New Challenges for Future Sustainability and Wellbeing

EMERALD STUDIES IN FINANCE, INSURANCE, AND RISK MANAGEMENT

Ercan Özen, Simon Grima and Rebecca Dalli Gonzi

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New Challenges for Future Sustainability and Wellbeing

EDITED BY

ERCAN ÖZEN
University of Usak, Turkey

SIMON GRIMA
University of Malta, Malta

AND

REBECCA DALLI GONZI
University of Malta, Malta

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INVESTOR IN PEOPLE

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About the Contributors

Nida Abdioğlu is an Associate Professor with the Department of Business Administration at Bandırma Onyedi Eylul University, Balıkesir, Turkey. She has a BA in Economics (in English) at Istanbul University (2006). She received MSc Finance and PhD Finance degrees from University of Manchester, Manchester Business School in 2008 and 2012, respectively. Her PhD thesis was about investment preferences of institutional investors. Besides institutional investment, her research interests include corporate finance, corporate governance and financial econometrics. She has taught Corporate Finance, Accounting, Capital Markets and Financial Institutions courses. She has published articles in many international journals such as *International Business Review* and the *Journal of international Money and Finance*.

Mine Yeniçeri Alemdar graduated from Ege University, Faculty of Communication, Department of Public Relations and Publicity in 2005 as writing thesis on “Brand Management in Global Market and Effect of Public Relations.” She became Ph Dr of PR and communication in 2010 in Ege University, Faculty of Communication, Department of PR and Publicity. In 2014, she received the title of Associate Professor. Since 2006, she has been working under Ege University Communication Faculty, Public Relations and Publicity Department, Research Methods Sciaence Area. She lectures on “communication research methods” at undergraduate and graduate levels. She has many published and presented articles about digital communication, brand communication, and social media. She has executive and researcher roles in national and international research projects on digital division and new media literacy.

Ahmad Aljarah is an Assistant Professor in the Department of Marketing at Girne American University, TRNC, via Mersin 10, Turkey. His primary research interests include corporate social responsibility, sustainability, branding, and cross-cultural studies.

G. Asllani holds MA and PhD in Finance from the University of Pristina, Kosovo. He teaches public finance, taxation, and competition rights. He is an Associate Professor at University “Haxhi Zeka,” Peja within the Law Faculty. During his 20 years of experience, he has contributed to the creation of the tax system in Kosovo, making tax analysis and expertise, participating in several working groups at international level (IMF, OECD, and Robert Shuman Center for Advance Studies).

Mithat Atabay, PhD, is an Assistant Professor in History Department at Çanakkale Onsekiz Mart University, Çanakkale, His research interest is modern Turkey. He has published 55 books, including the *Gallipoli Campaign* which is co-authored book, ecchoes from the *Deep Wreck of the Dardanelles Campaign* (2013), and *Anzac Battlefield: A Gallipoli Landscape of War and Memory* (2016).

Sinan Aytekin is an Associate Professor with Department of Business Administration at Balıkesir University. He graduated from Dokuz Eylül University, Faculty of Economics and Administration Sciences in 2003. He earned an MSc in 2006 after completing the Master's Degree Program in the Accounting and Finance of the Graduate School of Social Sciences, Department of Business Administration and a PhD in 2010 after completing the Doctorate Program in the Department of Business Administration in Dokuz Eylül University. He started his academic career as a Lecturer in 2009 at Balıkesir University. His main research fields are corporate finance, financial markets and institutions, portfolio theory, and financing of health services.

Pelin Bayram holds a BA degree in Faculty of Communication & Media Studies from Eastern Mediterranean University, MBA degree in Business Administration from Istanbul Bilgi University, and PhD degree in Marketing from Girne American University. She is currently the Head of Business Management and IACBE & ECBE Accreditation Coordinator for Faculty of Business and Economics at Girne American University since 2008. She has worked for various multinational companies in the logistics sector such as, Scan Global Logistic in Istanbul TR as Marketing Manager and Ecu-Line International NVOCC in Istanbul TR as Sales & Marketing Executive.

İbrahim Murat Bicil received his undergraduate degree in Economics from Akdeniz University in 2007. In 2009, he completed his master's degree at Akdeniz University Institute of Social Sciences, Department of Economics. In 2015, he received his PhD degree from Balıkesir University Institute of Social Sciences, Department of Economics. In 2009, he started to work as a Lecturer in Balıkesir University Sındırgı Vocational School Foreign Trade program. In 2015, he was appointed as an Assistant Professor at Balıkesir University Faculty of Economics and Administrative Sciences, Department of Economics. He is currently working at the same department at Balıkesir University. His research interests include economic theory, environmental and natural resources economics, and energy economics. He continues his studies on energy markets, energy efficiency, environment and energy policies.

Ilker Calayoğlu is a Doctor in the Istanbul University Accounting and Auditing Department. He started his career in the field of tourism. He received his high school and undergraduate education in the field of tourism. Later he gave up the field of Tourism and started to receive education in the field of Accounting. He completed his master and doctorate education in the field of Accounting. Doctorate thesis subject is software accounting. Moreover, this subject is the first person working in Turkey. His past work experience includes working in food and beverage service units at various hotels, working in the international airline ticketing unit in the travel agency and working in the accounting department at Okan Holding. He teaches undergraduate and graduate courses at Istanbul Okan University. The courses include: Financial accounting, cost accounting, management accounting, international financial reporting standards, accounting package programs, accounting information systems, advanced Excel. He is married and has a daughter.

Sh. Citaku works as a legal advisor (financial matters) and also holds MA in Financial Law. She is about to gain her PhD degree at the University of Prishtina. She also worked as Lecturer at the University of Prizren. The expertise and analyses she performed in the field of financial law was a great accomplishment for her academic and professional development.

Burak Demir is a PhD student in Marketing at Ege University in İzmir, Turkey. He completed his master's degree in Business Administration at İzmir Kâtip Çelebi University in 2017. He completed his undergraduate education in Business Administration at Girne American University in Cyprus in 2013. He is closely interested in technological themes such as Artificial Intelligence, Internet of Things, Virtual Reality, Omnichannel, Sharing Economy, Blockchain, Big Data and E-Marketing. Recently, he has been dealing with customer experience and emotions in both Covid-19 process and Retailing. He is single and lives in Izmir with his beloved family.

Rebecca Emily Dalli Gonzi, PhD (Glasg), MSc (Edin), B.E. & A. (Melit) (Hons), A. & C.E., A.L.C.M. (Lond), is an architect, project co-ordinator and lecturer. She is a registered and certified civil engineer by the Chamber of Architects, Malta. She has worked in the private and public sector, both in Malta and in Scotland. She is a resident academic at the University of Malta lecturing project management in the Department of Construction and Property Management and within the Department of Insurance, lecturing on Geopolitical and Environmental Risk and Business continuity Management. She also lectures Project Development at the Institute for Sustainable Energy. She has founded The DALI Model, which is a tool used for organizational risk assessment particularly when firms undergo rapid change. This model has been presented as an empirically tested proactive model in a specific environment for managing organizational risk for companies to arrive at their objectives with minimal setbacks. Her book titled 'Change and continuity management in the public sector' which presents the underlying research for this model, reinforces the idea that decisions for good governance should always strive to bring country performance to the forefront. Her current research focuses on innovative engineering techniques, decision-making models and strategic project management. Rebecca has been a reviewer of journals, has chaired conferences and continues to publish.

Simon Grima, PhD (Melit.), MSc (Lond), MSc (BCU), B.Com (Hons) (Melit.), FFA, FAIA (Acad), is an Associate professor at the University of Malta, Faculty of Economics, Management and Accountancy and the Head of Department of Insurance which he set up in 2015 and started and coordinates the MA and MSc

Insurance and Risk Management degrees together with the Undergrad degree in Insurance. He served as the President of the Malta Association of Risk Management (MARM) and President of the Malta Association of Compliance Officers (MACO) between 2013 and 2015, and between 2016 and 2018, respectively. Moreover, he is the Chairman of the Scientific Education Committee of the Public Risk Management Organization (PRIMO). His research focus is on Governance, Regulations and Internal Controls and has over 30 years of experience varied between Financial Services, academia and public entities. He has acted as co-chair and is a member of the scientific program committee on some international conferences and is a chief editor, editor, and review editor of some Journals and Book Series. He has been awarded outstanding reviewer for the *Journal of Financial Regulation and Compliance* in the 2017 Emerald Literati Awards.

Çağla Aslı Gülduran born in the Kocaeli, completed her primary and secondary education in the Kocaeli/Derince High School; undergraduate education in Mustafa Kemal University; and Tourism and Hotel Management in 2010. During her undergraduate education, she was Erasmus Exchange Student in Universita degli Studi Del Sannio/Italy, Department of Tourism Economics, 2008–2009. She completed her master graduate education in Nevşehir Hacı Bektaş Veli University in 2018, Department of Tourism Management. Currently, she is a doctoral student in Muğla Sitki Koçman University in Tourism Management. She is married and has two children.

Arzu Gürdoğan, born in the Bodrum, completed her primary and secondary education in the Bodrum High School; high school education was completed with Bodrum Anatolian Tourism Vocational High School; undergraduate education in Adnan Menderes University School of Tourism and Hotel Management School has done. She completed her graduate education with Dokuz Eylül University, Department of Tourism; doctorate with the Department of Tourism, Adnan Menderes University during 1999–2008 in Tourism Management. She worked as a Research Assistant in the School of Hotel Management. She received her doctoral degree in 2010. Since 2012, she has been working with the Ortaca Vocational High School in Mugla Sıtkı Kocman University, School of Travel and Tourism and Leisure Services Department. She is married and has two children.

Murat Güreşci works as a Member of the Public Relations Department of Tirebolu Faculty of Communication, Giresun University. His research interests include public relations, persuasion, and corporate social responsibility.

Tehmina Khan, PhD, has been in academia for 20 years so far. Her research areas include sustainability accounting and accountability and Internet technologies. She has published widely in internationally recognized and highly ranked journals including the *Journal of Cleaner Production*, the *Accounting, Auditing and Accountability Journal*, and *Business Strategy and the Environment*. She supervises Higher Degree by Research students in undertaking sustainability accounting and accountability research projects. She co-ordinates and teaches Business Advisory Services at RMIT University. She is an active and engaged researcher who believes in applied research to provide practical solutions for urgent and pressing sustainability related real life problems.

Muhammad Raheel Matloob is the Head of the Department of Management Sciences at Pakistan Military Academy Abbottabad for the last two years and have been attached with the Military Educational Institutions in different Capacities. He holds a MBA (HR) degree from NUML, MS (HR) from IIUI and Diploma in Management from Hazara university. He is an experienced educationist and served as Grade II officer at HRD Directorate Rawalpindi. He remain affiliated with different institutions like NUST and JLA Shinkiari. He is perusing his PhD at COMSAT University, Abbottabad.

Fisnik Morina, PhD, is an Assistant Professor at the University "Haxhi Zeka" in Peja, Kosovo. In 2019, he has started post-doctoral studies at the University of Malta, FEMA in Malta in the field of financial institutions and risk management. He completed his doctoral studies in 2019 at the South East European University, Faculty of Business and Economics in the Republic of North Macedonia and gained the qualification of Doctor of Economic Sciences - Economics. He has an international experience in the field of scientific research and has been a participant in many international scientific conferences.

Serdar Ögel is an Assistant Professor at Afyon Kocatepe University, Faculty of Economics and Administrative Sciences, Division of Business Administration, Turkey. He received his undergraduate degree in Public Finance from Anadolu University in 2000. He holds a MA degree in Finance from Anadolu University and PhD degree in Business Administration from Afyon Kocatepe University. His primary research areas include risk management, financial markets and investment tools.

İlkin YARAN ÖGEL, PhD, is a Research Assistant at Afyon Kocatepe University, Faculty of Economics and Administrative Sciences, Division of Business Administration in English, Turkey. She holds a BA degree in Business Administration in Faculty of Business from Dokuz Eylül University, MBA degree in Business Administration from Middle East Technical University and PhD degree in Business Administration from Dokuz Eylül University. Her main research interests are brand management, consumer behaviors and brand culture.

Peterson K. Ozili is an Economist, affiliated with the Central Bank of Nigeria. He works extensively in academia and policy making. He has experience in economic policy, financial inclusion, financial stability, financial innovation, banking regulation and supervision. His areas of specialization are: financial economics, international development, accounting, development finance, the economics of financial markets, banking, and financial reporting. He has published extensively in many accounting and finance journals such as the *British Accounting Review, Journal of Applied Accounting Research, Journal of Accounting in Emerging Economies, International Journal of Managerial Finance, European Journal of Finance, Research in International Business and Finance*, etc.

Syed Tahir Hussain Rizvi, PhD, is a Senior Educationist with more than 20 years of teaching and professional experience. He has been serving IIUI for about 12 years in different capacities like QEC Team Member, Coordinator Higher Studies and Research (MS/PhD Program) at FMS and HOD of Department of Management. Currently, he is Director Quality Enhancement Cell (QEC) at International Islamic University, Islamabad, Pakistan. He holds an MSc in Economics from IIUI, MBA-HRM and PhD in Human Resource Management from CUST Islamabad with an extended research supervision at State University New York (SUNY) Oswego, NY, USA, under HEC's IRSIP program. His areas of research interests are Performance Appraisal System, Organizational Justice, Positive Organizational Behavior and Happiness. Along with other publications, he has published a collaborative research with Dr Barry Friedman -a Presidential Award winner for Highest Publications and senior researcher at SUNY, Oswego, NY, USA. He has the honor to work and teach in an international environment. He has been teaching, as a visiting faculty, Managerial Economics and OB in SUNY - an AACSB accredited Business School. He also has American Management Association (AMA) certification on "How to Train Your Employees." He has international affiliations with AMA and AACTE (American Association of Colleges for Teacher Education).

Türker Savaş obtained his bachelor's degree (1990) in Agricultural Engineering (Animal Science) and MSc in Animal Science (1993) from the Trakya University. He did his PhD in Animal Breeding and Genetics (1999) from Kiel Christian Albrechts University (Germany). He is a Professor in Animal Science (Agricultural Faculty) at Çanakkale Onsekiz Mart University. He is studying on animal production systems, animal breeding and genetics as well as animal behaviour.

Seval Kardes Selımoglu was born in Eskişehir in 1962. After completing her primary and secondary education in Eskişehir, she graduated from Anadolu University, the School of Economics and Administrative Sciences, Faculty of Business in 1984. She started his academic career in 1986 as an Research Associate in Anadolu University, the School of Economics and Administrative Sciences, Faculty of Business, Department of Accounting and Finance. She completed her master's degree in Anadolu University, Institute of Social Sciences, Department of Accounting, in 1987. She obtained International MBA (IMBA) degree in the United States (OHIO-Cleveland) in Baldwin-Wallace University in 1990. She completed her doctorate degree in Anadolu University, Institute of Social Sciences, Department of Accounting, in 1995. Her doctoral dissertation in the field of audit has been published as a book in 1996 by Capital Market's Board. She has received the title of Assistant Professor Doctor in the field of Accounting-Finance in 1995, Associate Professor Doctor in 2002, and Professor in 2007. Her main academic studies are in the fields of International Independent Audit and Assurance Standards, Independent Audit, Ethics, Accounting Fraud, Corruption, Internal audit, Financial Statements Analysis and Accounting. She has lots of books, articles, assertions and studies on EU projects published nationally and internationally. She served in various commissions established in corporations such as TÜRMOB/TESMER, KGK. She is serving as a member of The

Governmental Accounting Standards Board. She also has the titles of Certified Public Accountant (Sworn in CPA) and Independent Auditor and serves as expert in courts relate to her area of specialization. She is married.

Aamir Aijaz Syed obtained B.Com, M.Com, and PGDM from the University of Lucknow, India. He has completed his PhD from Motilal Nehru National Institute of Technology, Allahabad, India. He is currently working as an Assistant professor at Shri Ramswaroop Memorial University, Lucknow. He is having five years of teaching and research experience with eminent institutes like the Indian Institute of Management, Lucknow, He has published various papers in renowned national and international journals together with chapters contribution. He is also on the editorial board of several reputed journals. His area of expertise is Finance, International Economics, and Corporate Accounting.

Özlem Tuna is a lecturer in Afyonkarahisar Health Sciences University, Department of Health Management. She has a doctorate degree in the business administration. She formalized in her PhD (2014) on corporate sustainability. Tuna has managerial experience in the private sector between 1997 and 2002, she has been working in university since 2002. Her research focuses on the field of corporate sustainability, other strategic management issues and organizational behavior. Tuna, which has many papers and articles in related fields, is sensitive to environmental and social issues and actively takes part in projects in this direction.

Kumru Turkoz received her undergraduate degree in Economics from Dokuz Eylül University in 2011. In 2015, she completed her master's degree at Balıkesir University Institute of Social Sciences, Department of Economics. In 2020, she received her PhD degree from Dokuz Eylül University Institute of Social Sciences, Department of Economics. In 2013, she started to work as a Research Assistant in Balıkesir University Faculty of Economics and Administrative Sciences, Department of Economics. She is currently working at the same department at Balıkesir University. Her research interests include economic theory, environmental and natural resources economics, and energy economics (especially in the fields of energy efficiency, energy policies, and energy security).

Ekrem Tufan obtained his bachelor's degree (1991) in Business Administration, MBA in Financial Management (1995) and PhD in Financial Management (1999) from Anadolu University. He is a Professor in Finance and working for Çanakkale Onsekiz Mart University. He is studying on Behavioral Finance and Behavioral Economics.

Keti Ventura has been working in Ege University, Faculty of Economics and Administrative Sciences, Department of Business, since September 1999. Acquiring her PhD in Business in April 2008, she was nominated as an Assistant Professor to the Department of Production Management and Marketing in December 2008 and as an Associate Professor in April 2014. She is studying Marketing, CRM, and E-Marketing fields at the same faculty.

Gul Yesilcelebi is an Assistant Professor in the Academy of Applied Sciences, Department of Aviation Management at Gumushane University, Turkey. Her research activities lie in the areas of independent audit, financial accounting, corporate sustainability, and integrated reporting. She graduated in Business Administration in English within the Faculty of Economics and Administrative Sciences, and, afterward, she obtained a master's degree in Accounting. She received her PhD with the Department of Accounting from the Anadolu University, Turkey. She wrote her thesis on integrated reporting and combined assurance. She has published a series of papers on her research interests and she has presented papers in various conferences. She currently teaches financial accounting, corporate accounting, cost accounting, managerial accounting, and financial statement analysis, in undergraduate degrees at Gumushane University. And also, she teaches independent auditing standards in master's degrees at Gumushane University.

Foreword

The Emerald book series: ***Emerald Studies In Finance, Insurance, and Risk Management*** includes studies on **New Challenges for Future Sustainability and Wellbeing** contributed mainly by authors invited from participants in the 5th International Applied Social Science Congress (C-IASOS2019) held in Çeşme, İzmir, Turkey, between April 04–06, 2020 and the University of Malta - Department of Insurance.

A collection of 24 chapters/studies about sustainability and challenges related to topics such as income, finance, wealth, politics, social aspects, the environment, education, and regional equality that influence the pace of economic development and deteriorates well-being of people and organizations all over the world. The objective is to provide a platform/opportunity for scholars, researchers and professionals from different disciplinary backgrounds to discuss, highlight and exchange ideas on these challenges and prospects for economic and business development.

The great challenge of our time is to create a sustainable and desirable future – one that achieves sustainable development goals (SDGs). In today's "anthropocene" world, human impacts on ecological life support systems are increasingly complex and far-reaching. At the same time, there are increased demands on the planet's life support functions to maintain living standards in developed nations and to reduce poverty in developing nations. In this "full" world, the emphasis in research, education, and policy needs to shift from addressing problems in isolation to studying whole, complex, interconnected systems and the dynamic interactions between the parts.

Several scholars have focused on how the concepts of vulnerability and resilience may be employed in the analysis of and to ensure future sustainability and wellbeing. Various approaches have been proposed, concerning different fields of application spreading from environmental to financial settings. While much of the existing literature on vulnerability and resilience is sector or country specific, in this volume we are proposing a more holistic approach that allows the sustainability of human well-being to be analyzed as a whole. Our understanding is that well-being equals sustainability, where several domains are interlinked. Moreover, while the majority of studies consider the vulnerability and resilience as aspects of the sustainability of a "system", that is a society, a country, an organization or even the whole planet, this volume focus is on interrelated dimension of well-being, considering the exposure to risk and the ability to manage these. We look out for the use of both objective and subjective indicators of well-being, case studies, theory and practice.

Our current economic systems have become addicted to "growth at all costs," as measured by Gross Domestic Product (GDP). They assume that GDP growth is synonymous with increased wellbeing and prosperity. However, this approach has led to growing inequality, an escalating climate crisis, and the depletion of natural and social capital. We are no longer generating genuine progress. Our approach to economics and development needs to be fundamentally transformed.

Chapter 1

Financial Inclusion: A Strong Critique

Peterson K. Ozili

Abstract

Purpose: This chapter presents criticisms of financial inclusion.

Methodology: This chapter uses critical discourse analysis to critique the modern financial inclusion agenda.

Findings: The findings reveal that (i) financial inclusion is an invitation to live by finance and leads to the financialization of poverty; (ii) some of the benefits of financial inclusion disappear after a few years; (iii) financial inclusion ignores how poverty affects financial decision-making; (iv) it promotes digital money which is difficult to understand; (v) financial inclusion promotes the use of transaction accounts; (vi) digital money is difficult to understand; and that (vii) some financial inclusion efforts bear a resemblance to a campaign against having cash-in-hand.

Implication: This study will help policymakers in their assessment of the economic, social, political, and cultural factors that hinder financial inclusion as well as the consequence of financial inclusion for society. For academics, this study will provide a critical perspective to on-going financial inclusion debates in the large positivist literature on financial inclusion.

Originality: Currently, there are no studies that use critical discourse analysis to analyze the broader concept of financial inclusion. This chapter is the first study that uses critical discourse analysis to critique some aspects of the modern financial inclusion agenda.

Keywords: Financial inclusion; criticism; poverty; digital money; digital finance; financial literacy; financial education

JEL Codes: E44; G15; G18; G20; G21; G28

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1. Introduction

Financial inclusion is the sustainable provision of affordable financial services that bring the poor into the formal economy (United Nations, 2016). Financial inclusion may be defined as the use of formal financial services by poor people (Beck, Demirgu¨c-Kunt, & Levine, 2007; Ozili, 2018). Financial inclusion is the process that ensures the availability and ease of access to the formal financial sector (Ozili, 2020a; Sarma, 2012). Another definition refers to financial inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general, and vulnerable groups such as weaker sections and low-income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players (Chakrabarty, 2011). These definitions emphasize that financial inclusion is achieved when there is access to finance to all or some members of the population.

The benefits of financial inclusion are enormous. Having a formal account is the first step toward financial inclusion because it can provide a convenient way to save money and pay bills and to meet emergency needs. Financial inclusion can introduce a savings culture which individuals can take advantage of to manage their cash inflows and outflows and to save any excess money (Ozili, 2020a). Financial inclusion can open up a wide range of opportunities and a variety of financial products for people (Mohan, 2006). Financial inclusion will grant access to credit to small businesses which can increase the level of local economic activities. Financial inclusion will also allow financial markets to be within the reach of all citizens that want to engage in economic activities (Cull, Ehrbeck, & Holle, 2014, Ozili, 2020a).

Financial inclusion is indeed a great idea but this chapter critiques some aspects of the global financial inclusion agenda. While the author is not a critic of financial inclusion, the author identifies several aspects of the financial inclusion agenda that may come back to hurt the citizens and the State in the future of a financially inclusive society. Anyone with a keen interest in the financial inclusion literature will observe that most studies that investigate financial inclusion implicitly considers financial inclusion to be a good thing, and a large number of such studies can be found in the policy literature on financial inclusion. History has taught us that too much of a good thing is bad. The dot.com bubble of the early 2000s and the 2008 financial crisis are examples of this. The dot.com bubble (or the technology bubble) of the 2000s was replete with corporate governance scandals in many technology firms, and the 2008 global financial crisis where credit derivatives and subprime mortgages were pushed too far by investment banks that wanted to make much profit at the expense of subprime borrowers and unsophisticated investors. These two examples remind us that too much of a good thing can become a bad thing. Similarly, it is possible that too much financial inclusion may become undesirable.

Think of a world where everybody is financially included, a world where everyone owns a basic bank account, and everyone can do whatever it takes to improve their economic welfare. In this kind of world, can anything really go wrong? Will people make financial decisions and transactions that improve their welfare? Is there a likelihood that people will make financial mistakes or make financial decisions that are welfare-destructing as they now have unlimited access to bank accounts? It will be naïve to think that people, if left to themselves, will always make welfare-improving financial transactions and decisions. This is because unrestricted access to finance can make it easier for vulnerable people, most of whom are poor, to make poor financial decisions and choices that would not be possible if unrestricted access to finance was not granted.

Financial inclusion is also linked to inequality. Financial inclusion can exacerbate inequality if there is a significant increase in the use of financial services by a smaller share of the population which is often the case in developing countries. Financial inclusion can reduce inequality if a larger share of the population, particularly women and poor people, increasingly use financial services. Interestingly, there is evidence that unequal financial access between men and women is significantly related to greater income inequality in countries (Aslan, Deléchat, Newiak, & Yang, 2017), which suggest that the uneven distribution of financial access in the population both for men and women increases income inequality, whereas policies that reduce the gender gap in financial access can help in promoting greater gender and income equality. But gender and income inequality is only one aspect of inequality that financial inclusion addresses. Other dimensions of inequality cannot be mitigated by financial inclusion such as technological inequality and social inequality.

By examining the critical dimensions of financial inclusion, this chapter contributes to the following strands of the literature. First, it contributes to the literature that contests the modern financial inclusion agenda. This literature argues that achieving financial inclusion through corporate industrialists, such as financial inclusion, is not in the best interest of the excluded population (Berry, 2015; Mader, 2015, 2018; Prabhakar, 2019). Second, it contributes to the finance and inequality literature that assess the impact of financial inclusion on income inequality and gender inequality as well as the effect of gender equality on the macroeconomy (Allen, Demirguc-Kunt, Klapper, & Peria, 2016; Aslan et al., 2017; Demirguc-Kunt, Klapper, & Singer, 2013; Gonzales, Jain-Chandra, Kochhar, Newiak, & Zeinullayev, 2015; Hakura, Hussain, Newiak, Thakoor, & Yang, 2016). Third, it contributes to the literature that identifies some challenges to achieving financial inclusion. Much of the existing studies point to financial illiteracy and lack of access to a bank as the main challenges to financial inclusion (Collard, 2007; Dev, 2006; Khan, 2012; Ozili, 2018, 2020b; Subbarao, 2009), but the author identifies that there are no studies that use critical discourse analysis to analyze the broader concept of financial inclusion. This chapter is the first study that uses critical discourse analysis to critique some aspects of the modern financial inclusion agenda.

The remainder of this chapter is structured in the following way. Section 2 discusses the theoretical perspectives. Section 3 discusses the criticisms of financial inclusion. Section 4 concludes.

2. Theoretical Perspectives

The term inclusion is a civil rights concept which advocates that all individuals deserve equal access and equal opportunity. Proponents of inclusion, those who support inclusion, argue that inclusion will enhance social interaction at all levels of human interaction, and these kind of interactions allow people to understand diversity which leads to an open-minded society (Clark, Dyson, Millward, & Robson, 1999; Mallory & New, 1994). Inclusion will allow individuals to encounter individuals and groups who do not think or act as they do, and they will need to learn how to work and interact with these individuals and groups. Social constructivist theory helps to understand inclusion, and then, financial inclusion.

Social constructivist theory argues that reality is constructed through biological forces and the use of language in interactions with others which is primarily influenced by biological traits, history, society, and culture (Berger, Luckmann, & Zifonun, 1967; Teater, 2015). It emphasizes that people's reality is constructed by both societal and biological factors, in other words, reality construction is influenced by both nature and nurture (Teater, 2015). The social constructivist theory has implications for inclusion which is that an individual's propensity to have equal rights (or access) and equal opportunities in all aspects of society depends largely on biological factors (individual traits and idiosyncrasies) and social factors that hinder or enable inclusion in society.

The social constructivist theory also has implications for financial inclusion which is that an individual's propensity to have access to finance in the formal financial sector may be influenced by biological factors and other social factors that hinder or enable financial inclusion. Biological factors, such as health conditions, physical ability/disability, personal traits, and habits, can hinder or enable financial inclusion. Social factors, such as culture, traditions, language, education, entrepreneurial ability, language barrier and religious belief, can also hinder or enable financial inclusion.

3. Criticism of Financial Inclusion

This section discusses seven criticisms of financial inclusion relating to poor decision-making, financial literacy, the financialization of poverty, the disappearing benefit of financial inclusion, the excessive use of transaction account, digital money, and the campaign against having cash in hand.

3.1. Poverty Is Associated with Bad Habits and Decision-Making That Hinder Financial Inclusion

Financial inclusion ignores the evidence that poverty is associated with bad habits and poor decision-making that hinders financial inclusion. Evidence from the poverty and decision-making literature shows that poor people or low-income individuals tend to focus on the present at the cost of the future such as unhealthy eating which damages health in old age, taking high-interest loans which favors meeting an immediate financial need as opposed to future needs (Sheehy-Skeffington & Rea, 2017). Also, in the field of political psychology, there is evidence that the lower one is in socioeconomic status, the more one is biased in one's attitudes and behaviors toward members of one's own social group, as opposed to members of other groups (Sheehy-Skeffington & Rea, 2017;

Wagner & Zick, 1995), leads to poor decision-making. There is also evidence that perceptions of low status can cause greater desire for poor people to spend the little money they have on status-displaying goods such as clothing and electronics to improve one's local social standing (Rucker & Galinsky, 2008; Sivanathan & Pettit, 2010), and also, there is evidence that those lower in socioeconomic status are less likely to move from their impoverished neighborhood to a smart urban neighborhood when given the opportunity (South & Crowder, 1997), possibly because they prefer proximity to one's local geography than exploring new locations (Sheehy-Skeffington & Rea, 2017).

If unrestricted access to finance is granted to people who exhibit these behaviors or make poor decisions, it is unlikely that access to finance will improve their welfare in the long run. Perhaps, it is possible that financial education and financial literacy can help to mitigate these negative effects (Luhrmann, Serra-Garcia, & Winter, 2018), but we also know that financial education or literacy rarely leads to a change in old habits or a significant change from poor decision-making to better decision-making (Mandell & Klein, 2009; Willis, 2008). This does not mean that poor people should not be granted unrestricted access to finance, rather the point is that there should be greater emphasis and inquiry on how poor people's decision-making and habits hinder financial inclusion efforts, and the insights gained from this can help to develop policy solutions for better financial inclusion outcomes for poor people.

3.2. Financial Literacy Does Not Improve Financial Inclusion in a Significant Way

There is a large literature which suggests that financial literacy is the most important positive influence for financial inclusion. These studies demonstrate, through arguments and correlations, that financial literacy can help excluded people be made aware of available financial services, but these studies do not demonstrate how financial literacy makes excluded people use available formal financial services since "being aware of available financial services" does not necessarily mean that excluded people have access to it. First and foremost, financial literacy and whatever it means has been branded a fallacy by many scholars because financial literacy does not demonstrate a causal chain from financial education to higher financial literacy, to better financial behavior, and to improved financial outcomes due to biases, heuristics, and other non-rational influences on financial decisions (Cole & Shastry, 2008; Gale & Levine, 2010; Hathaway & Khatiwada, 2008; Willis, 2008, 2011).

The financial literacy agenda has many problems. Willis (2011) identified some of the problems. First, the high cost of financial literacy and education – deciding which financial literacy programs meet the financial education needs of different customers and the cost of such programs; deciding how long financial literacy programs should last whether 18 months, 2 weeks or 3 days and the cost implication of each decision; deciding which form of financial literacy programs should take place – whether as counseling sessions, seminars, lectures or group tasks and the cost implication of each decision; debates on whether financial education should be extended to non-financial topics such as teaching customers how to detect cyber-criminal activity, engaging in good social interactions, learning how to verify source of information, and the cost implication of extending financial education to non-financial topics. Second, the speed with which financial product offerings and industry practices change is a major obstacle for financial education and literacy. Yesterday's new product can become outdated today, and may be discontinued, which means that customers have to be re-educated again to learn about new financial product offerings and this will have cost implications. The evolving nature of financial product offerings shows that financial education has a short life span. Third, the lack of interest or resistance to participate in financial education is another obstacle to financial literacy. Voluntary financial education is widely available and free yet seldom used by many people, which implies that there may be some resistance to participate in compulsory financial literacy programs too (Willis, 2011). In sum, these challenges of financial literacy casts doubt on whether financial literacy can improve financial inclusion in a significant or meaningful way.

3.3. Invitation to Live by Finance and the Financialization of Poverty

Financial inclusion is an invitation to live by finance because finance or money, which in the past used to be a secondary source of happiness in people's life, will now become a primary source of happiness in people's lives. Having money in one's formal account will become the determinant of whether poor individuals or households will live a good life or a life filled with suffering. Through financial inclusion, everyone will own a formal account which will create a basis for people to compare themselves with others – by how much they have in their formal accounts, which may lead to greed, jealousy, and other vices. This sort of comparison already exists in society but full financial inclusion will make it more pronounced and even worse. As the global financial inclusion movement is placing greater emphasis on formal account ownership and the amount of money people have in their formal accounts to perform transactions, such emphasis will make people devalue other areas of life that does not require money, or access to finance, to live a fulfilling life. Financial inclusion also leads to the financialization of poverty. Financial inclusion follows the fundamental premise that poverty alleviation should be pursued through the expansion of financial markets (Mader, 2018), that is, the expansion of financial markets through the entry of new players in the financial sector. Advocates argue that the entry of new players in the financial sector will ensure that there are many providers of financial services to provide basic financial services to poor people, and the new players will reach poor people in remote areas for poverty alleviation (Chauvet & Jacolin, 2017; Ozili, 2018; Soederberg, 2013). This suggests that poverty can only be alleviated through the services offered by financial institutions; thus, financializing poverty (Mader, 2018). The problem with this is that some financial institutions have superior advantage in offering basic financial services than other financial institutions, and these institutions enjoy economic rents in some segment of the market. If these financial institutions target the poor and excluded population they will not only spearhead the financialization of poverty in poor communities and enjoy rents, but may also engage in unethical business practices that will make poor people depend on them, leading to over indebtedness and without any opportunity for debt forgiveness. Mader (2015) contests that the financialization of poverty always benefit rentier capitalists and social investors at the expense of poor people. Second, financializing poverty will expose poor people to risks associated with financial markets (Prabhakar, 2019). Using financial inclusion to increase poor people's participation in the formal financial sector will expose poor people to risks associated with engaging with the financial system which will advance the process of the financialization of poverty (Berry, 2015).

3.4. The Benefits of Financial Inclusion Disappear After a Few Years

There are three reasons or hypotheses that explain why the benefits of financial inclusion disappear after a few years. The first reason or hypothesis is the quick fix hypothesis. The quick fix hypothesis argues that when there is an economic or financial crisis that affects poor people's access to basic financial services, the government will provide benefits such as cash transfer payments and other benefits to poor people and other affected groups to improve their economic welfare for the time being. But when the crisis ends, the benefits given to poor people and the affected groups will stop after a while or will be reduced to a minimum due to high cost of sustaining the benefits program. In other words, the quick fix hypothesis states that when a "quick-fix" financial inclusion regime is over, the beneficiaries will gradually withdraw from the formal financial sector when the benefits stop.

Using quick-fixes to address the financial inclusion problems in a country is a great idea because it can help in reducing the negative effects of a crisis and can make the crisis become bearable for poor individuals for the time being. Affected individuals and groups will be encouraged to own a formal account where they can receive their benefits from the government such as cash transfer payments. But when the benefits stop, the affected individuals or groups may abandon the formal accounts they own and feel that they no longer need those formal accounts since the benefits have stopped, making the formal accounts become inactive or dormant and this would negatively affect financial inclusion because the goal of financial inclusion is not just to bring poor people and excluded groups into the formal financial sector, but to ensure that poor people and other users of financial services are active users of available financial products and services in the formal financial sector. Also, when the benefits finally stop, the beneficiaries – the poor and other excluded groups – may become dissatisfied because they want the benefits to continue for as long as it can even though the crisis has ended. Such dissatisfaction can lead to extreme reaction such as activism, counter-activism, closing of bank accounts, hatred toward the government, isolation, radicalization, and social exclusion, which will negatively affect the goals of financial inclusion and can hurt the community and the society.

The quick-fix hypothesis is widely linked to the benefits program used by many countries such as Canada and the UK to help poor individuals and households who cannot access formal financial services during an economic crisis. For instance, the government in these countries tend to persuade domestic banks to provide specialized financial services to the affected population free-of-charge or at a low cost over a specific period of time with the government promising to bear any significant costs associated with such services until the crisis ends; hence, a "quick-fix" solution. Sometimes, a government will make temporary pro-financial inclusion commitments in order to protect and preserve its international economic development reputation. Since no government wants to be seen as performing badly in taking care of its citizens, governments have an incentive to adopt temporary financial inclusion measures to signal that they are performing well compared to other countries in the international development community. This is also a type of quick-fix.

The second reason or hypothesis is the "post-achievement slack" hypothesis. The post-achievement slack hypothesis argues that the benefits of financial inclusion begins to disappear when a government has achieved its financial inclusion objectives and fails to sustain the infrastructure it created for the purpose of achieving its financial inclusion goals. The government may completely cease funding for financial inclusion once the financial inclusion objectives have been achieved, so that it can focus on meeting other economic priorities. The third hypothesis is the change-in-government hypothesis. The change-in-government hypothesis argues that the benefits of financial inclusion begin to disappear when a new government discontinues the existing national financial inclusion programs of the previous government. A new government can either continue or discontinue the existing national financial inclusion programs. If the existing program is continued, it may be continued with less intensity which would lead to a reduction in financial inclusion penetration. Also, a new government may discontinue the existing financial inclusion program if the new government believes that (i) the current financial inclusion program is too expensive to sustain, (ii) the new government has a better alternative, or (iii) if the new government believes that the intended goal has been achieved. Whichever is the case, a change in government usually reduces the intensity of financial inclusion activities, which may erode the short-term benefits of financial inclusion.

3.5. Promoting the Use of Transaction Account

Financial inclusion promotes the use of transaction accounts. In recent years, financial inclusion is increasingly focused on having a greater number of active holders of transaction accounts – accounts that are actively being used to perform transactions (Allen et al., 2016). This suggests that financial inclusion requires having access to a transaction account (Demirguc-Kunt, Klapper, & Singer, 2017). A transaction account is an account used for day-to-day expenses so that individuals and businesses can withdraw cash or pay for things they want or need. But, does ownership of a transaction account mean that a person is financially included in the formal financial sector? Certainly, yes! But, does an increase in transaction account activity translate to greater financial or economic well-being for individuals? No. More so, is the number of transactions in a