Women's World Banking

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How Women's Financial Inclusion Contributes to Financial Stability and Soundness

Foreword

Women's financial inclusion is an important lever for economic development. Bringing more women into the financial system is a tool to shore up the stability and soundness of the financial system as a whole. The relationship between women's financial inclusion and achieving macroeconomic objectives should compel central banks worldwide to take action to bring women into the financial system and deepen their engagement.

The State Secretariat for Economic Affairs (SECO) fosters inclusive economic growth and resilient financial systems in part by supporting the financial inclusion efforts of a diversity of policymakers, regulators and supervisors. With Women's World Banking, this commitment means catalyzing learning and policy development opportunities that accelerate women's financial inclusion, while also growing the pipeline of women leaders within government institutions.

Throughout our partnership, Women's World Banking and SECO have observed firsthand how integrating women into financial systems stabilizes and increases overall resilience of financial institutions and markets. Women's financial inclusion strengthens economic systems, addressing vulnerabilities and fostering equitable growth. Financially empowering women, therefore, is an economic imperative.

This policy diagnostic highlights the transformative impact of women's financial inclusion on global financial stability. It emphasizes the importance of gender-sensitive economic planning in creating robust financial ecosystems capable of withstanding shocks and promoting growth.

Within this diagnostic, you will find analyses, case studies, and data-driven insights that explore the interlinkages between women's financial inclusion and the stability and soundness of the financial sector. We hope it serves as a catalyst for informed decision-making, while also fostering dialogue and concrete actions toward building financial ecosystems that are both inclusive and resilient.

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Introduction

In today's world, women's financial inclusion is more critical than ever for maintaining the stability and integrity of global financial systems. As policymakers and financial institutions face the dual challenges of rising inflation and climate change, incorporating gender-inclusive strategies into policy becomes essential for creating strong economic frameworks. We know that increasing women's financial inclusion also increases the stability and soundness of the financial system with which women engage. This analysis explores the many ways that financially empowering women strengthens the resilience and health of financial ecosystems, emphasizing the urgent need for gender-sensitive approaches in modern economic planning.

Stability and soundness within a financial system

Stability and soundness are crucial components of a robust financial system. They ensure that financial institutions and markets operate efficiently, even in the face of economic shocks or stress.

Financial stability can be defined as "the absence of system-wide episodes in which the financial system fails to function (crises)," as well as the resilience of financial systems to stress.[1] Broader definitions of financial stability include the smooth functioning of a complex nexus of relationships among financial markets, infrastructures and institutions operating within the given legal, fiscal and accounting frameworks; or, the resilience of the financial system to withstand economic shocks and maintain its core functions.

Soundness tends to be more granular, referring to the health and robustness of individual financial institutions and markets. It is often measured by the Financial Soundness Indicators (FSIs), developed by the International Monetary Fund. These indicators are aimed at supporting macroprudential analysis—the surveillance and assessment of the strengths and vulnerabilities of financial systems. They provide a comprehensive view of the health and stability of financial institutions and the financial system as a whole. Key FSIs include indicators of capital adequacy, asset quality, profitability, liquidity and sensitivity to market risk at the industry level.[2]

Understanding the stability and soundness of a financial system is essential for early detection of risks, informed decision-making, crisis prevention, and enhancing transparency and accountability. Regular assessment of both the stability and soundness of a financial system helps to inform early warning systems, enabling timely intervention to prevent or manage crises. It also supports sustainable economic growth by ensuring financial institutions can continue to lend and invest. These measures collectively build trust among stakeholders and support the overall health of the economy.[3] For the purpose of this policy diagnostic, we are looking at the indicators of financial stability and soundness that have the strongest link with women's financial inclusion, per the table below.

Financial stability

- Enhancing individual resilience to economic shocks
- Diversifying the deposit base

Financial soundness

- Improving asset quality
- Increasing capital adequacy
- Profitability

Financial inclusion and financial stability

Increasing financial inclusion, especially that of women, has several positive effects on the stability of a financial system:[4]

Enhancing individual resilience to economic shocks

A financially inclusive system is more resilient to economic shocks because when more individuals have access to services like savings, credit and insurance, they are better equipped to cope with financial hardships. This individual resilience can aggregate to a more stable and robust economy, reducing the likelihood of widespread financial concerns that can ultimately impact the banking sector.

Savings play a crucial role in individual financial resilience and broader economic stability. When people have access to formal savings accounts, they are better able to manage financial risks and emergencies, invest in education and health, and contribute to long-term economic stability. Studies have shown that individuals with formal savings accounts are more likely to invest in their businesses and children's education,[5] leading to higher household incomes and more economic stability. This ability to save provides a critical buffer against economic shocks, such as illness or unexpected expenses, enhancing people's financial resilience and enabling them to seize economic opportunities.

Greater gender equality reduces income inequality and boosts economic diversification, which in turn supports economic resilience. Evidence suggests that having most of a country's population using formal financial systems strengthens financial stability, as risks are then diversified across more accounts. Additionally, the increase in female customers often represents an opportunity to garner ample risk-free retail deposits. Furthermore, UN Women found that women who have access to a bank account are more likely to invest in education and healthcare, thereby contributing to long-term economic growth.[6]

Diversifying the deposit base

By incorporating more people into the formal financial system, banks can diversify their deposit base, which can lead to a more stable and reliable source of funding. A broader customer base can also lead to higher aggregate savings, providing banks with a more substantial pool of funds to lend and invest. This diversification reduces banks' dependency on a limited number of large depositors, which can help mitigate risks associated with sudden withdrawals or financial shocks.[7]

Moreover, financial inclusion impacts bank stability by providing institutions with ample risk-free and mostly cheap retail deposits. This reduces their reliance on volatile and often costly money market funding. Research by Ahamed and Mallick (2017) found that "increasing financial inclusion also acts as an instrument to reduce the marginal cost of producing outputs, which contributes to greater pricing power of banks and makes them more stable."[8]
Perrin and Weill (2022) examined whether greater gender equality in access to formal credit improves financial stability. They found evidence that greater gender equality in access to formal credit enhances access to credit for women, specifically, and thus is beneficial for overall financial stability.[9]

Another example of how diversifying the deposit base can strengthen the stability of a financial institution can be seen in our work with Bank of Baroda in India. By focusing on increasing the usage of free-of-charge bank accounts under the government's Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme, particularly among low-income women, we have been able to enhance financial inclusion and economic empowerment. Bank of Baroda holds 35.7 million PMJDY accounts, with more than half owned by women. Working with the Bank of Baroda, we leveraged banking agents to provide last-mile access, encouraging women to save more and actively use their accounts. Data showed that once customers were onboarded onto a savings journey, their balances grew by 34% compared to only 2% growth for the rest of the customer base.[10]
This initiative not only boosted account balances but also promoted engagement with additional financial products like microinsurance and pensions, further diversifying the banks' deposit base and reducing its dependency on a limited number of large depositors.

Financial inclusion and financial soundness

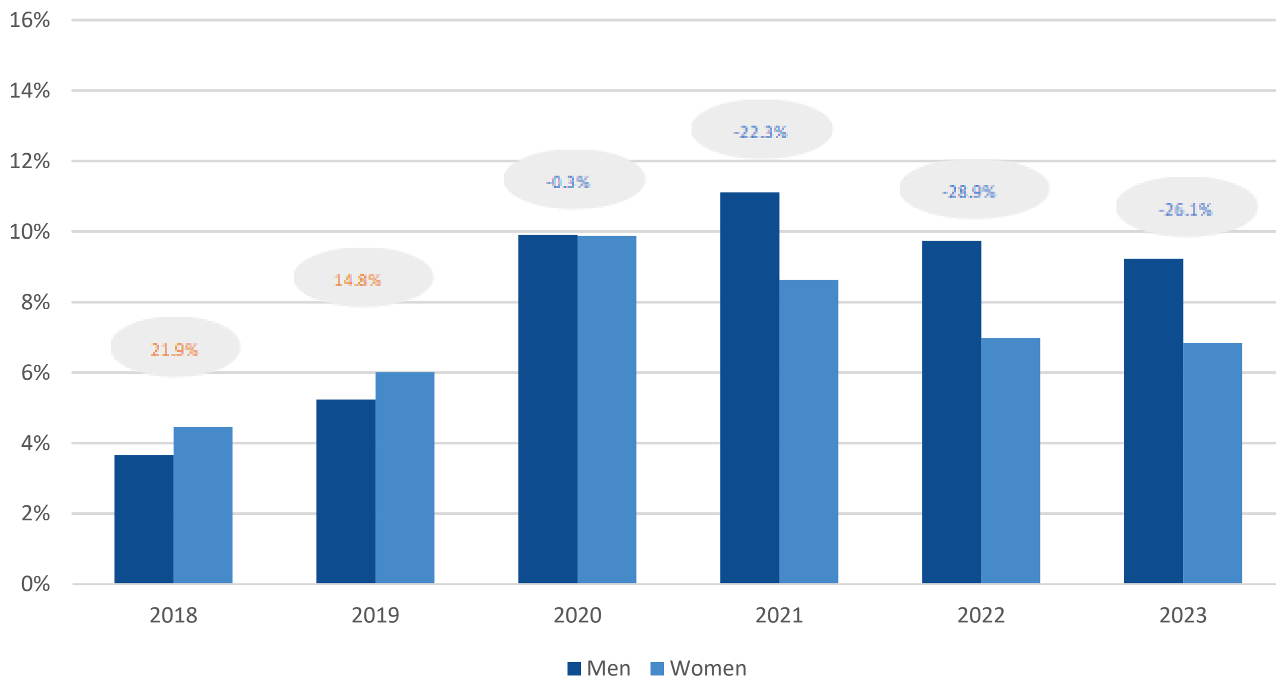
Looking at the link between women's financial inclusion and the soundness of a financial system, capital adequacy, asset quality and profitability stand out as financial soundness indicators that connect the two.

Improving asset quality

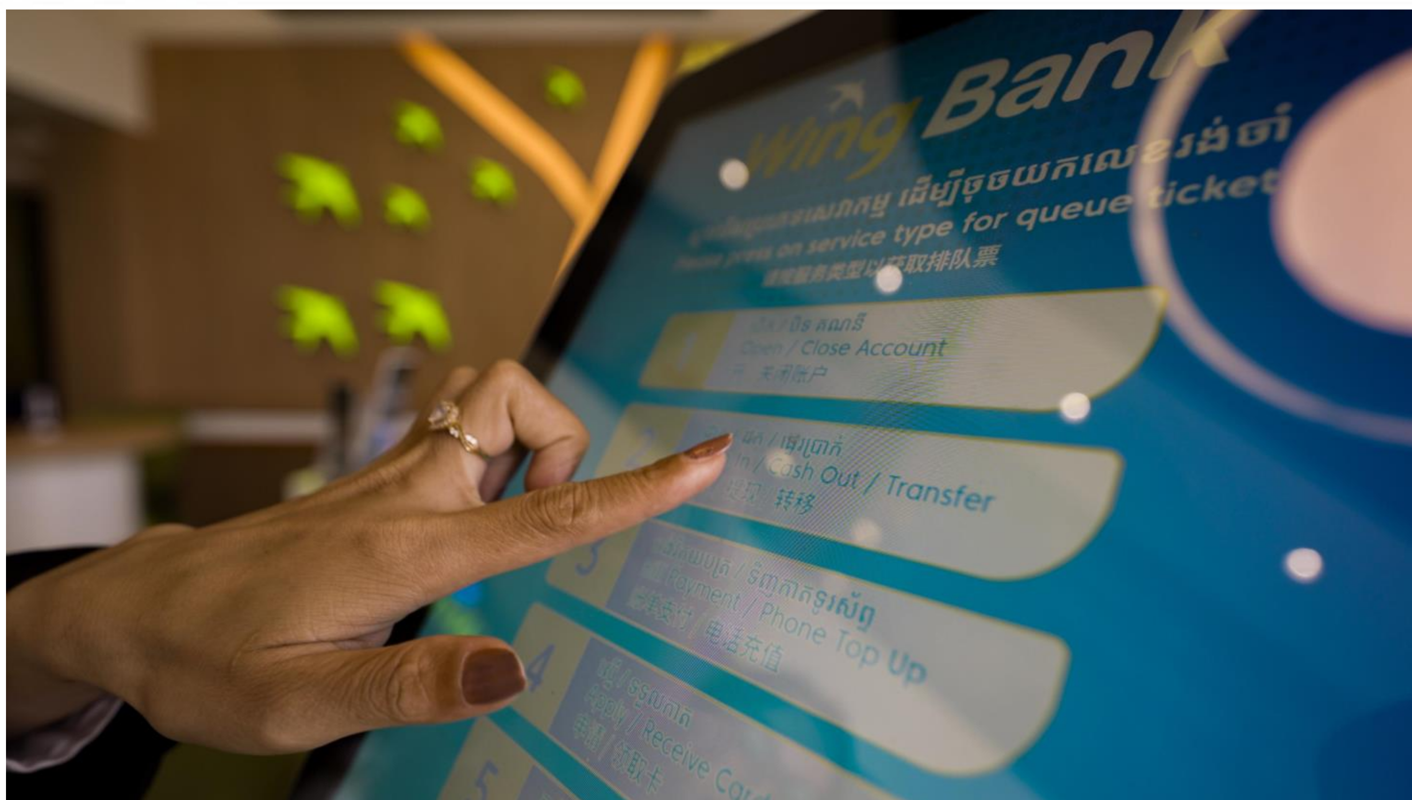
Asset quality refers to the likelihood of assets generating returns and their likelihood of defaulting. Increasing financial inclusion can lead to better credit quality and portfolio diversification for banks, as women who gain access to credit and other financial services tend to use these resources prudently, often exhibiting higher repayment rates.[11] This improved credit quality reduces the risk of non-performing loans and enhances the overall stability of the financial system. Additionally, lending to a broader and more diverse group of borrowers reduces concentration risk, making the banking sector more resilient to economic fluctuations and sector-specific downturn.

Reducing discrimination against women-led micro, small and medium enterprises (MSMEs) thus has positive effects on the soundness of financial service providers (FSPs), as evidenced by the results of Women's World Banking Asset Management (WAM) investments. WAM invests in growing businesses with innovative solutions that enable women to achieve economic empowerment, while aiming to create enterprise value and competitive financial returns by unlocking the potential of women as customers, suppliers, leaders, employees and full participants in the economy. In one of WAM's funds, portfolio companies initially saw lower credit quality among women-led businesses. However, further investigation revealed the reason for this to be poorer outreach to, customer care of and/or credit assessment of women-owned businesses. Once these issues were addressed, women outperformed men in terms of portfolio quality, with 26.1% lower average portfolio at risk (PAR) (see Figure 1 below). Further, during this same period, average loan sizes for women-led SMEs were increasing, closing the gap with men.

Figure 1: Women's World Banking WAM Fund I investee average portfolio at risk among SME loans by gender (2018-2023)[12]



Notes: Figure shows average portfolio at risk by gender for all portfolio companies in Women's World Banking Asset Management's Fund I. Figures in ovals show how much higher or lower portfolio at risk is for women SME borrowers compared to men SME borrowers, expressed as percent difference.



To reduce information asymmetries for first-time borrowers, mechanisms like credit guarantees—such as the Indian Credit Guarantee Fund Trust for Micro & Small Enterprises—can be valuable tools for improving credit ratings over time, further granting more women access to loans.[13]

Increasing capital adequacy

Capital adequacy measures the capital reserves of financial institutions to absorb potential losses, ensuring that banks have enough capital to withstand financial stress and to continue operating.[14] Increasing women's financial inclusion boosts the capital base of banks as more women save and invest. Additionally, as women often have lower PAR rates, this enhanced stability allows banks to maintain higher capital buffers, thereby improving their capital adequacy ratio (CAR).

According to a study by Ozili (2025), financial inclusion indicators, such as number of bank accounts and ATM penetration, show a significant positive correlation with CAR, especially in regions like the Americas where an increase in the number of depositors led to improvements in capital buffers. For instance, the regression results indicate that a rise in the financial inclusion index (IFI) positively impacts CAR.

This is largely due to the stability provided by diversified low-cost deposits,[15] which are typical of women's savings behaviors known for consistency and risk awareness.

Furthermore, enabling women to become entrepreneurs can also increase the deposit base for banks, as demonstrated by our research in Indonesia. Women's World Banking found that successfully closing the gender earnings gap over the next decade could generate an additional USD$121 billion in the e-commerce sector.[16]

When these funds are saved and invested through formal financial institutions, they would expand the deposit base, thus giving banks more funds for lending and investments. This process drives income generation, strengthens capital reserves, and, in turn, directly improves CAR, enhancing overall financial stability.

Profitability

Profitability assesses the ability of financial institutions to generate profits.[17] Increasing women's financial inclusion in particular drives profitability for financial service providers through higher demand for financial services—resulting in increased interest income and fees, which can improve overall profitability. Women are generally better credit risks than men, on average showing lower non-performing loan ratios, and also tend to be more loyal customers than men—all of which increase the profitability of their FSPs.

For instance, research by D'Espallier et al. (2011) found that women borrowers have higher repayment rates compared to men, with data from microfinance institutions (MFIs) showing that a higher percentage of female clients in MFIs is associated with lower portfolio risk, fewer write-offs and fewer provisions.[18] This lower ratio of non-performing loans indicates better asset quality and reduces the costs associated with loan defaults. Finally, our program to expand credit to women-led SMEs at Kenya Commercial Bank (KCB) found that when women-centered design principles were applied and women received a greater proportion of loans, they maintained equally low levels of 1.5% non-performing loans when compared to male-led SMEs, thus increasing the overall profitability of the institution.[19]

Coordinated governance for impact

Creating stable and sound financial ecosystems through financial inclusion cannot be done in silos. Ministries of finance and other bodies that create policy initiatives must work closely with central banks, other regulatory institutions and supervisory authorities to prioritize inclusion efforts across the board.

Furthermore, effective financial inclusion may require systems change. One effective approach is the creation of multi-stakeholder coalitions, such as the Women's Digital Financial Inclusion (WDFI) Advocacy Hub in Indonesia, that bring together government agencies, private sector actors and civil society organizations. Such coalitions ensure that women's financial inclusion remains a priority regardless of political shifts, fostering a stable and continuous push toward financial inclusion.

In Indonesia, the coalition's concerted efforts have led to the signing of a Deputy Ministerial Decree, which focused on creating and coordinating a policy that supports the industry in providing financial services with gender perspectives and supporting inclusive digital finance; regulating the collection of gender-disaggregated data related to women's financial behavior and challenges; and/or supporting various initiatives and programs, including those for vulnerable groups, to increase women's financial capability and economic empowerment, such as training and capacity-building programs. To further signify their strong commitment to women's digital financial inclusion, the country's National Development Planning agency, Bappenas, has also included these goals in Indonesia's Medium-Term Development Plan (2025–2029) and Long-Term Development Plan (2025–2045).[20]

By institutionalizing the commitment to women's financial inclusion through such coalitions, countries can create a robust support system that ensures long-term sustainability of financial inclusion initiatives. These structures can also serve as platforms for sharing best practices, conducting joint research and coordinating advocacy efforts, thus enhancing the overall impact and reach of women's financial inclusion programs.

Building strong financial infrastructure, offering financial products tailored to the needs of women customers, and breaking down systemic barriers to women's economic participation deepens financial inclusion and expands economic opportunities for women. This positive feedback loop of increased economic empowerment and financial inclusion accelerates economic growth, highlighting the transformative potential of women's financial inclusion as a driver of greater stability and soundness for financial systems.

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