbanked population into the formal financial sector. Banks were asked the required minimum balance for a regular savings account. Our findings indicate that five out of ten banks reported that they have minimum balance of K200 (about a quarter of a dollar), as in **Figure 2**. The findings further reveal that most of the

Table 2. Bank-led mobile services as at December 2016.

	Number of Subscribers	Volume of Transactions	Value of Transactions in Malawi Kwacha
2012	176,739	3,668,519	3,707,525,645
2013	280,457	7,377,745	11,187,313,960
2014	357,076	9,121,408	21,422,582,335
2015	464,906	13,819,787	56,461,025,190
2016	503,198	14,212,404	113,160,554,471

Source: Reserve Bank of Malawi (2016).



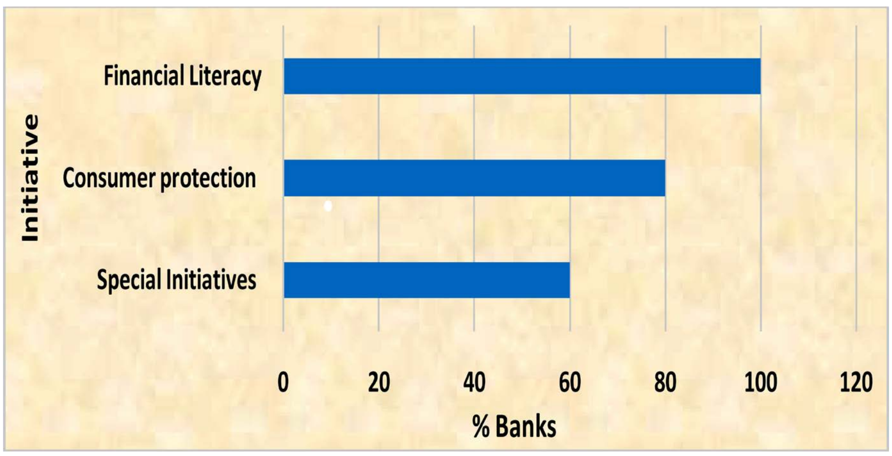
Source: Authors' survey results.

Figure 2. Banks minimum balances.

banks that had minimum or zero balances were relatively small. This could be their strategy to attract more customers and not necessarily deliberate move to target low income earners. In contrast, relatively big banks had a minimum savings balance ranging from US$1.40 cents to about US$7.0. This is in contrast to common wisdom and to findings of [37] who found that larger banks seemed to impose lower barriers to customers, perhaps because they are better positioned to exploit economies of scale and scope. This notwithstanding, one relatively big bank reported that it had a zero minimum balance. Most of the big banks have wider branch network and are potentially advantaged to reach out to the underprivileged, but their higher minimum balance could be a barrier to the low income earners, partly explaining low patronage of this income group to these banks. The Reserve Bank of India (RBI) in 2005 used this approach and among others encouraged banks to introduce no frills accounts as part of financial inclusion drive [38]. However, [23] in a study for Malawi, Uganda, and Chile found that even when bank accounts were completely subsidized banks were unappealing to the unbanked, rural households.

5.2.2. Financial Literacy

Making information readily available is one of the ways banks can ensure that the masses are financially included. Banks were asked the kind of information they do provide to customers to ensure their familiarity with and understanding of their financial market products to make informed choices (e.g. prices, charges, commissions, characteristics, quality, exclusions and associated risks etc.). All respondent banks reported that they provide information in form of brochures, flyers, newspaper and radio adverts for old and new products. Further information is displayed in banking halls indicating financial statements, commission and pricing. All ten respondent banks reported to have information desk counters, customer services/consultant where face to face queries are handled (**Figure 3**). Only two banks responded that they provide information online (website, and apps like facebook), although the actual number providing information online



Source: Authors' survey results.

Figure 3. Commercial Banks' Initiatives toward FI.

has coordinated efforts towards ensuring that more people are financially literate hence included. It is therefore important for all other banks to consider stepping up their efforts in enhancing financial literacy through setting up of dedicated may be higher. Further, the findings reveal that only one out of ten banks had a department that is responsible for financial literacy which provides product specific training to existing and prospective clients. This implies that only one bank units for financial literacy.

5.2.3. Consumer Protection

A lot of steps have been undertaken, more especially at institutional level to improve consumer confidence in the Malawian financial institution. As such, banks were asked if they have a written down strategy to resolving customer complaints. All banks, except for two representing 80 percent of the banks stated that they have written down strategies to resolving complaints (**Figure 3**). It is, however, likely that most consumers are not aware about these procedures within their banks or existence of institutions that they seeking redress from whenever they are in conflict with banks. [39] found that of the 8% of adults that had conflicts with financial service providers, most did nothing about it and those that acted opted to stop using the service and approached the service providers through community elders. As such, the banking industry should ensure that there is consumer protection aspect in their financial literacy programs so as to improve consumer confidence in the Malawian banks.

5.2.4. Special Initiatives

Banks are engaged in an array of initiatives aimed at reaching out to the underserved. Banks were asked whether they help or have transactions with the following; village banking or village and savings loans associations, farmers' clubs, village meetings and others. The results of the survey show that all banks except one indicated that they have transactions with farmers' clubs. This is encouraging considering that Malawi is an agrarian economy. Further, seven out of ten banks indicated that they have relationships with village banking or village and savings loans associations. However, only three banks indicated that they conduct meetings or advertisements specifically targeting the rural masses.

Meanwhile, the survey results also reveal that six out of ten banks (60 percent) reported to have special products for the rural people (**Figure 3**). The schemes mainly target the rural farmers except for one bank that has a scheme targeting low income earners in general. Further analysis reveals that both large and small banks were engaged in these products. However, it is interesting to note that most banks that had lower minimum balances were not engaging in these special schemes. Two of the ten banks had embraced the agency banking model and recruited merchants to provide basic banking services in the rural areas.

5.3. Results on Barriers to Usage of Bank Services

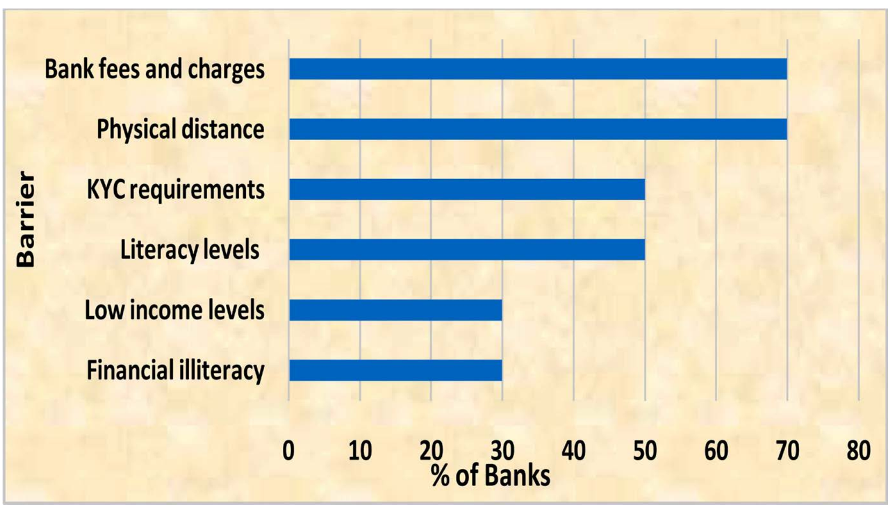
Banks were asked what they perceive to be barriers to using formal financial institutions by low income earners. Banks outlined a list of the barriers as described below. **Figure 4** summarises the findings on the percentage of banks that perceived the listed factors as barriers to financial inclusion. Each barrier is discussed in detail below.

5.3.1. Physical Distance

A majority of banks perceive distance as one of most important barrier to access of banking services by low income earners. From the survey results, seven out of ten banks cited distance as a crucial barrier to accessing banking services. The results are similar to [22] who found that taking less than an hour to get to the nearest bank increased the probability of having a bank account by 83 percentage points. This is in line with findings of [13] who found branch proximity to be an important determinant of financial inclusion in Brunei. Similarly, [23] also found some suggestive evidence that barriers such as transaction costs and distance also limit usage of accounts too.

5.3.2. Bank Fees and Charges

Similar to results above, seven out of ten banks stated that they perceive bank charges to be a significant barrier. This is consistent with [23] study in which they found that bank charges are quite high in Malawi such that it requires for an individual to have a balance of US$702 to yield a positive value on account, and yet most Malawian cannot save that much. [22] also found that in Malawi individuals that feel that bank charges are reasonable increase their probability of having a bank account by 68 percentage points than those who feel that bank charges are unreasonable. Bank charges are exorbitantly high in most African countries relative to rural population income. For instance, it was found that bank charges alone can exclude 50 percent of the population of most African countries like Kenya, Malawi and Uganda [40].



Sources: Authors' survey results.

Figure 4. Commercial banks' perceived barriers to FI.

5.3.3. Literacy Levels

In our study literacy levels also scored relatively high among banks as five out of ten banks indicated that high illiteracy level was one of the major barriers to usage of banking services. The results are similar to [41] who found that among others, low education reduced the likelihood of individuals using financial products in Peru. On the other hand, other studies like [42] found a large variation in correlation between literacy and financial inclusion among states in India. Some states had very low value of the usage dimension despite high literacy rates, whilst others that had high usage levels with very low literacy rates. They further found very low correlation at national level.

Illiteracy is often a hidden hurdle to bringing financial inclusion to the unbanked. Most people in the rural areas are illiterate and the fact that they cannot read nor write they fear visiting any formal institution as they feel intimidated. And for those who can read and write they cannot understand most of the transactions as instructions are written in English for all banks except for one that indicated that instructions are also provided in Chichewa (the local language). In this regard, banks therefore have a role to play in ensuring more people are financially literate and therefore included. This can be done through support of financial literacy programs. Banks can also adopt usage of biometric ATMs which would not necessarily require one to be literate. This notwithstanding, there is need for Government to enhance literacy levels that would increase the likelihood of being formally included. This may be pursued through the formal and informal education systems through adult literacy education.

5.3.4. Financial Illiteracy

Survey results show that only three out of ten banks indicated lack of knowledge and relevant information to be a crucial barrier to access banking services. The results are somewhat consistent with results of [31] [32]. However, considering the high illiteracy levels in the country it is also obvious that most people are also financially illiterate. [39] confirms that there is generally high financial illiteracy across population segments and educational levels in Malawi. [43] also asserts that lack of understanding and awareness of products is one of the main reason why most people do not use financial products in Malawi. Despite that a few banks indicated this as a barrier, there is still need to intensify financial education programs for financial inclusion whose ultimate goal will generally be to support positive behavioral change. Banks should also continue to lobby for inclusion of financial literacy programs in primary and secondary school curriculum.

5.3.5. KYC Requirements

As part of enforcing the AML/CFT Act banks are supposed to comply with prescribed measures and this includes comprehensive due diligence process. This entails, among others, the customer providing valid identification which can be a passport or driving license. In absence of these two, a voter registration certificate or a letter from the village chief with a passport size photograph of the potential customer but this has to be endorsed by the District Commissioner. Evidently, this requirement is quite complicated to ordinary Malawian thereby deterring a lot of the underserved to access banking services.

Survey results reveal that five out of ten banks highlighted complicated Know Your Customer (KYC) requirements as one of the main barriers. The regulatory authorities should therefore consider allowing banks to apply some differentiated measures relating to KYC requirements. Thus relaxed and simplified measures could be applied according to the (potential) customer's profile.

5.3.6. Low Income Levels

Three out of ten banks reported low income as one of the key barriers. This result is however contrary to common wisdom as most households in Malawi have low and unstable incomes often relying on self-employment and agriculture. The common argument is that with very low income most rural people have nothing left to save hence no incentive to seek banking services. The results are also in contrast with [23] whose evidence was suggestive that income level was one of the key barriers to usage of accounts in Malawi, Uganda and Chile. Similarly, [33] analysing from the supply side, also reported that a number of multiple structural obstacles such as limited access to credit, unreliable electricity supply, and high transportation costs are some of the reasons that have led to stagnation in financial inclusion in the past years. Though from a demand perspective, [21] also cited income to be the major constraint (with 63 percent contribution).

6. Conclusion and Recommendations

This paper investigates the role of commercial banks in Malawi. Specifically, the paper assesses the role of branch expansion, no frills services or products, Know Your Customer (KYC) requirements, mobile banking, agent banking, financial literacy, and consumer protection in promoting financial inclusion in Malawi. Secondly, the paper assesses perceptions regarding barriers to financial inclusion in Malawi.

The study reveals that banks' branch network has not expanded, though ATMs have increased over the past years. The study, however, reveals that the introduction of agent banking has significantly contributed to reaching the underserved. Commercial banks should therefore consider promoting this channel which has been proved to be effective for inclusion. The survey results show that half of the banks, contrary to expectations, mostly small ones, had minimum or zero balances. The study further reveals that most banks provide financial literature to all customers have consumer protection mechanisms and are also engaged in various initiatives aimed at enhancing financial inclusion.

Long distances to bank outlets, high fees and charges, KYC requirements and low literacy levels were perceived by most banks as the most important barriers. With regard to distance, banks should therefore consider reaching out to this segment through other lesser costly avenues like agency banking. With regard to

KYC requirements, the regulatory authorities should consider allowing banks to apply some differentiated measures relating to KYC requirements. Further, Government need to fast-track the process of issuing national identity card (IDs). With regard to low literacy levels, there is need to intensify financial education programs for financial inclusion whose ultimate goal will generally be to support positive behavioral change. However, results further reveal that only one out of ten banks had a dedicated department responsible for financial literacy. It is therefore important for all other banks to consider stepping up their efforts in enhancing financial literacy through setting up of dedicated units for financial literacy. Banks should also continue to lobby for inclusion of financial literacy programs in primary and secondary school curriculum.

Limitations of the Study

Although the research had met its intended objectives, the research had its limitations. Firstly, it was observed that some questionnaires were responded from the headquarters and not the targeted branches, hence this might have somewhat biased the results. Nevertheless, all ten banks operating in the country had responded, this implied that responses were representative of the targeted population. Further, the study did not support the findings from the qualitative survey with an econometric investigation to ascertain the significance of the enhancers and barriers financial inclusion in Malawi, due to data limitations. This is an area for future research.

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Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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Appendix A: Assessing the Role of Commercial Banks in Financial Inclusion

As per attached letter of introduction, The African Economic Research Consortium (AERC) is conducting a research on Financial Inclusion in Africa and Malawi is included in the project. Against this background the purpose of this survey is to collect information on financial inclusion related variables. All information collected (written or verbally) will be kept confidential and only aggregated responses will be used for the study.

(Circle or tick answer. If descriptive, please be as precise as possible.)

1) What kind of information do you provide to customers to ensure their familiarity with and understanding of your financial market products to make informed choices (e.g. prices, charges, commissions, characteristics, quality, exclusions and associated risks etc.).

____

____

2) In what form do you provide to your clients in areas of;

Opening of accounts

____

Type and use of accounts

____

Loans

____

Savings

____

Transaction channels

____

Other (specify)

____

3) What is the required minimum balance for a regular savings account?

____

4) What percentage of customers in the following cumulative deposit/income categories are active on average per month with their savings accounts?

Below K70,000/month ______________

Between K70,000 - K200,000/month ______________

5) What percentage of customers in terms of the following cumulative deposit/income categories on average per month, are active with their loan accounts?

Below K70,000/month ______________

Between K70,000 - K200,000/month ______________

6) In your opinion what are the barriers to using formal financial institutions by low income earners.

____

____

7) Does your branch have a framework or methodology of assessing information pertaining to a financial consumer in order to ascertain the suitability of a financial product, especially credit, to the consumer?

YES/NO

If Yes, what factors are considered in the assessment ______________

____

8) What is the percentage of non-performing loans relative to total loans in the following loan brackets (no of non-performing loans/total number of loans as a percentage).

Below K500,000 ______________

K501,000 - K1,000,000 ______________

Above K1,000,000 ______________

9) In your opinion what are the main reasons these loans are not performing?

____

____

10) Does your branch provide credit counselling?

If yes what proportion of customers of incomes below K500,000 to total customers are served, on average per month (less than $2/day).

11) Does your branch help and/or have transactions with, any of these groups?

Village banking/Village and savings loans associations

Farmers clubs

Village meetings advertisement

Others (Please specify) ______________

12) Does your branch have clear written down strategies to resolving customer complaints?

YES/NO

13) Are you providing any special scheme to rural people?

YES/NO

If yes, please list the products ______________________

____

____

14) Have you witnessed growth in recent years in number of accounts, deposit/saving/loan value by low-income customer segments?

YES/NO

If Yes, what do you think are main reasons behind this growth ______________

____

____

If No, what would be the main reasons behind the lack of growth __________

____

____

15) What are the main challenges your branch faces while providing services to low income people?

____

____