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Financial Inclusion:
Challenges of Turning A Dream Into Reality

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Digital innovations have transformed the way we live, work and interact with each other. Leveraging digital technology such as mobile banking, digital payments, and access to credit and insurance services has made financial services accessible to individuals and enterprises that were previously excluded.

The digital economy generates new business models, attracting a broader range of players to the financial services industry, including fintechs and social networks. This diversity of providers and business models has enormous potential to advance financial inclusion and contribute to achieving the SDGs. Business models build proper connectivity through strategic partnerships, making it easier for innovators to offer valuable, affordable financial solutions.

Research showcases various business models that effectively use digital technologies to create and provide financial solutions to people with low income. It is demonstrated how increased connectivity can make it simpler for innovators to offer financial solutions that are both valuable and affordable. The focus ranges from the digitisation of microfinance, open finance, financial services for gig workers, data-driven financial services, and many more.

As digital innovation continues to evolve, even more creative solutions will emerge that will further promote financial inclusion and transform the lives of individuals and communities worldwide.

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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
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Bangladesh

Long View on Financial Inclusion

Since gaining independence in 1971, Bangladesh has outperformed its neighbours on basic development indicators. Per capita income is up, and even more impressive are the leaps forward it has taken on infant mortality, women's participation in the labour force and educational attainment. All this has happened alongside many years of large-scale financial inclusion, which begs the question: how significant have financial services been in Bangladesh's development?

There are good reasons to observe that Bangladesh's progress has been largely driven by factors other than financial inclusion. For example, nationwide drives to teach oral rehydration have helped bring down infant mortality. And a multitude of investments in informal and formal primary education have helped gradually increase levels of educational attainment for both boys and girls. The readymade garments (RMGs) industry is rightly viewed as a major driver of the country's economic growth.

When it comes to the role of financial services, the conventional wisdom is driven by more than a decade of randomised control trials (RCTs) on microfinance and more recent RCTs on digital finance. These studies have generally concluded that microfinance loans help some borrowers but hardly help other individuals at all. More recent RCTs generally suggest that digital payments have made positive contributions to Bangladesh's development; though digital financial services have been nationwide only in the past decade (large-scale microfinance has a more than 50-year history).

RCTs measure specific effects over fairly short periods of time (usually 12 to 18 months). But what Bangladesh's story compels us to ask is how the country's financial system has cumulatively, over decades, contributed to progress. At its birth more than 50 years ago, Bangladesh had few financial institutions and weak capacity, but out of this newly formed nation arose a civil society and government focused on mass-scale development. From this, a world-leading microcredit industry emerged in the 1980s.

Today, even a casual visitor to rural Bangladesh will notice the presence of microfinance branches and mobile financial services agents. Financial histories illustrate the intensity with which Bangladeshis use informal as well as formal financial services. It would be difficult to argue against the idea that many Bangladeshis have used these tools over the years in ways they see as helpful to achieving their goals. In this context, it is notable that some of the most popular products in Bangladesh are commitment savings products that have tenures of 1 to 10 years. Many of these products have maturity dates well beyond what RCTs normally try to measure.

It is also worth reflecting more deeply on whether and how people learn to use financial services more effectively over time. In Bangladesh, financial services have been widespread for so long that many have likely learned to more acutely determine when and how services are useful (and when they aren't). One sign of this is that Bangladeshis often stay away from microcredit loans.

Despite continued efforts to grow microcredit loans in Bangladesh, loan customers plateaued by the early 2000s having met the aggregate limits of demand, settling in at around 15 – 20 million borrowers at any given time. Quite a few Bangladeshi households are reluctant to take loans, having struggled with over-indebtedness in the past or having seen neighbours deal with such difficulties. Such learning comes with time (experience) and scale, and suggests people are more careful about borrowing when it suits them but can also stay away if they do not expect a positive outcome.

Bangladesh's progress on development challenges one to look beyond the short timeframe that often limits one and think more broadly about financial inclusion. Bangladesh's development story compels us to consider how poor people may learn to use services more productively and safely over a long period of time.

No doubt this long term experience explains what has helped Bangladeshi microfinance institutions remain resilient in the face of crises, including the Covid-19 pandemic.

Empowering Marginalised Communities: Key Strategies for Financial Inclusion

With the rise of interconnectivity, financial inclusion has emerged as a powerful catalyst for social and economic progress. The emergence of financial inclusion has also increased the need to go beyond basic access to financial services. The focus is on creating affordable and reliable financial products and services, enabling underserved populations to connect with formal financial systems. This will enable individuals to flourish and promote economic growth.

This is especially important for empowering those underserved, excluded or discriminated against marginalised individuals or communities. Marginalised communities typically suffer from being denied involvement in mainstream or traditional economic, social and financial activities and therefore lack or are barred access to financial needs.

With Bangladesh navigating through the post Covid-19 era, there is undoubtedly an increasing need to build and promote inclusive financial systems. This is evidently more so for individuals from marginalised communities who are exposed to more vulnerabilities and may not have the access, opportunity or tools to ensure their financial security and stability.

After the Covid-19 pandemic, finding innovative ways to rebuild livelihoods and increase resilience among those most affected and vulnerable has become imperative. In this context, financial inclusion can contribute towards bridging the social and economic gap caused by various reasons, typically attributed to a lack of access to formal financial services.

Financial inclusion provides individuals with tools and increased opportunities to improve their economic status and well-being, such as accessing affordable financial services. This accessibility allows individuals to engage in better financial management, savings accumulation and undertake income generating investments which help them build assets, create sustainable livelihoods and eventually break the unending cycle of poverty.

Marginalised individuals, including those living in rural areas or from low-income backgrounds, can benefit from financial inclusion by accessing the resources they need to improve their living conditions and secure a better future for themselves and their families.

Financial inclusion provides access to a full range of financial services that individuals need to thrive in today's world and sustain their livelihoods: engage in bank account openings, secure savings, access credit for livelihood, education and healthcare, protect against risks with insurance and leverage convenient but affordable digital payments.

By promoting financial inclusion, well-being and overall quality of life of marginalised communities can be improved when they are given the necessary tools to ensure future planning, mitigate any financial shocks and even have the opportunity to partake in the formal economy. Moreover, financial inclusion contributes to consumer protection and financial resilience by reducing reliance on informal and often predatory financial services, adding another layer of security and stability to marginalised communities.

Expanding financial inclusion is thus important as it helps reduce poverty, promotes economic growth and increases access to financial services, especially for the marginalised individuals and communities. By addressing barriers to financial inclusion, societies can create more inclusive and equitable economic systems that benefit individuals, businesses, and the entire society.

In recent years, innovative strategies leveraging artificial intelligence (AI) and machine learning (ML) have emerged as powerful tools to expand financial inclusion and empower marginalised communities. To build the foundation of these strategies, data-driven solutions play a crucial role in supporting them. It addresses the problem of financial inclusion by providing valuable insights and enhancing informed decision-making processes. Data can be leveraged in multiple ways, such as identifying underserved areas, understanding barriers and needs, assessing financial behaviour and preferences, using monitoring and evaluation frameworks, assessing risk and credit scoring, offering personalised financial recommendations and using predictive analytics.

These data-driven solutions can be successfully implemented and by doing so, strategies using data-driven solutions can reassure concerns about sharing personal and financial information, especially for marginalised individuals. Other important factors behind privacy and data protection include:

Ensure individuals retain informed consent and hold control over personal information: In financial inclusion initiatives, individuals should have the right to choose whether to participate or share their information based on their understanding of how their data will be used.

Mitigate risks of data breaches, identity theft, and unauthorised access to individual's financial information: In financial inclusion, data-driven solutions often require sensitive personal and financial data collection and analysis. With proper and robust privacy practices, these risks can be mitigated, and individuals are protected from potential harm.

Reassure businesses and individuals with adherence to regulatory compliance: These regulations ensure that individual's privacy rights are respected, and data are handled securely. Regulatory compliance is essential to avoid legal consequences and demonstrates a commitment to ethical and responsible data practices.

Prevent the risk of perpetuating bias or discrimination during the decision-making process: Using AI and ML algorithms and models, data-driven solutions analyse and make decisions based on historical or alternative, which makes AI bias a cause of concern. However, providing individuals with privacy and data protection ensures financial inclusion initiatives do not exacerbate or reinforce existing inequalities.

Build long-term sustainability and inclusivity by maintaining individual's trust and ensuring the responsible use of their data: Investing in privacy and data protection can pave the way for long-term success in promoting financial inclusion. These measures include transparent data practices, clear data governance frameworks, and robust security measures to protect individual's information over the data lifecycle.

In practice, one can explore three key innovative strategies to help banks and financial and non-financial institutions expand financial inclusion, specifically for marginalised communities, such as through leveraging AI and ML to expand financial inclusion.

Enhance alternative credit scoring

One of the primary challenges that the marginalised communities face is the lack of traditional credit histories, making it difficult to access financial services via traditional channels. To overcome this, it is imperative to develop credit scoring models using enhanced alternative data combined with AI and ML algorithms in three main ways.

Utilise advanced analytics techniques and ML algorithms to analyse alternative data and identify patterns and correlations that can help predict creditworthiness for individuals with limited or no traditional credit history. In this respect, using AI and ML allows analysts to evaluate alternative data from different sources, integrate them and identify patterns related to the probability of anyone missing a payment. This provides a modern understanding of creditworthiness with a more in-depth view of a borrower's credit profile and ensures a more holistic credit risk assessment. Using alternative data arises from the need to serve thin-file customers, forming the majority of under- and unbanked potential borrowers in emerging markets. Alternative data refers to information on behaviours, habits, interests and transactions carried out by a person and obtained from non-traditional sources such as social networks, satellites, sensors, financial reports, geo-location, rental payment, and more. Data can also be categorised into different types: transactional data, telco data, psychometric data, and behavioural data, with the latter being a focus when using credolab.

By combining alternative data with traditional data, new and powerful insights can be gained to improve business projections and financial inclusion. By considering alternative data points, financial institutions gain valuable insights into an individual's financial behaviour and repayment capacity, enabling a more comprehensive assessment of creditworthiness. Furthermore, using AI and ML algorithms leveraging alternative data in credit decisions improves existing credit models and increases the probability of financially excluded individuals receiving credit at fair terms.

Enable pattern recognition by using AI and ML algorithms to excel in identifying behavioural patterns and trends within data. By leveraging these capabilities, financial institutions can make more accurate credit assessments. ML algorithms can identify patterns associated with positive credit behaviour, allowing lenders to extend credit to individuals from marginalised communities even in the absence of extensive credit history.

Credolab, a leading provider of ML-based credit scoring solutions, uses advanced ML algorithms to detect micro-behavioural patterns from over 70,000 permissioned and privacy-consented data points, transforming them into 10 million possible signals. By utilising non-traditional data sources and extracting granular insights about customer behaviour, credolab's ML algorithms offer a comprehensive look into an individual's behaviour, moving away from the sole reliance using traditional credit histories.

In this way, financial institutions can assess creditworthiness more inclusively and equitably. This allows them to extend credit even to individuals with limited credit histories who demonstrate positive repayment behaviour from marginalised communities.

- Conduct continuous learning using ML algorithms to enhance alternative credit analysis by continuously learning, allowing models to improve and obtain more accurate behaviour patterns over time. Continuous Machine Learning (CML) monitors and retains models with updated data. CML aims to mimic a human's ability to acquire and fine-tune information and help with constant improvements continuously. CML's most basic application is in circumstances where the data distributions remain constant, but the data is continuous.

ML algorithms, such as those utilised by credolab, can adapt and learn from new data, leading to the evolution of credit scoring models that are more inclusive and accurate over time. These algorithms analyse patterns, trends, and correlations (or lack thereof) within the data to comprehensively understand an individual's creditworthiness. Using smartphone and web metadata, credolab's ML algorithms can enhance alternative credit scoring and constantly adapt to the unique circumstances of marginalised communities. They also expand financial inclusion by incorporating more people into the credit assessment process.

In summary, it may be emphasised that AI and ML algorithms use alternative data, pattern recognition, and continuous learning capabilities to enhance the ability of any financial institution to properly and confidently score even marginalised communities. These AI and ML algorithms enable more accurate and inclusive credit assessments by analysing new data and adapting credit scoring models. Credolab's approach of leveraging smartphone and web metadata can expand financial inclusion to a broader range of individuals, promoting a more inclusive and equitable financial ecosystem.

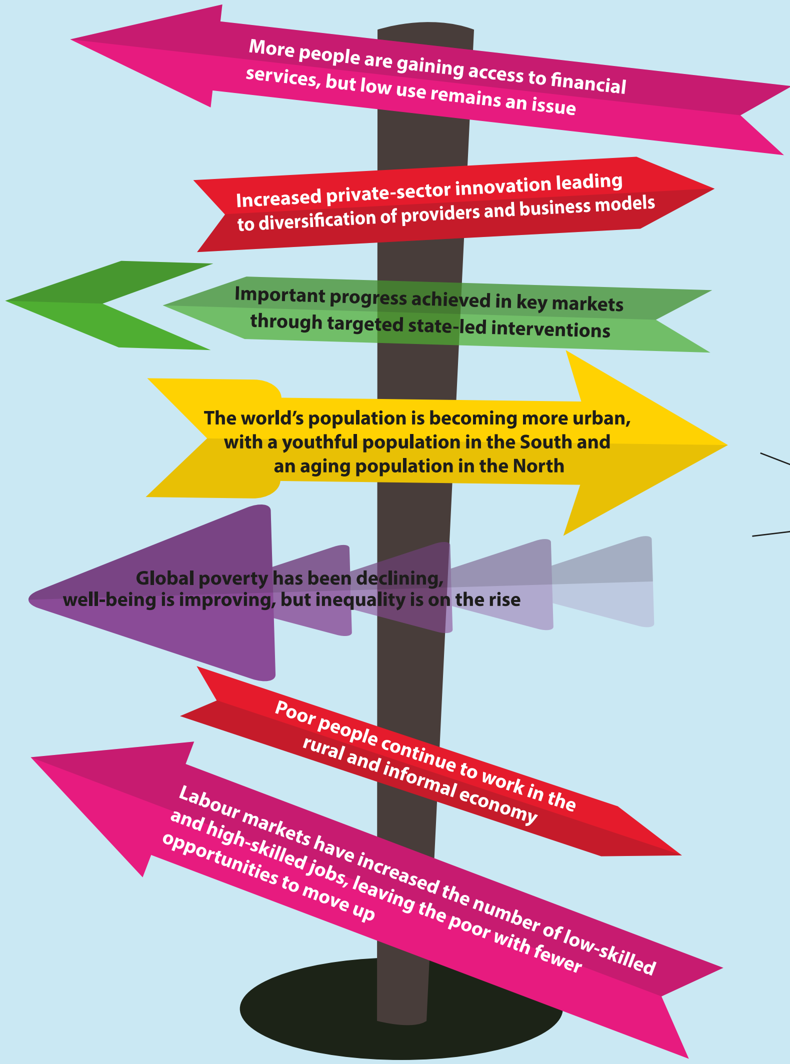
In recent years, Decentralised Finance (DeFi) has emerged as a revolutionary force in the world of finance. Built on blockchain technology, DeFi offers an alternative to traditional financial systems, allowing individuals to access a wide range of financial services without intermediaries like banks or financial institutions.

DeFi operates on blockchain networks like Ethereum where the underlying principles of transparency, security, and accessibility define the DeFi ecosystem. Central to DeFi are smart contracts and decentralised applications (dApps). These components enable the seamless execution of financial transactions, lending, borrowing, and yield farming, among other services, without traditional intermediaries. DeFi offers a plethora of financial services, including decentralised exchanges (DEXs), lending and borrowing platforms, liquidity pools, and stablecoins. Yield farming and liquidity mining have become popular concepts in the DeFi space. These incentive mechanisms work in specific ways and the users can earn rewards by participating in the DeFi protocols.

DeFi's disruptive nature comes with several advantages as well. It democratises access to financial services, fosters financial inclusion, and opens up new opportunities for both individuals and businesses globally. While DeFi presents exciting possibilities, it also faces challenges and risks. These cover issues of security vulnerabilities, smart contract risks, scalability and regulatory concerns that are crucial to understanding the DeFi landscape.

The future and prospects of DeFi and its potential to integrate with traditional finance are related to the concept of 'Open Finance' and would very much depend on how DeFi innovations might influence traditional financial systems.

Nonetheless DeFi represents a disruptive force that is reshaping the traditional financial systems known to us for decades. By leveraging blockchain technology and smart contracts, DeFi offers a transparent, accessible, and inclusive financial ecosystem for individuals worldwide. However, as DeFi continues to evolve, it is essential to address the challenges and risks that come with such rapid innovation. By navigating these hurdles responsibly, the world of DeFi has the potential to redefine finance, foster financial empowerment and unlock new opportunities for a more inclusive and decentralised global economy.



Financial Inclusion: Challenges of Turning A Dream Into Reality

Bangladesh, like most other emerging countries of the world, is currently implementing the National Financial Inclusion Strategy (NFIS) with the goal that every adult citizen of the country will be using a broad range of affordable financial services that meet their various needs—full financial inclusion by 2026.

This will contribute to a new wave of prosperity that will also ensure greater economic and social progress of the nation. The fact is that financial services are central to the lives of everyone, allowing people to participate in the economy, access services, seize opportunities, build resilience, and pursue their dreams.

While financial inclusion is no doubt a desirable goal, one should be aware of the danger that financial inclusion does not become a victim of its own success. At present, the providers are aggressively offering products and services that are not well suited for the poor people. These products and services are actually harming them and adversely affecting their ability to participate in the economy and society—leading to further socioeconomic exclusion.

Similarly, in response to new risks such as hacking and identity and data theft, the government and the regulators are implementing policies that dampen private sector innovation and leave most people either excluded from financial services or poorly served. Further, the rise of social networks leads people to find new ways to engage with each other and to participate in the economy—all interactions, including financial ones, are conducted through these networks.

At present, the government, development organisations and the private sector in Bangladesh strongly recognise the importance of financial services for the poor people. As a result, more people are gaining access to financial services. However, it is seen that relatively few people use these services. This may reflect the perception that financial services on offer are of limited value for the poor customers. Low use leads to lower gains for the providers, thus putting the sustainability of financial inclusion solutions into question.

Important challenges remain for the industry as well. It is true that financial inclusion is only a means to an end. A growing body of evidence shows that people who can access and use financial services are better able to support their livelihoods, improve their wellbeing and better deal with risk and disasters.

With emphasis on inclusive development, the number of people living in extreme poverty is rapidly declining in Bangladesh and the wellbeing of individuals is also improving. Yet, rising inequality has become a challenge for the country. The majority of the poor people work in the informal sector. This plays a vital role in economic growth but many of these workers do not have social protection and job security. Over the next decades, several major forces will fundamentally shape the country's economic, social and political conditions including financial services for the poor.

Clearly, several driving forces such as digital technologies, globalisation, migration and the changing world of work will be shaping the future of Bangladesh as elsewhere in the developing world. In this context, probably the most important driving question will be to explore: "In what ways will financial services influence inequality and economic participation for the poor people over the next decades in Bangladesh?"

To explore the potential transmission channels of the impact of financial inclusion on inequality and economic participation of the poor, the logical starting point would be to identify the key features of the present landscape of financial inclusion in Bangladesh. Several important characteristics of the current financial inclusion landscape may be noted:

More people are gaining access to financial services, but low use remains an issue: According to available information from the Bangladesh Bank, the number of accounts in banks and financial institutions is rising rapidly indicating that the number of individuals without an account is declining while the percentage of adults with an account increasing. In particular, technology and mobile money are the major contributors to the rise in account ownership.

However, despite the headline gains, data show persistent gaps among certain client segments such as women, youth, rural poor, and the poor at large. For example, the gender gap in account ownership is not significantly narrowing.

Further, despite improvements in access, account use remains an issue. A large share of the bank accounts remains underused or dormant. Mobile money is still dominated by narrow use cases such as person-to-person (P2P) transfers and airtime top-ups. In addition, access points for financial services, such as bank branches, automatic teller machines (ATMs), and agent banking outlets are still concentrated in urban locations.

Overall, despite the momentum of increased access, the low use and lack of convenience reflect limited value for the customers, thus representing lower gains for the providers. Diverse population segments also remain excluded from access to and use of financial services. The private sector and the government will have to work hand in hand to achieve meaningful progress on financial inclusion in future.

Increased private-sector innovation leading to diversification of providers and business models: Over the last decade, the space of opportunity for the private sector has expanded significantly. Digitisation has lowered transaction costs and created data trails that enable the firms to innovate by developing new business models that serve the poor consumers. The providers now include entities such as banks, microfinance institutions, mobile network operators (MNOs), payment services providers, merchant aggregators, retailers, financial technology companies (Fintechs), energy services providers, and social networks. This increased diversity of providers offers a tremendous opportunity for new partnerships to be formed to explore new and innovative solutions to serve the poor.

- **Important progress achieved in key markets through targeted state-led interventions:** In conjunction with the private sector, the policy makers are now providing incentives for broader and interconnected market systems to achieve safe and more efficient product delivery. The national policy goals, state infrastructure and competition regulation are a few areas of government involvement where policies appear to contribute to broader access to and use of financial services. Furthermore, Bangladesh is incorporating financial inclusion strategies into its regulatory legislation. The National Identity Card (NID card which is a compulsory biometric, microchip embedded smart identity document issued to every Bangladeshi citizen upon turning 18 years of age) has provided digital identification to all adult citizens and has become a key pillar of the country's inclusive finance infrastructure.

In addition to the above characteristics, the potential for financial inclusion to contribute to the poor people's ability to effectively participate in the economy and society would also be determined by important global trends that are likely to affect Bangladesh's economy through different channels. Several important ones are likely to be the following:

- **The world's population is becoming more urban, with a youthful population in the South and an aging population in the North:** While more than half of the world's population lives in cities today, this share is projected to reach close to 60 percent in the next decade, with a particular acceleration in Africa and Asia. Urban centres will be increasingly challenged to expand infrastructure to support growing populations, and might face new challenges, such as higher unemployment and increasing urban poverty. Elderly populations will increase rapidly during this time, influenced by increasing life expectancy. The youth 'bulges' in Bangladesh are likely to pose strikingly unique age demographics and may come with greater risks of youth unemployment, education challenges, and concern for the future workforce of the country.

- **Global poverty has been declining, well-being is improving, but inequality is on the rise:** Over the past 40 years, global poverty has decreased: today fewer than 1 billion people live in poverty compared with nearly 2 billion people in 1975. More people are now connected across local and global markets because of digital technologies. Globally, well-being of individuals seems to be improving as well. In fact, inequality has become a new challenge now — data show that inequality continues to rise in most countries in terms of both income and assets.

- **Poor people continue to work in the rural and informal economy:** Work is central to many elements of economic and social integration in society. It enables people to earn a livelihood and to gain some level of economic security. It also gives them a sense of dignity and worth. Work also strengthens societies: it can build social cohesion and bonds. By working together, people can accumulate knowledge, which is the basis for cultures. Still, the majority of the workforce, especially in the developing world, work in agriculture especially on small- and medium-sized family farms, which have limited access to resources and lower productivity. Thus, most of these agriculture workers need to supplement their income with off-farm work from multiple sources. In addition, most people working in developing countries are employed in informal jobs. This leaves the workers without social protection or job security, which poses challenges to combatting inequality and poverty.

- **Labour markets have increased the number of low-skilled and high-skilled jobs, leaving the poor with fewer opportunities to move up:** Because of advances in technology, globalisation, urbanisation, and other structural factors like the decline of unions, the labour market is increasingly getting polarised, potentially leading to greater inequality. Machines, computers, and the internet are contributing to the decline in the number middle-skilled jobs in developing countries, while the number of low-skill and high-skill jobs has increased. Middle-skilled jobs are often near the top of the income distribution in many low-income countries.

In summary, it may be safely concluded that a lot of progress has been achieved in the lives of the poor people over the past decade. Poverty is declining, well-being of individuals is improving, and more poor people are able to work than a decade ago. Many have increased access to financial services. However, a few trends persist or are emerging that could negatively affect progress.

Most poor people continue to be employed in agriculture, which is often not a sustainable source of income in itself. Their employment continues to be informal without offering much security. The labour market is also becoming polarised, putting a large part of the workforce at risk. And use of financial services remains low. All of these components risk exacerbating the inequality that is already quite visible in many parts of the world.

Rising inequality may also have implications for financial inclusion, because the focus on improving access to financial services may not adequately address it. In the light of these concerns, the SDGs have extended the focus beyond poverty to tackle additional broader development challenges including inequality. These broader priorities underscore the need to understand how financial services can enable achievement of broader development goals.

In the above context, the key policy issue for Bangladesh would be to determine how the poor people can effectively participate in society and the economy and how financial services will influence their participation over the next decades. These efforts would have to consider the above and other forces that are emerging within the economy and globally. However, the degree to which any specific force will impact the livelihoods and well-being of the poor people and the effect of that disruption are, to a large extent, uncertain. Nevertheless, in the light of the above discussion, four key areas may be identified for Bangladesh:

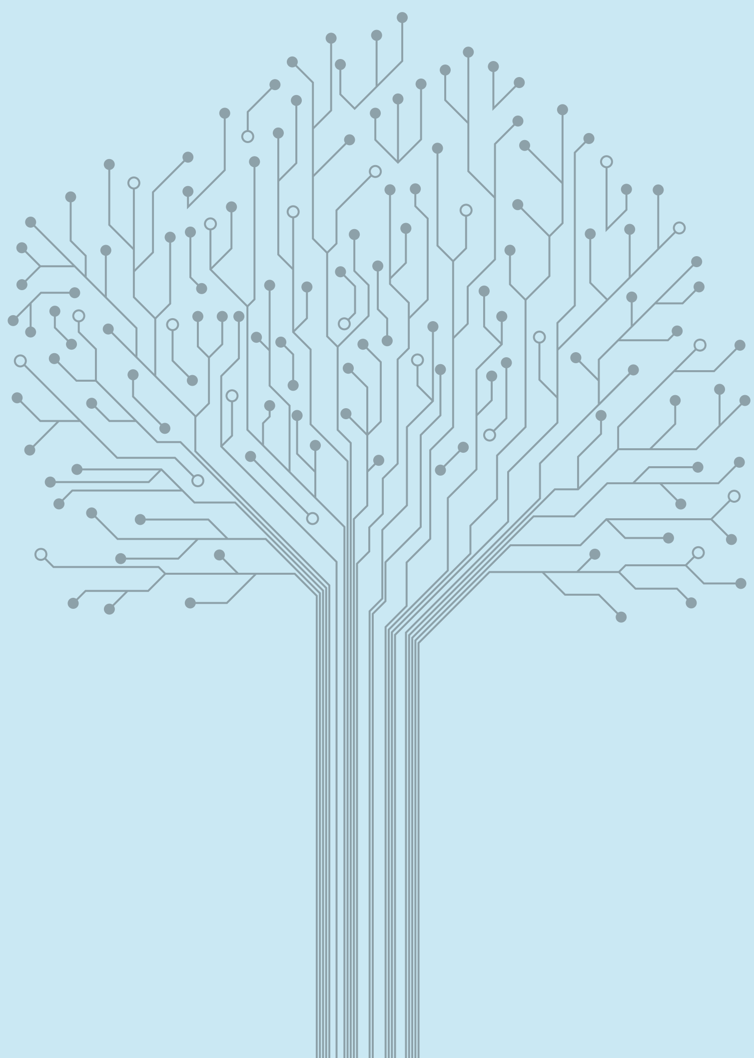
• The nature and extent of benefit of the spread of digital technologies and the digitisation of information flows for the poor people.

• Pattern of changes due to globalisation of capital, information, and ideas on the way in which the poor people engage in society.

• The likely migration pattern of the poor people both domestically and internationally.

• Nature of impact of the changing world of work on the poor people.

However, it is certain that the pace and magnitude of change coming over the next decades will have a profound impact on the lives of the poor people in Bangladesh. Globalisation, digital technologies, migration and the changing world of work combined with demographic trends will affect how the poor people participate in the society and the economy and ultimately their overall well-being. Certainly the poor people will continue to move to the urban areas, transit into new jobs, and adapt to new realities. The realm of opportunities for the poor will no doubt expand but so will the potential for newer and more intense risks and further exclusion.



Women's Financial Inclusion: Real Challenges

We have limited understanding about the real problems restricting women's access to, and usage of, formal financial services in countries like Bangladesh. Although gender gap in access to accounts has been declining in Bangladesh albeit slowly, it is clear that we have limited understanding of:

- Why have women not opened a bank account? What use case can get them to open an account?
- Why have women opened bank accounts but do not use them?
- What and how do women, with access to bank accounts, use it for: What is the degree of usage? What are the use cases? Are the use-cases evolving over time? Is there any difference in needs and behaviour of women who have differential access to financial services?

The financial services space (FSS) for women' framework decodes the financial behaviour of women in terms of the premise that a woman user will access formal financial services only if she has a FSS. The FSS is defined across three dimensions: (i) volume and frequency (use-case); (ii) convenience; and (iii) influence/motivation by others.

The absence of an FSS is the reason why some women are financially excluded and others are dormant account holders. This is compounded by their lack of capability to conduct transactions. The non-dormant women users are usually made up of several sub-segments.

- The woman should have a regular inflow of cash (both frequency and volume) in her account.
- The woman should have a 'felt convenience' to visit the financial outlet.
- The woman can be motivated/ influenced by somebody else to start using/continue to use, formal financial services.

A blanket approach to financial inclusion for women does not work because it overlooks variation among women. For instance, there are:

- **Financially excluded:** Women in this segment lack regular cash flows and are not involved in paid economic activity. They face structural barriers related to mobility, oppressive gender roles, and lack of financial and digital literacy. Their FSS is absent.
- **Dormant account holders:** These women opened an account either due to the government's financial inclusion drive or peer pressure or both. They lack a use-case for bank accounts and have limited capability. Social norms are also a hindrance. Their FSS is restricted.

- **Proxy users:** Proxy users can either be advanced users, regular basic users or irregular basic users in terms of their social, economic, and demographic nature. Yet their accounts are used by someone else in the family (primarily their husbands). For a typical financial transaction, their role is limited to authentication. They have at best a dummy FSS.
- **Irregular basic users:** These women are basic yet irregular users of bank accounts. They do possess basic knowledge of financial products but may need help to transact. They have fragile FSS.
- **Regular basic users:** Women in this segment have regular cash flows from remittances and wages. They are involved in some economic activities and know how to transact at agent outlets. They are unaware of advanced use-cases. They have an active FSS.
- **Advanced users:** Advanced users are educated and financially independent women involved in economic activities. They use multiple banking channels and advanced financial products. They have a vibrant FSS.

In recent years, Bangladesh has been successfully reducing the gender gap in financial inclusion which has received wide appreciation and acknowledgment. However, digging deeper reveals major challenges that have to be addressed effectively. For example, detailed information on the usage pattern of non-dormant users is missing. Numerous questions persist without answers, such as: How often do women utilize their bank accounts, and for what specific purposes? What is the frequency and volume of their transactions? Which products and services do they use? Do they have enough money in their account to invest? These are just a few examples of the inquiries that remain unresolved.

It is seen that a transformative approach to gender can create a FSS for the women who remain financially excluded. We need to look for ways to enhance economic activities for women, which would allow them to take financial decisions for themselves and their families. In parallel, efforts that can enhance 'convenience' and 'motivation' for women will be able to expand their FSS. In this context, the government can play a major role — by providing better physical infrastructure, by providing financial education to women, and by enabling women to gain greater control over resources.

Dormant account holders lack either awareness or appropriate use-cases, or both, to sustain usage of financial services. Many of the existing dormant users had opened the account because of peer pressure or family influence during the government's financial inclusion drive—thus crossing the threshold of the "motivation" aspect of FSS. However, they soon found that they did not have any use for the account. It is seen that:

- Users' lack of knowledge is a big deterrent to using the bank accounts. In addition, the lack of agent sensitivity towards women users further worsens the use-case for this segment.
- In most instances, these women lack the capacity to operate their accounts. Hence, they need to build the necessary capabilities or need support from family and friends to become comfortable with the transaction process. They need to get more information and support on the usage of financial services.
- Many women report feeling intimidated by bank staff. This feeling of unease or intimidation has also extended to male BC agents. This indicates the need for a more friendly and comfortable financial transaction environment that can put them at ease.
- A restricted FSS results largely from lack of regular financial flows and absence of features that suit the financial flows of women users.
- Formal banking services have high entry barriers for women. These barriers include the cost of access and the need to have higher amounts for banking transactions, among others.
- In some instances, the provision of collateral-free, small-ticket personal loans to women has generated a stronger use-case for them to use a bank account to receive and repay the loan.

As we have reported earlier, the non-dormant account holders do not constitute a homogeneous group. There are advanced users, regular basic users, irregular basic users and proxy account holders.

Thus the solutions for women's financial inclusion need segment-specific interventions as different triggers have different effects on developing FSS. Hence, any solution must take into account segment-specific triggers for that particular segment or sub-segment. In fact, providers must specifically identify the segment they wish to target. And the real challenge is to identify how to build FSS for different women customer segments for effective financial inclusion.

Bangladesh's Development Paradigm: Financial Inclusion Perspective

One of the drivers of Bangladesh's high and stable growth is the country's success in pursuing inclusive development strategy, supported by initiatives for inclusive financing along with implanting these objectives into the financial sector. The inclusive financing initiatives allow credit and other financial services to flow to the vast majority of the small, marginal and tenant farmers; cottage, micro, small, and medium enterprises (CMSMEs); and other financially excluded groups/activities, and has helped to enhance macro-financial stability along with the incremental output on the supply side and additional employment and income generation on the demand side.

For achieving the comprehensive vision of the country's development agenda and the SDGs, one of the priorities of the government is to increase the access for all individuals and enterprises to quality financial products and services so that the inclusiveness of the financial sector matches the depth and diversity of the development agenda.

The core philosophy of financial inclusion in Bangladesh is to support the government and the financial service providers (FSPs) for ensuring the delivery of a wide portfolio of financial services to meet the varied needs of the unserved and underserved populations and enterprises in the country in a way that improves welfare, delivers value to them and contributes to the sustainable growth of the financial sector and the overall economy.

The country's development strategies recognise that national development will be undermined if expanded financial services are not made available to the entire population. Since the country's aim is to achieve 'a happy, prosperous and enlightened Bangladesh which is free from hunger, poverty, inequality, illiteracy, and corruption and belongs completely to its citizens and maintains a healthy environment', access to finance is taken as an important pre-condition for inclusive development.

Financial inclusion brings excluded people into the formal financial system by giving them access to financial products and services. It is thus taken as an essential policy pillar for sustainable and equitable growth in Bangladesh. For moving forward, it is also recognised that a national strategy can provide the essential ingredients and the roadmap for adopting cooperation and coordinated action by the government, private sector and other stakeholders to shape the country's financial market development for realising the financial inclusion goals.

Financial inclusion plays a dual role in Bangladesh; financial inclusion does follow economic growth but it triggers economic growth and development as well. This is significant for Bangladesh's development, as the country is set to graduate from the least developed country status in 2024 and aspires to become an upper middle-income country by 2031.

Given its multifaceted implications for development, financial inclusion is a crosscutting priority that helps in the achievement of higher policy objectives. For promoting finance for all, the Government of Bangladesh (GOB) has adopted the National Financial Inclusion Strategy of Bangladesh (NFIS, July 2021-June 2026) in 2021 having a strategic vision as follows:

"An integrated financial system supportive to rapid and inclusive development of the country's potential sectors, be accessible and responsive to the needs of the population such that they can regularly use financial products and services to manage their cash flows and needs of livelihoods, and mitigate shocks as needed at individual, household and enterprise levels''.

One of the core dimensions of the Strategy is to ensure that: "All households and businesses including overseas migrant workers along with their families and Non-Resident Bangladeshis (NRBs) have convenient access, at reasonable costs, to appropriately regulated: (a) a full range of credit and other financial services products; (b) appropriate deposit and investment products; (c) a range of insurance (including microinsurance) and risk management products; and (d) legally protected rights to be offered for appropriate financial products and services by the providers and the right to make informed decisions". The Strategy has also been linked to the government's other strategic planning documents, including the 8th Five Year Plan (2021-2025) and the long-term Second Perspective Plan of Bangladesh (2021-2041).

The development experience of Bangladesh shows that financial inclusion is not a tool of financial sector development alone. It recognises that the transformative power of financial inclusion lies in its ability to deliver a full spectrum of tailored financial services by a diversity of service providers to households, including payments, savings, insurance and credit. Further, policies are also necessary to address the development of the financial sector infrastructure and distribution networks, such as electronic payments and branchless or agent banking options that enhance physical access for the majority. These polices would have to be guided by regulations that preserve responsibility and transparency on the part of the FSPs and protect the interests of the consumers.

For sustaining the inclusion initiatives in the financial landscape, no doubt Bangladesh still has miles to go for widening the access and increasing the usage especially of women and youth in financial services. To move ahead, finding the right model or approach for the country is the way to gain the desired outcome in this ongoing journey. The truth is that the road to financial inclusion varies from country to country, region to region, and community to community. Bangladesh has to remain aware that the 'one size fits all' approach to financial inclusion is a misnomer which will quickly ruin the hard-earned success in financial inclusion achieved thus far.

Broadening Financial Inclusion through Alternative Credit Scoring

The application of technology in the front and back-ends of financial services has already brought incredible revolutions in the financial sector. The case of mobile financial services (MFS) is a case in point. As of May 2023, around 204.0 million accounts were registered through 13 MFS providers which accounted for a total of BDT 34.95 billion worth of transactions every day. However, the circumstances of the formal credit disbursement in Bangladesh present quite an opposite picture.

According to the World Bank's Global Findex database, only 9.1 percent of the country's population has a history of borrowing from the financial sector leaving the rest 90 percent completely unserved and underbanked by the formal institutions. The fact that the majority of the population does not have access to traditional financial services such as banking, insurance, savings, credit or pensions raises a vital concern to the growth of the financial sector.

The bright spot, however, is that the recent technological interventions offer substantial scope of addressing this challenge of bringing the underbanked population of the country under formal financial services. Alternative credit scoring (ACS) shows much potential of becoming a vital component of the digital lending system.

Alternative credit scoring is the process of determining a person's creditworthiness through the use of data that are not from traditional sources like debt repayment history or credit files but rather from non-traditional sources such as telecom payments, digital footprints.

For example, for a farmer, the relevant financial institution might want to look at his recent mobile financial services, mobile recharge amount and frequency, bank account messages on his phone. Credit scoring agencies then run these non-traditional data through artificial intelligence (AI) or machine learning (ML)-powered algorithms. After the score is produced, a bank would be able to assess the creditworthiness of this farmer.

In the case of the traditional scoring method, if the farmer is from the underbanked segment, he/she might not have any previous credit files at all that could reflect his financial discipline. As a result, he would face difficulties while trying to enter the credit system. However, this issue could be resolved with the help of an alternative credit scoring method since non-traditional data are available even for the first-time credit applicants.

Lenders or financial institutions use credit scoring which is a statistical analysis to determine the creditworthiness of individuals or cottage, micro, small and medium enterprise (CMSME) owners. The well-known credit scoring systems such as Fair Isaac Corporation's FICO score, VantageScore and other models usually take into consideration five factors – the individual's payment history, current outstanding, length of credit history, new credit and credit mix.

To get information regarding these attributes, credit scoring agencies or financial service providers need to have a look at data such as the individual's loan or credit limit, credit inquiries, debt repayment history and so on. Based on these data points, the credit scoring agencies gather information for the five factors mentioned above.

For the final score, specific factors, their weights, types of the model of credit scoring or the credit bureaus might vary but usually the weight for the above-mentioned five factors are: payment history—35 percent, amounts owed (current outstanding)—30 percent, credit history—15 percent, new credit—10 percent and credit mix—10 percent.

One issue, however, prevails in the case of this traditional credit scoring method. The data points that are used for this method, most of them usually are generated only after the individual has already used a particular formal financial product or service. For example, if someone has a previous record of taking loans and repayment, that can be a source of data for traditional credit scoring.

Unfortunately, when someone intends to get a loan for the first time in his or her life, then a unique challenge arises. This first-time credit applicant cannot provide the lenders credit files that the lenders can use to assess the applicant's creditworthiness. As a result, the chance of his/her loans getting sanctioned decreases to a great extent and, even if he/she does get the loan approval, that usually comes with the cost of paying higher interest. This creates a vicious cycle for these first-timers, relief from which is utterly strenuous.

However, ACS techniques offer some promising ways of overcoming this challenge. Instead of using previous credit history, which often is backdated and might not reflect various other creditworthiness-determining characteristics of the candidates, alternative credit scoring is an automated system that uses current and relatable data of the individuals that are easily available, such as digital footprints. This enables people who don't have a previous credit history to have their own credit scoring that mirrors their true creditworthiness and gain access to formal financial services. Hence, ACS can substantiate the financial situation of a person through non-traditional and non-credit information to calculate his/her creditworthiness.

The majority of the Bangladeshi population is not habituated to formal financing facilities. Especially people belonging to the grassroots such as farmers, informal sector participants and other vulnerable groups have almost no knowledge of or access to formal credit facilities.

The current strategy of the banks and non-bank financial institutions (NBFIs) that depends on traditional credit scoring is not aligned with the unbanked and underbanked market of this country. As a result, there is an obtrusive market gap that has been existing for a long time. In this context, ACS can be of great assistance. A well-structured ACS method could be used by any bank to measure the creditworthiness of this huge unbanked and underbanked community.

According to the Association of Mobile Telecom Operators of Bangladesh, the total number of mobile phone users in the country reached 185.13 million and the total number of Internet subscribers has reached 127.62 million at the end of May 2023. Such a massive community of mobile phone and Internet users is quite promising for digital lending facilities since ACS can be successfully facilitated when people have access to mobile phones and Internet.

There are two types of mobile phone users – smartphone users and feature phone users. Even though smartphones are very common in the metropolitans, in the suburban and village areas, feature phones are also prominent. The number of smartphone users in Bangladesh will increase to 63 percent by 2025 from 47 percent in 2021 according to the Global System for Mobile Communications Association (GSMA). An alternative credit scoring model would be using primarily three types of data.

Firstly, personal level data would be collected from the individual such as age, profession, monthly income and so on. The personal level data could be obtained from multiple sources such as automated validation through NID cards or by employing assisted models where assigned agents would communicate and collect the data from them. The users could upload the required information by themselves while using an app or through mobile devices as well.

Secondly, various types of transaction data would be fetched as well such as the types and times of transactions, what payment method is employed, etc. This information could also be made available when the banks or credit scoring agencies would be allowed to access the applicants' bank account-related messages on their mobile phones.

Lastly, the model would call for data regarding economic activities conducted by the individual on various platforms. Combining all this information and putting various weights on different attributes, the system would be able to create a credit score for the individual. For this, no previous credit files would be required; rather, real-time, updated data would be used to create automated and instant results.

Even for the feature phone users, this system could be easily implemented although in this case, agent assistance might be needed additionally who would be responsible for manually visiting the credit applicants to gather information regarding how many assets they possess. The assigned agents would then incorporate the information in the model to generate the credit scoring of the individual. As for the agents, they could be employed by the credit scoring agents themselves or the agencies could assign agents from the MFS institutions such as bKash or Rocket, individuals working for NGOs or other organisations from the development sector.

The bright side of this ACS is that the more users there will be, the better the system would function as a whole. This ACS system enables banks to capture a whole new market of the unbanked and underbanked segments that have remained untapped for decades. Credit scoring in this way is more objective and reliable and less subjective and outdated.

Another arena to deploy ACS is the CMSME sector where significant demand for credit exists. Bangladesh's CMSME sector thrives with the energetic participation from the young entrepreneurs yet riddled with accounting, documentation, and collateral related issues to get credit for expansion. The mismatch between financial institution's requirements and the nature of operations of CMSMEs provides a space for ACS to add value.

In addition to sectoral applicability, ACS holds the potential to reduce the processing time required for credit service delivery. The existing modality in Bangladesh practically takes 15 to 30 days for disbursement of loans due to the structured and bureaucratic steps. Since ACS relies on alternative data and Machine Learning (ML) algorithms, the overall time for disbursement can be reduced. The whole ecosystem of alternative credit scoring would require stakeholders in three key areas: financing, credit scoring, and service delivery.

Financing

In this area, the stakeholders are the banks, NBFIs, etc. essentially who are supposed to provide the credit to the applicants. The ACS can greatly enhance the existing credit scoring tools used by these organisations to cater to vulnerable, marginalised and CMSME groups.

Credit scoring

With the emerging popularity of ACS facilities, various fintech companies, both from home and abroad, are coming up with this technology to implement the system. These institutions are in charge of facilitating the ACS process of the applicants.

Service delivery

After the banks provide the credit and the fintech companies complete the credit scoring process, the final task is to bring the service to the target market, as in the community at the grassroots level.

The banks can do the service delivery by themselves assigning their own banking agents or they can partner up with other entities. Organisations such as iFarmer, WeGro and so on have been working very closely with farmers in remote areas for quite some time so partnerships with such organisations might be helpful for banks to have access to the grassroots communities.

Similarly, Grameen Bank, BRAC, ASA, BURO Bangladesh and other microfinance organisations (MFIs) have been involved in microcredit lending activities for a long period of time. These organisations usually provide small and uncollateralised term loans (usually one year) to the unbanked and underbanked population of the country.

Over the course of their activities, these institutions have a record of the rural people and a record of their loan repayment to the MFIs. Interestingly, in case the ACS agencies can access this record of their microfinance activities, the opportunity of determining the creditworthiness of a huge population could be unlocked since data from these MFIs' databases could be incorporated into the credit scoring algorithm.

Thus a very high proportion of credit invisible population and the burden of cost of operations at the last mile make ACS a suitable tool to make credit swiftly available to the unbanked and underbanked.

Combining the above stakeholders could bring an enormous change in their lives. Not only that the vulnerable groups in the grassroots communities will access financing for their personal use or the CMSMEs for their business operations, but financial institutions will also be able to capture a completely untapped market.

This potential of bridging the gap between service providers and the underbanked population added with the scope of fast-tracking credit service delivery to demanding sectors, such as the CMSMEs indicates the time is of the essence for financial institutions to explore ACS.

However, it should also be remembered that even though ACS is immensely promising, implementing the method in the context of Bangladesh comes with a unique set of challenges. Bangladesh Bank so far doesn't have any relevant guidelines based on which banks can initiate their activities on ACS. Also, no work has been done to create a consortium of banks that will be a part of the ACS ecosystem.

The fintech brands, while trying to assemble financial data to use for the credit-scoring of the individuals, would also have to work on the integration of online platforms (e.g., eCommerce shops, ride-sharing apps, social media platforms etc.) with their own ACS engine, so that they can access the API data from the customers' digital footprints.

In the global context, ACS has already gained vast popularity due to its adequacy and functionality. It is expected that this will soon be widely used in Bangladesh as well by eliminating the market gap between the lenders and the grassroots community. But for that, some steps are needed to be taken first.

A policy guideline and refinance scheme need to be designed that would encourage banks and NBFIs to offer digital loans based on ACS to personal retailer account (PRA) holders and women entrepreneurs.

Relevant authorities could focus on creating a consortium of banks in the country (similar to Paynow in Singapore or Promptpay in Thailand) so that open banking facilities become much more accessible. This would further facilitate instant payment and digital lending services and thus empower consumers and small businesses. For the credit scoring algorithm to be more efficient, banks might also want to share the account APIs with the fintech companies.

Bringing all the stakeholders in ACS together and constructing a stable and dependable credit scoring ecosystem can open doors to thousands of new opportunities for the economy of Bangladesh.

Immersive Story

How Can Gig Platforms Enable Financial Inclusion?

Across countries like Bangladesh, millions of informal workers are joining gig platforms in new sectors like ride-hailing, deliveries, and home, personal, and office services especially since the outbreak of the Covid-19 pandemic. Within the framework of fair and sustainable gig work, this growth trajectory will continue as informal work is increasingly digitally mediated and gig platforms become a significant source of income for low-income segments of population in these countries.

Workers joining these platforms in emerging markets like Bangladesh often take their first steps into a digitised, formal work identity. They get paid into digital accounts and generate reams of data on the quantity, regularity, and quality of their work. But most workers are financially excluded so offering them financial services via platform can help solve long-sustaining challenges in financial inclusion.

On platforms, they connect to a digital interface to seek work, get paid into digital accounts, and generate reams of data on the quantity, regularity and quality of their work. The digital connection and the data generated open new pathways for their financial inclusion. In all, the rise of digitally intermediated work is a unique opportunity for the financial inclusion of informal workers.

Several pilots to offer financial services to gig platform workers to understand the potential of the platform ecosystem to make financial inclusion for this segment more effective, viable and impactful have been supported by the Consultative Group to Assist the Poor (CGAP) which is an independent research and policy organisation dedicated to expanding access to finance for the poor people around the world.

The lessons learned from the pilots provide a picture of how platform rails are being leveraged to design, target and offer innovative financial services for the workers. These offer a guide to platforms, financial service providers (FSPs) and fintechs worldwide seeking to understand how to embed financial services for platform workers and the state of innovation today.

By partnering with such gig platforms, fintechs and FSPs secure direct access to large groups of difficult-to-reach customers onboarded to digital financial accounts with reliable earnings data. For platforms, financial services for workers can increase worker engagement and retention by reducing churn and improving the stability and smooth functioning of the platform ecosystem. Sensing this opportunity, platforms and fintechs have begun offering a variety of credit, savings, and insurance products on platforms to gig workers in many emerging markets.

Tanah Sullivan, Head of Sustainability for GoTo, a super-platform offering rides and e-commerce in Indonesia, observes, “The drivers for us literally drive our company and push the ecosystem forward. And so, if they are doing well, if we can positively impact their livelihoods, economic well-being and stability, that is a good thing for the ecosystem. It creates a healthier, more stable and more sustainable ecosystem and brings value to the company as well.”

Similarly, Badal Malick, Co-founder of Karmalife, a fintech providing credit and other financial services to gig workers in India, says, "As a fintech, the opportunity is threefold. Platforms are a great channel to access workers with low acquisition costs. Second, the work data is a single game-changing factor for underwriting these workers. Third, being able to deduct our repayment from source during platform payouts allows us to secure our business model.”

The partnership of CGAP with gig platforms and fintechs to test the effectiveness and value of such financial services for gig workers and to support a learning community around this frontier of innovation provides some important lessons. Overall, the experience shows that such services can enable gig workers’ financial inclusion and provide support to their livelihoods by helping them access working capital, manage emergencies, and smooth cash flow. Still, multiple factors inhibit how much financial inclusion platforms can unlock. Funders and the broader financial inclusion community must understand these roadblocks and the state of innovation in the space so they can act and amplify impact.

Gig platforms can use work and earnings data to provide meaningful financial services to underserved gig workers. The early stage experience of several industry pioneers who that have painstakingly built algorithms, designed products and implemented pilots to prove the value of work data to extend transformative credit to workers suggests need for more experimentation and innovative problem-solving in this space.

For instance, the digital rails created by platforms can be a powerful foundation for offering financial services to underserved gig workers, but ensuring the right environmental conditions around digital payments, regulations and analytical capability are important. Platforms, FSPs and others need to assess the local conditions and then create partnerships and alliances to bring the right skills, expertise and regulatory licenses to the action agenda.

To help monitor the digital credit market, assess consumer risks, listen to the collective voice of consumers and identify potentially concerning providers, the social media analysis tool based on Artificial Intelligence (AI) such as the CGAP's typology of digital finance consumer risks and market monitoring toolkit especially social media monitoring can provide key frameworks.

The above reading deck contains supervisory guidance on the use of a branch of AI, Natural Language Processing (NLP), for social media monitoring, based on insights and lessons from the India pilot, and provides examples of social media analyses carried out as part of that pilot. Although guidance has been given in a general manner that goes beyond the India pilot, it still needs to be well contextualised before its application in a specific jurisdiction.

Some insights and suggested action items to amplify the potential for this ecosystem to benefit workers indicate the following actions for the financial inclusion community:

1.Support platforms and fintechs to experiment new products: Platforms and fintechs need greater experience deploying these products to prove the link between financial services and worker retention. Early experiences have discouraged many, given that purely digital services have not led to significant uptake. The time required to solidify these business models does not always match fast-paced, high-churn platform business models. Funders can create the space, through patient capital, for such experimentation and insight-gathering.

2. Compel the financial services sector to build comfort with new models: Various actors in the financial sector including credit underwriters, traditional banks and authorities need to build comfort with new credit scoring and lending models. Funders can support bringing more insight into the public domain on how successful innovators have deployed scoring models thus building greater comfort.

3. Support regulatory authorities to streamline the deployment of work data: Regulators may need to intervene to improve the quality of and access to work data making such data usable and reliable. Eventually, it may be useful to think about work data much like we think about financial data and consolidate it alongside credit bureau data. Doing so would allow workers to assemble their data in reliable, transparent and coherent ways to unlock their access to new and more robust products. Currently, that information is owned by platforms, each capturing a sliver of earnings and financial data. Funders can convene discussions between regulators and platforms to facilitate these changes.

4. Support governments in forging responsible connections with platforms: Governments interested in protecting the needs of such workers may find that platforms provide a valuable pathway to reaching them and can make social safety nets and other emergency services more easily available to this group. This opens up the possibility of partnerships between governments and platforms to bring greater support to this segment.

Going forward, it can be anticipated that digital ways of securing work and getting paid will create more work data from various sources and deepen digital channels. Using that data and those channels to reach excluded segments will require new collaborations and partnerships. Lessons learned from providing financial services to the gig-worker segment may present broader lessons applicable to a variety of other excluded groups such as agricultural and farm labourers, rural nonfarm workers and women, who are increasingly adopting digitally contracted work. Therefore, there is a clear imperative for the financial inclusion community to work closely with the private sector and governments to achieve greater impact through the financial inclusion of platform workers.

Can Inclusive Product Design Change Emergency Savings?

Inclusive product design is a crucial lever for improving financial security and opportunity for people traditionally left out of the financial system. Inclusive financial product design may be conceived as a process that ensures the needs, wants, and aspirations of people living on low to moderate incomes (LMI) — poor and disadvantaged groups, marginalised communities, low income informal sector participants, marginal and small farmers, women-led households, and similar other groups — are integrated into the financial products.

At present, many fintech companies are working towards developing their product roadmap and supporting research and product development processes that advance a more equitable financial system. In practice, it is guided by the following three principles:

- Intentional designing for system change, not just individual behaviour change.
- Designing products that meet the needs, wants, and aspirations of people living on low and moderate incomes.
- Giving people agency and control over their financial lives.

Inclusive product design has proven real-world results. Commonwealth's work to scale access to emergency savings shows how the design framework has helped implement solutions that have supported 10 million people earning LMI save more than $2 billion in liquid cash savings.

In 2019, Commonwealth joined BlackRock's Emergency Savings Initiative (ESI) to tackle that crisis in short-term savings faced by people in the U.S. earning LMI. America is in an emergency savings crisis: nearly four out of 10 people can't easily access $400 in cash — that increases to nearly 60% of households making under $60,000 who struggle to come up with $400 for an unexpected expense.

As a leading expert within BlackRock's ESI, Commonwealth has followed a systems change approach to solving this emergency savings problem. Following the first principle in the Inclusive Product Design toolkit, Commonwealth looked for infrastructure systems where embedded emergency savings solutions would impact not just individual behaviour but many people.

ADP — the largest provider of payroll services in the US reaching one in six workers — exemplifies this in offering a high-quality emergency savings option through its Wisely® card and myWisely® mobile app. Through BlackRock's ESI, Commonwealth and ADP collaborated to learn more about the emergency savings needs of both employees and employers, translating the learnings into enhanced high-quality savings features available to all Wisely® cardholders, offered through the myWisely® mobile app.

Research is another critical part of following the Inclusive Product Design framework. In partnership with ADP, Commonwealth collaborated on research and identified four ways ADP's myWisely app could meet the emergency savings needs of their consumers: (i) Multiple, customisable savings envelopes; (ii) Automated payday transfers to savings; (iii) Customised scheduling of savings transfers; and (iv) Gamification to turn cash rewards from card use into savings. Prior Commonwealth research showed that for people earning LMI, emergency savings solutions should be fully liquid, have no fees, and offer the ability for an individual to determine when and how the funds are used.

Incorporating features improvements to the app resulted in an increase in total savings from $199 million to $1.55 billion, a 3.5x increase in monthly average new users of the savings envelopes, and 2.7x growth in net savings inflows (savings less withdrawals). The surges in uptake and utilisation show the power of product design that is responsive to consumer needs and aspirations.

Emergency savings is one critical step in the journey to financial security for people earning LMI. As Commonwealth's work with BlackRock's ESI demonstrates, using inclusive product design to build and scale products can have a profound impact and create real-world results.

Having an inclusive focus is an area of opportunity for fintech companies and where they can lead the way for the broader industry. Usually, a focus on the needs and financial security of households living on LMI is not a priority for many traditional financial service providers.

Inclusive product design can be used to address all parts of the financial lives of people earning LMI, whether that is borrowing a home loan, saving for education or retirement, or managing credit and debt. The key is that their needs, wants, and aspirations are centred from the start — never ignored or tacked on as an afterthought.

Can Financial Inclusion Improve Women's Lives?

An Interview with

Mary Ellen Iskenderian

Mary Ellen Iskenderian is the President and CEO of Women's World Banking, a global nonprofit organisation whose mission is to provide access to financial tools and resources for low-income women in developing countries. She joined Women's World Banking in 2006 and leads the Women's World Banking Global Team based in New York. She is also a member of the Investment Committee of WWB Capital Partners Funds I and II. Prior to joining Women's World Banking, Mary Ellen worked for 17 years at the International Finance Corporation (IFC), the private sector arm of the World Bank. She had previously worked for the investment bank Lehman Brothers. Mary Ellen is a permanent member of the Council on Foreign Relations, as well as a member of the Women's Forum of New York. She serves as a Director on the Board of the William and Flora Hewlett Foundation. She was recognised in the Forbes "50 over 50: Investment" list, which highlights female investors and financial leaders. Her first book, 'There's Nothing Micro About a Billion Women: Making Finance Work for Women', was published by MIT Press in April 2022.

Nearly one billion women worldwide don't have access to financial services – why is this a problem?

Mary Ellen Iskenderian (MEI): That's a good question because many of us take it for granted that women have access to financial services. But the reality is different. At Women's World Banking, we believe that financial inclusion is not necessarily an end in itself. We now know that 13 of the 17 UN Sustainable Development Goals are dependent on the achievement of financial inclusion. And given that women are disproportionately excluded, women's financial inclusion is essential.

To what extent does financial inclusion improve women's lives?

MEI: We know without a doubt that when a woman has greater control over the financial resources that she is generating or that is coming into the household, she has a louder voice and a more decisive role in household decision making. There is also very compelling data that indicates that women not only vote more when they have access to capital and financial services, but they are also more likely to stand for office themselves. Women also seem more able to get themselves out of abusive relationships if they know they have access to economic and financial resources that don't force them back into that relationship. At Women's World Banking, we track all of our projects across the range of changes a woman goes through when she has access to and control over financial resources. Most obvious are the material changes in her life. Her relationships with others in her household and community also transform, as does her perception of herself. And then there is the cognitive change. Does a woman become more aware of her options, opportunities and activities when she opens a savings account or applies for a loan, for example? However, it's no longer enough to just be financially literate and understand finance. But you also need to understand that digital technologies as well.

Is digital technology the silver bullet to close the gender gap in financial inclusion?

MEI: Digital technologies have the potential to be a silver bullet. The one thing we just absolutely have to be single-minded about right now is getting technology into the women's hands. There's a lot of data that shows that when technology is available to them, and they're trained and empowered, women are more willing than men to choose a digital financial service. But they have to gain that initial access. We still have a gender gap of up to 18 percent in smartphone ownership. That's a big barrier to women's financial inclusion. Many financial service providers are designing products for Internet enabled technologies. So without that technology, women are just cut off right at the start. Only when we have greater parity in access, digital technology can unleash their power as a silver bullet to close the gender gap.

What prevents women from bridging the digital gender gap?

MEI: There are so many different cultures, people and social norms around the world. The fascinating thing is that we still find that the barriers to woman's financial access are very similar across countries. We have grouped these barriers in three ways. One is the barriers experienced by a woman herself. She is less aware of her options and less confident about both her digital and financial literacy. The second group is the barriers put up by financial service providers themselves. We know that despite loads of evidence to the contrary, they are still unconvinced that women represent a lucrative, valuable and loyal customer base. This is partly because there is still a shocking lack of gender disaggregated data. In many countries, banks and other financial service providers are still not required to report their data as it's broken down between genders. So we don't really have an overview of whether or not a product is being used by men or by women which only serves to reinforce inequality of access. The third set of barriers is regulatory or policy based.

So it's the governments' turn?

MEI: Governments could, for example, mandate the collection of gender disaggregated data or even revise collateral requirements for banks. We know that the biggest barrier to women entrepreneurs gaining access to productive credit is a lack of collateral. A few years ago, when the International Monetary Fund (IMF) asserted that financial inclusion was macro-critical and held significant macroeconomic implications, it marked a crucial milestone. One of their findings was that inequality in an economy or in the way that economy grows is exacerbated unless special efforts are made to reach the most excluded. Even with the best of intentions, inequality will only increase if you don't take care of those who are most excluded. And in any economy, women are always among the most excluded.

Can digital technologies also help women and female entrepreneurs overcome restrictive social norms?

MEI: Yes, very much so. We're excited about the possibilities that digital technology offers to overcome barriers of mobility. We know that even women who use technology tend to do business within a much smaller radius of where they live than men. So it's exciting to see a growing number of women accessing e-commerce platforms. They may be staying at home and may not have expanded their physical mobility, but their business may be able to transcend those limits of mobility. When we talk about social norms and digital, it's also important to talk about some of the difficulties women face in gaining access to the technology for social reasons. The Global Mobile Suppliers Association (GMSA) reports that when they ask women around the world why you don't have an Internet enabled phone or why you aren't more active on the Internet, women from countries with more restrictive social norms often report that their family would disapprove. The Covid-19 pandemic had very, very few positive impacts on women, but we could see some of those social barriers being broken down in the face of a pandemic that really drove a contactless economy. We saw, for the first time, a dramatic lowering of the gap in cell phone ownership.

What is the role of Digital Public Infrastructure, such as e-identification or e-payments, for women's economic empowerment through financial inclusion?

MEI: A very, very important one. I would almost want to flip the question a little bit, because I think policymakers and people who are engaging in public infrastructure don't necessarily recognise that there are gender implications for something, like infrastructure, that they consider to be gender neutral. The digital ID is closely related to the same billion women who don't have access to financial services. There are also about a billion women who don't have access to a digital ID. Yet this ID is fundamental to joining the formal financial system in many countries around the world. Women's ID is in the legal system very tied up to marriage laws, birth, customs, family, and family law. We really need to separate those two things so that women are able to gain access to that digital ID which is crucial for financial inclusion.

You recently published a book – what message does it carry for actors in the financial sector?

MEI: The book title is 'There is nothing micro about a billion women' which carries the message that there is a lot more than microfinance that women need in order to be fully empowered and full economic and financial citizens. The other main message of the book is that there is something literally everyone can do to further women's financial inclusion. Policymakers can make sure that there is a level playing field in their country. Financial services providers can get rid of the outmoded view that there isn't a strong business case for serving women. Investors can hold companies truly accountable for gender equity and diversity in their organisations. Even in our own investment portfolio, there is evidence those institutions that have greater gender diversity, that have more women on the front lines, are more likely to serve female clients. So before you take out an insurance policy or take out a housing loan, take a look at what the gender diversity of your bank or insurance company is like. We can all be a lot more deliberate about the choices we make as consumers of financial services.

Courtesy: [digital.global] network

Inclusive Digital Marketing for LMI Customers

Financial service providers (FSPs) in emerging markets want to reach low and middle income (LMI) customers more effectively for which digital marketing offers a popular solution. But one of the biggest problems these FSPs face in reaching these customers has been their inability to properly leverage the digital media.

Traditionally, physical marketing has worked best to reach out to this segment. This is because physical marketing is based on word-of-mouth trust building and, in many cases, handholding the customers and training them in how to use the financial solutions the providers are offering.

However, the Covid-19 pandemic has forced a massive change in the business. With lockdowns and restricted mobility, it quickly became impossible to physically reach out to local businesses with product offers – especially those run by LMI entrepreneurs, such as mom-and-pop stores. These limitations rendered many sales teams virtually jobless, as a bulk of their daily activities had consisted of meeting, chatting with and prospecting new customers, then walking them through the processes involved in using their financial solutions.

In response to this challenge, adaptive, agile financial service providers – especially fintech startups like Bridge2Capital – have realised the importance of leveraging digital media to market their solutions to LMI businesses. But they have faced the basic question of how to design effective digital marketing campaigns for these customers.

Reaching out to the LMI segment is not a simple copy-paste approach, in which FSPs can borrow digital marketing ideas used for others such as higher-income, more tech-savvy customers. It requires new tactics designed for LMI customers' unique needs. To support Bridge2Capital's efforts on that front, the following agenda emerged as critical:

- Understand the most effective ways of reaching out to this segment in terms of language (vernacular or mixed) and social media channel preference (YouTube, Facebook or WhatsApp messaging).
- Design core strategies for reaching out to the LMI segment and building brand appeal among these customers.
- Build an implementation roadmap to engage, sell to and provide empathetic customer care for LMI customers, by closely emulating the in-person sales and marketing behaviour that they are traditionally used to.

Although the complete picture with regard to the results of these digital strategies are not yet clear, the initial indications look promising. Bridge2Capital's engagement with the LMI segment is growing and this has much to do with these customers' changing attitudes and growing affinity towards digitalisation since the start of Covid-19. However, even with this new openness to digital approaches, human-centric digitalisation remains the key.

While Covid-19 has had a disastrous impact on the world's health, finances and social interactions, it is good to recognise the silver lining exemplified by the businesses. If we can take these positive examples and build upon them, even after the end of the pandemic, then the dream of financial inclusion can still be achieved.

Future Face of Financial Inclusion

What future scenarios for financial inclusion can one expect in the face of driving forces such as digital technologies, globalisation, climate change, migration and conflict across the world? How best can the financial institutions exploit the opportunities to ensure financial services better serve the needs of the poor people in these rapidly evolving situations? The above and similar questions are relevant for the industry to explore to pathways towards achieving financial inclusion for all.

Over the next decades, three interconnected forces are likely to influence inequality and economic participation of the poor people—digital technologies, globalisation, and migration.

Digital technologies: One can certainly predict with very high degree of probability that the spread of digital technologies will continue to pave the way for more accessible and affordable financial services. The dark side, however, is that some segments of the population such as the rural people along with women and poorer households could be further excluded if digital infrastructure remains available to the advantaged segments such as the urban people, men and richer households. This is likely to further intensify if the providers do not adapt solutions to serve the diverse needs of poor urban and rural populations. Further, there exists significant uncertainty regarding the direction of policy decisions that could positively or negatively affect innovation and data protection.

Globalisation: The pattern of globalisation is constantly shifting with global flows of trade and finance slowing down and the volume of data transmitted across borders surging through digital technologies. Digital platforms are changing the way business is conducted across borders, creating opportunities for local economies. As such, digital globalisation will have a major impact on the lives of the poor people in the near future. However, there is uncertainty regarding the directionality of this impact given the political shifts in the North which appear to have harnessed anti-globalist sentiments to recoil from open trade and manufacturing.

Migration: With rapid globalisation, climate change, conflicts, changing demographics and people's rising aspirations, it is more likely that urbanisation and cross-border migration will gain further pace. However, it is not clear whether the governments would be able to build the infrastructure necessary to keep pace with growing cities and whether the North would embrace international migrants in their economic growth strategies.

Other forces such as climate change, increased conflicts and the changing nature of work will also matter for financial inclusion given their close connection to digital technologies, globalisation and migration. For example, climate change and conflict will affect migration while digital technologies will impact the nature of work.

The above and related dynamics will have several implications for financial inclusion:

• **Livelihoods are changing with urbanisation.** More than half of the human population is now living in urban settings and this trend will continue. Urban areas offer a wider variety of employment opportunities and better infrastructure but it is likely that urban poverty will swell if employment opportunities do not keep pace with the influx of people from rural areas. Many urban migrants also keep ties to their hometown or village, sending money and transferring knowledge when they return. In rural areas, it will be important to create opportunities for commercial smallholders who do not migrate to become more productive and plug into value chains, and to help non-commercial smallholders transition to more sustainable sources of employment. The role of financial services to help the poor's transition, adapt and adjust to these new realities will become increasingly important.

• **Cross-border migration is inevitable.** Labour shortages and aging populations in the North will continue to create a pull factor for immigration adding to the growing push migration of refugees from the fragile nations. Financial services can be helpful for migrants. We should also not lose sight of the fact that migration has effects on migrants' home countries (for example, in the form of remittances as a source of investment, brain drain, and changes in cultural and social structures).

• **Suitability will drive consumer adoption and usage.** Continuing to emphasise customer-centric approaches to structuring financial services that meet the needs of target customers rooted in local context from language dialect to social norms will be essential for financial inclusion in the future. Local people should feel empowered to contribute to digitally enabled solutions that address financial needs and livelihoods in their communities. The governments and local organisations will be needed to help fuel this empowerment. This will also foster trust in the systems and solutions.

• **The digital divide is at risk of growing.** If digital infrastructure does not reach certain areas, if smartphones are not affordable for all people and if interfaces are not adapted to the education and language capabilities of consumers, there is a risk for specific segments (e.g. women, crisis-affected people, and people living in rural areas) to become more excluded than they are today. More investments are needed to address these gaps or alternative solutions need to be devised. There is a need to think about public-private solutions to some of these more complex problems as it is not likely that commercial approaches will be sufficient.

• **Disruption will continue across the digital ecosystem.** Financial services providers (FSPs) will most likely not look the same in the future. Tech giants such as Google, Amazon and Facebook are expected to continue to integrate financial services into their networks and are likely to become trusted FSPs given their predominant role in the digital ecosystem today. As such, banks might just be used to hold deposits and to move money between newly trusted FSPs, such as social media companies and fintechs. Similarly, the role of mobile network operators (MNOs) might evolve to focus more on network infrastructure and serve as the 'rails' for customers to access financial services.

• **Data ownership and control could make or break solutions for poor people.** Data will be distributed across many players: banks, MNOs, social networks, internet operators, and many more. Financial data will be combined with social connections and messaging data to build more complete digital profiles. Who will own the data? Who will aggregate and analyse the data? Will this help or hurt the poor people? Are poor people able to make informed decisions, and are they aware of the risks? The governments will have an increasingly important task of regulating data ownership, control and security but they may struggle to handle these regulatory needs in a rapidly changing environment and due to capacity limitations.

• **The role of the government remains critical.** There is a strong consensus that the government will have to play a key role in driving financial inclusion. However, the government faces capacity limitations and governance challenges that will need to be addressed. As data is increasingly controlled at intra-national levels, how will the governments supervise and regulate the actors that emerge in control of the data?

In conclusion, given the increasing complexity of the industry, other ministries/departments of the governments may need to be involved to address how to handle issues beyond national boundaries. For example, competition authorities or telecom regulators may need to be brought in early to ensure a healthy development of financial services.

With globalisation and urbanisation, policies may be increasingly driven by subnational governments such as cities, provinces or regional bodies. At the global level, leading governments will continue to play a key role in setting global incentives. However, their future role with international cooperation on banking regulation is uncertain.

Regardless of how the future unfolds, the lives of the poor people will evolve in ways one can only begin to imagine. By allowing exploring and rehearsing divergent and plausible futures and their implications for the financial inclusion industry, not only the relevant stakeholders will find themselves better prepared for the future but can also help shape the future for the better.

M-Pesa – Kenya's Success Story of Digital Financial Inclusion

In Kenya, M-Pesa started in 2007 as an electronic money transfer product that enables users to store value on their mobile phones. M-Pesa was first developed as bank product in partnership between a telecommunication company (telco, Safaricom) and a bank (Commercial Bank of Africa). In subsequent years, it has further evolved into a platform for a wide range of financial services such as virtual savings accounts in commercial banks. Harnessing the power of big data, M-Pesa now also operates as a channel of credit supply by commercial banks, microfinance institutions and cooperatives.

In addition to domestic financial services, M-Pesa allows users to send and receive cross-border remittances using their mobile phones. M-Pesa and similar digital financial services represent a significant improvement in the national payments technology, reducing transaction costs and lowering the barriers to entry into the formal financial system.

Financial institutions in Kenya have embraced M-Pesa as a platform to manage micro accounts, build customer deposits and broaden their customer network. As a consequence, Kenya has emerged as a leader in financial inclusion in Sub-Saharan Africa.

M-Pesa has now evolved into a digital financial services revolution and is playing a major role in financial inclusion in Kenya.

- M-Pesa started as an electronic money transfer product that enabled users to store value on their mobile phone or mobile account in the form of electronic currency. The currency could be used for multiple purposes including transfers to other users, payments for goods and services, and conversion to and from cash. The payments technology has now developed to become efficient, transparent and effective and has covered other markets and sectors like insurance, capital markets and even targeted social protection programmes of the government.
- M-Pesa has supported the development of a technological platform for financial services that has lowered transactions costs and made the banking system and financial services more accessible. The financial inclusion surveys show its remarkable success in Kenya. In addition, this success has also created an endogenous demand for regulatory reforms to cope with the innovations, as well as a demand to complete the financial infrastructure in the country.
- Kenya's four stages of virtuous frontier innovative process has enhanced financial inclusion. A much larger share of the country's population is now within 5 km of a financial access touch point; there are close to 162 financial access touch points per 100,000 of the Kenyan population. An impressive result compared with 63, 49 and 11.4 touch points per 100,000 of the population in Uganda, Tanzania and Nigeria respectively.

In short, it is observed that Kenyan banks have invested heavily on this technological platform, developing capacity to grow and to serve their market niches – strong banks can weather shocks and roll out competitive products. The branch networks of Kenyan banks have expanded rapidly in recent years and the microfinance coverage has also equally increased. In addition, Kenyan banks have expanded to other African countries as well. Thus M-Pesa has supported the emergence of strong banks by providing a technological platform not only to manage micro accounts but also transactions in general. The customer base has also expanded rapidly providing banks with a large deposit base and higher capacity for growth.

Overall, rapidly rising financial inclusion in Kenya has opened up a floodgate for potentially game-changing opportunities. It has provided a transactions platform for unbanked and banked in Kenya that has supported an evolution and consequent revolution in national retail payments. These developments have supported banks as a platform to manage micro accounts, development of virtual savings accounts and an evolution of credit supply in this virtual ecosystem. The platform has also supported micro insurance and investments in securities market. In addition, it has supported government targeted social protection programmes and expansion of regional payments system.

But more importantly, due to its amenability and efficiency in monitoring it has supported and enforced the anti-money laundering/combating the financing of terrorism (AML/CFT) regime in Kenya. Moreover, digital financial services (DFS) emanating from M-Pesa platform development has helped to create a better environment for forward-looking monetary policy to replace years of financial repression and reactive policies.

Finally, it is rare to find a product in Africa like M-Pesa that transcends across market segments and seems to coordinate all markets. In Kenya, one can use M-Pesa account to pay for a meal in a five-star hotel and high-end shopping mall as well as pay for goods to a rural shopkeeper and pay for a cup of tea in a road-side kiosk.

Economic Crisis:

An Unusual Catalyst for Financial Inclusion

The SDGs identify financial inclusion as a key driver of a country's economic growth. Add to this, the World Bank's confirmation that financial inclusion helps sustain stable economies because it ensures individuals and businesses access to useful and affordable financial products and services. These offerings could be in the form of transactions, payments, savings, credit and insurance that are delivered in a responsible and sustainable way. In fact, seven of the 17 SDGs hinge on financial inclusion enabling their achievement – SDG1 No poverty, SDG2 Zero hunger, SDG5 Gender equality, SDG8 Decent work and economic growth, SDG9 Industry innovation and infrastructure, SDG10 Reduced inequalities and SDG17 partnerships for the goals.

During the Covid-19 pandemic, 'locked-down Bangladesh' rapidly embraced financial inclusion mainly due to lock-downs and the ensuing social distancing norms that introduced merchants and customers to digital wallets, and accessibility through nation-wide mobile connections. Today, Bangladesh is looking at a market of millions of users who can access digital financial channels.

The number of adult Bangladeshis with a bank account has been increasing fast, yet, according to the Bangladesh Bank (BB), there has been little improvement in account usage, financial literacy, savings and institutional borrowing.

The situation calls for improving financial literacy among the population that's new to banking to achieve true financial inclusion. The new users will need to be educated not only on the benefits of going cashless i.e. reduced transaction costs, less risk of theft or loss and increased transparency but, will also need to understand various financial tools at their disposal. This is especially significant in Bangladesh where the 'payments evolution' has been going directly from cash to digital, skipping the card cycle that took place in the developed countries. Today, we are witnessing the M-Pesa revolution in Kenya and the WeChat and AliPay revolution in China.

There are many examples of how the world is adopting digital channels for better financial inclusion. The Indian Government is providing basic income support to its citizens via direct benefits transfer (DBT) that the latter can access using contactless channels. China and South Korea are sanitising their own currency notes in fear of adding to the Covid-19 virus spread. Additionally, China, to avoid risks surrounding paper money, counterfeiting, money laundering and illegal financing, has come up with its own National Digital Currency - Digital Currency Electronic Payment (DCEP) which will be built with blockchain and cryptographic technology.

Technology has helped overcome banking-related barriers of geography, aligning with varying regulatory restrictions, product mismatch, lack of trust and lack of incentive to maintain high usage rates. As a result, it's the opportune moment for citizens without bank

accounts to become a part of the world's formal economy.

Fintech, Big Tech and incumbents are leveraging successful tech-led approaches to build financial solutions designed for a broader customer base. The focus is to also ensure that engagement continues beyond the onboarding stage for respective products and services. A few characteristics of this tech-led approach are:

- **Design thinking and human psychology:**

Financial literacy will improve the engagement with and retention of digital payment channels. Such financial literacy should seek learnings from behavioural science to 'nudge towards' both new habits and repeat usage of digital finance. Also, including elements of design thinking could help observe and develop empathy with the target user -- aiming for better adoption of financial products.

- **New digital products:**

Digital micro products (across savings, credit, insurance and more) focus on nurturing good financial habits over seeking larger sums of investment. They see better adoption when equipped for voice or gesture interaction, lower bandwidth, local language etc. Such products remove dependency on bank's physical establishments, giving customers access to 'anytime, anywhere banking'.

- **Adopt Open Source (OS) Solutions:**

OS solutions like MIFOS, a microfinance software solution can reduce the cost of products. Additionally, financial companies can create customised and locally relevant solutions by partnering with the development community. An example is BHIM, a payment app that supports local or regional languages to ensure non-English speaking people can comfortably use the app.

- **Leverage robust platforms:**

Platforms support rapid prototyping, help carry out focus group testing and build contextual solutions. And quite often, such platforms are already built to handle issues of accessibility, compliance, data security, user base etc. Financial institutions would benefit from a cost and time-to-market perspective if they invest in collaborating with existing digital infrastructure solutions rather than building their own.

- **Lower distribution cost:**

Fintechs benefit from using self-services offerings or the agency/ agent based model of banking. Given the proliferation of popular third party mobile apps such as GooglePay and Whatsapp that already command a user base of millions, it also makes sense for financiers to piggyback on these platforms.

At present, every financial institution is warning its customers against fraud, especially as the Covid-19 crisis has forced the majority of first time users to adopt digital channels. The migration has created room for fraudsters to carry out identity theft and account takeovers. As the country goes cashless, the risks that financial institutions need to pay attention to and alleviate are:

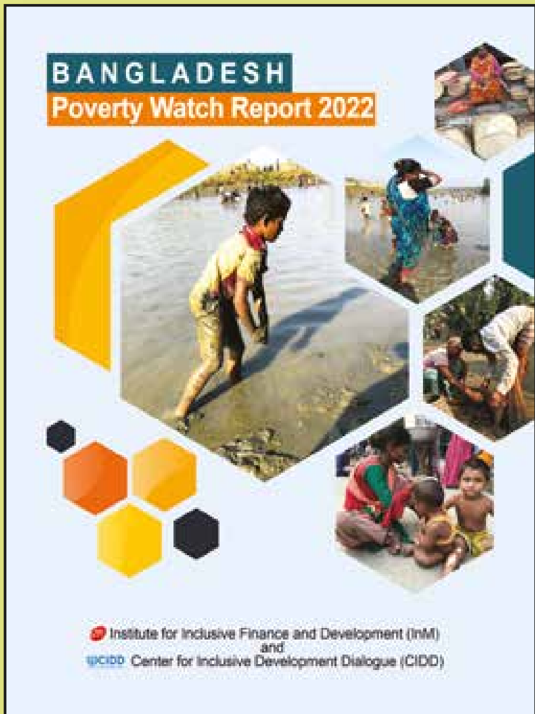
Newness risk: Customers are dealing with a lack of familiarity with digital-first products, services and providers. They fear exploitation and data-abuse by relatively lesser known tech companies. They are also contemplating behavioural changes such as acclimatising oneself to tech-first (or mobile based) touch points when switching from cash to cashless.

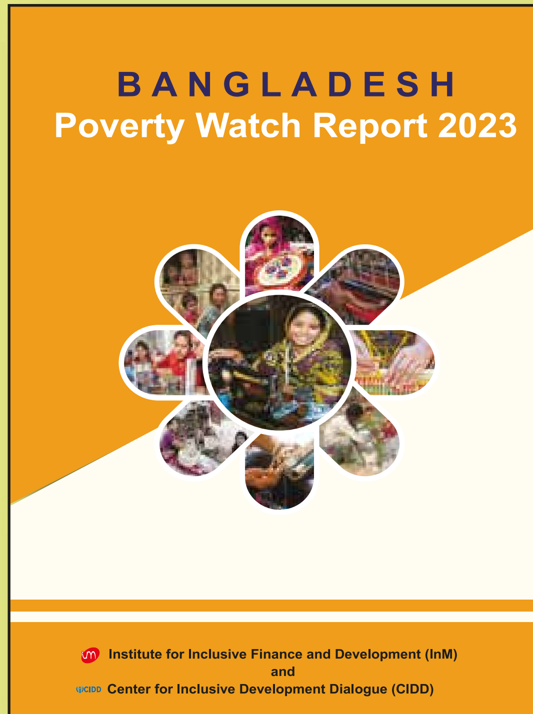
Provider risk: Business correspondents and other agent-related risks arise as new providers offer services that may not have the required regulatory cover or consumer protection.

Technology and privacy risks: Concerns include service disruptions, automated responses, lack of human connection and a fear of transmitted and stored data being hacked. However, Bangladesh's smartphone usage is rapidly rising which adds to the expectation that a significant portion of the population will adopt a mobile-first approach to financial services.

A recent Mckinsey Global Institute's report states that digital finance could boost growth in emerging economies by up to $3.7 trillion and Bangladesh can also claim a reasonable share of this higher growth with right policies. The need will be for the government, incumbents and fintechs to collaborate and build affordable, transparent and innovative financial products and services that will serve the conventionally unbanked, rural communities and be guided by data-mindful policies and regulations. This intentional creation of equitable technology will ensure easy access, break down complicated fineprint and protect the customer's interests. Delivering these milestones will be key to achieving the SDGs.

A combination of technology adoption by incumbent banks, innovative products offered by fintech companies and Big Tech's push to serve the rural population -- when combined with policies that promote digital goods and services will uplift a wider segment of the population to achieve financial inclusion as well as increase overall economic growth in Bangladesh.





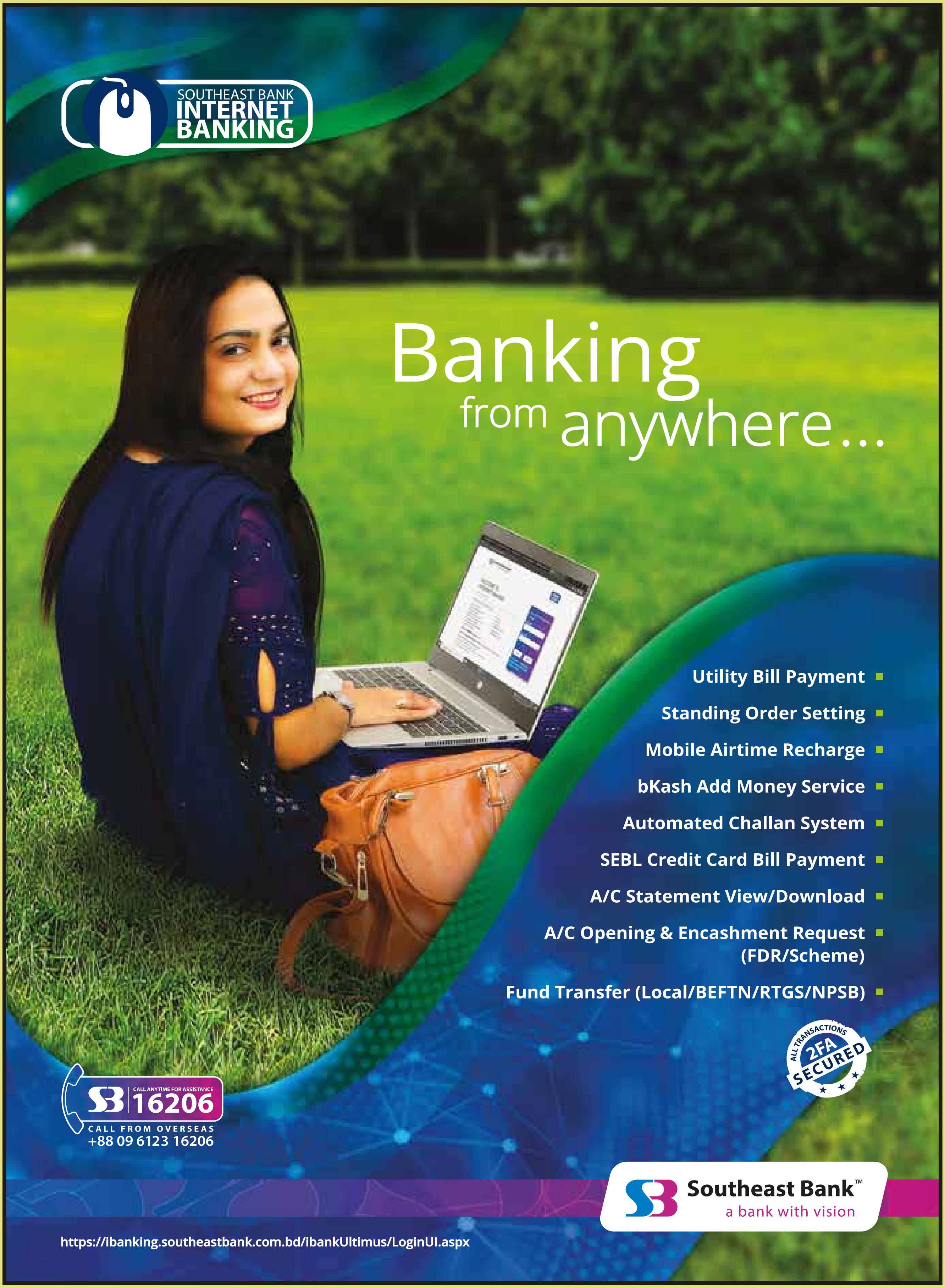
Bangladesh Poverty Watch Report

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

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

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

Bangladesh Poverty Watch Report 2022 was published in December 2022 while the 2023 Report was published in October 2023.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