FIN-Biz

Finance for All

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- Digital Financial Inclusion
- Does Fintech Impact Digital Divides
- Leveraging agent networks to onboard women into DFS
- Digitising Micro Merchants

Financial inclusion banks can be the primary winners

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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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INSIGHTS AND IDEAS FROM FINANCIAL INCLUSION NETWORK BANGLADESH (FIN-B)

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Digital Financial Inclusion
Financial Sector Change Agent

Digital financial inclusion is a change agent that is bringing about revolutionary changes in the financial sector worldwide. This is also creating the opportunity and indeed the need for standard-setting for both the risks and the rewards of the digitisation of financial services. Basically, digital financial inclusion is nothing but carrying out financial services remotely in a cashless manner using different electronic devices from which both parties (e.g., providers and receivers) gain benefits.

Considering the importance and the prospects of digital financial inclusion, banks are increasingly implementing digital financial services (DFS) such as FinTech, E-wallet, and other cashless transactions. This is because wider inclusion of easily accessible financial services helps banks attain stability, financial advancement, and a flourishing financial sector.

Although financial inclusion has brought a myriad of positive changes and benefits for the underprivileged and 'left-behind' people, sometimes its proper implementation and utilisation can be a burden for those who are unable to afford it. Thus, as well as positive impacts, it also has negative impacts on the financial system, which could be distressingly affected by excessive financial innovations.

However, both the negative and positive effects of financial inclusion raise the question of whether the implementation of digital finance, the latest innovation of financial inclusion, can be a solution for attaining banking stability through ensuring sustainable development or not.

The adoption of digital finance has a significant impact not only on financial inclusion, but also inclusive economic growth. Digital finance has the potential to provide access to financial services for 1.6 billion people in emerging economies, more than half of them are women. Widespread adoption and use of digital finance could increase the GDP of all emerging economies by 6 per cent, or USD3.7 trillion, by 2025, which is equivalent to the size of the economy of Germany. Moreover, 95 million new jobs would be created in all sectors across the world through this additional GDP.

Some evidence shows that greater digital financial inclusion has a significantly positive impact on banking stability, indicating that digital financial inclusion stabilises the banking sector and an integrated inclusion of digital finance is not merely a channel of ensuring banking stability, rather it ensures inclusive and sustainable development. Such economic sustainability eventually helps in achieving the SDGs.

However, digital financial literacy for all needs to be promoted along with ensuring that people have electronic devices supported by the latest technology and different applications germane to digital financial inclusion that must have an uninterrupted internet connection. Insufficient or a lack of seamless internet connection may discourage people from enjoying digital financial services.

For smooth operation of digital financial inclusion, financial literacy is a must as people will not be able to utilise it properly because of their lack of financial literacy. Different DFS such as FinTech using artificial intelligence and machine learning should be introduced that will enhance banking stability and efficiency, which will spur inclusive economic growth. Such types of DFS will inspire people to be more savings-minded and more savings will lead to sustainable growth.

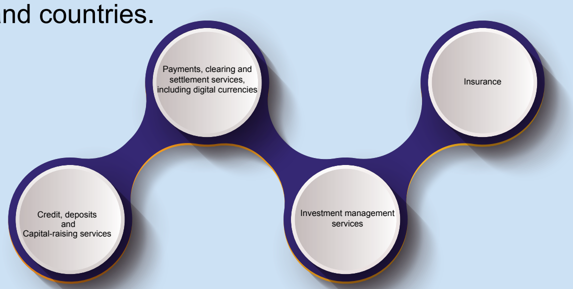
Moreover, banks, in order to tackle the cloning of ATM cards, debit cards, credit cards, hacking, and other technological threats, should implement updated software and a database so that hackers cannot breach the data. To prevent card cloning, banks should launch a money withdrawal facility via scanning a QR code with a mobile phone, which already operates in countries like Singapore. Banks should also have a strong team ready with vast and sound technical knowledge to provide clients with an uninterrupted and painless service, which will stimulate people en masse to come under the umbrella of digital financial inclusion. After all, there has to be a strong, independent, proficient, and unbiased regulatory body that will supervise all the activities in terms of digital financial inclusion and adopt innovative and time-tested policies to make it a successful journey.

Does Fintech Impact Digital Divides?

Fintech is transforming financial services across the world. By leveraging technology and cloud-based data, financial institutions are offering products better tailored to consumers' needs at a lower cost. As a result, there are high expectations that Fintech would promote financial inclusion and benefit disadvantaged groups.

However, traditional indicators of financial inclusion, such as bank accounts and branches, cannot capture the role of Fintech in digital financial inclusion. Fintech products differ greatly in scope and scale: cross-border payments, peer-to-peer loans, and credit risk assessments. Overall, the areas that Fintech covers can be grouped into several categories e.g.

(i) credit, deposits, and capital-raising services; (ii) payments, clearing and settlement services, including digital currencies; (iii) investment management services; and (iv) insurance. Fintech is growing rapidly and at varying speeds across regions and countries.



For instance, there has been a significant increase in the number of mobile accounts and usage of mobile money services in countries like Bangladesh.

Digital financial inclusion refers to the digital access and usage of formal financial services through mobile phones and computers. These include digital payments, digital lending/credit, market place lending, mobile money, and mobile banking. In many countries, digital financial inclusion has been rising, even when traditional financial inclusion is stalling.

Fintech is expected to fill gaps in both payments and lending, especially where the traditional delivery of financial services is less available. Empirical evidence shows that Fintech often serves as a complement to, rather than a substitute for, traditional banking services. On the contrary, others argue that Fintech and big tech lenders serve borrowers who are traditionally underserved by banks.

Despite the rapid growth of Fintech, studies of its impact on financial inclusion are somewhat limited. Studies of how Fintech has narrowed the digital gaps across gender, income and rural areas are even scarcer. This is largely due to the lack of comprehensive data on Fintech variables and digital financial inclusion indicators. The traditional financial inclusion indicators fall short of capturing digital financial inclusion, and analysis of the effect of Fintech on financial inclusion could be misleading if digital financial inclusion is not properly measured.

Fintech is considered as a force for good. The business models of Fintech startups are geared towards solving real-life problems such as payment apps that make it almost free and painless for migrant workers to send money home to the most remote villages. These payments and FinTech lending services are seen to fill a gap where traditional delivery of financial services is lacking; for example, crowd funded lending to SMEs fills a financing gap and improves cash flows. However, as digital financial services become more pervasive and gain greater power, policy makers are also becoming more aware of the ‘dark side of Fintech’ and the need to address it urgently.

The ‘dark side of Fintech’ is about the exclusion of certain groups in society: women, the aged, the poor and minority groups. This also refers to algorithm biases and predatory lending practices that have a negative impact on vulnerable groups. As the Covid-19 pandemic has accelerated the switch towards digital financial services, there is a risk that the ‘dark side’ has grown even bigger. For example, those without access to digital payments or deposit accounts are excluded from government support that is delivered via government-to-person (G2P) payments.

Financial exclusion could arise from various sources, including the lack of access to digital infrastructure such as mobile phones, computers or the internet, financial and digital illiteracy, potential biases in algorithms, and/or lack of trust.

Some analysis shows that Fintech has a positive correlation with financial inclusion; and the correlation is greater when digital financial inclusion measures are used as compared with traditional measures. Further, Fintech plays a positive role in bridging the digital access gap between rural and rich-poor populations. However, Fintech does not seem to have correlation with the gender digital gap. This implies that Fintech is potentially benefitting the poor and rural population; but it fails address the gender divide.

It is observed that women, in general, are more risk averse than men and are less willing to adopt new financial technology, irrespective of whether it is offered by new players or incumbents. Thus the gender gap could narrow as these new Fintech products become more standardised and regulated over time. This difference in attitudes between men and women could reflect social norms as well. For example, women worry more about privacy and personal data protection than men. It could also reflect gender-based discrimination, such as previous bad experiences with financial institutions. In addition, the Fintech gender gap could be traced to the lack of access to the Internet. According to the Alliance for affordable Internet (2021), only 48 per cent of women has access to the internet compared to 55 per cent for men globally. The answer could also lie in the design of Fintech applications that are too male-centric and do not cater to women.

What policy measures are needed to help address the gender gap? It is seen that, even in countries with a very high level of traditional financial inclusion, digital financial inclusion is still a work in progress. In many countries, digitalisation efforts are decentralised, making it challenging to design an overarching strategy to reduce financial exclusion amongst vulnerable groups.

Recognising the need to narrow the digital gap, especially amongst women and the aged, a two-track approach may be designed: go digital for those who are both willing and able; and make sure that those, who are willing but unable, have continued access to cash and personalised help. The aim is to be cash-light but not completely cashless.

Many countries have devised innovative ways to encourage and incentivise digital adoption. For example, in Singapore the ‘Go Digital Campaign’ provides funding support to SMEs to digitalise their business, the ‘Hawkers Go Digital’ provides cash incentives for hawkers to adopt digital payments, and the ‘Seniors Go Digital Campaign’ provides one-on-one guidance to seniors on using mobile phones for digital payments and other digital services. Closing the digital gaps also requires raising financial and digital literacy, addressing infrastructure issues such as broadband and wifi availability, and last-mile challenges.

The key will be to adopt the principle of ‘leaving no one behind’ when promoting Fintech services. While Fintech has delivered some promises in reducing the rural, rich-poor gap, more innovative measures are needed to close the gender gap in access to financial services. Fintech development may need to be complemented by targeted policy initiatives aimed at improving women’s access to Internet and addressing differences in attitudes or challenges across demographic groups. These challenges include discrimination or social norms and laws that disadvantage women in many countries.

Bangladesh promoting an inclusive digital economy

Over the past decade, mobile money and agent banking have reached a scale that makes it clear that digital finance is the primary route to financial inclusion in Bangladesh. However, financial inclusion is not the end goal; it is a means to multiple ends. Meaningful digital financial inclusion has to provide outlets for low-income people with bank accounts to engage in economic activities to meet their daily needs and to improve their skills, productivity and marketability in the digital-economy age.

To ensure this, the need is to make sure that no one is left with just basic voice, messaging and mobile money services; everyone should be able to access, use and benefit from a broad range of meaningful services built on digital platforms. Digital financial services are foundational, in that they enable local entrants to innovate in markets, provide sustainability to new services, and create marketplaces for a wide range of products and services—both digital and non-digital. In effect, digital financial inclusion is contributing directly to the emergence of a digital economy in Bangladesh, and vice versa.

The goal for Digital Bangladesh would have to be to empower millions of people to use services daily that leverage innovation and technology and contribute to the SDGs. To achieve this vision, the key will be to adopt a market development approach that continuously seeks to address underlying market dysfunctions that exclude people living in the last mile.

For the government, the key policy agenda would be to organise capital and technical support through inclusive digital economy programmes to ensure that more households and small businesses gain access to services that expand their opportunities and reduce vulnerabilities. The financial institutions need to provide risk capital directly to the private sector to help bring new products and services to under-served and hard to reach markets and spurring innovations. Flexible grants and loan instruments may also be organised in support of a wide range of products and services in various sectors ranging from finance to agriculture, education, health and transportation. This entails working with both public and private sector institutions to ensure that the services match in particular the needs of key segments such as youth, women, migrants, refugees, and cottage-, micro-, small- and medium-sized enterprises (CMSMEs).

The goal would be to broaden the reach of low-cost digital financial services for the poor by supporting the most catalytic approaches to financial inclusion. These include: promoting the development of digital payment systems that can help spread use of digital financial services quickly; advancing gender equality to ensure that women share in the benefits of financial inclusion; and adopting national and inclusive strategies that accelerate progress for the poor and can serve as models.

For achieving these objectives, the challenge is to align policies with common principles for digital financial inclusion and develop policies and regulations that facilitate growth in digital financial services and provide oversight and accountability.

Rather than focusing on establishing a particular product or distribution channel, the priority should be on finding innovative ways to expand access and encourage markets to determine which products and channels are most effective. The government needs to support approaches that can provide financial services to the broadest number of people, along with recognising the fact that different population groups are at different stages of developing inclusive digital financial systems and their approaches must reflect the distinct needs and demands.

The availability of digital technology and its rapid innovations are bringing deep changes in national policy environment which are clearing away obstacles that once kept digital financial services out of reach for many. But tough challenges still remain. To help realise the full potential of digital financial services, policymakers and business leaders will need to invest in the right payment infrastructure, regulatory standards, and customer activation strategies to ensure continued progress toward the promise of financial inclusion.

One of the most important priorities is the development of digital payment systems that poor people and the businesses that serve them actually use. These systems can foster competition, drive innovation, and accelerate the development of digital financial products and services customised for the needs of low-income communities. To become genuinely inclusive, these payment systems must possess five key traits:

Accessible: They need to reach to the poorest neighbourhoods and smallest villages, and they need to be easy to acquire and understand.

Reliable: Users' money and information must be readily available and highly secure—protected against cyber theft, money laundering, and other breaches.

Valuable: They must offer people clear advantages over using cash.

Affordable: They must be cost-free for all or most people.

Profitable: They must fully involve the private sector and allow service providers to develop sustainable business models.

Perhaps the most important condition for the development of these payment systems is interoperability—allowing customers to transact with any other customer, whether or not they use the same service provider. This kind of open-loop system substantially lowers the costs and complexity of digital financial services and payment platforms. Opening up payment infrastructure to new kinds of companies outside of traditional banking organisations can help accelerate the development of these systems.

The efforts must also involve ways to accelerate the use of digital financial services. One priority is facilitating services that help consumers convert digital money to cash when needed. These 'cash in cash out' (CICO) services must be easily accessible, trusted, and available at low cost for consumers in order to work well and enable use by more people. At present, these are the highest-cost component of a digital payment ecosystem and the biggest challenge for private-sector players that want to provide innovative payments solutions.

The regulators need also to promote the development of effective identification systems in priority geographies. ID platforms such as the NIDs are promising models for providing safe, efficient, and widely beneficial identification services that support financial inclusion across the country.

The government can accelerate financial inclusion by establishing regulatory frameworks, policies, and incentives to help a wider variety of digital financial service providers compete on a level playing field while protecting consumers and the financial system. Open and fair competition will spur innovation and competition and drive down costs, as will essential regulations governing agents, licensing, and know-your-customer policies.

But financial inclusion is not just about developing systems and lowering barriers. The efforts must also focus on new risks and challenges, including how to protect millions of new consumers and how a wider range of market participants can be supervised.

At the core of the government's approach to digital financial inclusion should be the investments that put women front and centre to ensure that more of them benefit from empowering financial tools and services—such as digital financial accounts, mobile money, and credit. When women can fully participate in the economy, they enhance the prosperity of their family, community, and country. Women's economic empowerment is essential for economic growth and sustained prosperity.

For the purpose, the government needs to make strategic investments that align with four key pillars:

Supporting enabling laws and policies:

This includes working to remove legal and regulatory barriers to women's access to financial services, to increase the number of social protection schemes that include gender-intentional payments that spur women to use digital accounts more broadly, and to measure the impact of laws and policies through the use of gender-disaggregated data.

Spurring gender-inclusive product innovations:

This includes reducing barriers to entry for women entrepreneurs and facilitating digital platforms for women's leadership, entrepreneurship, and financial inclusion.

Modernising and improving digitally-enabled services:

This includes scaling up inclusive platforms, particularly for digital payments and ID infrastructure, to promote women's financial and economic inclusion and activity.

Addressing normative barriers to women's financial inclusion:

This includes advocating for legal, policy, and regulatory reforms as well as supporting innovative services that empower women economically.

Further, the focus has to be on financial services for the poor. Although millions of people have graduated out of poverty in Bangladesh with growth and development that have expanded opportunities like new jobs, technologies, and businesses helping people to build more stable lives, but millions of others are still trapped in a cycle of poverty that is difficult to escape. And financial exclusion is a significant driver of this cycle.

in Bangladesh, around half of the population is still excluded from formal financial services such as savings, payments, insurance, and credit. Particularly, women are disproportionately excluded from beneficial financial systems. Most poor households still operate almost entirely through a cash economy. This means they have to save using physical assets, such as livestock or jewelry. Cash gets spent, animals die, and jewelry can be lost or stolen.

What's more, these forms of savings earn no interest and can actually lose value over time. To send money to family, those without a bank account have to rely on couriers or friends who carry cash by bus, which is expensive, insecure, and slow. To borrow money in an emergency, they must turn to moneylenders who charge notoriously high interest rates.

Without formal financial histories, people are also cut off from potentially stabilising and uplifting opportunities like building credit or getting a loan to start a business. And it is harder to weather common financial setbacks, such as serious illness, a poor harvest, or an economic downturn.

All too often, financial exclusion makes the expenses of poverty difficult to overcome. As such promoting an inclusive digital economy is the priority for Bangladesh towards achieving 'Vision 2041' and becoming a high income country by 2041.

Female Banking Agents Lead Women's Digital Financial Inclusion

Access to safe, easy, affordable credit, savings, payments, insurance, and other financial services is critical to mitigate risk, provide a buffer against economic shocks, provide social security, create opportunities for economic and social inclusion, and accelerate growth. Further, it is well-established that empowering women via financial inclusion programmes leads to robust improvements in family health, children's education, and household savings. Despite the broad consensus regarding the importance of access to financial services as a crucial social development and poverty alleviation tool, most women especially in the rural areas remain a critically underserved group, especially beyond the group-based microfinance delivery models.

In recent years, the move towards digital financial services has improved access to basic financial services for households through the use of mobile money and digital wallets, payment cards, and other financial technology applications. In times of Covid-19 pandemic and imposed mobility restrictions in many developing countries, digital financial services (DFS) have fulfilled an important function by enabling the distribution of social transfers and remittance payments and providing a means of payment. Yet, DFS and other financial services are not readily available to everyone.

A recent report prepared for the G20 Global Partnership for Financial Inclusion (GFPI) focuses on the important issue of gender gaps in financial access. While advances have been made and 240 million more women have banking or mobile money accounts than in 2014, women are still consistently at a disadvantage when it comes to accessing financial services. Globally, 980 million women still have no financial institution account. Women are also 20 per cent less likely to have a mobile money account.

What explains this gap? While factors such as lower phone ownership, literacy, and lack of funds and documentation among women are known to contribute to gender disparities, there are unanswered questions around the role of gender in DFS uptake and usage. Do women prefer to transact with women agents? Do they transact larger amounts with women agents? And would they even travel further to transact with a female agent? Empirical evidence shows that customers have a preference for agents of their own gender. After accounting for relevant influencing factors, female customers are on average 7.5 percentage points more likely to transact with a female agent than with a male agent.

Importantly, the effect is stable across markets with higher and lower representation of female agents, which suggests a consistent preference of female customers to transact with female agents. In more general terms, this provides evidence of gender homophily. Clients are also observed to transact higher value amounts with agents of their own gender. Thus, females (males) transact larger values with female (male) agents and significantly reduce their amounts when transacting with agents of the other gender.

When they have higher balances, female clients are more likely to go to female agents. A potential explanation is that an agent can see a customer's balance during the transaction. This may lead women to seek women agents when they are particularly concerned about disclosing financial information (that is, that they have large balances) to men.

What are the implications? The findings show that the gender of the agent matters for how customers use DFS. The implication is that provide women the option to visit a woman agent. Yet, since there are fewer female agents, they are less easily accessible. This implies that it is often less convenient (and sometimes more expensive) to visit a female agent to conduct business. Better representation of women agents could promote ease of access and comfort for women to use DFS.

The need would be to make gender part of agent rollout strategies. A key building block for improving access to female agents is to ensure gender diversity at the agent rollout stage. Without an explicit focus on gender equity, women often need to overcome significant obstacles to become agents. Creating opportunities for women to become agents and addressing barriers to moving into agent banking could advance parity in agent networks.

There is also a need to design products to accommodate women's needs and challenges. Products and procedures that are designed to meet gender-specific needs, taking into account social norms, are crucial for empowering women with DFS. Procedures that safeguard women's financial information could foster trust and usage of DFS.

The evidence strongly indicates that DFS transaction behaviour is influenced by agent gender. Further, understanding gender-lensed usage patterns is important since this will contribute to advancing women's financial inclusion. The need is to conduct more research on the patterns of women using DFS to inform the design, implementation, and delivery of financial services and policies that meet and serve women's needs.

Cover Story

Financial Inclusion:
banks can be the primary winners

Traditionally, banks have not viewed financially excluded individuals, and cottage, micro, small and medium enterprises (CMSMEs) as profitable target customer segments. However, technological advances are increasingly reducing the cost of serving these customers and opening up a potentially significant growth opportunity for banks.

Driving greater financial inclusion will not only generate sizable economic benefits — boosting GDP significantly — but could also lead to large increases in banking revenues. However, improving financial inclusion can be fast in countries with types of market infrastructure and government policies that will make it easier for the banks to rapidly expand financial inclusion through innovative strategies, such as: customising offerings; developing innovative channel strategies; and employing creative risk mitigation and credit profiling techniques.

Institutions that act now to increase financial inclusion will be well-placed to dominate retail and CMSME banking for years to come. Banks' financial inclusion growth opportunities will be the greatest in markets that embrace technology-led innovation, and which have a clear and supportive policy framework for financial stability.

Technology and infrastructure drivers

As mobile devices become more affordable and network coverage expands, digital connectivity of financially excluded individuals and CMSMEs is improving. High levels of mobile adoption, coupled with government action to digitalise payments (e.g., government-to-person (G2P) direct cash assistance programmes) could be a catalyst for low-income communities to adopt financial services.

National digital identity (ID) systems

Government-issued biometric ID programmes provide real-time verification of identities using a fingerprint scan, iris scan or digital face print. Among others, this enables the direct transfer of government subsidies and unemployment benefits. Banks could leverage such biometric ID programmes to verify customers at ATMs or service counters and widen access to financial services.

Credit data infrastructure

The absence of traditional credit data for financially excluded individuals and CMSMEs is a major barrier to accessing financing. CMSME credit registries can be formed to enable the collation of reliable and transparent data that potential lenders can use to facilitate loan applications. Banks seeking to boost lending to underserved segments could use these registries to address information asymmetry and reduce their cost to serve.

Open access to digital data

Innovative use of new data sources, such as social media profiles, can provide greater behavioural analysis that can provide financial inclusion. Meanwhile, open application programming interfaces (APIs) allow financial institutions to collaborate with FinTechs, government and external partners on innovative mobile applications and digital payment solutions. Such collaboration can lower the cost of customer acquisition and foster financial inclusion.

Currency digitisation

Virtual currencies have the potential to improve transaction oversight, which would reduce fraud and counterfeiting. The Bank for International Settlements (BIS) has urged the central banks to consider issuing digital currencies that would lower transaction costs and drive financial inclusion, but require tight regulation including linkage to fiat money, and an innovative response from banks that wish to remain relevant.

A combination of these new technologies can radically improve financial inclusion. As new technology infrastructure increasingly permits the secure exchange of up-to-date customer information, CMSMEs would seek standardised and simplified means to identify and verify themselves with a range of parties. Concepts such as a Digital Passport, a distributed mechanism for trusted and secure customer information exchange between multiple providers, would enable easier identification and vetting, help build credit histories and make it easier for customers to switch providers by facilitating Know Your Customer (KYC) and onboarding processes.

Policy and systemic drivers

Strong customer safeguards

Low-income consumers are particularly susceptible to aggressive and predatory sales and collection practices. Thus, implementing and enforcing stringent consumer protection laws with strong transparency and disclosure, financial integrity, and effective recourse mechanisms for grievances could build trust in banks and encourage greater financial inclusion. This also includes simplifying legal documents using plain and understandable language.

Responsible financial literacy programmes

Basic education on financial offerings can help individuals and CMSMEs understand the value of having access to the financial system, which may improve money management. Financial literacy programmes are typically government-initiated moves to establish a dedicated advocacy unit to address all inclusion initiatives and drive financial awareness. Banks can seek to support and leverage such programmes to deepen relationships and foster customer loyalty.

Bankruptcy regimes

Countries that regulate the wind-down of failed companies and ventures, support creditor rights, and help to resolve claims in an orderly and unbiased manner are driving financial inclusion. Insolvency regimes protect lenders and raise willingness to provide credit to CMSMEs.

Regulatory incentives for banks

Recognising that onerous regulations can be a barrier to financial inclusion, the government can move to ease selected rules, such as simplification of onboarding requirements for no-frills accounts, and measures to reduce KYC documentation for small balance accounts. Government-backed funds to guarantee loans to CMSMEs also can facilitate enterprise financial inclusion by eliminating collateral requirements. Such guarantees insulate banks from losses related to potential defaults by CMSMEs.

Diverse financial ecosystems

Increased provision of financial services by microfinance institutions MFIs), e-commerce firms, FinTechs, retailers, and telecommunication companies have a direct impact on expanding financial inclusion. Consequently, a vibrant startup community with access to diverse sources of capital is an important enabler. China's leading internet and mobile payment platforms (Alibaba's Alipay and Tencent's Wechat Pay) enabled US$2.9 trillion in digital payments in 2016, raising China's e-payments value 20 fold in just four years. Digital finance dramatically helps increase sales revenues and access to capital for small merchants, while platforms such as Alibaba's Yu'e Bao make financial investments more accessible for lower-income communities. Both of these tremendously enhance financial inclusion.

Interoperable financial systems

Interoperability allows for a collaborative financial system, enabling users on multiple digital networks to transact across platforms. The government, financial sector and telecommunications providers jointly can establish an interoperable mobile payment platform for customers to transact across mobile networks and financial providers. This facilitates the use of mobile wallets offered by e-money issuers and promotes greater inclusion.

In markets with the right infrastructure and policies, banks will have to adapt their operations to achieve profitable financial inclusion with focus on three actions:

- **Customise offerings**

— to raise relevance and deepen account adoption

- **Innovate channels**

— to reach more customers at lower cost

- **Creatively mitigate risk**

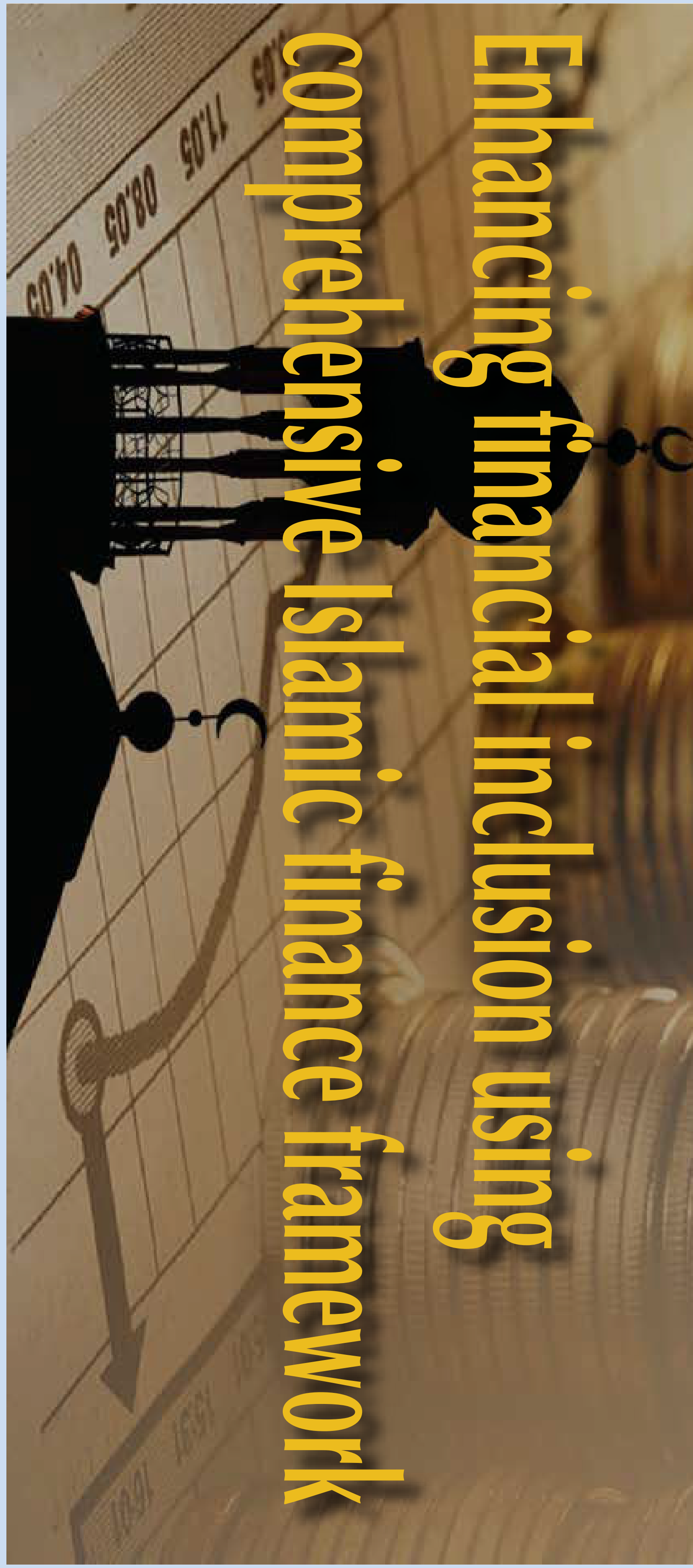
— to address absence of credit histories

Further, the approach a financial institution takes to driving inclusion depends on its business model. Some may prefer to focus on developing innovative products or credit-scoring techniques, while others opt to transform delivery channels. For example, MFIs are already aligned to small customers, which place them in a suitable position to focus on customising products. In contrast, telecommunication companies and FinTechs are probably better suited to utilise innovative channels and alternative credit-scoring techniques.

While these nonbank financial institutions and ecosystem players stand to benefit, banks with established brands and branch networks, can be the primary winners of the opportunities presented by greater financial inclusion.

There has never been a better time to seek revenue growth through financial inclusion. Banks that seize this opportunity today — and are able to strategically customise offerings, utilise innovative channels and creatively mitigate risk — will be well positioned to capture market share and play a transformative role in the spread of financial inclusion and growth of financial markets for years to come.

Enhancing financial inclusion using comprehensive Islamic finance framework



As we seek to close the financial inequality gap, we turn to novel solutions and approaches to make a difference. The Covid-19 pandemic has accelerated this creation and adoption of new technologies. The approach to financial inclusion has transitioned 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. 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 can address the needs of CMSMEs, providing them with access to the financial system and people using credit cards. Skepticism 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 redistribution instruments for poverty alleviation.

In fact, 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. Growth of fintech and alternative financial services, such as Islamic finance, will accelerate this trend.

We need this new approach to finance to help make it more inclusive and accessible, more closely aligned with today's digital society and accounting for people's individual situations and values. This will create both fairer and stronger national and global economy.

Consumer Finance in Financial Inclusion

Financial inclusion is necessary since credit is critical in a country like Bangladesh where a large share of the population is either self-employed, or engaged in small informal businesses. Further, financial inclusion involves a total integration with the financial market and is not limited to credit or other banking services. Rather, it indicates 'an absence of price and non-price barriers in the use of financial services'. The concept has a multitude of dimensions ranging from payments and savings accounts, credit, consumption loans, insurance and pensions and securities market. Financial inclusion is not concerned only with 'access', but also with the 'use' of financial services. While access essentially refers to supply of services, use is determined by demand as well as supply.

Despite being a prime policy agenda for years, the goal of universal financial inclusion has yet to be achieved in Bangladesh. The recent revival of financial inclusion policies has been spearheaded by the adoption of the National Financial Inclusion Strategy-Bangladesh (July 2021-June 2025) by the government in 2021.

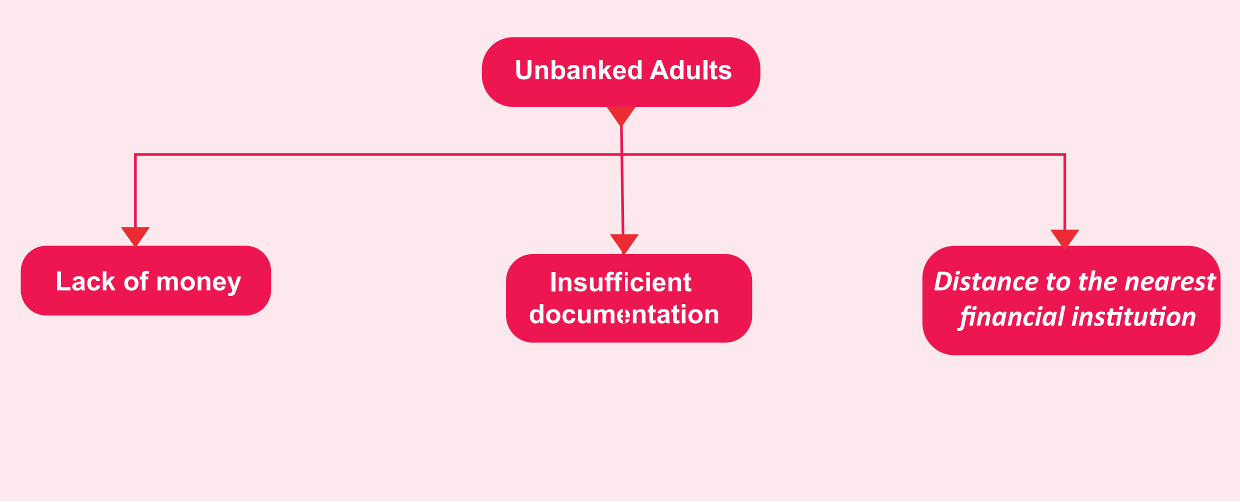
With a huge absolute size of unbanked population, ensuring quality access to financial services remains an uphill task for the policy makers in Bangladesh. The issue is more critical when it comes to availability of credit, especially small ticket loans for consumption. The demand for small ticket loans arises mostly from consumers who are perceived to be risky owing to lack of credit history and low income levels. While the microfinance sector traditionally has been providing small loans, these are mostly income-generating loans under joint liability lending or microenterprise loans.

Consumer finance refers to activities involved in granting credit to consumers to enable them to purchase durable goods for everyday use. Consumer loan is a type of loan which is given to an individual in a non-secured basis for personal, family, car and home loans etc. Most of these loans are unsecured without any collateral for security to the lending institutions and are largely used to finance personal consumption. The market is fast expanding with both scheduled commercial banks and non-banking finance companies aggressively expanding the portfolios.

While the market for consumer goods is constantly evolving and expanding into hitherto untapped sections of society especially the rapidly expanding middle class, there are also a large number of people getting integrated into the formal financial market. With the increased use of technology and digital intervention, not only are new players entering the market, but existing players are also diversifying their products. This intensifies the competition as the same segment is being targeted by many players. Aided by impressive and consistent growth in GDP, private consumption is also expanding fast.

There are important dynamics of the middle class as well. In the urban areas, there is appetite for more consumer credit in cities which are relatively more underserved. It is important to realise that for most people taking a loan, publicity at the point of sales, helps in decision-making. For the poor, managing money is central to their life, more than any other group. For the poor in particular, clarity of procedures is a daunting challenge. This brings to the fore, the importance of financial literacy and education. This is the key to achieving greater financial inclusion in the country.

Financial Inclusion:
Global Findex Database 2021



Financial inclusion is a cornerstone of development in all countries including Bangladesh. Since 2011, Global Findex Database is a major source of data on global access to financial services from payments to savings and borrowing. The 2021 edition, based on nationally representative surveys of over 125,000 adults in 123 economies during the Covid-19 pandemic, contains updated indicators on access to and use of formal and informal financial services and digital payments, and offers insights into the behaviours that enable financial resilience. The data also identify gaps in access to and usage of financial services by women and poor adults.

Evidence shows that households and businesses that have access to financial services are better able to withstand financial shocks than those that do not. Digital financial services such as mobile money let users safely and inexpensively store funds and transfer them quickly and affordably across long distances, which lead to higher remittances and consumption and more investments. In Bangladesh, very poor rural households with family members who had migrated to the city received higher remittance payments when they had a mobile money account, and so spent more on food and other items, were able to reduce borrowing, and were less likely to experience extreme poverty.

For women, accounts can enable financial independence and strengthen economic empowerment. Evidence shows that paying women their benefits directly into their own account (and not into the account of a male household head) increases women's financial control, influences gender norms preventing women from working, and incentivises women to find employment, compared with those paid in cash.

The receipt of payments such as wages and government support directly into an account can help achieve development goals. For example, studies have found that workers who receive their wages through direct deposit have higher savings than workers who are paid in cash. In Bangladesh, factory workers who receive their wages directly into an account have also learned to use their account without assistance and avoid illicit withdrawal fees. Moreover, digitalising government payments can reduce administrative costs and leakage (payments that do not reach the intended beneficiaries).

Such evidence on the benefits of financial inclusion has spurred efforts to expand account ownership and productive usage. Since 2011, the Global Findex has documented growth—at times incremental and at times dramatic—in account ownership across more than 140 economies. Globally, in 2021, 76 per cent of adults had an account at a bank or regulated institution such as a credit union, microfinance institution, or a mobile money service provider. Account ownership around the world increased by 50 per cent in the 10 years spanning 2011 to 2021, from 51 per cent of adults to 76 per cent of adults.

Despite continued gaps in financial services for typically underserved adults, such as women, the poor, and the less educated, progress has been made. For example, the gender gap in account ownership across developing economies has fallen to six percentage points from nine percentage points, where it hovered for many years.

In developing economies, the share of adults making or receiving digital payments grew from 35 per cent in 2014 to 57 per cent in 2021. Receiving a payment directly into an account is a gateway to using other financial services. Indeed, 83 per cent of adults in developing economies who received a digital payment also made a digital payment, up from 66 per cent in 2014 and 70 per cent in 2017. Almost two-thirds of digital payment recipients also used their account to store money for cash management; about 40 per cent used their account for saving; and 40 per cent of payment recipients borrowed formally.

Payments may pave the way for wider adoption of financial services when it is easier to leave transferred money in an account until it is needed and then make a payment directly. Similarly, once money is in an account it is relatively easier to keep it there for savings. Receiving a payment into an account—especially if the payment can be used to document a regular income stream over time—can also ease the process of borrowing money formally.

In developing economies in 2021, 18 per cent of adults paid utility bills directly from an account. About one-third of these adults did so for the first time after the onset of the Covid-19 pandemic. The share of adults making a digital merchant payment also increased after the outbreak of Covid-19. These data point to the role of the pandemic and social distancing restrictions in accelerating the adoption of digital payments.

Lack of money, distance to the nearest financial institution, and insufficient documentation are consistently cited by the 1.4 billion unbanked adults as some of the primary reasons they do not have an account. Yet there are clear opportunities to address some of these barriers. Enabling infrastructure has an important role to play. For example, global efforts to increase inclusive access to trusted identification systems and mobile phones could be leveraged to increase account ownership for hard-to-reach populations. The chief actors in this effort, such as governments, telecommunications providers and financial services providers, must also invest in regulations and governance to ensure that safe, affordable, and convenient products and functionality are available and accessible to all adults in their economies.

Findings from the Global Findex 2021 survey reveal new opportunities to drive financial inclusion by increasing account ownership among the unbanked and expanding the use of financial services among those who already have accounts—in particular, by leveraging digital payments. For example, hundreds of millions of unbanked adults received payments in cash—such as for wages, government transfers, or the sale of agricultural goods. Digitalising some of these payments is a proven way to increase account ownership. In developing economies, 39 per cent of adults—or 57 per cent of those with a financial institution account (excluding mobile money)—opened their first account (excluding mobile money) at a financial institution, specifically to receive a wage payment or receive money from the government.

About two-thirds of unbanked adults say that if they open an account (excluding mobile money) at a financial institution, they could not use it without help. One-third of mobile money account holders in Sub-Saharan Africa say they could not use their mobile money account without help from a family member or an agent. Women are five percentage points more likely than men to need help using their mobile money account.

Inexperienced account owners who must ask a family member or a banking agent for help using an account may be more vulnerable to financial abuse. Also, 1-in-5 adults in developing economies who receive a wage payment into an account pay unexpected fees on the transaction. Together, these issues point to the fact that less experienced financial customers may be more vulnerable to fraud. Thus investments are needed in numeracy and financial literacy skills, product design that takes into account customer usage patterns and capabilities, as well as strong consumer safeguards to ensure that customers benefit from financial access and to build public trust in the financial system.

The Global Findex Database has been published every three years since 2011 and has become an indispensable tool for policymakers, researchers, practitioners, media and the development community. The Database provides an opportunity to raise global awareness on progress in inclusive access to and use of digital financial services especially in developing economies, identify remaining gaps, especially among women and poor adults, and reinforce the importance of financial inclusion as a critical investment to build inclusive, resilient economies.

Financial inclusion mission needs to close gender gap

In Bangladesh, women entrepreneurs are often at a significant disadvantage when assessed by traditional credit scoring models. The fintech revolution, alternate credit scoring models, and the account aggregator framework hold significant promise for breaking these barriers.

In practice, evidence shows that the rejection rate by lending institutions is much higher for women entrepreneurs compared with men entrepreneurs. This happens although women entrepreneurs report higher profit margins compared with men, and bankers report relatively lower non-performing loans for women.

Moreover, the main difficulty in assessing progress in closing the gender gap in access to finance is the paucity of data. Studies on the issue are few and far in between, and we lack gender-disaggregated data on most basic parameters in banking and payments. The most cited database, the Global Findex, reports a steady rise in the percentage of women owning an account at a bank or any other financial institution. The impact of recent emphasis in harnessing women shows that the gender gap in account ownership is reducing but there are significant shares of women who do not use their accounts.

Despite the lack of data, the challenges that women face in accessing formal financial services are well known — they have limited or no credit history, often lack adequate collateral and official documents, and are hesitant in approaching banks where typically officials are males. Women also have high commitments to family duties, constrained mobility outside the home/neighbourhood, lack decision-making powers within home, need for husband's/father's concurrence for official documents, and face other constraints.

For a comprehensive overhaul of the system, three fundamental changes need to take place.

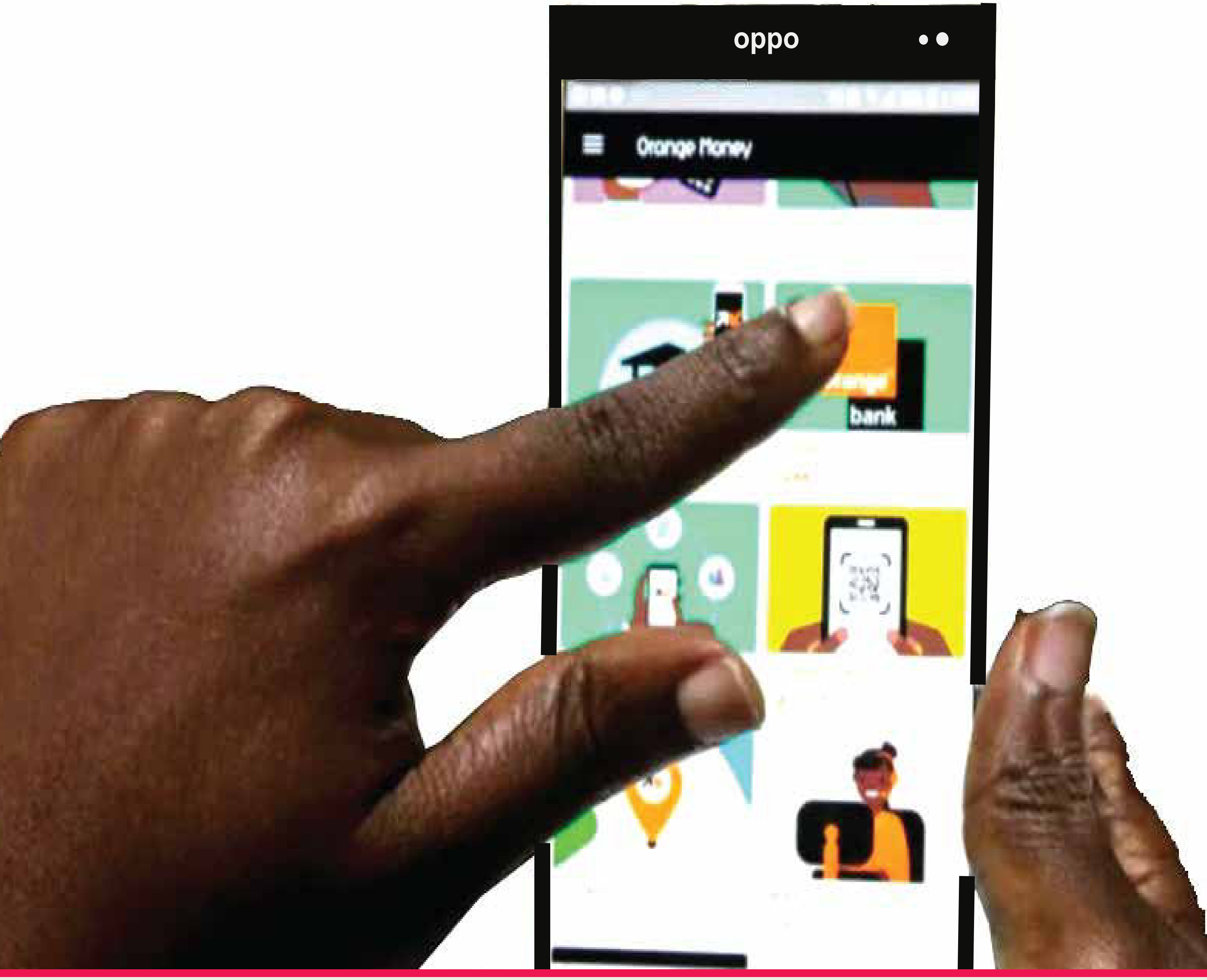
First, the onus is on the Bangladesh Bank (BB) to make a start in releasing gender-disaggregated data to cover banking access, usage as well as the Business Correspondent (BC) network. Data can be anonymised appropriately and shared.

The Consultative Group to Assist the Poor (CGAP) has a toolkit on analysing regulatory reports, in which an example has been shared from Mexico where the pension regulator used disaggregated data to create specific products for women. It is also crucial that gender-disaggregated data be granular so that products and services can be aligned to the needs of different regions, especially rural and urban areas.

Second, gender-sensitisation must be inculcated within the BB, and all financial service providers for appropriate products, and processes. This, of course, includes training and sensitising staff at all levels. Efforts can be made to put together instances where bias works against working women in practice, despite stated gender-agnostic bank policy. We all know that women customers, especially in rural areas, are more comfortable meeting with women BCs. However, women BCs are still a small minority of the total agent network. Bangladesh Bank may initiate a programme, in collaboration with the banks, to place one women bank agent for one union, through training women along with intensive hand-holding to cover all unions of the country.

Third, women entrepreneurs often are at a disadvantage when assessed by traditional credit scoring models that rely on collateral, documentation, etc. The fintech revolution, alternate credit scoring models, and the account aggregator framework hold significant promise for breaking the barriers. However, there must be caution to ensure that the algorithms used themselves do not suffer from a gender-bias.

A study by Women's World Banking reveals two ways in which bias creeps in — algorithms may be constructed with bias or individuals may introduce bias by using 'incomplete, faulty or prejudicial datasets'. Bangladesh has gained impressive achievements in financial inclusion over the past few years. However, we cannot afford to lose sight of the challenge in closing the gender gap; there is still a lot to be done to bring all Bangladeshi women into the fold of financial inclusion.



Financial inclusion will not result in gender equality unless...

On its own, financial inclusion will not result in gender equality. Gender dynamics can and do change over time. The financial services industry can be both a catalyst and barometer of gender equality. However, only with equal access to the full range of needs-based financial services – savings, credit, insurance, payments – and the accompanying financial education, do women stand a chance of social and economic empowerment.

Whether women work at home or outside, whether they are employed or self-employed, financial inclusion provides women the tools for accumulating assets, generating income, managing financial risks, and fully participating in the economy.

Globally, women have fewer economic opportunities. Less than half of all eligible women participate in the labour force, compared with 75 per cent of men. Women are also more likely to work in informal employment and in vulnerable, low-paid or undervalued jobs. To make matters worse, the Covid-19 pandemic has caused unprecedented job losses, hitting women the hardest, further widening gender gaps. Women do not enjoy the same access to financial services as men. Even before the pandemic, 56 per cent of all those without a bank account were women – meaning that nearly a billion women are unbanked.

There is also a gender protection gap, with fewer women using insurance than men. Equal access to insurance is important so that women can take advantage of risk management solutions, including business insurance for women-led enterprises.

Recent studies suggest that that women and girls fare worse than men and boys on a range of factors that predispose them to poverty. Results from a study done by UN Women and World Bank show that between the age of 20 and 34, women are more likely to be poor than men . Divorce, separation and widowhood affect women more negatively than men. In the 18-49 age group, divorced women are more than twice as likely to be poor than divorced men.

While economic inclusion can lead to financial inclusion and vice versa, gender dynamics hold women back on both accounts. This needs to change. Commercial banks often focus on men and formal businesses, neglecting women who make up a large and growing segment of the informal economy. Many microfinance institutions (MFIs) have risen to the challenge, focusing primarily on women, but to change the status quo, much more is needed, from formalising MFIs to providing women with financial knowledge.

Furthermore, research shows that women tend to contribute larger portions of their income to household consumption than their male counterparts do. Targeting women with financial inclusion can also benefit households, communities and society.

Women's empowerment through financial inclusion is an essential component of promoting decent work across all countries. For the purpose, the focus on women needs to include:

Financial education

Financial education provides basic skills related to earning, spending, budgeting, borrowing, saving, and using other financial services such as insurance and money transfers. It is essential for increasing financial literacy and helps women to achieve better business results, better equality, and more empowerment.

Making microfinance work – Managing product diversification

This is needed for developing products or distribution efforts to reach new market segments. Gender should be mainstreamed in these efforts. Women's entrepreneurship development needs priority with efforts to facilitate financial service providers, business support agencies, and government departments to have a fresh look – and a systematic assessment – of the extent to which they provide women entrepreneurs with appropriate products and services.

Efforts are needed to enable women and men workers to have better control over their wages and benefits and effectively use responsible (digital) financial services for better income security, resilience, and economic opportunities. There should be gender-responsive research, knowledge management, advocacy, and related activities.

Women and inclusive insurance

Besides considering how women manage money and take advantage of business opportunities, it is also important to consider how they manage risks. This should promote women's access to better quality insurance through creating opportunities for industry stakeholders to come together, share knowledge and learn how to improve women's access to better quality insurance. There should also be research into gender-sensitive insurance products to provide clear guidance on how to design and deliver insurance, taking into consideration women's preferences and priorities.

Advancing Financial Inclusion for Women

An Interview with
Mary Ellen Iskenderian

Financial inclusion remains one of the biggest global challenges. This is particularly crucial for the 43 per cent of women worldwide who still do not have an account at a financial institution. Technological development has opened many opportunities to advance financial services for historically excluded groups. However, 'technology alone isn't going to break the gap'. Mary Ellen Iskenderian (MEI), President and CEO of Women's World Banking, is breaking the gender gap in financial tools for over 44 million clients across 32 countries. Through her leadership at Women's World Banking, a global nonprofit for financial inclusion, she is devoted to provide low-income women with access to the financial tools they need to build security and prosperity.

We live in an era of unprecedented technological development. However, according to the World Bank, 39 per cent of the world population still does not have access to a bank account. What are the main barriers to financial inclusion?

MEI: Technology is going to be the principal tool to close the gap in financial inclusion. Not only in terms of banking, but also in terms of the gender gap, which is the Women's World Banking's perspective. There remains a very considerable gap between men and women in access to finance and technology. However, we can't just assume that because technology exists, financial inclusion will exist as well. Particularly for women, there are still a lot of social and cultural norms that make it very difficult to actually have a cell phone of their own. And women are pretty clear that if they are going to bank through their phone, it has to be their own phone, because they don't usually want their husbands or sons to know that they're transacting or that they have access to funding. There is a lot of potential, particularly in confidentiality and security in all banking, but women don't necessarily have access to their own technology.

We are doing a fascinating project in Pakistan with the largest mobile money provider. They discovered that only 15 per cent of their clients were women. Women used the products in the same grade that men did, but the way that the company attracted new clients was through agents, and 90 per cent of the agents were men. In a country with really strong gender prohibitions, not only would the woman have to feel confident going to the shop and dealing with men, but she also had to give them her cell phone number.

There was this full set of reasons that made no sense for women to want to engage with these products. Our work with them has been to identify a whole network of woman-owned Unilever kiosks throughout Pakistan to train them to be agents for the company. They're already very respected people in the village, so women would be attracted to them as agents. We're exploring a whole range of other ways to bring women into usage of technology, but the technology alone isn't going to break that gap.

Why is financial inclusion for women relevant as a social goal?

MEI: During the rounds of negotiations of the United Nation's Sustainable Development Goals (SDGs), there was a lot of discussion on whether financial inclusion should be an SDG, and there was explicitly a decision not to make it a goal in itself, but rather to consider it an enabler of many of the goals. From our perspective, financial inclusion can get you a long way to better water, sanitation, food security, better education and better health, but women's financial inclusion can get you there faster and further because those issues are very particular to the things women care about, spend their money on, and save their money for.

We have a lot of data on how women make less money than men and have less disposable income, but they are the risk managers of the households: they will determine how the money will be spent. When a woman is given that kind of discretion, she's always going to choose health, sanitation, improvement of their housing or nutrition, so women's financial inclusion has a multiplier effect (because financial inclusion is not an end in itself by any means).

There is really amazing research that looks at the positive effects of being financially included and financially independent on a woman's self-esteem, her negotiating power in the household, her political participation, and her protection from domestic violence.

In your experience leading Women's World Banking, what major insights have you gained about women's unique financial realities?

MEI: One thing we see, and it is fascinating as it happens across all income levels, is that women need a lot more information to make a financial decision. Fidelity Investments did a fascinating study of middle- and high-income professional women who had financial advisors, and they asked way more questions, needed way more explanations, and wanted to be really sure about whether or not this product made sense to them. We see exactly the same things—we have hilarious stories with loan officers that would just come and complain about how long it takes to get that woman's business. But once you get her trust, she becomes a loyal customer of the financial institution.

There are really good data about client retention rates of women customers. If they are happy with the service, women are much more likely to tell other people. They're also much more likely than men to talk about the fact that they're unhappy with the service. Men would leave a banking relationship for a couple of basis points on interest rates, but women really value the relationship.

Nevertheless, one of the things we often hear from low-income women is that having a bank account is very aspirational; they would see it as something to brag about to other women, they would be proud to tell their children they have one. And yet, women feel a really strong sense of emotional distance from the bank—"Oh, it's not for me; they wouldn't want me as a customer." That's not something that a bank thinks about when they are attracting male clients, but it's something they'll have to think about for reaching women.

Women's World Banking has expanded access for over 1.5 million women to previously unavailable financial products and services. What has been your most challenging project?

MEI: The biggest challenge is when we make a business case and the bank still says no. It's the continuous bias of not looking into the numbers and immediately assuming that women are riskier when the opposite is true.

In countries that have gender-disaggregated data, such as Chile, they are unequivocal that for all size loans and income levels, women are better at repaying loans than men. Yet, we know from research that they typically face shorter-term loans and higher interest rates. Also in Chile, men are more likely to borrow for consumption purposes, and women are more likely to borrow for home. The challenge is that we provide these data, we know how much lower the risk of lending to women is, and still so many bankers still say no. I don't know how you fight that bias—that unwillingness to look at facts that don't necessarily sound like the things you've heard all your life.

How does financial inclusion for women in the U.S. differ from developing countries?

MEI: I'm not an expert in financial inclusion in the U.S., but I know there is virtually no gender gap. Access issues here are not the same as in other parts of the world. At the same time, we see that woman-owned companies receive less than three percent of all the venture capital in the United States, so having access to capital is the same issue as in the developing world. The biggest determinant of whether a woman-owned company will get venture capital funding in the U.S. is whether there's a man in the investing committee that makes the investment decisions. Men don't see women's start-ups as viable, exciting venture opportunities. There was recently a case in the press about a start-up founded by two women that wasn't getting anything, so they invented a male CEO when they were sending out their pitches to venture capital companies. They pitched in many of the same companies they had before, but they got a meeting after making that up.

In the U.S., you don't really have the issue of access to collateral, which is such an important driver of access to credit for woman-owned businesses everywhere else in the world. Something that has been a huge boom in the U.S., Mexico, and a growing number of developing countries, is the introduction of movable collateral, so you can register your car or accounts receivable as security against your loan. It doesn't have to be real estate, land, or built property, which women are much less likely to own. I saw a great statistic—86 percent of the loans written to women entrepreneurs in the U.S. could not be made in Nigeria; they only recently introduced a movable collateral registry. Women don't have a lot of physical assets to pledge, so being able to pledge accounts receivable is enormously important.

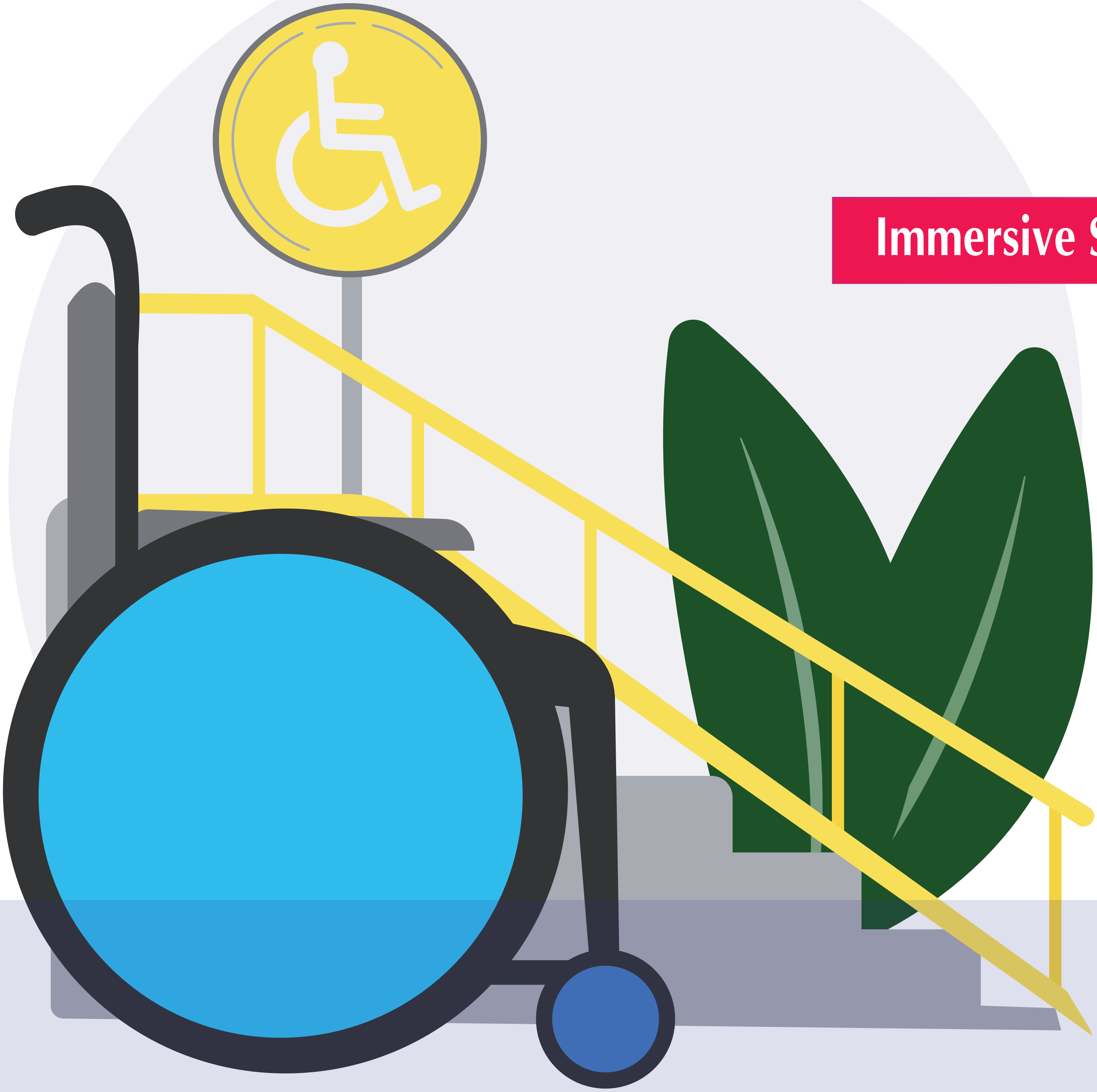
While financial inclusion brings multiple economic benefits, the rationale for the private sector is profit-driven, often preventing firms from reaching lower-income clients. How have you managed to overcome this barrier and develop business models that are both financially inclusive and sustainable?

MEI: Technology has really driven costs down, so a lot of the reasons that banks give for not making money with a particular population are no longer true. It is more a question of whether there is a business case for serving this population. That's a big part of the work that we do, and others who are engaged in this field have to make that decision. But even with the cost structure as it is, there is absolutely opportunity to make money on these costumers.

The right mechanism is probably around cross-selling of products, about getting these low-income clients on a platform where they can do other things as well. If you think about the value chain of both financial institutions and other companies, there is absolutely a business case there. At Women's World Banking, we don't believe in charity, we don't believe in a subsidy; we know that if these products don't make money, no one will continue to provide them after the grant funding runs out.

Courtesy: Chicago Policy Review

Immersive Story



Financial Inclusion Tools for People with Disabilities

In the society, we don't think of people with disabilities as having money or managing their own money. We know very little about how people with disabilities manage their money, choose financial institutions, and invest. We do know, however, that people with disabilities are less likely to have a mobile money account or a credit card or credit history. That is because family members often take on the role of primary financial decision maker. And so, the cycle of exclusion continues. We don't see people with disabilities managing their own money, we see their family members managing money for them and therefore we design financial structure for the able-bodied people.

Financial inclusion, however, is important because designing financial structures with accessibility and inclusion in mind, benefits everyone. It is not so long ago voice assistants were considered 'assistive technology; but these days, Siri (an easy way to make calls, send texts, use apps, and get things done with just the voice) is widely used on the phones. Financial inclusion is even more important for people with disabilities. Financial inclusion enables a person with disabilities to manage his/her money, learns about money, and makes financial decisions.

As the evidence suggests, physical and cognitive ability occur along a spectrum. Everyone has a limit as to what he/she can physically accomplish and intellectually comprehend. Good accessibility has to be designed for the full range of capabilities, as well as for the context of use or environmental constraints. Siri, for example, can be seen as 'assistive technology' when used by people with disabilities, and 'helpful assistant' when used by able-bodied people.

An interesting development is currently taking place – technology that was previously thought of as 'assistive technology' now leads in innovation. Biometric recognition, voice commands, and mobile application design are strong examples of concepts once thought of as 'assistive technology' which today have become a leading standard in any digital experience looking to keep up with the growing demand of the users. We live in an excellent time to be examining how we view assistive technology and innovation. The two now go hand in hand. With the rise of computers and virtual services, millions of people are expecting cutting edge experiences from their service providers.

With the availability of 'assistive technology', people with disabilities are now able to shop online, get their groceries, and book a ticket online for a bus or a train. However, when it comes to banking services, a rare few service providers are deemed as easy to navigate. Access to financial services is an absolute must in maintaining a standard of living and independence. Unfortunately, this is where exclusion occurs most frequently. Financial management is as much a mindset as it is a habit. Exclusion from financial services for people with disabilities occurs before they are even old enough to make their own choices. Growing up with a disability means constantly having to adjust to a world that is not built for you!

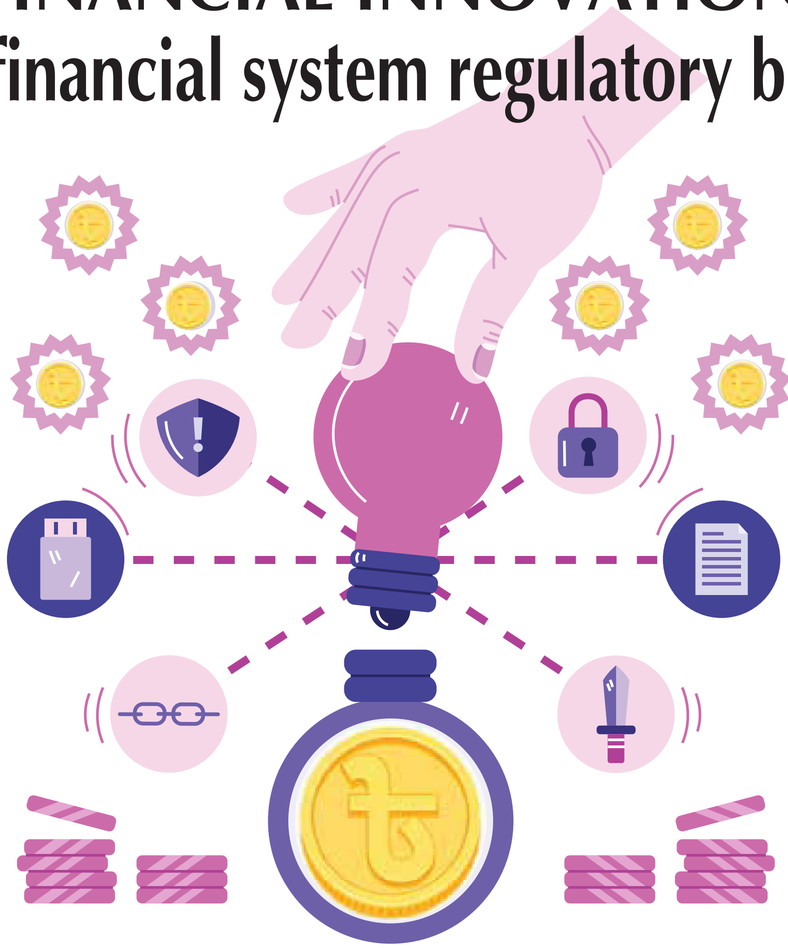
We currently do not design financial systems with people with disabilities in mind. There are many barriers to financial services for people with disabilities – investing is not taught in schools and is often not encouraged for people with disabilities to engage in. Special education curricula rarely cover financial wellness; and it falls on the parents to educate their children with disabilities about finances. Parents are also primary financial decision makers and often have full access to their children's bank accounts. This results in lack of financial privacy and lack of financial independence for people with disabilities. In practice, there is lack of financial education for people with cognitive disabilities.

In this age of technology, one can develop tools and games that teach people with disabilities on how to invest and manage money. There can be interactive ways to learn about money management and these can be played alone or with family and friends. The players can experience market fluctuations and real-life money examples that they have to navigate in order to maintain their checking and savings accounts. With the use of wide ranging technologies, people with disabilities can develop the skills which they can apply to their real bank accounts.

No doubt, there must be curiosity on the part of the people with disabilities to learn about how to manage finances and make the money grow. They are interested in learning about investing and want to actively understand how they can participate in financial decisions. The tools are now available to teach people with disabilities about financial management and bring them to the fold of financial inclusion. Now, time is ripe for the children with special needs and people with disabilities to prepare themselves as financial managers for themselves for undertaking real-life management of their own finances.

FINANCIAL INNOVATION

Blurring financial system regulatory boundaries



Traditionally financial innovation has been a feature of thriving and competitive financial system, but recent technological changes are somewhat different. Not only have technological advances related to mobile telephone, data processing capacity, and global interconnectedness reduced the costs of financial service provision enormously, they have also attracted new, nonfinancial players into the financial sector.

One important dimension where recent financial innovations have helped make big progress is financial inclusion, i.e., the access to and use of formal financial services by previously unbanked individuals and enterprises. The use of mobile phones for financial services has allowed leapfrogging the traditional model of brick-and-mortar branches and make substantial gains in financial inclusion. Platform-based lending models have emerged in the wake of SME lending retrenchment by commercial banks after the global financial crisis. The entry of new players, however, has also raised challenges for regulators in terms of financial stability and consumer protection.

Over the past decade, technology-driven financial innovation has changed the landscape dramatically by reducing the costs of financial service provision and by allowing a more effective risk management. Specifically, new or improved financial products and services, production processes, and organisational structures that can better satisfy financial system participants' demand and reduce costs and risk processes have helped expand financial inclusion in the developing countries.

Digitalisation allows transactions across larger distances and at a faster speed, it allows transactions without having to rely on personal relationships, and it increases transparency. Over the past decade, a digitalisation-led approach to financial inclusion has provided important gains in expanding access to, and use of, financial services across the developing world.

The digital revolution has pushed out the access possibilities frontier by providing tools to overcome the scale of, and risk barriers to, widespread financial inclusion. While originally limited to payment services, offering financial services using mobile technology has now been expanded to other services. It is important to note that most of this innovation has been driven by new entrants into the financial sector rather than by government, and by profit rather than social interests, which differentiates this approach from the NGO-driven microfinance approach to financial inclusion.

One challenge, however, is that there has been an initial focus on the number of accounts opened rather than on the actual usage of these accounts. Over the last few years, the discussion has therefore moved away from maximising the share of the adult population having an account to the actual usage for their daily transactions, both among policy makers and practitioners.

Fintech and bigtech companies rely on easily available data that they can obtain from their clients' digital footprint or by scraping the Web. Bigtech companies can even go a step further – they have data readily available on potential customers from their nonfinancial transactions with them; artificial intelligence also allows them to convert soft information collected through social media or other means into hard information. Finally, the network advantage allows them to access more data, improve their models, and ultimately increase their outreach further.

As more information about (potential) customers becomes available, combined with the increasing use of machine learning and artificial intelligence, more precise targeting becomes possible at a lower cost, exploiting behavioural biases. It might also result in cream skimming and crowding out, such as in insurance, where ex ante riskier (albeit exogenously) individuals might be excluded from insurance policies. This raises the important question of defining the ownership of personal data.

The objective of financial inclusion has prompted authorities to offer regulatory sandboxes – regulatory frameworks that allow the time-bound testing of new financial products, technologies, and business models under a set of rules and supervisory requirements, with appropriate safeguards. Such frameworks can be a win-win-win situation for everyone involved. Supervisors learn about financial innovations, fintech companies can experiment with legal certainty, and the broad population of customers will be exposed to providers and products only once they are vetted.

A major challenge from the regulatory sandbox is to define the regulatory perimeter, i.e., institutions and market participants that fall under financial-stability regulation and supervision and thus also under the financial safety net. Recent financial innovations pose new challenges in this respect. On the one hand, lending platforms that connect investors/lenders and borrowers are clearly outside the regulatory perimeter and thus should not be covered by the financial safety net and deposit insurance. But what if the investor population on these platforms grows to a size that makes them all but "too many to fail"?

Similarly, bigtech companies might pose a challenge for regulators as they move into financial service provision. Even if such provision is made via a regulated subsidiary, there are risks of spillover from the non-regulated nonfinancial part of the business to the regulated financial part. An additional concern is that many of the bigtech companies are international in nature, while financial sector regulation is – with few exceptions – national in nature.

Beyond stability concerns, consumer protection is critical as financial innovators introduce new products and services and extend the banked population. The lack of trust in financial services has been an important demand-side constraint for financial inclusion, partly related to fraudulent activities and crisis experience. Effective consumer protection in financial services focuses on four key areas: (1) consumer disclosure that is clear, simple, easy to understand, and comparable; (2) prohibitions on business practices that are unfair, abusive, or deceptive; (3) efficient and easy use of recourse mechanisms; and (4) financial education that gives consumers the knowledge, skills, and confidence to understand and evaluate the financial information they receive.

One important issue is the institutional responsibility for financial inclusion and consumer protection. In most developing countries, financial sector authorities (often the central bank) have the responsibilities for stability and financial inclusion. However, in the regulatory architecture, the responsibility for consumer protection should be separate from the institutional responsibility for stability and protected from undue political and industry interference.

No doubt, recent developments in technology-driven financial innovations have been offering enormous opportunities, but also the risks that might come from them. Further, the state of financial innovation can only be a snapshot, as the financial service landscape is moving rapidly. This puts a higher burden on regulators as they constantly have to reevaluate the trade-off between efficiency and inclusion, on the one hand, and stability, on the other. A dynamic regulatory framework is most apt to deal with such challenges.

FSPs can build climate resilience

Financial inclusion can be a powerful tool to help the most vulnerable build resilience to the devastating impacts of climate change. But how do individual financial service providers (FSPs) determine what products and services to offer to help meet their clients' climate resilience needs?

The FSPs can address the issue of climate change with their clients in a variety of ways. The microfinance institutions (MFIs) can build climate resilience in clients, both through new financial products, such as livestock insurance, and adapting existing financial services to meet specific community needs. They can provide climate-smart training and agricultural support services on how they partner with FSPs to build resilience of small farmers and expand access to financial services to low income and excluded farmers.

The importance of acknowledging the advantages of locally led solutions and the challenges for FSPs to tailor solutions to meet the specific needs of different geographies and communities are critical as well. The role that FSPs can play in carbon mitigation programmes is also significant.

Leveraging agent networks to onboard women into DFS

Since the past decade, significant efforts are being made towards increasing women's access to financial services. However, the gender gap in account ownership still remains high in Bangladesh. The reasons for the gap are well documented — from lack of access to phones, to lack of broadband access for internet and cell and, in many contexts, strong gender and societal norms that finance is the domain of men. So, what can we do to truly move the needle?

The key will be to understand the complex realities that keep women excluded from digital financial services (DFS) and create solutions to build their agency, voice and influence over money. Research and data analysis from different countries suggests how we can increase access to DFS by building more intentional, gender-focused agent networks that work for women. For the purpose, there are four key takeaways from the research on how to do this, directed at both microfinance institutions (MFIs) and mobile network operators (MNOs)

1. Trusted and safe agents

Building a trusted relationship with agents is critical for any customer— but especially for women. Trust is formed in a variety of ways, whether it is an agent that speaks the same dialect, an agent who is a neighbour or family member, an agent that helps someone in a tricky situation, or the gender of the agent. One key learning is that the answer is not to focus solely on women agents, but more broadly on the issue of trust. The only major gender difference in women's preferences to agents is when it comes to learning— by and large, women prefer to learn from other women. But, once confident in making transactions, women do not have any preference on gender of an agent— trust trumps all other factors. Consider ways to:

Bring agents to locations and areas that women deem inherently safe and trustworthy: For example, their savings groups and places of worship. Or, introduce the DFS agents via organisations that are already trusted and doing work in the community.

2. Build on-ramps for learning

It is often assumed that agents can teach people the basics of mobile money, but that is not always possible given their other business priorities and commitments. The income the agents receive from offering financial services is helpful, but not enough to live on. Agents often run businesses first, and have several businesses operating simultaneously. So when the onus of teaching falls on the agent, it comes at the expense of increased profits. As agent networks invest in increasing the number of women agents to serve women customers, who often need more support, this makes for an even more inequitable scenario that sets women agents up to fail. Consider ways to:

Identify win-win collaborations with actors that are already on the ground: local partners, startups or community workers that can onboard and then link to cash-in-cash-out (CICO) services. In the BRAC Shakti programme, for example, BRAC partnered with bKash, a mobile money service. bKash has been excited to grow a rural customer base, while BRAC has been excited to build on-ramps to their microfinance services for women.

Compensate roles that onboard and train users: This can be done in a couple of ways - by paying freelance promoters to do customer acquisition or experimenting with sales and marketing staff doing customer-facing support.

3. Build digital confidence

A very real skills gap prevents people from accessing DFS, as these services require a level of literacy, numeracy, mobility and mobile phone access that women do not always have. Growing women's digital confidence can be successful when the use cases for DFS have a strong support network for learning and onboarding. From digitising school fees, where school teachers become the de facto DFS teachers, to the extensive work of wage digitisation in RMGs, these support networks help build digital literacy and confidence. Consider ways to:

Alter product development cycle to design for low-literacy and rural first: Use tools like Digital Confidence Toolkit to get inspiration on existing solutions for low-literacy users or to learn how to run a digital confidence sprint on a team.

4. Bring CICO closer to women

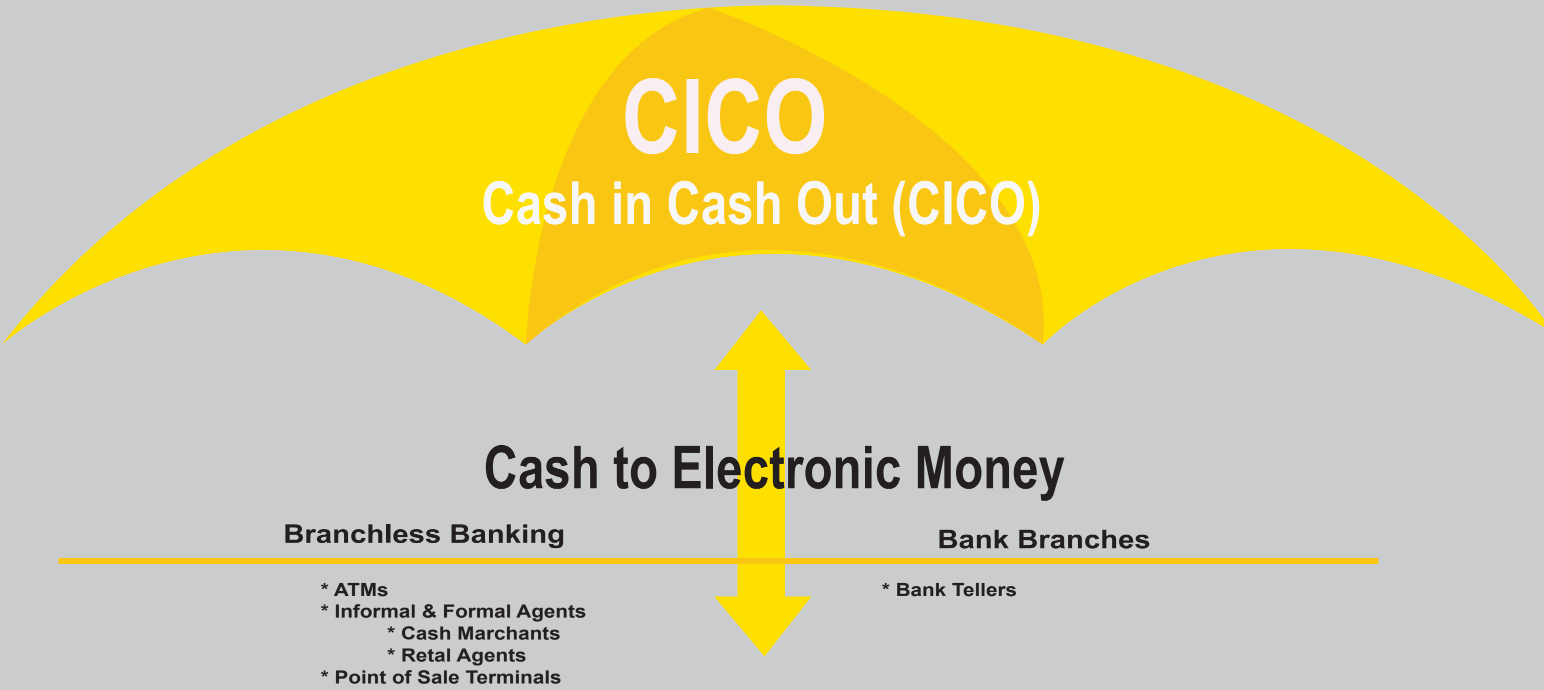
The reality is, in certain contexts, CICO even being one kilometer away is still a major challenge if a woman's mobility is limited or the agent is located in a place deemed unsafe or not respectable for women. The key is to build agent shops in places that are safe and already frequented by women. This may be tailor shops; in other contexts this may be health clinics or schools.

While designing these new spaces, it is important to remember that the distance between a woman and a man matters even more significantly in conservative cultures. When we learn about something new on a phone or small screen, people have a tendency to stand shoulder to shoulder, which is not acceptable in certain cultures. Physical barriers like counters, open spaces for the transactions to happen, or alternative ways to walk through a digital experience, can be critical for women interacting with male agents in these contexts. Consider ways to:

Offer agents multiple products (e.g. delivery of goods and DFS) so that the business can become more economically viable and there are more channels to onboard new users.

Bring CICO services closer to rural women. One can also test a roving agent model.

Innovations around agent networks present an opportunity to significantly improve women's experiences and help build their confidence and access to DFS. The starting point would be to invest in ways to build new on-ramps for learning; increase women's digital confidence; and bring CICO closer to women.



Digitising Micro Merchants

When it comes to digitising small, independent merchants, there is one thing that's clear: **benefits need to be immediate.**

Karim owns a small shop, which has goods for sale behind the counter. Each time a customer arrives, he/she provides an order, Karim grabs and packs the items, and tallies payment. Customers like shopping at Karim's store because it is convenient: it is close to their homes, he lets them buy on credit, and he goes out of his way to make sure he is stocking what they want.

But speed is crucial for Karim. If customers see a crowd at the counter, he knows they will walk away to another store. Karim understands he is missing an opportunity by not offering digital transactions. The need is to understand what drives small, independent merchants like Karim, and how to build products and services that meet their nuanced needs — so that they can carve out a better financial future.

Many micro-merchants live in a world where cash is king. Their customers pay in cash, and most traditional distributors want to be paid in cash as well. In this environment, it is challenging to introduce digital payments without a significant value-add. One may have to experiment with several designs such as: helping merchants use digital money balance as collateral to unlock credit for themselves and their customers; earning yield on a balance that can be used to award discounts to end customers; and using digital balance to power a side gig as mobile money agents. More and more merchants are now willing to experiment with offering cash-in/cash-out (CICO) services as a side gig.

Designing digital services for micro-merchants and agents is indeed a growing and exciting space!

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