Financial inclusion and vulnerabilities generated by the international crisis

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Abstract *The international financial crisis has generated loss of confidence in the financial system. Internationally, the financial institutions are trying to regain the confidence of customers and investors, promoting the principles of ethics, transparency and social responsibility. Both low-income individuals and corporations are covered by the concerns of financial institutions because they may be involved in various programs of investments with social and environment impact. Financial inclusion programs run by banks or national financial inclusion strategies made by public authorities are designed to ensure the access of hard-to-reach populations, women and the rural poor to modern financial services. So, the vulnerabilities caused by the international financial crisis are managed by new instruments and financial strategies, standing out the involvement of international bodies or the national public authorities acting as market builder, policy framework developer and incentiviser through the tax system.*

Keywords:*financial institutions; business ethics; social responsibility;international financial crisis*
JEL Classification: G01, G2

1. The financial institutions and international financial crisis

Since the 1980s, the global financial system has faced several crises that have led to new conjectural and structural problems: systemic risk has increased during the last few years, so there are some rules to evaluate information more efficiently, the recent

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collapse of stock markets shows the importance of preventative procedures and the aggressive capitalism has demonstrated its limits (Paulet, 2011). In the USA, in 1999, Glass-Steagall prohibition against the union of commercial and investment banking was eliminated and the result was the setup of giant financial conglomerates that include commercial banks, investment banks, different types of funds (mutual, hedge and private equity funds) and special investment vehicles. The main problem was that these conglomerates were considered 'too big to fail'. Particularly, after this year, we observed an intensification of financial innovation (Matei et al, 2008; Panait et al, 2014) and an increasing complexity of financial products which caused problems in evaluating profitability and risk assessment even by rating agencies (Taylor, 2009; Anghel, 2013). In addition, the relaxation of supervision of financial market`s actors was generated by the complexity of financial institutions, sophistication of financial products; promoting of laissez-faire philosophy in the activity of regulatory agencies was relying on the risk evaluation methods of the financial institutions themselves. So, the establishment of 'shadow banking system' composed by investment banks, hedge funds and bank-created special investment vehicles, the deregulation, the proclamation of the theory of efficient capital markets, the lack of correlation between the development of the financial market relative to real economy and high leverage financial products are some major determinants of this financial crisis (Crotty, 2009).

Following the financial crisis; three objectives for financial market reform were outlined:

- strengthening financial stability and systemic risk management;
- rebuilding financial institutions (micro-prudential regulator);
- ensuring the functioning of the financial sector to the benefit of users and the whole society.

Some experts consider that conventional economic models were inadequate for assessing the financial markets. Policymakers and regulators should evaluate financial markets based on real results, such as performance and efficiency, responsibility and reliability, safety and responsiveness, fairness and integrity. Many activities in the financial sector were considered destructive (mistakes, failures of market, repeated scandals) and had a damaging effect on the market: oversupply (of providers and products), over complexity (of products) and over intermediation - too many layers of intermediaries (Wehinger, 2013, Haralambie, 2011, Pop, C., & Buys, 2015).Other experts have argued that banking crises are not tied to a particular bank model. Although stability and resilience would be the result of regulatory measures, is not required the bank separation (Liikanen, 2012).

Superficial approach of financial institutions and their implications of actions on global level are a mistake because the money could be considered as just an ordinary commodity. Money is not just another product that makes things possible: money is a means, not an end, with a globally major impact, whether they occur in the form of credit or as investment.

Money involves actions, money allows things to happen and adopts amendments. Therefore, all we can do with money is not irrelevant from morally and ethically point of view.

Given that banks are official intermediaries of money, we must examine how they manage them and which are the final money destination. From an ethical point, it is important to know what final clients do with the money received from banks. The approach of money as commodity in terms of the ethical implications and impact is needed to avoid issues that could be funded by error.

Considering that money can be used in a wrong way, a reasonable question arises whether it is morally acceptable that financial institutions should invest and borrow money without discrimination. It is possible that bank secrecy and confidentiality to respond for moral and ethical implications of money? It is debatable whether governments and regulators may put pressure on financial institutions to make things work because "markets cannot wait." Can we ignore how they are using the money as long as it generates a good return in percentage?

Financial institutions can use economic resources through various ways and may result money that are wrong used. This can be achieved either by granting preferential loans to its customers, either investing directly or on behalf of others in companies, projects or countries that generate various forms of wrong-doing:

- *Speculative banking* - engaging in excessive speculative investment is morally unacceptable, and often it is demonstrated that this activity is not so profitable; bank should be responsible for all investment and lending money operations to its customers.
- *Financing of companies with little or no commitment to social responsibility* - banking institutions usually grant credit facilities to companies, and helps to increase capital on financial markets, but many of this funded companies have no socially responsible agendas (for example, companies operating in the countries of the third world, allowing child labor, environmental pollution overwhelming, the black economy, etc.). Banks are not interested in violating human rights by credited companies or by their agendas on social impact.
- *Ecological impact* – financial institutions are not enough attentive to companies that could create environmental damage by financing their activities. Companies should

actively seek a balance between their activities, their production processes, use of natural and human resources and respect the environment.

- *Financing arms manufacturing and trade* – the moral acceptability of a country is generally recognized when it takes cares to defend the population, and thus invest in weapons. What is worrying is the presence of excesses and human rights violations. The factors involved are known as so-called cluster munitions that generate innocent civilian victims.

Ethics, corruption and lack of confidence are the components of social capital that is significant when we talk about financial markets, because investors are considering the tradeoff between return and risk based on the information they have. Therefore, there must be an accuracy of information, and financial markets should be correct. Ethics in the financial market is reflected in fairness trade practices such as insider trading, assessed by the individuals involved (Statman, 2006).

Education, including education about the law is useful in guiding people's behavior toward fairness. Surveys in several countries have shown that financial professionals perceive insider trading as less fair than is perceived by students, and the perception is given by educational system institutions. However, education is not strong enough. People know that it is right to pay taxes but often choose to cheat the system (Bernstein, 2006).

Anti-corruption movement has been successful in developing a comprehensive legal framework to combat transnational bribery and corruption. A distinctive feature is its emphasis on the economic cost of corruption and the involvement of international financial institutions such as World Bank, International Monetary Fund and regional development banks. Their efforts have resulted in effective reforms that will lead to an efficient allocation of funds and international actors, economic agents and civil society to create pacts of integrity and ethics codes (Ala'i, 2002).

2. The setup of a new inclusive financial system - the coordinates and constraints in the light of sustainable development goals

Currently, we are witnessing not only a reconfiguration of the international financial architecture considering the effects of the crisis, but also an adaptation of the financial system given the sustainable development goals (Zaman & Georgescu, 2009; Zaman & Vasile, 2014; Iacovoiu & Stancu, 2017). Financial institutions must pursue and maximize profits for shareholders (Iov, 2014; Mureşan, 2015), but any economic agent must give something in return the economy and the community to act. Starting from the pyramid of social responsibility created by Archie Carroll in 1979 for companies, the financial institutions must show not only economic responsibility, but also legal responsibility (broken sometimes by credit institutions, which negotiate from a position of strength and impose abusive clauses to customers, this behavior being later sanctioned by the courts), ethical responsibility and philanthropic responsibility (Iamandi et al, 2007; Matei, 2013; Volosevici, 2013; Sima & Gheorghe, 2011). Given the relationship between banks and customers, especially individuals, and the financial scandals involving major banks, it seems that the only responsibility assumed by banks is the economic one and sometimes the philanthropic one which is used more as a tool to promote the bank's image among consumers (Matei & Voica, 2013; Ene & Panait, 2017; Ene, 2017).

Given the challenges arising from the global financial crisis and the need to promote sustainable development, the financial institutions must work guided by the ethics and social responsibility so as to achieve financial inclusion as many disadvantaged and vulnerable groups. In addition, through their activity, financial institutions should not generate further problems customers or authorities.

The best example is the Swiss franc credit crisis that has affected some of Romania's population; people with specialized training or less financial educated persons, forgetting exchange risks, were attracted by the lure of loans in Swiss francs. Wanting to raise market share, small banks in Romania such as OTP, Volksbank, Credit Europe Bank, Piraues Bank introduced loans in Swiss francs, launched promotion campaigns, and employees of banks receiving bonuses depending on sales achieved. The only banks that have resisted this temptation were Romanian Commercial Bank and Romanian Development Bank that, in the first phase, have suffered from this decision. Subsequently, given the substantial appreciation of Swiss franc, small banks have withdrawn these financial products and even promotional information on their websites.

Protests of the over 50,000 borrowers in Swiss francs were vehement, and the result was the adoption of a law which freezes exchange rate at specific value to granting credit time. Initially, the parliamentary committee ‘Budget and Finance’ introduced a ceiling of 250,000 CHF for beneficiaries of this law, but it was eliminated by parliament. One of the explanations was that this law is not one of social assistance and for this reason all debtors must be treated equally. The problem is much more complex taking in account the statistics supplied by officials of the Romanian National Bank that reveals a bizarre situation. 40 clients took loans over CHF1 million, 201 clients have obtained loans between CHF500,000 and 1 million and one of this debtors with over 1 million CHF loan used the funds for the stock acquisition. So, in some cases, the investors have placed funds on the stock exchange and ignored the risks and the fundamental principles of the financial market that recommend investing funds from the savings. So, setting ceilings on the amount of credit should be introduced so as to differentiate the borrowers taking in account their vulnerability and their rational/irrational behavior on financial market. The analysis shows multiple loans disparities generated by value, destination or maturity, but we notice the existence of vulnerable social groups considering the borrowers' monthly income (half of borrowers have net monthly income less than 1500 lei). So, the lack of financial education, the consumers` overreliance in their own knowledge and the non-ethical behavior of banks generate additional problems in Romanian banking system (Ene & Panait, 2017; Voica, 2017; Voica & Panait, 2017).

Internationally, more and more institutions and specialists in economics advocate the creation of an inclusive financial system which has notable contributions on reducing inequalities and poverty, on economic growth and global financial stability (Demirguc-Kunt and Klapper, 2012). At the first sight, the financial inclusion could be consider a business opportunity for banks, but on long term, the implication of financial institutions in attracting new segments of clients (like low-income households, small and micro businesses, rural and remote households, women, persons with disabilities, minorities, farmers or clients without a credit history or with a poor credit score) is a contribution to social development of emerging countries.

Tackling financial inclusion is different from one bank to another but could be detected some behaviors. Given the essence of financial inclusion, most banks consider it a component, strict senso, of the business strategy which involves complex investments in technology to increase accessibility to financial services for disadvantaged people. Given the importance of financial education that need to create or improve the financial capability of consumers, the financial inclusion strategy involves connections with corporate social responsibility (CSR) or sustainable development strategy of financial institutions. For this reason, most of the actors in the financial market have a hybrid approach and they realized a combination between CSR and business strategies (Cheston et al., 2016).

Financial institutions need to rethink their behavior so as to advocate an inclusive financial system that:

- to allow access of unbankable entities such as women, minorities and microenterprises to all financial services at reasonable costs;
- to provide an honest conduct from financial institutions by monitoring their activity and performance by public authorities with responsibilities in this field (central bank, the supervisory authority or financial institutions) and to follow the appropriate prudential regulations;
- to provide diversification through a multitude of existing financial service providers.

Financial inclusion must be based not only on the efforts of financial institutions that should provide affordable services but also on the ability of consumers to make correct financial decisions (Mitton, 2008). This decisional capacity to customers in finance is built on two levels: financial literacy and financial capability. On the one hand, the consumers must have not only specialized knowledge, but should be aware of the limits of their knowledge and seek advice from an expert when they intend to use complex financial products. On the other hand, the consumers must overcome some psychological barriers such as fear of being turned down. These psychological issues are fueled by fear of modern technology specific of e-banking or mobile baking, but it is recognized that Digital Transactions allow new Opportunities (Podasca, 2010) and help overcome spatial barriers. Through digital finance, people in inaccessible places can be attracted in the financial circuit. For this reason, financial inclusion is considered to be a multidimensional concept (Sarna, 2008), which has many influence factors from economic, social, technological and politic fields that manifest at the macro, mezo and microeconomic level.

Financial inclusion has a reduced level in Romania, due to poor financial education specific to the former communist countries, low levels of living, high share of the informal economy, lack of confidence of the population in the financial system, due to the numerous scandals that affected the banks and the capital market, the small degree of adaptation of the banks' offer to the needs of the population, taking into account the large share of the Romanian population living in rural areas (NBR, 2017). The interest of the public authorities in increasing the degree of financial inclusion has materialized in different measures such as the "First Home" program (resulting in improved access to finance by increasing the number of mortgages granted), the implementation by the NBR of various financial education programs or the transposition in the Romanian legislation of the EU Directive 2014/92 on the comparability of fees related to payment accounts, the change of payment accounts and access to basic payment accounts. This directive seeks to standardize the terminology and form of contracts for opening a current account, which helps people with a lower level of financial education.

The solution of social problems and the fulfillment sustainable development goals cannot be solved using only public investments. In addition, many investors are facing a dilemma: making certain investments that bring them greater profit and donating money to the charity actions. A solution would be for this: to make impact investment that aimed to achieve a certain financial return but also record a positive environmental or social track. The main goals of impact investment are the improvement of the lives of poor and vulnerable people (‘base of the pyramid’) and the provision of environmental benefits at large.

At international level, impact investments are considered an alternative asset class (J.P. Morgan, 2010). Institutional and individual investors like companies, development finance institutions, pension funds, foundations, community development finance institutions, commercial banks and boutique investment funds are interested in this kind of investment. The domains of interest are concentrated to agriculture, water, housing, health, energy, education and financial services. Eradication of poverty, one of sustainable development goals, could be realized through impact investments. The main beneficiaries are the BoP in emerging countries, the broader BoP+ (that includes the low-income groups from developed economies and groups impacted by factors like climate change. For BoP population, it is necessary not only specific investments like impact investments, but also business models that boost the needs and finances of these vulnerable groups to transform them in potential customers. The main barrier to improve the life of these persons is to perceive them as potential clients and to offer them affordable goods and service in term of quality and quantity. For example, some products must be sold in small quantities in accordance with their wages.

3. Conclusions

Financial system characterized by an intense financial innovation, deregulation, opacity and fight for profit at any cost by financial institutions. Currently, financial institutions are faced with a lack of confidence from consumers, because of their lack of financial education the non-ethical actions initiated and promoted by banks. In the context of the necessity of fulfilling of the sustainable development goals established by the United Nations, we are witnessing the reconfiguration of the international financial architecture and the creation of the financial system that are operating for the poor and vulnerable groups and that rely on a new tool in fighting poverty – microfinance and impact investments. These customers need not only credits but also different financial services like deposit, insurance and money transfer services.

Financial education is sustained by public authorities, international financial organizations and financial institutions given the intensification of the financial innovation that led to the emergence of new financial instruments for speculative or hedging operations; consumers need to correctly assess risk related to financial products and foresee the losses that may arise. Financing instruments for impact investments are the traditional ones such as shares, bonds, but there are also available innovative products such as Social Impact Bonds already launched in the UK. The evaluation of financial performance of these investments is done traditionally. Social and environmental impact measurement is more difficult, but there are some concerns in this regard: Global Impact Investing Rating System (GIIRS) or Impact Reporting and Investment Standards.

To improve the life of vulnerable groups, huge investments are needed. Public investments are limited, so a new instrument is used - impact investment. In fact, the implication of public authorities in this field is important. In many developed countries, the governments have support financially the impact investment sector through the setup of special funds that must leverage private capital or launch public initiative and promote public-private partnerships. The major problem for attraction of private investors in this field is to create proper instruments to measure and report the complex impact of these investments.

In Romania, the lack of sophisticated (toxic) financial instruments and the primitive stage of the financial system have prompted some politicians to declare that the international financial crisis will not be felt in the Romanian economy as well. The crisis has spread throughout the world economy and in Romania the effects have been felt mainly on the real estate market, industry, foreign trade and state budget with an impact on the incomes of the population. Investments were reduced, foreign investors withdrew from the Romanian economy, and foreign capital inflows were modest. The Romanian banking system has pretty well crossed the international financial test in the sense that the Romanian state did not have to "save" any bank, as it did in 23 European Union member states. The process of financial inclusion has been hampered because, on the one hand, lending to individuals was limited by the imposition of rules by the central bank, and on the other hand, the population saved less on the background of falling revenues. Banks have become increasingly aware of the need to comply with ethical principles in relation to shareholders and consumer protection, which is why the Code of Conduct of the Banking Industry, which revises the Banking Code of Ethics approved in 2009, was approved this year.

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