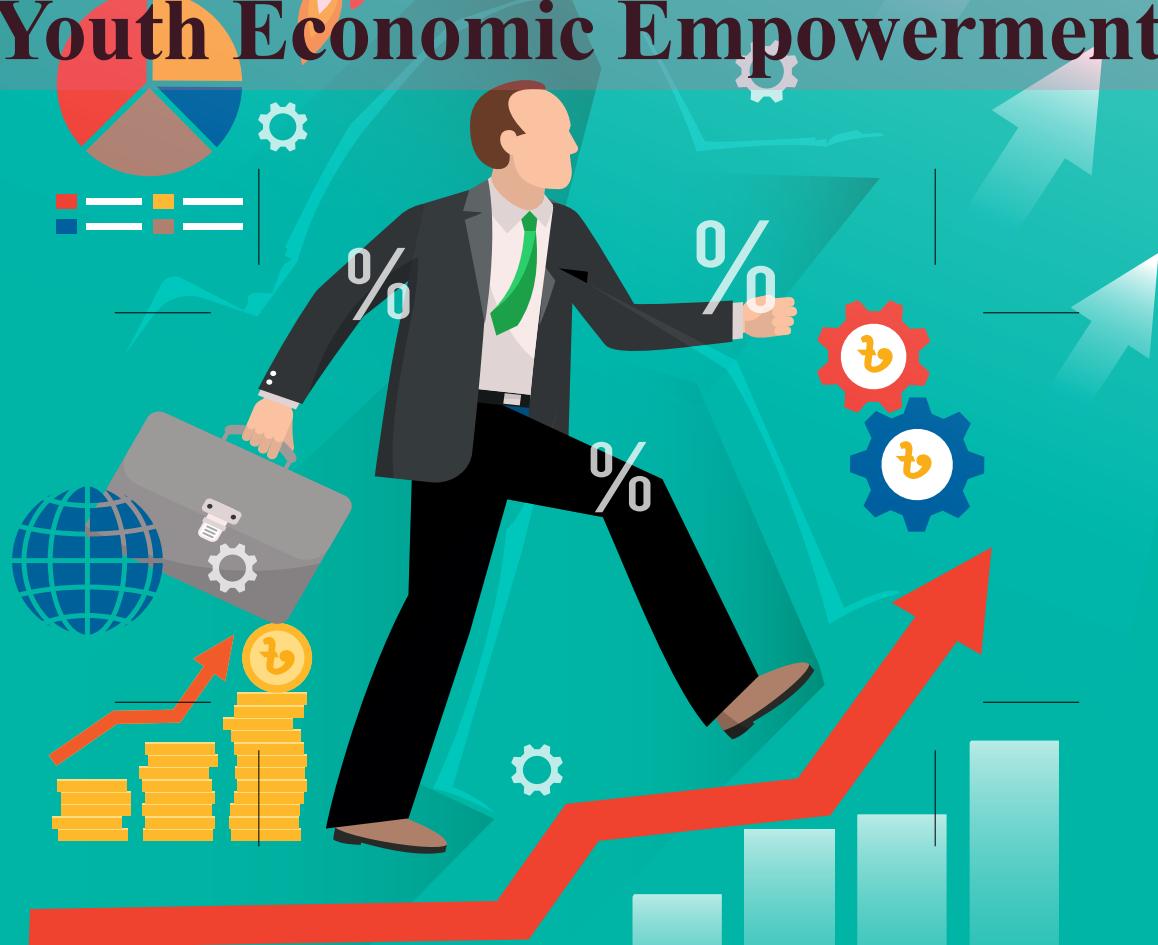


Financial Inclusion: Promising Way towards Achieving Youth Economic Empowerment



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In recent years, Bangladesh has made huge strides in digitalisation which is pervasive and growing rapidly. Indeed, it stands out by its sheer scale and underpins widespread e-commerce and fintech. The country is also at the forefront of digital innovation making financial services and payment systems more inclusive, more efficient, faster, and cheaper for users.

Of course, more needs to be done to maintain the momentum, to expand access even faster and to bridge the gender gaps that persist. Bangladesh has invested significantly in digital infrastructure. Continued emphasis in areas such as credit bureaus, asset registration, payment systems, and micro finance institutions will further reduce the cost of financial services. For achieving some of these, collaboration with the private sector will be important but striking the right balance between encouraging innovation and ensuring financial stability will be the key.

Today, the use of mobile phones for financial transactions is commonplace in Bangladesh. People are accustomed to digital financial services, agent banking, branchless banking and mobile money. Government policies have enabled small and medium enterprises and supported women entrepreneurs. And benefits have accrued to the agricultural and rural sectors as well.

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FROM THE EDITOR

The patterns and behaviours that the poor households exhibit around financial management, shed light on the complex financial lives they lead in order to survive on variable low incomes. While research and policy debates have focused on access to credit, poor and marginalised groups require access to a full range of financial services to effectively manage their economic lives. Financial inclusion in Bangladesh must hence be studied as a spectrum of services, in order to encapsulate the different dimensions of the populations they aim to service.

Innovations and policy interventions aim primarily at reducing barriers to access existing financial institutions and bringing banking options geographically closer to people, but far more needs to be done. We must develop enabling systems that help reach the unbanked and under-banked such as tele-density (cell phones and landlines) and broadband networks.

For example, the partnership among banks with agent banking operations and with MFS will not only benefit the customers, but will also benefit the banks and providers. Both banks and providers can extend their offerings to customers at a lower cost. It also gives both of them access to each other's customer base. Thus, collaboration ensures a win-win for all.



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Finance for All

INSIGHTS AND IDEAS
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4 Advancing Usage and Driving Impact in Financial Inclusion

6 Banking In 'The Metaverse' – Next Frontier For Financial Services?

8 **Cover Story**
Financial Inclusion: Promising Way towards Achieving Youth Economic Empowerment

11 Creating Islamic Pathways to Financial Inclusion

12 Desi E-Tools Aiding India's Financial Inclusion

14 Do Women Hold the Key to Financial Inclusion?

15 Financial Inclusion – Improving Lives

17 **Immersive Story**
Delivering Immersive Customer Education -- An Innovative Approach

20 Immersive Technology beyond Gaming: Changing Financial Services

21 Financial Inclusion for Development

22 **Interview**
Neobanks and The Path to Financial Inclusion

24 Maximising Impact of Financial Inclusion for Young Women

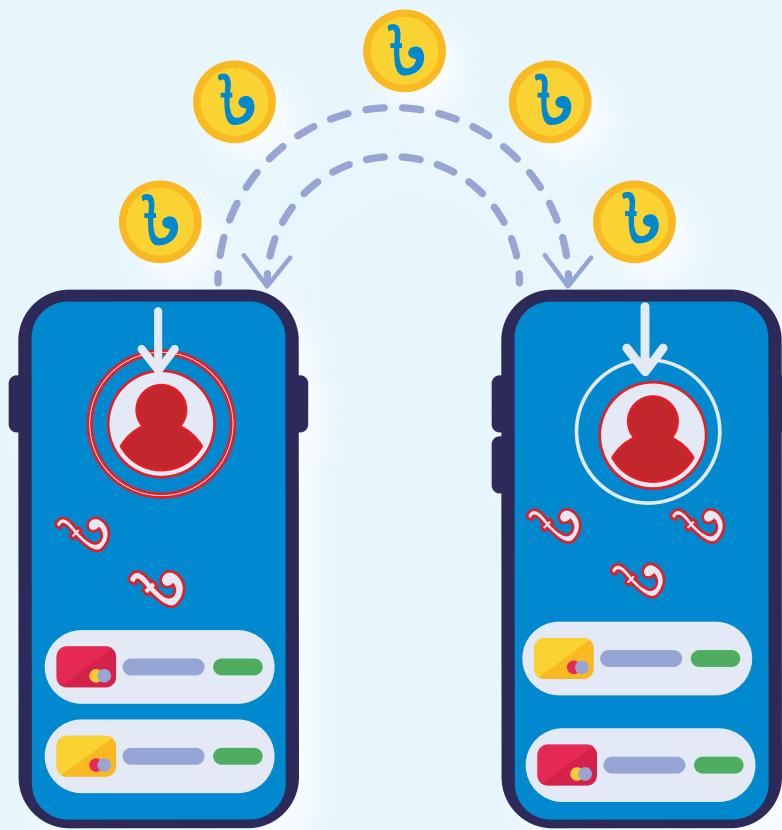
26 Reimagining Financial Services using Extended Reality

28 The Economics of Digital Innovation

30 The Untold Success Story of BRI Microbanking

31 Understanding Financial Inclusion: Why and How It Matters

CONTENTS



Advancing Usage and Driving Impact in Financial Inclusion

Unprecedented technological advancements and rapid innovations in business models have helped financial inclusion evolve beyond merely connecting people to a bank account. It is helping level the playing field for small farmers by providing access to buyers, more efficient pricing, and speedier payments. It is replacing paper voucher systems with prepaid cards for food and supplies. And it is helping small and micro-merchants expand their businesses by leveraging purchase data to enable credit scoring.

As the Digital Revolution continues to progress, digital financial services (DFS) are making financial access ever more feasible. Millions of adults are gaining access to a bank account. Mobile networks are widespread as well. Mobile money accounts, in particular, are prevalent in many markets.

The Next Frontier

The progress in financial access has been remarkable. But robust and active usage of DFS remains a challenge. Indeed, about one in five bank accounts is currently inactive, without a deposit or withdrawal within the past year. Additionally, about two-thirds of the world's mobile money accounts are dormant. Without engaged usage, DFS will not achieve the commercial viability necessary to achieve scale nor enable financial health and resilience.

Fulfilling the promise of financial inclusion for boosting prosperity and for improving financial resilience and financial health requires engaged usage of digital financial services. After all, access is inconsequential if people do not use the services available to them.

The next frontier in financial inclusion must then

Fintech Futures

be to move beyond access to active, consistent, and informed usage of financial products and services. This demands the development of compelling products that deliver clear benefits to consumers, consumer education and the development of robust ecosystems.

Three key components are needed to move the newly included from access to usage

Focus human-centered design on customer needs and cultural considerations. Usually urban residents are more commercially engaged, are more familiar with the use of payment products and trust these products. Rural residents, in contrast, rely more on cash and are more risk-averse. Many fear, for example, losing control of their money or savings if they do not have physical control of them. These insights can help product design teams tailor financial instruments for different user groups.

Build financial knowledge and change behaviour. Knowledge and trust are significant factors in any financial transaction. Access to mobile phones is nearly universal, yet the robust use of mobile financial services is still rare, mainly because of a lack of knowledge and trust. The need is to build mutually beneficial relationships between financial service providers (FSPs) and their customers e.g. through creating a text messaging option to open a dialogue with users and answer key questions about finances and financial pain points. Increased knowledge and trust can lead to an increase in monthly transactions.

Build robust ecosystems to enable scale. New models for deploying technology, along with new payment flows and channels, are crucial to expansion. Payment interoperability, for example, is critical to boosting the overall level of acceptance. By addressing consumer and merchant needs collaboratively, the service providers will be able to reach a far larger population more quickly and efficiently.

Journey to Financial Health

Partnerships will be imperative to the continued expansion of financial inclusion. In helping populations connect to networks that help them save, expand their businesses, and become financially secure, the government and corporate partners are performing a valuable service not only for individuals, but also for local economies.

In this regard, opportunities exist for actors interested in spreading digitisation and enabling usage, even beyond the financial industry, to partner and help drive the growth of payments. Stakeholders across different industries, especially those serving the base of the pyramid — from agriculture to telecommunications to consumer goods — all have important roles to play in extending digital payments to the underserved. These non-traditional stakeholders, who may not have previously recognised payments as an opportunity to expand into new markets, to rethink business models or to reduce costs, have considerable incentive to adopt digital payments.

By engaging with a broad and diverse group of strategic partners, significant progress can be made in helping hundreds of millions of people attain financial health and promote inclusive growth and development.



Banking In ‘The Metaverse’ – Next Frontier For Financial Services?

Banks have long known that if they can capture the attention of customers when they are young, they are likely to get hold of them for life. For this reason, they have always been quick to jump on new and emerging trends, and today’s hot tech potato – the Metaverse – is certainly no exception.

Generation Z consumers are fully digital-native – online is the default option for them when they go looking for the products and services they need. The Metaverse – persistent, immersive digital environments that potentially offer everything we need to live our lives digitally under one roof – provides new ways for businesses to connect with customers. Banks, as ever, have been keen to capitalise on it.

One of the most obvious uses of the Metaverse, as far as retail banks are concerned, is to create ‘virtual branches’ where they can sell banking products to a new breed of digitally-native gen-Z consumers or provide customer service to their existing customers.

Emerging Metaverse platforms like The Sandbox and Decentraland attract hundreds of thousands of visitors each month, while established gaming platforms with Metaverse-like functionality, such as Roblox or Fortnite, can attract millions. Their audiences are digital natives and are keen to do business with companies that share their understanding and enthusiasm for virtual worlds and gaming-style environments.

Among those who have been first to set up virtual storefronts is HSBC, which purchased land in the Sandbox which it will use to engage with online sports fans and e-sports enthusiasts.

HSBC's CMO for the Asia Pacific region, Suresh Balaji says, ‘At HSBC, we see great potential to create new experiences through emerging platforms, opening up a world of opportunity for our current and future customers and the communities we serve’. Thailand’s Siam Commercial Bank also has a virtual branch on the Sandbox platform.

JP Morgan Chase is another global banking giant that has already established a presence by setting up shop on the Decentraland platform. It has created a lounge area called 'Onyx' inside the platform's Metajuku virtual mall, which gives visitors information about blockchain and other technology-driven initiatives that the bank is taking part in.

This trend is actually not as new as it seems, however. Linden Labs' Second Life is often cited as one of the first Metaverse environments having been in existence since 2003. A few years later in 2007, Danish investment bank Saxo opened an office on the platform, with many of the features that today's Metaverse bankers are building, such as the ability to interact and communicate via avatars.

Bridging the gap

With spending in the Metaverse expected to hit \$5 trillion by 2030, it's a big business and banks are already thinking about the profits that will be made by moving money and perhaps other assets between the digital and physical worlds.

Metaverse platforms allow users to buy virtual goods – including sneakers from Nike and clothes from Gucci – to decorate their avatars and their virtual homes. Money can be earned in online play-to-earn games such as Axie Infinity and the Meta Cricket League.

This usually involves dealing in cryptocurrencies and unique digital assets like NFTs. Transferring this money into the real world involves exchanging it for real currencies, which are paid into a bank account.

Startup Zelf – which calls itself the 'bank of the Metaverse' – offers regulated services for transferring money between virtual worlds and the real world, as well as trading valuable in-game items between players.

It's all about image

Banks and financial services companies have a vested interest in developing their image as tech-savvy, pioneering high-tech organisations.

With new technologies like artificial intelligence (AI), automation, virtual reality (VR), and internet

of things (IoT) revolutionising so many aspects of our lives, banks have to ensure that they are seen to be on the cutting edge.

One of the reasons for doing this to ensure that they will continue to attract top talent – which otherwise might prefer to look towards technology giants like Google, Facebook, or Apple for the most exciting and lucrative career opportunities.

Much has been said about the skills crisis facing organisations that want to leverage the most powerful and potentially world-changing technologies. By making sure they have a prominent place in the Metaverse, banks and financial institutions help to ensure that they are seen as top destinations for the brightest and most skilled graduates and job hunters – those that hold the keys to leveraging the most truly transformative technologies.

A new future of banking?

So is banking in the Metaverse just another fad that will die out as consumers lose interest? Well, with actual physical bank branches closing down at an unprecedented rate, it makes sense that financial institutions may well be looking to the Metaverse and virtual worlds as a way of maintaining connection with customers and providing basic banking services.

It's also clear that virtual economies, and the trade in virtual goods and services, are set to grow. As today's younger generation of consumers grows up and wants to bank and engage with financial services in environments they feel comfortable in, it seems likely that virtual environments will provide a familiar platform for them to do just that.

It's true that no one really knows exactly what the Metaverse is yet, much less what it will look like in five or ten years' time. However, it's clear that banking and finance feel that it will be an important part of our lives and want to make sure they are a part of it too.

Financial Inclusion: Promising Way towards Achieving Youth Economic Empowerment

Microfinance as a tool for economic empowerment and development has made tremendous progress over the past few decades, but the sector currently faces numerous risks. Widespread economic downturn along with the Covid-19 pandemic poses ongoing threats to microentrepreneurs' ability to remain economically active, to save and to repay loans – thereby imperiling the financial sustainability of many MFIs.

The reduced availability of funds has also forced many MFIs to curb the development or scale-up of new product innovations including savings products that could better address clients' diverse needs. Extreme competition in some markets poses a threat to transparency, responsible lending practices and many institutions' long-term sustainability.

Against this backdrop, there is another issue on the horizon that presents a significant potential setback for the development sector generally and for financial inclusion in particular: the surge of impoverished youth coming of age. The United Nations defines 'youth' as people between the ages of 15 and 24 – although it is clear that important factors, such as gender, psychological maturity, cultural norms and marital, parental and schooling status make this age group far from homogenous.

According to the UN, more than 18 per cent (1.2 billion) of the world's population is comprised of youth, and the combined group of youth and children (those under age 15) makes up fully 40 per cent of the world's population. The proportion is closer to 60 per cent in the least developed countries (LDCs) where youth lack adequate access to education, financial services and formal employment.

This unprecedented group of youth could offer a golden opportunity to build on the momentum of financial access, economic and social empowerment and poverty alleviation achieved over the past two decades. But unless the unique needs of youth are identified and creatively met, this group may also pose a critical threat to the progress achieved

As the UN Population Fund (UNFPA) states: 'A large and growing share of young persons can support the economic and social development of countries, but can also pose considerable challenges, where countries do not have the capacity to ensure adequate investment, especially in their health and education, and where economies do not generate sufficient productive and remunerative employment for young people'.

With its extensive networks of branches and clients in both urban and rural areas, and often trusting relationships with the communities served, MFIs' financial inclusion initiatives are well-positioned to play an important role in responding to the needs of burgeoning youth populations and guiding them out of poverty. MFIs frequently possess expertise in developing and delivering financial and non-financial services specifically adapted to meeting the needs of low income populations.

For the MFIs, the emergence of youth microfinance services specifically designed to stimulate entrepreneurship, innovation and sustainable growth is extremely important, particularly from the standpoint of a development sector seeking to reinforce its commitment to social impact. This pressing need for socially responsible financial practices can be addressed by MFIs and youth organisations working together to develop and deliver adapted financial and non-financial services. These services will in turn enable youth to apply the knowledge gained during a formative stage in their lives and empower them to build a better future both for themselves and their families.

Financial habits and work practices formed early in life influence behaviour in adulthood. Thus, combining financial literacy training with access to secure savings and/or business start-up loans can help set positive financial management habits, build assets, avoid costly pitfalls, establish a nest egg for future goals or emergencies and launch a revenue-generating enterprise.

Moreover, by reaching people earlier, financial inclusion initiatives may not only inspire the next generation of clients to improved economic performance but might also pave the way for generations to come. Over the past several years, focus on youth's financial inclusion has enabled MFIs and the organisations that support them to not only listen to and understand the needs of youth populations but also make exciting advances in the development and testing of youth specific financial services and products.

These products and services combined with more refined monitoring and evaluation techniques that measure initial outcomes and results, is convincing stakeholders that youth can be successfully served. Furthermore, there is a growing recognition among these organisations that many of their existing clients are youth and that their needs differ from those of adults.

Therefore, developing adapted financial products satisfying those needs makes sense not only from the client's standpoint but also from the institution's, particularly when taking into consideration issues of risk management, reaching economies of scale and fulfilling a commitment to social and financial sustainability.

A theory of change is gradually evolving covering a combination of financial education, social/livelihoods education and financial inclusion as a means for youth to achieve empowerment, socio-financial capability, and ultimately 'economic citizenship'. Such empowerment implies that young people have increased confidence and efficacy in controlling their lives and claiming their rights.

Greater economic citizenship can be achieved through 'thrift' whereby responsible economic and civic engagement promotes reduction in poverty, sustainable livelihoods, financial wellbeing and rights for self and others. The theory of change highlights that financial services and education working together help achieve meaningful outcomes and results for young people and their families.

Further, emerging best practices suggest that youth receive the most benefit from financial services

when they are offered in tandem with non-financial services such as mentoring, financial education, internship opportunities and social asset building. Thus non-financial services may have to include entrepreneurship and financial literacy training, health tips, career guidance, internships, and others.

Overall, several features and characteristics need to be highlighted in programmes for the youth for ensuring effectiveness and sustainability.

Youth segmentation: During the planning and design phase, it is crucial to segment youth according to sex, age and school status since it helps in designing appropriate financial and non-financial services. Segmentation may also be useful in designing group activities which differ according to the participants' profile.

Youth involvement during initial stage: From market research until rollout, it is very important to engage youth in all steps in order to align all programme activities with the youth's needs and availability and to effectively plan for resources. Often bringing the services closer to the youth and their communities makes the youth feel honoured.

Community involvement: Exploring and leveraging existing social or political structures is very important to success. Involving communities may work well under the communal systems that are used for community development and existing local government structure.

Partnerships: Working with a range of stakeholders—including parents and guardians, community members, local leaders and authorities, and CSOs that have a direct link to youth—helps to create awareness, support and community buy-in and, most importantly, to ensure that everyone contributes. Partnerships can be formal or informal. However, in either case, expectations of both parties need to be clear from the beginning. And, for more formal, technical partnerships, specific timelines and deliverables need to be established.

Outreach: Focusing on a small number of branches to offer youth products is an effective means to achieve sufficient scale and to draw lessons for the rollout phase. During initial implementation, youth financial and non-financial services should be limited to the areas around the pilot branches to ensure close financial and activity monitoring. Having a limited initial focus helps to build a strong foundation for assessment and decision-making regarding product efficiency, effectiveness and eventual roll-out to other areas.

Institutional buy-in: Obtaining buy-in from institutional staff is very important for enabling quick decision-making as well as for ensuring they embrace the new interventions as a team. Without staff comprehension and endorsement of the youth strategy and products at every level—from leadership down to the field—the coordination of activities and achievement of positive results is not possible.

Specific expertise: It is important for the institution to recruit staff specifically for the youth programme and to train them in both the social and financial aspects of the job. In contrast, many MFIs focus solely on the financial side. The need for broad expertise calls for significant investment in staff training and development to build awareness and buy-in.

Proper planning and flexibility: As in the development of any new product, youth programming requires careful planning of activities to allow room for inevitable changes during implementation. The vital involvement of a variety of stakeholders such as parents, local leaders and other authorities also requires built-in flexibility in order to keep the delivery of the products responsive and on-track.

Creating Islamic Pathways to Financial Inclusion

Financial inclusion is the cornerstone of not only a fair, equitable society but also a thriving economy. Boosting financial inclusion and access to finance can make crucial contributions to economic development enabling social mobility and ensuring that the largest number of people can participate fully and effectively in economic life.

Financial inclusion helps to solve a number of societal issues such as economic growth, employment, poverty and income equality in both developed and developing countries. However, the issues and challenges of fostering financial inclusion are particularly salient in the developing world. It is positively associated with GDP growth by up to 14% in developing economies. As a key element of social inclusion, financial inclusion is especially useful in tackling income inequality and poverty by increasing advancement opportunities for disadvantaged populations in emerging economies.

Access to a transaction account is usually seen as the first step towards financial inclusion by enabling people to make and receive payments, as well as save their money. This means that they can live their lives more easily, move towards achieving their goals, prepare for emergencies, grow their businesses, invest in education and health care and gain easier access to other financial services such as insurance and credit.

For closing the financial inequality gap, now is the time to turn to novel solutions and approaches to make a difference through creating and adopting new technologies.

The approach to financial inclusion has been transitioning from finding solutions for general problems to addressing specific needs of distinct communities. To support financial inclusion, countries need to develop strong fintech ecosystems, which help to make financial services more accessible to an increasing number of people.

Customers are turning increasingly to digital and mobile channels as these fintech solutions often

provide a lifeline to many segments of society. With a rapidly rising share of population aged under 25 and a high mobile phone penetration rate, most developing countries have positioned themselves as highly attractive markets for mobile banking.

New technologies in mobile banking have also begun to support individual entrepreneurs and CMSMEs with their digital transformation and e-commerce journeys. For example, there is a solution that can turn a mobile phone into a point-of-sale system (POS), which is addressing the needs of CMSMEs in many countries providing them with access to the financial system and people using credit cards.

Scepticism about traditional financial services also plays a role in access to finance. There is huge potential for alternative instruments to help more people become a part of the investment ecosystem. For example, Islamic finance provides a comprehensive framework to enhance financial inclusion through the principle of risk-sharing and through Islam's redistributive channels.

In Islamic finance, financial inclusion entails access to finance from two points: promotion of risk-sharing contracts through the provision of feasible and non-interest finance, and the provision of income redistributions instruments for poverty alleviation.

Islamic finance offers a set of financial instruments promoting risk-sharing, rather than risk transfer in the financial system. In addition, it advocates for redistributive risk-sharing instruments through which the economically more able segment of the society shares the risks facing the less able segment of the population.

Conventional modes of enhancing financial inclusion can be replicated through instruments of Islamic finance allowing risk-sharing and diversification. With the technology improving constantly, it will be possible for populations to have access to financial products and services that will drive financial inclusion to much higher levels.



Desi E-Tools Aiding India's Financial Inclusion

India has witnessed a revolution in the digital payment space aided by the massive adoption of smartphones. The demonetisation in 2016 and the Covid-19 pandemic have triggered deeper acceptance of digital modes of payment and led to faster financial inclusion across the country.

Supporting this massive surge, the National Payments Corporation of India (NPCI), an entity for operating retail payments and settlement systems, has provided the backbone and the infrastructure to help in the faster adoption of digital systems that has deepened financial inclusion.

Set up in 2008 by the Reserve Bank of India (RBI) and the Indian Banks Association, NPCI launched a bouquet of digital payment products such as UPI, BHIM, RuPay, NETC, AePS, BHIM Aadhaar, Bharat BillPay, NFS, NACH, CTS and IMPS to facilitate safe and secure digital payments.

These products allow person-to-person money transfers, person-to-business transactions with kirana stores, petrol stations, recharges, e-commerce, retail, and business-to-business transfers such as retailer to supplier or distributor. Business-to-person transfers such as salaries,

reimbursements, refunds and claims are also possible with these.

Also possible are person-to-government transactions, such as tax, public transit and public distribution services. It also helps in government-to-person transfers in the form of direct benefit payments of several central and state government social security schemes.

“The awareness and adoption of digital payments have increased and benefits associated with it, such as safety, convenience, instant payment were key triggers. In the lockdowns, 36% of households surveyed used digital payments for the first time. We were delighted to have universal adoption across all segments. The humble SMS has held its own and reiterated how integral SMS communication is to delivering confidence and safety to the user. It became clear that people were digital-ready and the supply-side needed to continue to address the barriers to adoption”, Praveena Rai COO, NPCI, says in a report on Digital Payments Adoption in India prepared by PRICE, an independent, not-for-profit research centre.

Digital surge

Digital transactions soared during the lockdown induced by the Covid-19 pandemic as the government rolled out a raft of welfare programmes that were available at the click of a button. The massive financial inclusion programme triggered by the Jan Dhan Yojana helped the proliferation of Rupay cards — a homegrown digital payments system under the NPCI ecosystem.

The Unified Payments Interface (UPI) is described as a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments under a single system.

Monthly transaction volumes on these platforms have soared under this entity and crossed 5 billion for the first time in March 2022. According to data shared by the NPCI, UPI recorded 504 crore transactions up to March 29 this year for a value of Rs 888,169 crore. The account-to-account fund transfer platform had crossed 400 crore transactions in October 2021, hitting a new record.

UPI has been setting new records month-on-month in terms of transaction volume and value because of the rising acceptance among users and merchants. The NPCI has added new functions such as UPI Autopay to enable recurring payments and IPO via UPI.

“Digital payment adoption is now very well entrenched in India. Overall, one-third of Indian households are using it in some form or the other. (It is) heartening to note that almost a quarter of the households in the bottom 40% income group is using it as well and it has not remained a rich or well-educated person’s preserve. Fifteen per cent of households in the bottom and middle categories would like to adopt digital payments. Further, smartphone ownership is no longer a bottleneck for the adoption of digital payments. The numbers speak for themselves”, according to the Digital Payments Adoption in India report.

Financial inclusion innovation

Policymakers say NPCI has emerged as a key institution supporting the massive surge in digital

adoption and is an example of a homegrown solution that has attracted global attention

“The NPCI has done path-breaking work. It has done unique work because it created the architecture where banks and fintech both have a role to play in financial services based on the principles of co-creation. It built a large-scale public platform for payment system which fuelled the growth of start-ups and fintech sector alongside Aadhaar,” says Amitabh Kant, the former chief executive officer of Niti Aayog.

“It enabled large scale financial inclusion using DBT and AEPS which came extremely handy during Covid times for our poor and needy citizens, apart from eliminating leakages and duplicates on a large scale. Fourth, it acts as a public good, away from intentions of profiteering, stock market gyrations. It was created as a vehicle with the intention of driving innovation, bringing efficient, cost-effective, citizen-scale payment systems for a large country of 1.3-billion population. Fifth, because of the NPCI, India today is self-sufficient in payment systems,” Kant says.

Experts say the infrastructure that has been built will help in ushering greater financial inclusion in the years ahead. “By bringing in a diverse range of banks and non-banks together under a common infrastructure, this architecture has potentially facilitated financial inclusion as evidenced by the increase in high volume-low value payment transactions. The overall structure of publicly provided digital infrastructures has scope to support the provision of many financial services and to further deepen financial inclusion and development,” according to an IMF working paper.

However, the challenge for the NPCI would be to sustain technological innovation, increase capacity to support the huge digital expansion and ensure that the systems remain glitch-free and enable seamless transactions across the country. The focus should now be on making its systems more robust and failure-proof.

Courtesy: Times News Network

Do Women Hold the Key to Financial Inclusion?

While financial inclusion has grown over the last decade, the gap between men's and women's formal inclusion in many countries has grown as well. Closing the gender gap could be a catalyst for greater financial growth in the future.

There exist many factors that drive the gender gap. For starters, many of the factors that hold people back from financial inclusion—including lack of consistent or regular income, education, access to banks, and formal documents—disproportionately affect women. There are lack of proof of identity and qualifying documentation to serve as proof of address. Moreover, the documentation deficiency is skewed towards women, especially in rural areas. In cities, many women do not have either documentation type, and in rural areas this number jumps dramatically. One cannot open a bank account without proof of identity and proof of address; because women more often lack these documents, they are disproportionately kept away from opening new accounts.

In many parts, lower levels of financial literacy compound with limited access to physical bank branches. Particularly in rural areas, the majority of women never travel to or do not know where the nearest bank branch, ATM, money lender, or other financial institution is. However, even in places where banks are accessible, women are less likely than men are to ask a bank or even to ask friends and family for financial advice.

Trust is clearly a big issue; many women never ask for financial advice, and those who do prefer to ask other women. Men and women certainly appear to approach money matters differently, and better understanding these preferences might allow banks to adjust their services and communication to better serve the total addressable market.

Unlocking by layers

For many, this is an exposure problem. Despite attempts to combat the financial gender gap over the last decades, the gap continues to grow. Challenges persist on both the demand and supply side of the financial sector.

The exposure problem could be partially resolved if financial institutions could successfully target their marketing towards women. Simple changes like showing women as well as men in commercials are a start, but more intensive efforts could prove more effective. For instance, immersive 'road shows'—marketing campaigns in which banks set up shop in rural markets to explain and answer questions about their products—are also promising and prove that there is plenty of room for improvement in how financial institutions and startups can reach women.

Introducing women as bank agents (typically in informal settings, and not within bank branches alone) has met many of the needs distinct to women end users. A survey finds that customers identify women agents as more trustworthy and offer better customer service on average, compared with their male counterparts. It also finds that women agents are more patient and spend more time per customer.

This is especially important for potential women clients who come to the service with little financial experience. However, hiring more women bank agents is not just advantageous for financial inclusion; it also makes sense from a business standpoint. The survey data show that new women agents make more transactions and in higher volumes than new male agents.

Closing the financial gender gap will require better representation of women across the sector, whether it is among bank agents, product developers, or in other areas. While women do have some distinct financial preferences that could be better served by the sector, many of the basic barriers to financial inclusion, like lack of access or documentation, are true for many.

Designing a better financial marketplace for women is therefore an enormous opportunity for banks and fintech companies alike to engage a substantial, previously untapped customer base. Who will lead the charge? Greater financial inclusion of women could tip the market share scales in the future, and the first company to make its mark on this deserving but underserved segment of the market could have a winning strategy on hand.



Financial Inclusion – Improving Lives

Financial inclusion means that households and businesses have access -- and can effectively use -- appropriate financial services, services that are provided responsibly, sustainably, in a well-regulated environment. Practically, it means that women have a safe place to keep their money outside their home. Their work is paid into an account, don't have to travel home with cash. They can send money home to their families in rural areas or out of the country more conveniently, affordably directly from their phone.

Similarly, merchants paying their suppliers and accepting customer payments using a card or a phone can build a credit history to access credit on better terms, increase their inventory.

Financial inclusion, including access to digital financial services, is an important policy objective because it helps people manage their money better. Accounts give one a greater control over

his/her money and financial life.

Research shows that when a woman gets an account, she builds savings, spends more on children's education, and invests in business opportunities. In other words, having an account can offer women greater privacy, security, and control over her money.

A recent study of a government welfare programme in India, which reached over 100 million people, finds that paying women their benefits directly into their own financial institution account and not into the account of their husband or other male household head, increased woman's financial control over her money, influences gender norms that prevent women from working, and incentivise women to find employment compared with those women who are paid in cash. And the biggest impact is on women whose husbands have expressed the

most opposition to their wife's work.

So there are a lot of things that the governments are doing to support financial inclusion, including regulations that allow for competition from fintechs and non-bank providers like mobile money service providers. It's also investments in infrastructure, in mobile technology, electrification, that allow the growth of agent networks, of bank agents, of mobile money agents, that allow people to access services locally, in their own home communities.

Clearly, we still have a long way to go: 1.4 billion adults remain unbanked across the world, and many adults who do have an account don't use them. Reaching these excluded won't be easy. When asked these unbanked why they don't have an account, only 3% of adults say the only reason they lack an account is that they don't need one. And that really points to the massive unmet demand for financial services amongst the unbanked. If they are offered a good, affordable product that meets their needs, they might well take it.

Many countries don't have the infrastructure like reliable electricity for payments processing and bank branches are often absent in areas where unbanked people live, and too many financial services are poorly designed and difficult to use for the neediest customers. Many unbanked adults tell that banking services are simply too expensive, too far away.

So one solution is availability of digital financial services, including those provided by fintech and mobile money service providers, which leverage mobile technology and which can help mitigate the problem of physical distance between financial institutions and their customers.

So, for example, the remote areas in Asia or villages in Africa may not have a bank branch or an ATM. Most areas now have a local merchant -- agents who sell not only mobile minutes for phone, but increasingly are offering financial services. So, local villagers no longer need to spend the time and the transportation costs travelling to access formal financial services.

For example, in South Asia, 240 million unbanked adults have a mobile phone. That's more than half of the 430 million unbanked in the

region. But unbanked adults frequently lack the basic tools they need to get both financial and mobile services.

One big barrier is a lack of government identification, which is commonly mentioned by the unbanked as a reason they don't have a financial institution account. And 30% of the unbanked face a barrier to opening a mobile money account.

Another really straightforward thing that the governments can do is to take the lead by digitalising some of their own payments. Findex data finds about 85 million unbanked adults receive government payments in cash. That includes wages, pensions, government support transfers. And research shows that for the governments shifting some of these payments to an account, it's cheaper, it can reduce leakage and corruption. Shifting some of these payments to accounts can create an entry point for increasing accounts amongst the unbanked. And financial inclusion and digitisation of payments have broader developmental goals that can help societies.

However, people only benefit from account ownership if they have the financial capability and confidence to use their accounts on their own. It's important to recognise that poor and financially inexperienced users may not be able to benefit from account ownership if they don't understand how to use their account in a way that optimises the benefits but avoids the many consumer protection risks, such as high-end hidden fees, overindebtedness, fraud, and discrimination. And so policymakers need to make sure the regulations keep pace with these digital innovations, ensure that things like that don't happen. Otherwise, people will distrust digital financial services, and these development opportunities could be lost.

People will only use banking services if they trust that their money is safe in the bank, that they trust that when they make a payment, the money will be received. And that's why it's so important to have strongly enforced consumer protection, to make sure there isn't financial fraud and abuse and that trust in banks remains high.

Delivering Immersive Customer Education An Innovative Approach

Kavita Kumari works in the hinterlands of Bihar, India as a woman Business Correspondent (BC) – a retail agent engaged by a bank to provide financial services at locations other than a bank branch or ATM. She regularly struggles to learn about the new financial products and services that her BC network manager often adds to the network's product basket. She says, "I hate attending physical training sessions, as it requires me to stay away from work and my kids for longer periods. I prefer online training, as I don't lose out on money and precious time with my kids – but I lack continuous motivation and interest to complete those."

Kavita's case underscores the challenges faced by many BCs, as online training has become the new normal during the Covid-19 pandemic. It highlights the need to make the experience of online learning fun and engaging – a need that is more important than ever, especially when it comes to on-the-job training.

Augmented reality (AR) offers a promising solution to this challenge. AR is an immersive technology that integrates virtual content with the physical environment, enabling users to engage with a mobile application through a blended reality experience. AR technology and tools can keep users engaged with training applications for longer periods, and can be very helpful in teaching them new things through gamification.

In research conducted to understand the impact of an AR-based mobile application on the learning motivation of undergraduate health science students at the University of Cape Town, it is shown that the use of an AR mobile app increases students' motivation by 14%. The attention, confidence and satisfaction of the students increase by 31%, 11% and 13%

respectively, and these increases are found to be significant.

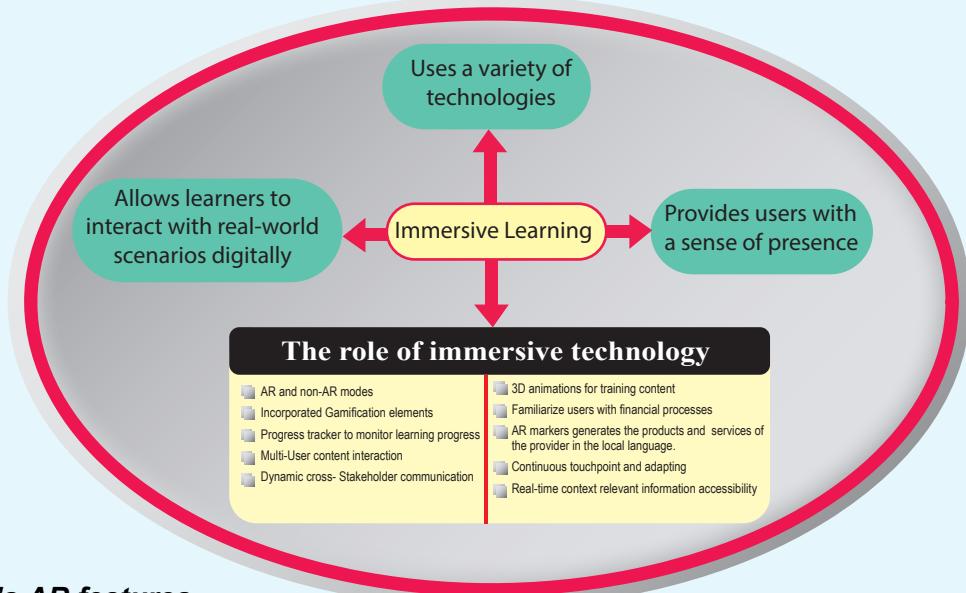
Another study shows that the use of an AR-based application increases the learning performance of a group of secondary school students in Sofia, Bulgaria by 36%. More broadly, research has also shown that the efficacy of the digital delivery of financial education is high, with multiple benefits in terms of helping adults to manage their finances and gain the confidence to make better financial decisions.

However, despite these benefits, AR has found limited usage in driving financial education – in contrast to its growing usage globally in sectors such as healthcare and agriculture. For instance, Anatomy4D and Augmented Reality Telecommunication use AR to give medical professionals, students and teachers an interactive, 4D understanding of human anatomy by illustrating the spatial relationships of organs, bones and muscles.

Similarly BidOn has developed an AR application for training in the agriculture sector, which enables users to understand how farm equipment works in actual farmland. Applications like these have resulted in increased productivity via the virtual training of users in these industries.

The untapped potential of these tools in the finance industry highlights an opportunity for the sector to innovate, test and scale AR-based models for delivering financial education – especially to the low-income segments. That's why, with support from the Bill and Melinda Gates Foundation and collaboration from five partners, Grameen Foundation India (GFI) has piloted AR-based models as part of its Business Correspondent Network Manager (BCNM)

Experiments And Demonstrating Scale (BEADS) Project. One of the project's goals is to build the capacities of BC agents and customers who have smartphone and internet access. To this end, it provides different types of AR-enhanced training geared to the unique needs of both BCs and their customers.



GrameenGuru's AR features

The BEADS Project has developed an AR mobile application called 'GrameenGuru'. After some feature updates are completed, the app is given to BC agents and also to customers with smartphone and internet access, allowing them to explore training modules focused on different aspects of financial inclusion. While agents will learn about products and services, customer-centric sales and promotion approaches, and other elements of their role as BCs, customers will learn about the financial products BCs can offer, the points of access where these services are available, and the benefits they can provide. A few use-cases for the GrameenGuru app may be noted.

Scan and Learn through GrameenGuru: BC agents like Kavita can learn about different financial products and tools by focusing their smartphone camera on any AR "marker" pre-fed into the app's servers. These markers are essentially digital images of a bank or other financial service provider's main distinguishing characteristics, which can include their name, logo, ATM machines, etc.

The GrameenGuru team has uploaded these images – representing the service providers that users most often encounter – to the app's servers, allowing the app to recognise them when users scan these markers with their smartphone cameras in the physical world. When they do, an 'avatar' called 'GrameenGuru' appears on their phones, explaining the provider's products or services and related features to the learner in the vernacular.

For instance, suppose an agent chooses to scan the logo for AEPS (Aadhaar-enabled payment system, an Aadhaar and biometric-based digital payment tool) or the logo for UPI (Unified Payments Interface, a mobile-based payment method). In that case, the 'avatar' will explain the features and usages of these tools to the agent. The application can also work in an offline library mode with no internet, and any new training modules on additional topics uploaded to the application server get automatically refreshed whenever the user gets online.

AR and Non-AR Modes: The AR environments created by the application have immersive learning features, allowing learners to select topics of their choice, and engaging them through interactive lessons.

For example, suppose a user scans the image of an ATM or chooses "How to operate an ATM" from the menu within the app. In that case, the AR application creates an environment on the smartphone screen in which the user can see an image of an ATM overlaid on the actual ATM the camera is focused on in the user's real environment. The moment they choose an action – e.g., 'Change the PIN' – by

tapping the relevant part of the overlaid image, the application delivers the relevant training content.

Mobile handsets capable of handling AR functionality will generate both AR and non-AR 3D animations of the same experience while users are online. But if the device is not capable of handling AR functionalities, or if the user is currently offline, the application will offer only the 3D mode, stating, “Your device doesn’t support AR, you can enjoy the same experience in the 3D mode.”

Gamification and Voice-Based Queries: Gamification elements have been incorporated into the GrameenGuru application to make financial education more engaging, and to build more sustainable and long-term financial habits among users.

Agents can play role-based AR games to better understand their role as BC agents, and to receive tips for delivering customer-centric service. They can even use the app’s AR-based stories and product demonstrations to educate their customers. GrameenGuru can also capture voice-based queries in the user’s chosen language, and display the available content in response to these requests.

The application also acts as a training needs-assessment platform, as it helps administrators to analyse and identify users’ learning needs based on their searches within the app. Administrators can then respond by developing new content and uploading it to the application for capacity development.

Enhancing AR app to address common obstacles

The initial successes and learnings from the pilot and field experiences have pushed GFI to expand the horizon initially envisioned for the application. The app will be used not only to improve BCs’ knowledge and services, but also to improve customer access to BC agents and other financial service providers. To that end, three main feature enhancements are being made:

Locating nearby BC points: The app will use Google map integration to enable customers to get the route to the nearest BC point, bank branch, etc. Initially, this integration is being done

for the five partners under the BEADS programme, and later it will be expanded to other BCNMs.

Scanning and learning about available services: The app will expand its scan-and-learn functionality, which will result in customers being able to scan any bank or BC point logo, prompting the GrameenGuru ‘avatar’ to talk about a wider range of the services available at banks and their BC points.

Simulating a virtual bank branch or BC points: During the Human Centred Design Research that GFI conducted user behaviours related to financial services were also assessed. In the process, it is found that crossing the first transaction hurdle is a key barrier preventing customers from low-income households – especially women – from accessing financial services.

The application will aim to overcome this obstacle through simulation. Users will be provided with a booklet with the logos and other distinguishing characteristics of many common financial service providers, enabling them to familiarise themselves with the process of scanning AR markers and to access the app’s content at home.

When they perform an AR scan of a bank image, logo or other marker from the booklet (or even an actual logo from real life), the GrameenGuru app will generate a virtual bank branch or BC point environment on the screen, through which the user can learn about transactions and understand the provider’s actual processes before physically visiting any banking point.

This will lessen new customers’ fear of conducting a transaction for the first time, by avoiding the need to ask others for assistance – and the possibility of being embarrassed due to a lack of knowledge of these processes.

Consumer empowerment is the key to realising the positive outcomes of financial inclusion. But the deepening of financial inclusion, resulting in improved financial health of low-income households, can only happen if customers have a well-rounded understanding of financial products and services.

With increasing digitisation and gamification, and improved access to smartphones and the internet, technology such as AR can play a defining role in driving financial education, especially for low-income households.

Immersive Technology beyond Gaming: Changing Financial Services

Immersive technology is expanding beyond the world of gaming and changing traditional financial services for the better. Immersive technology is a game-changer for the financial services industry. Even traditional financial institutions are adopting emerging solutions to stay relevant. From improving financial literacy and employee training efficiency to enhancing customer support, immersive tech offers a range of benefits to those who implement it.

Bringing Immersive Technology to Financial Services

Immersive technology has two main categories with varying levels of immersive experiences – virtual reality (VR) and augmented reality (AR). VR offers full immersion by cutting out the physical world while AR offers partial immersion by overlaying virtual elements in a real-world setting.

Virtual Reality

VR can improve data visualisation which enables financial experts to communicate analytic insights to consumers without overwhelming them. The immersive nature of VR makes it an excellent tool for data storytelling and information visualisation.

Everything from potential real estate properties to lifestyle changes can be visualised and turned into 3D simulations. Users can be at the centre of these virtual simulations. They can grasp the information faster and retain it longer. By making subtle changes to the variables, they can visualise the potential outcomes and understand the impact.

Furthermore, VR can aid in employee training. For example, Bank of America partnered with a startup called Strivr to provide VR training to 4,300 financial centres. They use a series of learning modules, which have about 20 VR simulations, to teach different skill sets. They teach employees how to navigate difficult conversations and build stronger relationships with clients, among other skills.

Augmented Reality

Since AR solutions connect the digital world to the physical world, it is widely seen as a more relevant solution than VR. One of the most common applications of AR in the banking industry is navigation. For instance, the National Bank of Oman (NBO) uses an AR app to help its patrons find the nearest ATMs and branches. It can also help them find the best offers and deals when they enter a mall.

Like VR, AR can also change the way users visualise and access data. Instead of placing users at the centre of 3D simulations, AR can overlay the financial information in a real-world setting. For instance, users can hover their wearable or mobile devices over a spreadsheet. Then graphic representations of their data will come to life before them.

Adopting Immersive Technology: Challenges

Immersive technology has made incredible advances in the financial services industry in the past few years with benefits ranging from employee training to data visualisation. However, its adoption has been quite slow due to a variety of challenges.

One of the biggest challenges has to do with the technical expertise required to implement them. Another is cost. Creating and implementing an immersive solution requires a lot of time, effort and money. The same can be said about maintaining and upgrading the tech.

While large financial institutions like Bank of America and NBO can make huge investments in AR and VR, other smaller institutions might not be able to do the same.

On the bright side, immersive technology is still evolving. There is a future for VR, AR, and other immersive solutions in the financial services industry. The more accessible and affordable the tech becomes, the more widespread it gets.

Financial Inclusion for Development

Ensuring access to financial services for all remains a relevant policy objective especially for developing countries. Access to financial services contribute to reduce poverty and inequalities and to sustainable development through promoting food security and access to health services, among others. Financial inclusion facilitates speedier, safer and less costly remittance flows and allows for more options to leverage these funds as sources of productive investment.

Available, affordable, and accessible financial services contribute to the empowerment of the most vulnerable groups, which include women, youth, the poor, people in rural areas, informal workers, migrant workers and CMSMEs. While progress in financial inclusion has been significant in recent years, many remain excluded, particularly in developing countries.

Access to financial services can be obstructed by factors ranging from insufficient demand for such services by potential users due to lack of disposable money, high costs of services, physical distance to service providers, burdensome requirements, and lack of trust.

Policymakers and regulators need to assess these underlying challenges to maximise the effectiveness of their strategies to foster financial inclusion. Policy to expand the demand for financial services, such as through financial education and consumer empowerment, may also be pursued.

The Covid-19 pandemic has increased the need for better access to financial services while disrupting such access at the same time. Reduced income and increased unemployment affect the lives of millions who depend on these flows for food, education, health, and housing, and compounding the economic impact of the pandemic crisis.

This underscores the relevance of bringing financial inclusion policies to the centre of policy agendas, particularly in developing countries. Digital financial services, including mobile money deployments, have been instrumental to improve access to financial services and have been particularly relevant during the Covid-19 to circumvent mobility restrictions and troubled value chains. These solutions have been especially useful to enhance financial inclusion for people in remote and rural areas, youth, and in countries underserved by physical networks of bank branches.

Such digital solutions can work in tandem with banking branches and with correspondent banks and networks

of agents – post offices and retail outlets comprised – that can support all types of financial services, including by allowing cash-in and cash-out of digital financial services.

Policymakers can explore the need to promote the provision of digital and non-digital financial services through development banks, microfinance providers or community banks which can target more effectively certain segments, such as people with low income and CMSMEs.

Another key factor in designing financial inclusion policies is the ecosystem that underlies the provision of financial services. Adequate access to financial services depends on the existence of a regulatory and supervisory framework and of supporting infrastructure such as energy and ICT services. This highlights the need for a policy mix that creates the conditions to strengthen both the provision of financial services and the enabling environment such services require.

Adequate risk management is a centrepiece of the regulatory framework. Risk management can be an important element in a policy mix for encouraging financial services providers to be committed to universal financial access.

Direct measures to enhance universal access would include support to infrastructure provision and incentives to increase supply of affordable financial services. Other indirect measures such as the prohibition of exclusion of particular geographic areas perceived by providers as being less profitable may need to be paired with direct measures.

Openness to trade in services to allow more financial providers may be an important policy for improving efficiency and competition when backed up by appropriate regulatory frameworks. However, liberalisation in trade in financial services can have an impact on the effectiveness of measures that specifically support financial inclusion (such as universal access policies). Policymaking on trade openness and financial inclusion require a coherent approach to ensure potential benefits of both measures in improving access to financial services.

The key will be to develop regulatory frameworks for enhancing financial services through assessing a country's potential in production and trade in services and the robustness of services-related regulations and institutions. This would allow the country to identify practical solutions and policy options for improving the performance of key services sectors.

An interview with



Cecilia Tamez

Chief Strategy Officer

Money Transfer Segment, Euronet

Neobanks and The Path to Financial Inclusion

An interview with Cecilia Tamez, Chief Strategy Officer, Money Transfer Segment for Euronet/Dandelion to gain an understanding of developments with neobanks

Neobanks have disrupted the banking scene in established markets in recent years, seeking to offer a convenient and frictionless experience. As well as challenging the established finance system, for emerging markets where much of the population is underbanked, neobanks can serve as a vital conduit to greater financial inclusion.

Digital Journal (DJ): What is a neobank?

Cecilia Tamez (CT): A neobank is an institution that offers financial services exclusively online through a website and/or mobile app. Some of the services they offer include mobile wallets, digital payments and money transfers, multi-currency accounts, bill payments, check deposits, and physical cards. In established markets, they can offer a convenient, frictionless experience, and in emerging markets, can serve as a vital conduit to greater financial inclusion.

DJ: How are neobanks different from traditional banks?

CT: Neobanks offer an alternative digital option to traditional banking services. They target digitally savvy customers who prefer a digital-only experience, often through aggressive, targeted advertising and marketing. Compared to traditional banks, neo-banks offer a number of unique benefits, including reduced fees (e.g. monthly account fees, transaction fees, and ATM fees), a frictionless digital experience, and the ability to bank without visiting a physical branch. In established markets like the United States, neobanks can offer nearly the same range of services as a traditional bank, and can be linked to a customer's traditional bank account.

In emerging markets, where a large portion of the population is traditionally underbanked and reliant on cash, neobanks can also be complemented with brick and mortar storefronts to fund wallets and bridge the gap to a more convenient digital experience. For example, The India Stack sought to enable neobanks that would equip a large underbanked population with digital wallets, effectively creating a 'bank account light' experience. It was transformational, and India's population went from 17% banked in 2009 to 80% today as a result. Kenya has also leveraged neobanks effectively, and today 96% of Kenyan households have access to a mobile wallet.

DJ: What are some of the pros and cons of using a neobank?

CT: The pros and cons of a neobank are in many ways dependent on their audiences. Benefits like digital convenience, lower fees, and instant access to credit and debit accounts often appeal to younger, more digitally savvy audiences.

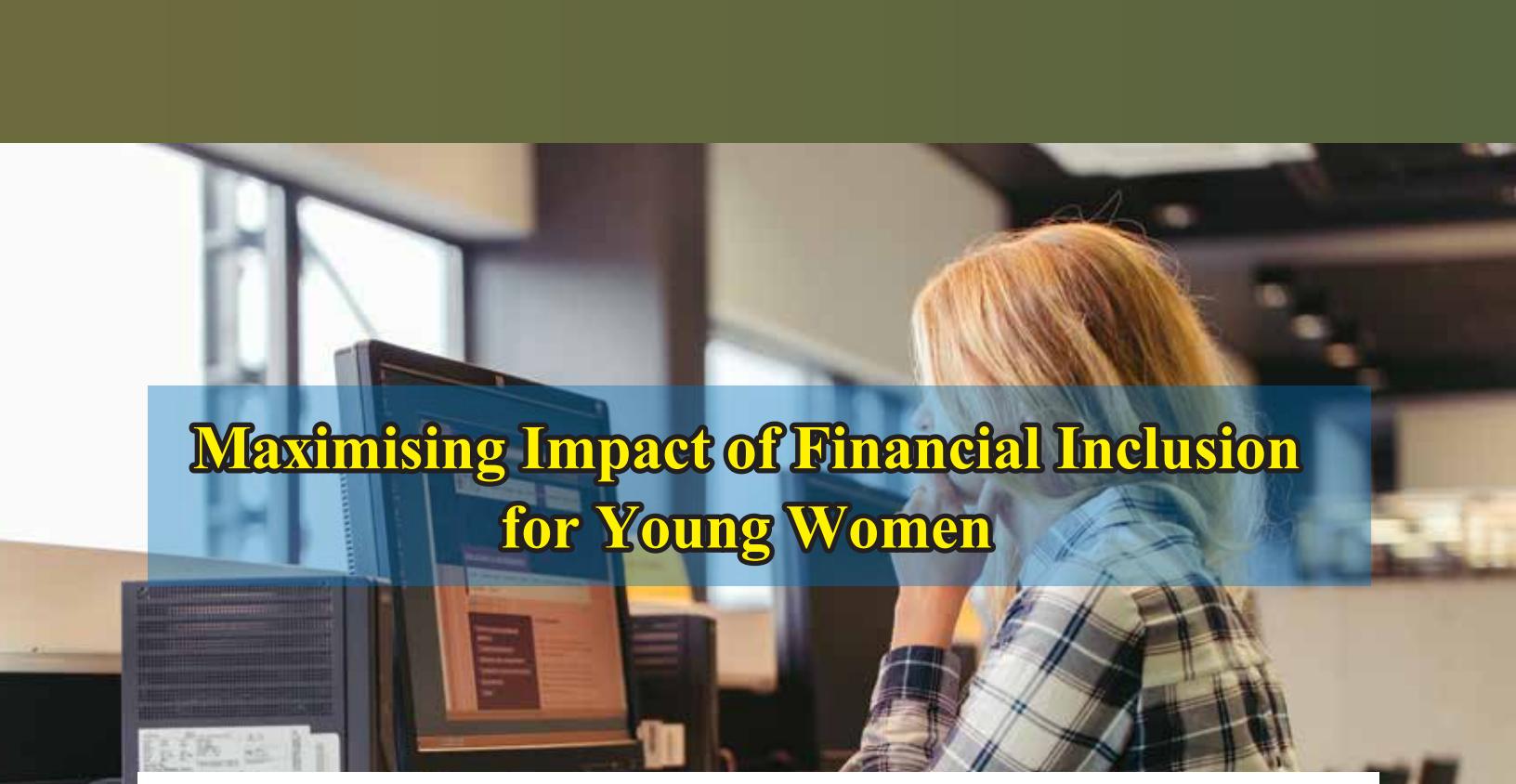
Conversely, those less comfortable with technology who rely on high touch customer service – typically an older, more established audience – may prefer the benefits of traditional banks. Neobanks also have limits, including lack of mortgage and lending services, and branch-specific services like cashier's checks and money orders.

DJ: How should consumers vet a neobank before choosing one?

CT: Choosing a neobank is much like choosing any digital service today. Reputation is paramount, and where most neobanks are app-based, the first place to start is often in app store user reviews and ratings. For more in-depth evaluation, the Consumer Financial Protection Bureau maintains a complaint database for financial products and services where anyone can conduct their own investigations. As with any service, digital or otherwise, Google is often the best place to start. A bad review or scandalous headline is usually enough of a red flag to seek another option.

Courtesy: The Digital Journal





Maximising Impact of Financial Inclusion for Young Women

Research shows that financial inclusion can contribute to improvements in both financial and non-financial outcomes for young women. However, around 590 million young women in the world (women aged 15-24) are a tremendously diverse group, transitioning through different life stages within vastly different contexts. Considering these differences, among which segments of young women could improved financial services make the most impact?

Globally, young women remain one of the most marginalised financial service client segments. Despite improvements over the last several decades, young women ages 15-24 still have lower literacy rates, higher HIV rates, and lower labour force participation than their male peers. Moreover, these women face the highest levels of exclusion from markets, services, and spaces of any segment of financial service users. Young women's adoption of financial services also levels off far earlier than young men's, producing a pervasive gender gap in financial inclusion.

To address the multifaceted nature of young women's marginalisation, an arsenal of programmatic interventions has been developed, often combining interventions across multiple sectors. Educational interventions and job training aim to increase young women's economic potential, and sexual/reproductive health programmes seek to delay childbearing and reduce unsafe sexual practices – impacting

health and fertility at both the individual and community levels.

Although they receive less focus, financial services – including savings and lending groups, savings accounts, and business loans – are also common ingredients in programmes designed to improve well-being outcomes for young women.

Young women between 15 and 24 include students and workers; may be married, single, and/or mothers; and live in vastly different cultural contexts, where they face both shared and unique forms of marginalisation. Understanding this diversity is critical to developing a strategic sense for which segments of young women investments in improved financial services might yield the most impact. To accomplish this, segmentation is required that can examine the issue from three angles: (i) segment size conceptualised in terms of life stage and context; (ii) prevalence of needs that can be addressed by financial inclusion; and (iii) relevance of financial services i.e. the extent of barriers faced by a given segment that would affect the likelihood of impact.

An analysis of four countries--Bangladesh, India, Kenya, and Nigeria – which together is home to more than a quarter of the world's 590 million young women in this age bracket with FII dataset for 2017-18 provide some illuminating results.



The largest segments of marginalised young women are rural with no income: Over one-fifth of the total number of young women in the analysis is 20-24 years old, rural, married, with no income of their own (“at-homes”). Another 15% are rural students aged 15-19, while 8% are their urban counterparts. Across the segmentation, being in school correlated with being unmarried; married students make up less than about 2% of the total. And, like 80% of the total population studied, the vast majority of full-time students report having no income.



Needs are widespread across the group but especially high among younger segments: As the exercise studied economically marginalised young women, it is not surprising that only one segment in one country qualifies as having ‘economic agency’ for the FII’s definition. But even within this group, younger segments display lower personal financial health, with many coming from households living on less than \$1.25/day, and very few reporting saving within the last 90 days.



Relevant measures vary more by country than by segment: This attests to the importance of national context in determining barriers to financial inclusion. This is especially true with regard to possession of a national ID (almost universal in India, but as low as 7% among younger segments in other countries) and awareness of nearby mobile money agents (upwards of 85% across segments in Bangladesh but topping out at 30% in Nigeria). Other dimensions of relevance are surprisingly consistent across both segments and countries. Numeracy, for example, is universally high, while financial capability is universally low. Perhaps most intriguingly from a programme design perspective, while respondents do not necessarily own a mobile phone or SIM, almost all report knowing how to use a mobile phone.

The above shows that potentiality lies in the direction of younger rural students. While not the largest single segment, 15–19-year-old rural students make up 15% of the total across these four countries. Needs in this group are also significant – their economic agency scores are often the lowest of any segment, and less than a quarter in any country. In Bangladesh, Kenya, and Nigeria, only 7-16% has any kind of financial account. Conversely, depending on the country, rates of SIM ownership in this segment – as well as their proximity to bank branches and, most importantly, school-going status – make them potentially reachable through various programme delivery channels. Finally, younger rural students share important characteristics in common with the first and third segments by size (older, rural, married “at-homes” and younger, urban students, respectively) – meaning that addressing their barriers may be beneficial for all three segments.

Along with more intense efforts, future research should be devoted to more granular market research, risk analysis, and ultimately pilot projects that seek to scale the impact of proven approaches.

It is well known that the multifaceted nature of young women’s marginalisation requires a multifaceted approach. So, collaborative research on financial inclusion and young women’s development in the areas of financial services, broader support programming, market research, and policy are likely to yield more illuminating outcomes for policy.

Reimagining Financial Services using Extended Reality

The financial services industry has significantly adjusted its business models after the Covid-19 pandemic due to health and safety standards. Now, most of the financial services industry is evaluating emerging technology that can further innovate these new business models and improve the way they operate.

Imagine financial institutions offering customer services that use intelligent robots instead of human tellers. There is no physical branch, and customers visit a virtual environment to get the required service at anytime from anywhere. Or imagine complex financial data made available to customers through intuitive data visualisations on a virtual reality platform whenever required for making quick financial decisions.

This is not science fiction. The financial services industry is adopting the latest tech advances to keep up with customer expectations. The pace of technology innovations is increasing and financial services IT (Information Technology) organisations are defining their priorities and positioning themselves to adapt as tech changes occur.

Financial services organisations are transforming their businesses by leveraging extended reality (XR) techniques with traditional interactions. XR includes all the tech tools that combine real and virtual environments, such as augmented reality (AR) and virtual reality (VR).

AR/VR market predictions and current usage

Both VR and AR have been around for some time. VR provides an immersive user experience in a virtual 3D environment, whereas AR enables users to overlay digital content, such as blueprints or instructions, onto real-world objects and receive visual, audio, or haptic (sensory touch) experiences from wearable technologies.

XR technology is already widely used in gaming, education, and healthcare. Now the financial services industry is planning to leverage this technology to offer immersive experiences to their customers. Organisations have already started providing self-service options using robots, chatbots, and multimodal interaction-based kiosks to deliver information about products and services. Whatever new customer experience firms choose to offer, competing in this massive new market will require taking on digital transformations that include XR technologies.

Driver of XR Adoption

The ability to provide banking customers with XR-based experiences is greater than ever. Due

to the latest innovations in mobile technology, every smart phone is now enabled with AR platforms ARKit (for Apple devices) or ARCore (for Androids) allowing nearly everyone across the globe to access.

These platforms enable a range of opportunities to interact with customers and improve internal operations. Through XR experiences, financial institutions have a greater ability to be more competitive in their markets, increase channels for cross-selling and improve chances at customer retention. Organisations are also using XR to help them with three tasks:

- **Simplifying complex data analysis quickly:** Visualizing the complex data from multiple sources requires multiple screens, and sometimes it's practically impossible to view all the data at one time. AR technology solves this challenge by enabling users to view data on a virtual screen and in 3D. For example, a few banks are using AR data visualisation to improve the efficiency of financial trading by making the data available as a hologram that can be shared with others for faster and more collaborative decision making. Each user wears an AR headset to view the information, and the AR application enables participants to analyse the data, communicate with one another, and gather additional data. In the future, we may even see the screens on trading floors replaced by 3D visualisations. Another use case for AR is providing customers with a visualisation of their credit card charges, allowing them to better understand and manage their spending patterns.

- **Transforming payment systems:** When using a virtual reality application for gaming or virtual shopping, no one wants to be interrupted in the middle of a session to be prompted to make a payment. The payment system should be built into the service without creating any disruptions to provide a seamless, immersive experience. A few financial services companies, including MasterCard, have transformed their payment systems to enable customers to make payments from within the virtual reality experience, so there are no interruptions. For example, where a customer accesses a gaming application using a VR headset, such as Oculus Quest, and would like to continue the game by purchasing additional credit points. In that case, banks can provide the interface for making a payment virtually, instead of requiring users to exit from the app. Another example would be a virtual mall where customers can visit different shops. Inside

a store, people can examine a menu of assorted products and make a payment within the virtual world. This triggers a payment authentication with a customer's account to complete the sale, and then they can continue to shop without any disruptions in the experience.

- **Augmenting the physical branch with a virtual branch:** The traditional way of conducting a financial transaction is for a customer to visit a physical branch and meet the staff. This incurs costs for both banks and their customers. Banks must invest in the property and maintain the team and expertise, while the customer must spend time traveling to the branch office more than once as well as the inconvenience of limited opening hours. The Covid-19 global pandemic has accelerated the need for financial institutions to explore the provision of services virtually and reduce physical interactions between staff and customers. As an alternative, financial institutes have begun to experiment with virtual branch offices using XR technology. This delivers a similar banking experience with some added benefits. Customers can use an AR/VR headset and visit the virtual branch at anytime from anywhere, and a multimodal, interaction-based avatar can provide customer service. While interacting with the avatar, customers can reach out to the customer service representative or branch manager remotely using an audio/video call whenever needed. In this virtual environment, banks can also partner with other vendors to promote joint services. For example, in a virtual branch, an area can showcase the latest offers, such as automobile or real estate property loans. This may help banks make discounted loan offers and close transactions quickly.

Marketing, customer education, and hiring solutions

XR technology can also open new dimensions in a brand's marketing strategy. Customers can be engaged through virtual reality-based 'gamification' platforms, educating people on financial topics as well as new products and services. This innovative marketing channel can offer a compelling way to help build connections with customers, leading to cross-selling, increased chances of customer retention, and new business opportunities.

Not only can AR/VR technology be used to provide virtual simulations of bank services with 3D visualisation, but it can also help customers increase their financial know-how or learn about stock market trading. Customers can be trained easily at any time through an XR-based

application rather than depending on the availability of experts within an organisation.

AR and VR tech components can also bring new benefits to a financial institution's hiring practices. Using a virtual avatar, a financial services company can offer a unique recruitment experience to potential employees. With the use of natural language processing (NLP) technology, questions can be analysed to understand the intent and context, and the response can be rendered using a text-to-speech conversion. With remote onboarding, tasks such as office tours and providing information on operating processes and work culture can be completely transformed using XR technology.

Challenges in adopting XR technology

The adoption of XR technology is still lagging due to multiple challenges, such as the high cost and the technical expertise required for implementation and use. XR content creation also requires a considerable investment in effort and time. Even after content has been created, refreshing it regularly is also costly from an operational and budgetary perspective. Many projects never make it from proof of concept (POC) to production implementation due to the investments required for outcomes that are difficult to forecast with emerging technologies. However, innovations are being made to address these challenges, and major players are investing heavily in XR hardware and software, which will trigger further development and adoption of this technology.

XR technologies offer financial institutions the ability to transform both their customer relationships and internal operations through virtual-based services and marketing campaigns. AR and VR experiences provide customers with a range of benefits, including the ability to effectively analyse financial data and make decisions more quickly. Customers can also access virtual branches for assistance with services, ensuring they can avoid any Covid-19 related safety risks.

With more significant engagement opportunities within reach, institutions can increase their chances at expanding their customer base and maintaining loyalty with their current customers. Marketing campaigns can be delivered through immersive experiences and help customers gain valuable financial skills. In order to make themselves more competitive in their markets, financial service providers should begin preparing to adopt these emerging technologies and further develop their digital customer experiences.



The Economics of Digital Innovation

Digital technology is rapidly transforming the financial industry through changing the way payments, savings, borrowing, and insurance services are provided by the providers and accessed by the receivers. Fintech and Big Tech companies now compete with banks and other financial institutions across markets. Further, digital currencies are transforming 'money' itself.

In particular, since the Covid-19 pandemic, digital finance has been helping households and businesses to meet the challenges posed by the pandemic and given the government new ways of reaching those who need support. Despite impressive progress, for realising its full potential in bolstering financial inclusion, private sector innovation must be supported by the appropriate public goods, as innovation has large spillovers to all aspects of economic activity. As such, public goods provide the underpinnings of financial inclusion.

In China, Ant Group and Tencent have reached 1.3 billion and 900 million users respectively with Alipay and WeChat Pay. Payment applications, based on mobile interfaces and quick response (QR) codes have paved the way for a whole spectrum of financial services, ranging from small loans and money market funds to 'mutual aid', a form of health insurance.

In India, public provision of foundational infrastructure has been the main driver along with a far-reaching impact. The digital identity (ID) initiative (Aadhaar which is the Hindi for 'foundation' or 'base') has given 1.3 billion people access to a trusted ID so that they can open a bank account and access other services. Building on the initiative, a new system lets users make low-cost payments in real time. As Bank for International Settlements (BIS) research shows India has increased bank account access from 10 per cent of the population in 2008 to more than 80 per cent today. Technology achieved in a decade

what might have taken half a century with traditional growth processes.

In this context, the key issue is: What is the economics of digital innovation? One must realise that the adoption of digital technologies that enable financial inclusion and economic opportunity to expand will not succeed on their own. To understand how digital technology and policies can help, one needs to look first at the underlying economics.

At the heart of digital innovations, there are a few technological enablers. The first is mobile phone and the internet connecting individuals and businesses with information and providers of financial services. A second enabler is the storage and processing of large volumes of digital data. Finally, advances like cloud computing, machine learning, distributed ledger technology, and biometric technologies play a role.

However, at the core of all these innovations lies the ability to gather information and reach users at a very low cost. Economists have assessed the range of specific costs that decrease with digital technologies. Two economic features of digital technology help show why these factors have been so powerful and what risks they pose.

First, digital platforms are highly scalable. Platforms are really the 'matchmakers' that help different groups of users find one another. For instance, a digital wallet provider like PayPal brings together merchants and clients who want to make secure payments. The more clients use a particular payment option, the more attractive it is for merchants to accept it, and vice versa. This is an example of economies of scale, which allow providers to grow quickly.

Similarly, Big Techs such as Amazon or China's Alibaba can serve as matchmakers to help buyers and sellers of goods find one another, but

they can also link merchants with providers of credit and other services. Because of the range of services provided (including non-financial), they have information that can be very valuable for their financial offerings. This exemplifies economies of scope, which give the advantage to providers with multiple business lines.

Second, digital technologies can improve risk assessment, benefiting from the same data that are the natural by-product of their business. This is particularly relevant for services such as lending, as well as investment and insurance. Credit scores based on big data and machine learning can often outperform traditional assessments, particularly for 'thin-file' borrowers, people or CMSMEs with little or no formal documentation.

Thus, economies of scale and scope, together with improvements in predictive power, can drive financial inclusion forward by leaps and bounds. However, every silver lining has a cloud, and the advances made possible by big data have drawbacks—in particular, the tendency towards monopolies. In some economies, Big Tech payment providers and lenders have become systemically important ('too big to fail'). The tendency to buy up competitors may choke off innovation. Finally, there is a serious risk that sensitive data will be misused and privacy violated. Smart public policies are needed to mitigate these risks, while allowing the potential of digital technologies to be fulfilled.

How should the policymakers adapt to this new world? How can they reap the benefits of digital innovation for financial inclusion, while mitigating the (real) risks to financial stability and consumer rights? For the above, five sets of policies are needed.

Building inclusive digital infrastructures: Initiatives such as Bangladesh's digital NID are a stepping-stone to accounts and more sophisticated services. Fast retail payment systems based on open public infrastructure that ensure a level playing field are essential. These would facilitate instantaneous and low- or zero-cost digital payments between individuals and businesses or governments. Central bank digital currencies can play a similar role as a common platform on which private providers can build services.

Introducing common standards to bolster competition: Many countries have countered digital monopolies with standards that let users carry their data across various platforms. This makes different providers 'interoperable',

supporting consumer choice and competition. Much like the basic protocols at the heart of the internet, these common standards are a critical public good that allows private markets to flourish.

Updating competition policies: In the digital age, traditional measures of competition in markets, and traditional antitrust tools, may no longer be adequate. For instance, monopoly behaviour may manifest itself through capture of data rather than high prices. Without regulatory intervention, markets may see new barriers to entry and new anti-competitive practices. As the growing scrutiny of mergers and acquisitions of digital gatekeepers shows there may be a need for new and more forward-thinking ways of keeping digital finance markets competitive and contestable.

Strengthening data privacy: Laws on data generated by digital services are often not well-defined, meaning that tech companies have de facto control over sensitive data. Users must be given more control and agency. Privacy laws enacted in the European Union offer potential models. Recent research finds that men are generally more willing than women to share their data in exchange for better financial services offers. Younger users are also more open to sharing than older users. Defining rules for data use that fit all of society will be a challenge—and will likely require legislation.

Getting policymakers of all stripes to work together: Digital technologies in finance concern not only the central bank and regulators but also those in charge of competition and data protection. Central bank and financial regulators must work hand in hand with competition authorities and data privacy authorities. Moreover, policies in one country are very likely to affect users in other countries. By coordinating their policies within and across borders, authorities can work to harness the benefits of digital technology and ensure that these accrue to all.

If public goods are appropriately designed and policymakers cooperate, digital technology can be harnessed to bring more people—particularly the poorest—into the financial system. Broad diffusion of technology may help make societies not only more efficient, but more equitable and better prepared for the digital future. Innovation must be shaped to benefit everyone.



The Untold Success Story of BRI Microbanking

Bank Rakyat Indonesia (BRI)--Indonesia People's Bank--has been the most successful promoter of financial inclusion in Indonesia since the country declared independence in 1945.

BRI's first major financial inclusion initiative was the 1970 creation of a nationwide network of BRI 'unit desas' or village units for channeling Bimas (Mass Guidance) agricultural credit. The primary objective of Bimas was to promote national self-sufficiency by bringing the Green Revolution to Indonesia. However, by the 1983–84 planting season, successful rice farmers no longer needed Bimas support, leaving only marginal and failing farmers in the programme.

BRI thus began its microbanking metamorphosis and rebirth with painful adjustment and slow adaptation, subsequently laying the foundation for dramatic growth and rapid expansion.

Three principal policy changes turned unit desas from marginally useful, extremely costly entities that had outlived their initial mission into profitable rural banks providing vital financial services: (i) transformation of unit desas from Bimas conduits to full-service rural banks; (ii) internal treatment of unit desas as semi-autonomous units of account (discrete profit/loss centres); and (iii) evaluation of unit desas based primarily on their profitability rather than on hectares covered or money lent.

BRI has built on its successful commercialisation of microbanking in the mid-1980s to grow, broaden, and deepen its microbanking business over the past three decades.

BRI faces two significant future challenges if it is to remain a profitable and effective global leader and national driver of financial inclusion. First, it must continue to evolve and adapt amidst an increasingly difficult political and economic environment. This is indeed a formidable challenge but one BRI has successfully met since Indonesia declared independence in 1945. However, the second challenge facing BRI is even more daunting. While continuing to navigate the treacherous waters of well-intentioned but counterproductive national policies that threaten to undermine past accomplishments in financial inclusion, BRI must also manage a transition back to sustainable, market-based microbanking.

Understanding Financial Inclusion: Why and How It Matters

The recent policy focus on financial inclusion is rooted in the political conviction that it is possible to reduce poverty by allowing the poor to access formal financial services. Economic theory and empirical evidence support this view. Having a bank account increases savings, helps women to create opportunities, boosts household consumption and raises productive investment. Policy recognition of this dates back to the G20 Seoul Summit in 2010, where leaders agreed to adopt financial inclusion as one of the pillars of the global development agenda.

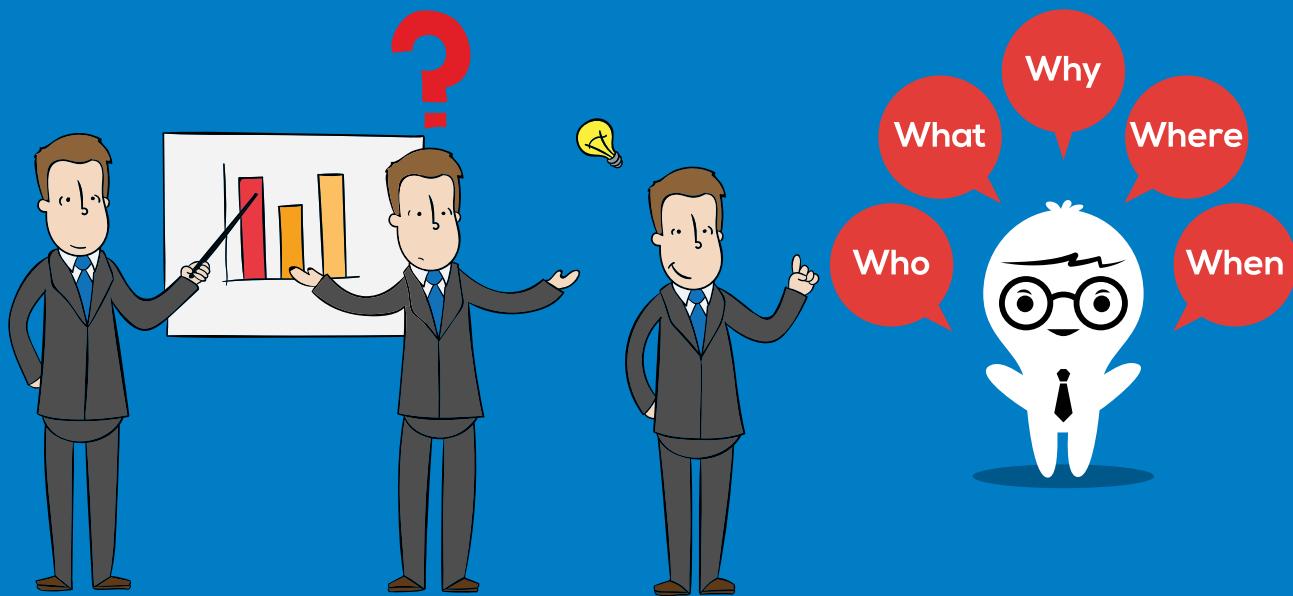
Nevertheless, the concept and measures of financial inclusion seem elusive. It is possible to view financial inclusion from a multidimensional approach through the prism of different dimensions or aspects that contribute to overall inclusion. Earlier work has focused on a narrow scope of financial inclusion such as the share of people within a population who have accounts with formal or semi-formal financial intermediaries or on the exclusion of some groups and individuals from formal financial systems or as a function of the ease of access, availability, and usage of financial services for all members of society. Recent studies consider the importance of new aspects of financial inclusion highlighting the digital dimension to account for the growing use of digital financial services, particularly during the Covid-19 pandemic.

Given the varying nature of financial inclusion, which financial sector developments and technological advances often influence, a multidimensional approach to understanding financial inclusion offers significant benefits. While studying the impact of financial inclusion across different dimensions, such as access, usage, and quality, on diverse socioeconomic outcomes like income and health, it is found that only usage is relevant to income growth while access alone is significant for health outcomes.

Another consideration is that the effect of financial inclusion may be neither uniform nor universal. For instance, the growth effect of financial inclusion may depend on certain economic conditions and development characteristics. The role of financial deepening (beyond financial inclusion) is significant in reducing poverty and income inequality by facilitating the structural transformation of an economy and boosting employment. It is also argued that easing financial access may be more effective for middle-income economies that have attained a certain level of development—in which case, low-income workers would benefit not only through the direct provision of financial services but also indirectly through higher wage savings and greater participation in the formal economy.

In contrast, for high-income economies that have achieved significant financial development, the marginal benefit of additional financial inclusion may not be so large or, in low-income economies that may not have attained a certain threshold of financial development, the indirect effects through economic transformation and job creation may be muted. Indeed, there are likely to be differences in the significance and quantitative values of the impacts of financial inclusion on poverty, income inequality, empowerment of women and entrepreneurship across country income groups.

Should there be a relationship between the effect of financial inclusion and the level of financial development and certain economic conditions, its relevance and impact could also vary as economies reach higher stages of development. This may also depend on the aspects of financial inclusion that are in focus. For instance, ease of financial access and usage may be vital to households and enterprises at earlier stages of development, but financial development may have greater relevance and impact at later



stages. Taken together, these points underscore the importance of considering different aspects of financial inclusion combined with development characteristics across country income groups when assessing the impact of financial inclusion on poverty reduction and inclusive economic growth.

For the policy makers to take informed decisions on the reforms necessary to improve economy-wide conditions and financial inclusion, two issues are important:

First, do different dimensions of financial inclusion—e.g. access, usage, financial development, and fintech infrastructure—show distinct impacts on the achievement of key development goals such as poverty reduction, income inequality, women's empowerment, and entrepreneurship, either separately or together? This question involves not only assessing the impact of financial inclusion on socioeconomic outcomes but also determining which dimensions drive the relationship between financial inclusion and socioeconomic outcomes.

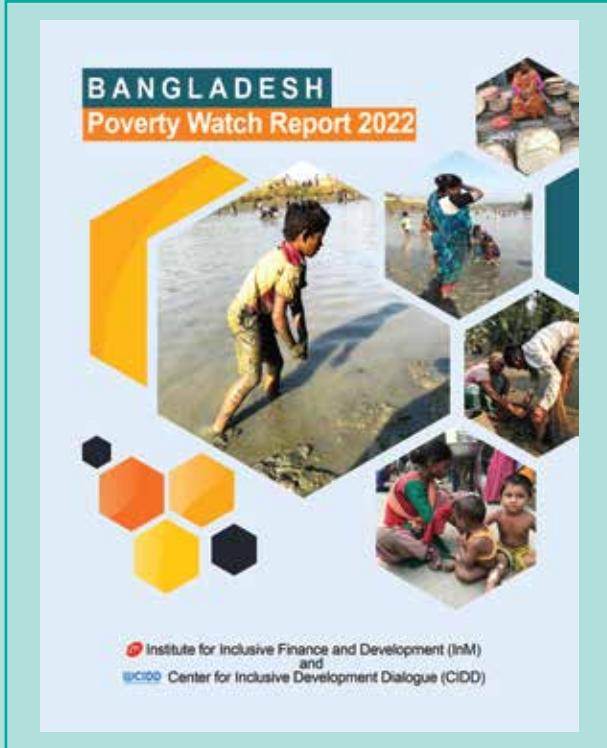
Second, does the impact of financial inclusion (and its subcomponents) change systemically depending on the country income group, which is a proxy for the unique development characteristics of a country? This question allows

to investigate the importance of economies' unique enabling conditions for the effectiveness of financial inclusion.

Some recent studies indicate that all four dimensions of effective financial inclusion—access, usage, financial development, and fintech infrastructure—lower poverty. Access and fintech infrastructure reduce income inequality, while access, usage, and fintech infrastructure increase entrepreneurship.

However, the relevance of each dimension varies among country income groups. The interaction effects further suggest that the effect on poverty reduction of any given increase in effective financial inclusion is stronger for middle-income economies than for low-income economies.

This indicates that its impact may depend on the level of economic development, higher levels being able to provide a better enabling environment for business and more economic opportunities. In summary, the findings underscore the importance of considering both specific dimensions of financial inclusion and the level of economic development in designing policies that will reap the largest benefits.



Bangladesh Poverty Watch Report

Bangladesh Poverty Watch Reports provide a series of publication jointly prepared by the Institute for Inclusive Finance and Development (InM) and the Center for Inclusive Development Dialogue (CIDD).

The Reports aim to ensure that grassroots voices of the ‘left behind’ and disadvantaged and excluded communities are heard, and their voices are reflected in policies. The central part of the Reports consists of the voices and opinions drawn from face-to-face meetings with individuals of specific marginalised and excluded communities. In their ‘stories’, the participants share their experience of having found themselves in poverty, exclusion and extremely difficult conditions re-inforced by systemic errors and structural inequalities.

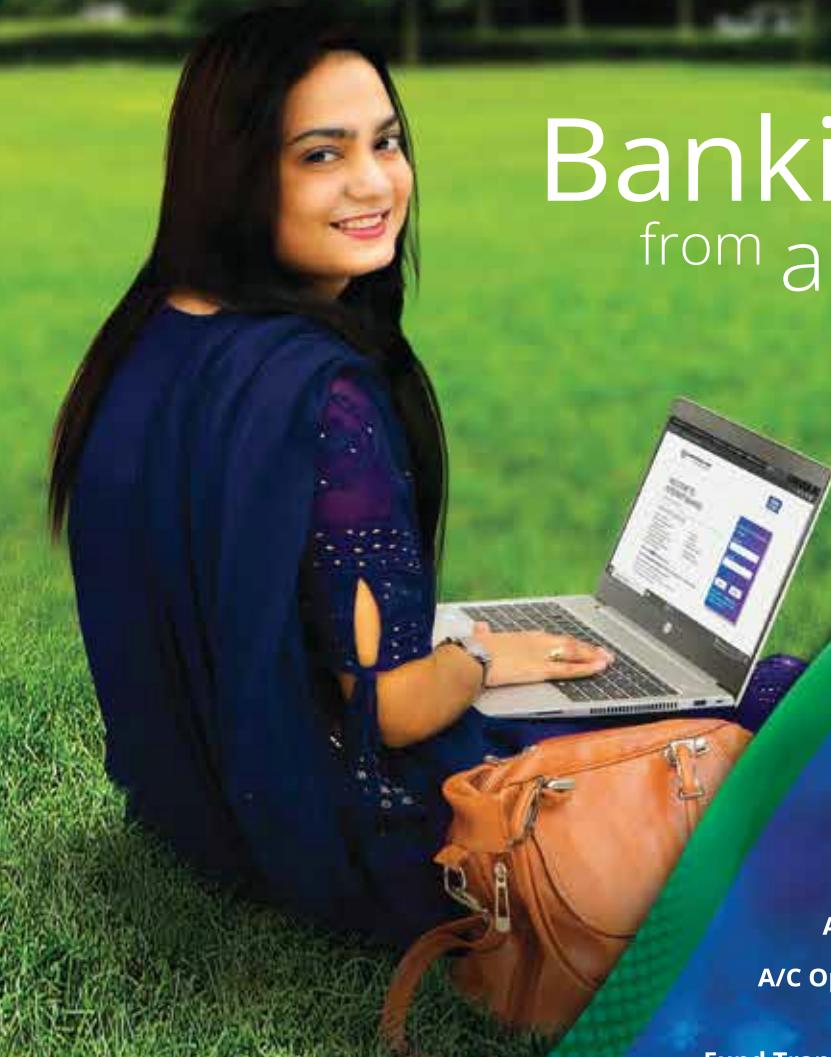
In fact, the participants ‘write’ their own life stories; the biggest value added of which is the insights into the ‘making of poverty and deprivation’ in their communities. The analysis brings out emerging priorities for policies as well as challenges of poverty and deprivation in Bangladesh.

Bangladesh Poverty Watch Report 2022 was published in December 2022 while the 2023 Report is expected to be published in December 2023.



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