Aging and Financial Inclusion: An Opportunity
Key Messages

Within 25 years, the percent of the world's population over age 60 will nearly double. Aging is advancing fast in developing countries. Within 15 years, there will be 1.3 billion people over age 60 in the world, constituting 13 percent of the global population. Over 60 percent of these people will live in low and middle income economies, and the majority of them will be women. Rapid population aging creates challenges and opportunities that demand a response from public and private sectors.

Older people at the base of the pyramid have varied and unpredictable incomes. Financial services can facilitate the income strategies of older people. While data are limited, we know that incomes later in life come from several sources. People rely on pensions, family, employment, small and micro businesses, assets, and savings. Many of these sources are informal. A major role of financial services in aging is to facilitate these basic income strategies. This includes supporting strategies in younger years to prepare people for later life, like savings and pensions. Financial services also play an important role in managing day-to-day variations in income and expenses, particularly when emergencies arise.

Social Pensions should extend to cover everyone, especially those in the informal sector. Non-contributory "social" pensions provided by governments create an income floor that assures recipients that they can regularly meet at least some of their basic needs. Governments should work to cover a higher proportion of their lower income populations with such benefits.

People at the base of the pyramid need means to contribute to pensions throughout their lifetimes. Social pensions are generally insufficient to meet all expenditure needs in older age. Particularly in countries with large informal populations, major portions of the labor force make no contributions to the pension scheme, but many could – and would – do so if given a chance. However, convenient mechanisms for collecting contributions have been cost-prohibitive. This is changing. New technologies for P2G payments could provide convenient and inexpensive means, if pension providers and payments service providers collaborate.

Linking pensions with other financial instruments will promote deeper financial inclusion for people. For many older people, pensions are their only contact with formal financial services. Pensions, when seen as an on-ramp to financial services, can be linked to bank accounts, used as collateral for credit, or saved. Such linkages and bundling requires partnerships between public and private sector players.

Lenders and insurers should raise or eliminate the age caps that often keep older people from accessing formal credit and insurance in light of new demographic realities, individual variation – and fairness. In the absence of information on which to base credit or insurance decisions, providers often rely on age as a proxy for risk. Reported "age caps" can be as low as 55, and disproportionately disadvantage women, who live longer than men, on average. Updated actuarial tables, alternative credit scoring, flexible retirement ages, and creative collateral could provide solutions to the problem of age caps.

Financial institutions can improve their interactions with older people and integrate increased client protection and financial education, to increase trust. Lack of trust is one of the primary barriers that financial institutions face when working with older customers. Earning trust is not an easy process, but tailoring customer services to the needs of older people and ensuring adequate client protection is a start. Recognizing that older people may be more susceptible to mistakes and abuse in financial services, it is especially important to ensure that effective monitoring and complaint mechanisms extend to them, and to integrate financial capability-building elements into product design and delivery.

This summary is based on *Aging and Financial Inclusion: An Opportunity*, a report that examines the unmet financial needs of the rapidly growing global aging population, particularly in the developing world. The report presents the findings of the joint project on aging and financial inclusion from the Center for Financial Inclusion at Accion and HelpAge International with support from the MetLife Foundation. The project was prompted by the demographic review carried out as part of CFI's Financial Inclusion 2020 project, which drew attention to the rapidly aging global population and to the immediate challenges aging poses, particularly in middle income countries. CFI joined forces with HelpAge because of HelpAge's deep knowledge about global aging issues.

About the Center for Financial Inclusion at Accion

The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank working toward full global financial inclusion. Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using tools that include research, convening, capacity building, and communications. For more, visit www.centerforfinancialinclusion.org

About HelpAge

HelpAge International is a non-profit organization and a global network of over 100 affiliated organizations in 70 developing countries, which work together to improve the lives of older people. We work to ensure that older people are included in international development and have access to emergency relief, income security, health services and human rights. HelpAge USA, the US-based affiliate, raises awareness about global aging and works with our global network of affiliates and partners to implement programs and policies that address the needs of older people in the world's poorest communities. To learn more about HelpAge, visit www.helpageusa.org.

CENTER *for* FINANCIAL INCLUSION | ACCION

HelpAge International *global network*