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Technology A Financial Inclusion Ally
Artificial Intelligence Game Changer at BOP
Innovation for Financial Inclusion
Changing Social Norms for Women's Financial Inclusion

Innovation for Financial Inclusion



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FROM THE EDITOR

Available evidence of Covid-19 on households characterises the pandemic's unequal gender impacts in Bangladesh pointing to the need for a strong and gender equitable recovery. Although job losses and business closures are expected, the unequal gender distribution of the impacts shows that these disparities could prove long-lasting depending on how the government tackles the dual challenge of stopping the spread of virus and protecting the livelihoods of millions of citizens. As the low-income households experience the highest burden, it becomes important to better understand the local contexts and design evidence-based policies to fast-track gender focused recovery from the pandemic.

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Facts on Financial Inclusion

How does financial inclusion matter?

Financial services are foundational to addressing some of the pressing challenges facing Bangladesh including poverty and inequality and achieving a wide array of development goals. Numerous studies demonstrate that access to and uses of financial services have a measurable impact on inclusive development through (i) making day-to-day transactions possible, including sending and receiving money; (ii) safeguarding savings, which can help households manage cash flow spikes, smooth consumption and build working capital; (iii) helping finance small businesses or microenterprises, helping owners invest in assets and grow their businesses; (iv) supporting planning and paying for recurring expenses, such as school fees, electricity and water access; (v) mitigating shocks and managing expenses related to unexpected events such as medical emergencies, death in the family, theft, or natural disasters; (vi) improving the overall welfare of the poor households; and many other societal benefits.

What role does technology play in financial inclusion?

Most poor people in Bangladesh rely on physical delivery of cash to make payments or access financial services. This can be inconvenient and expensive for the customers, who may have to travel hours to reach a bank or financial institution. It can also be expensive for financial service providers, who do not have the infrastructure to serve customers in remote or rural areas. Mobile financial services provide a pathway to formal financial access in areas that physical banks cannot reach.

Although few people in Bangladesh have access to a bank, many have mobile phones. This opens up a whole new possibility for the unbanked to access mobile money accounts and other text or app-based financial accounts. Further, having access to the internet through their phones helps some people overcome several key barriers to financial access and provision: long distance to a financial institution and high cost of providing services.

In addition, rapidly advancing technologies are supporting innovative business models. Big tech platforms are increasingly entering the financial services space through startups, presenting a new opportunity for the unbanked to be financially included in Bangladesh.

What role does government play in financial inclusion?

The government's role in financial inclusion is the key in at least three important areas:

The government sets the rules that regulate the environment for financial inclusion, balancing the drive to bring financial services to the poor households with measures to protect the consumers as well as the stability and integrity of the financial system.

The government can promote infrastructure, either financially or by incentivising private sector investments, to support the expansion of financial services. Such infrastructure might include identity systems, connectivity, payment systems or credit registries.

The government can support financial inclusion by determining the routing and volume of payments through government-to-person (G2P) (e.g., social payments) and person-to-government (P2G) (e.g., taxes) that favourably shape the financial ecosystem to be more inclusive.

The policy makers increasingly recognise that financial exclusion is a risk to political, social, and even financial stability, which may impede economic advancement, and that financial inclusion presents an opportunity to improve human lives. The G20 through its Global Partnership for Financial Inclusion recognises its importance, and increasingly the global standard setters consider financial inclusion alongside its other goals of stability, integrity and protection.

How does microfinance relate to financial inclusion?

Microfinance, with its roots in microcredit, has evolved in recent decades. In the 1970s, social innovators introduced the concept that small amounts of short-term capital (microcredit) can help the poor people in the informal economy engage in productive activities and find their way out of poverty. Experience and research reveal the limits of microcredit as an anti-poverty tool. This has led to the recognition that the poor households need access to a full range of financial services, not only to generate income, but also to build assets, smooth consumption, and manage risks. The term microfinance has thus evolved to refer to a broad set of financial services tailored to fit the needs of the poor individuals.

Financial inclusion has a wider meaning, and it encompasses a wider range of players and institutions. It refers to individuals and businesses having the opportunity to access and the ability to use a diverse range of appropriate financial services that are responsibly and sustainably provided by formal financial institutions. Whereas microfinance advocates generally work with the microfinance institutions that grew out of the microcredit revolution serving the poor, financial inclusion advocates more often work with a broad range of providers to achieve their goals, including those that do not necessarily focus exclusively on the poor people. Both the microfinance sector and the global financial inclusion agenda recognise the importance of building consumer financial capabilities and consumer protection policies that account for the conditions and constraints of the poor households in the informal economy.

What is the impact of financial inclusion?

The impact of financial inclusion unfolds through three intertwining pathways. First, financial inclusion contributes to poverty alleviation by bringing financial products and services within reach of the people living in poverty. For example, households without access to other forms of a social safety net may obtain credit, insurance, use a savings account or receive money from relatives via payment services, which help them better manage financial shortfalls and emergencies, thereby building resilience. Second, it contributes to poverty reduction – that is, bring people out of poverty on a sustained basis when they can use financial services that help them to grow their businesses and invest in education. Finally, it contributes to economic activity and eventually economic growth, although this link is less well established and requires further research.

The benefits of financial inclusion extend beyond individuals and households. Shifting cash payments to digital delivery -- whether it is social welfare transfers made by the government to citizens; or people paying their taxes, fees and bills to the government; or payments made among people–can improve their efficiency and reduce the amount of money lost to corruption. Digital payments can also provide the backbone for new types of delivery for basic services, such as solar energy and water particularly to remote areas where national grids are too expensive. Digital payments also support education delivery. As such, it is increasingly being recognised the facilitating role that financial inclusion can play in helping to achieve many of the SDGs.

Further research is ongoing to identify the ways that financial inclusion affects the lives of the poor people, including the potential for negative impacts such as abusive lending from lack of transparency and overly burdensome debt loads, and ways to limit and manage those risks.

Literacy Oil Needed for Financial Inclusion Engine

In Bangladesh, the number of adults having formal accounts is rising fast and the number of deposit accounts in the banking sector rose close to 133 million in June 2020. But the real question is: how many of them use these accounts? And how many use these effectively or have graduated towards using other financial instruments?

The answer to the above questions depends on the society's relationship with money, which begins with financial literacy. Until there is widespread understanding of how to manage money smartly at the individual level, our aspiration to emerge as a high income country by 2041 will remain difficult to achieve. While the lack of understanding of money gets worse outside the privileged and educated salaried and professional sections in society, but many belonging to these groups are also not smart in managing their finances.

A part of the reason is no doubt cultural — the norm of never asking a person about his/her salary translates into a culture of keeping silence around any discussion relating to finance and associated with earnings, borrowings and investments. For availing credit--the modern means of accessing capital–one needs to accumulate assets along with developing entrepreneurial skills — which is not seen with much positive attitude in society. Probably no individual is aware of his/her own credit score until the loan application gets rejected and he/she loses the confidence in his/her credit worthiness. When financial decisions are based on intuitive reactions--rather than logic--financial tools are more likely to be used sub-optimally.

More often, money management behaviour of individuals is based on traditional practices shaped by personal experience which remains highly gender biased. As a result, women entrepreneurs--and women-owned microenterprises in particular—are disadvantaged; and since women form half of the population, half of the pistons are not firing in the country's development engine!

As a result, the country's financial services ecosystem is mostly oriented towards reducing risk through adopting complex processes that end up in financial exclusion, rather than promoting responsible financial behaviour and creating pathways for financial inclusion beyond bank accounts and mobile phones. Our relationship with finance is especially troubled at present which is costing the individuals and society at large.

The solution is simple but not easy. Financial education for all has to be the key objective. There are multiple ways to effectively move forward — educate women and men on money management; introduce financial concepts to secondary school students; encourage the students to participate in family businesses during vacations and understand the consequences of financial decisions; and so on. For example, a programme may be undertaken to give the school-going 16-year-olds access to credit, allowing them to build up a credit history by the time they graduate. Measures may be adopted to ensure that financial services become more transparent about the fees charged and the snowballing consequences of default. Innovative technologies may be used for behavioural changes that promote better financial knowledge and performance.

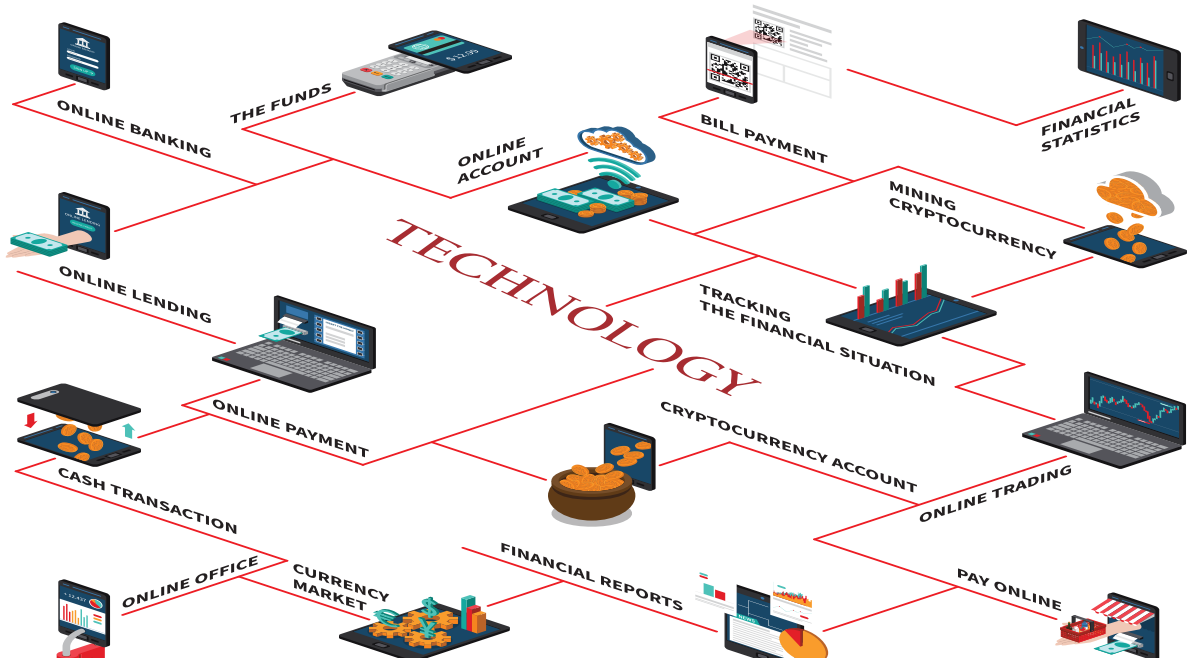
Bangladesh Bank is in the best position to design the financial literacy initiative as a first step along with encouraging other banks and institutions to enhance the knowledge of financial instruments among the population. The long term goal should be to ingrain these in society through effective communication, mobilisation and infrastructure support. No doubt the expansion of the financial education initiatives will help the country to reap significant dividends.

The national effort towards achieving the goal will involve bringing the ecosystem together and addressing the education challenge at every level, starting from the primary schools to the employers, expanding the scope of digital initiatives, incentivising banks, fintechs and start-ups to build innovative products using digital infrastructure and committing to this with a communications campaign across all levels of the government and society.

This will ensure better usage of financial products which will lower risk. On its turn, lowered risk will increase trust, higher trust will reduce friction and lower friction will increase transactions. When the flywheel starts spinning at full speed, the entire economy will move forward taking along all individuals and 'leaving no one behind'.

Technology

A Financial Inclusion Ally



Traditionally the gains from tech booms are not shared equally, but things may be starting to change. Millions of people excluded from the financial world through no fault of their own now find themselves as participants in the most technologically advanced time in living memory. Financial exclusion is widespread in the developing world, where majority of the population do not operate bank accounts. Technology is now rapidly closing the gaps; and emerging as an ally in the fight against financial exclusion.

The digital revolution is a golden opportunity to proactively pursue the path to financial inclusion for all. Knowledge ultimately creates its own power. Increasingly, financial literacy programmes are becoming critical elements of the agenda for financial inclusion. The need for more financial education remains an issue of priority. In the absence financial education, people are far less likely to take-up financial products, regardless of the extent of the banking services in the country. Financial literacy is highly correlated with success in retirement planning, investing, debt and mortgages. The more educated the individual, the more financially literate they are.

In several countries, open banking has been seen to stimulate competition and innovation among the banks. It promotes the leverage of banking transactional data for the recommendation of suitable financial products with a view to helping account holders better manage their money and also to access better financial products and services.

There are also discussions about launching open finance to help consumers manage their savings, loans, investments and pensions. Open finance will provide a single platform view of individuals' net worth while also lowering switching costs considerably.

The success of challenger banks and their digital offerings is evidence enough that businesses and consumers are receptive to greater digitalisation of financial services. The more tech-savvy consumers from Generation Z (demographic cohort succeeding Millennial and preceding Generation Alpha with mid-to-late 1990s as starting birth years and the early

2010s as ending birth years) and the Millennial generation will be even more demanding of what they expect from the fintech ecosystem in the coming years.

There is a strong correlation between the unbanked and those living in rural areas. Unsurprisingly, the further one lives away from a city, the more likely he/she is not to have a bank account. To bridge this divide, there have been several attempts to provide access using mobile financial services, but that is not an easy task either. At present, there is still a significant portion of rural inhabitants who have no internet access at all.

Tech giants are stepping into the fray to change this narrative. For example, Facebook is rolling out 37,000 kilometers of underwater cable around Africa to provide the continent with better internet access. The initiative called the Africa Digital Moonshot would aim to provide every government, individual and business in Africa with digital services access by 2030. If this is successful, then much of Africa will enjoy greater access to banking services before too long, even ones located many miles away from a bank. The list of benefits continues – across Africa, millions of jobs will be created, and businesses benefit from better operational efficiencies, improved access to global commerce and finance.

As more people access financial services and industry innovation gathers steam, regulators need to keep apace. Unfortunately, regulation has been a major barrier to financial inclusion in the past. Countries plagued by a slow pace of financial services sector regulation are left behind which explains why market regulators are watching cryptocurrencies with keen interest over the last decade. In the modern financial system, it is becoming increasingly difficult for businesses without a 'digital persona'. These are usually businesses without the ability to track and control their financial profile online. Much in the same way individuals are expected to cultivate and monitor personal credit scores with credit agencies. Regulation is crucial to reassure people about the integrity of a market, but it can only go so far before it impedes progress. If the right balance is not achieved, then businesses that need access to finance either will not have enough risk protection or will be excluded from it all together.

Transaction costs are a major impediment to financial inclusion. Transacting with other institutions, companies or individuals is impossible for many of the unbanked. For the slightly more fortunate, transaction costs can be an unnecessary drag on business costs. The proliferation of digital wallets, challenger banks and their over-the-top digital offerings help reduce transaction costs.

The use of real-time payment networks eliminates the need for a middleman to a transaction. This makes it easier for businesses to transact. As a result, business owners can concentrate more on growth and less so on damage control, allowing those that were once financially excluded to fully participate.

India's Unified Payments Interface (UPI), launched in 2016, allows individuals and businesses to receive and send money instantly. Users can link all of their bank accounts and do not have to share any card or account details. The system supports nearly one billion transactions per month and has helped to bring down transaction costs significantly for private businesses. The experience is similar to the Open Banking initiative, one of the hallmarks of which is allowing users discover suitable alternative banking products and services with very minimal switching costs.

Other payment apps have also been effective in helping small and medium-sized businesses access global markets and reduce costs. It must also be mentioned that throughout history, technological innovation and advancement has become synonymous with efficiency which loosely interpreted implies reduction in both cost and time.

Thus, digitisation is changing the story for millions of small and family-run businesses globally. In hindsight, technology has been remarkably effective in addressing obscurity whether in the form of connectivity or financial market obscurity. Technology provides a way out or a way up, if the past is any guide.

Unequal Burden of Covid-19

All available evidence of the Covid-19 pandemic on households characterises the pandemic's unequal economic impacts in Bangladesh. These impacts point to the need for policy towards a strong and equitable recovery. Although job losses and business closures due to the pandemic are expected, the unequal distribution of these impacts suggests that, depending on how the government tackle the dual challenge of stopping the spread of the virus and protecting the livelihoods of the millions of citizens, current disparities could prove long-lasting.

Many households with low income have lost their livelihoods due in part to high level of informality in the economy creating highly vulnerable employment patterns. Further, there are differences across sectors--lower rates of job losses among households whose main source of income is related to agriculture and related sectors and in public sector activities while job losses are high in the retail, service, and construction sectors. These sectors tend to be vulnerable to fluctuations in internal demand and may require greater support as the economy gradually reopens. Targeted interventions focused on providing assistance to the workers in these sectors are important. Further, the rates of business closures are larger in sectors with higher rates of self-employment and in which most households earn a living by operating micro and informal businesses. Policies and innovations that allow financial institutions to expand access to credit to cottage, micro and small enterprises (CMSEs) with high rates of self-employment could help millions of households and their enterprises stay afloat.

Further, the unequal distribution of impacts goes beyond sectors. In Bangladesh, low-income households are disproportionally affected by the pandemic. Not only have they lost their livelihoods at much higher rates than other households, but also were unable to take the privilege of working from home. This reflects pre-existing disparities in the labour market and suggests that the low-income households are more likely to be exposed to the coronavirus. This shows that social protection measures targeted to the poorest households must be further strengthened to ensure that the poorest households receive the assistance they require to cover their basic necessities.

While the poorest households have clearly suffered the pandemic's greatest economic and social effects, the policymakers face a new challenge: supporting vulnerable middle-income households. During the pandemic, a large share of the middle-income households has transitioned into lower income categories. Policies are needed to ensure that the businesses survive after the pandemic to prevent income losses from becoming permanent.

The pandemic has no doubt increased the need for policies to support the middle-income households, who are less likely to be covered by means-tested social protection programmes. As expected, low-income households are more likely to be the recipients of these programmes. However, a large share of non-poor households that are vulnerable to income shocks during the pandemic may not have access to social assistance, and they must therefore fully rely on their past savings or inter-household transfers. As the economic crisis continues and households' savings deplete, the need increases for social programmes that focus on households experiencing shocks. Even after the spread of the virus is controlled, households may need time to replenish their precautionary savings, and they may remain vulnerable to other shocks. Social programmes considering income fluctuations as opposed to income levels alone are long due in Bangladesh which is prone to suffering multiple external shocks.

Further, some of the pandemic's impacts may have long-lasting effects. Many low-income households report going hungry during the pandemic along with adjusting their diets towards the consumption of less healthy food. In addition, indications are there to suggest that the pandemic may well have taken a toll on mental health and increased domestic violence. Policies to bring jobs back will alleviate households' budgetary needs, but policies to prevent the pandemic from deepening other dimensions of inequality beyond income are also crucial.

Finally, recovery policies require coordination with society and solid communication strategies. In the midst of the pandemic, there have emerged important knowledge and information gaps, particularly among the low-income households. As the low-income households experience higher pressure to go back to work and are less likely to be able to work from home, policies that prevent the spread of misinformation and disseminate appropriate public safety guidelines are important. For success, it is important to better understand the local context and design evidence-based policies to improve the recovery from the pandemic.



Unpacking the Digital Lending Story

With rapid growth of mobile financial services, mobile-based lending also grows along with proliferation of mobile lending platforms offering instant mobile loans. These lending services are made possible by the ballooning fintech industry. For example, in Kenya--a centre of technological innovation in Africa offering novel financial offerings--technology and unregulated lending have strongly emerged.

No doubt, the digital loan services appear to be bridging the gap for the individuals who do not have formal bank accounts, or whose incomes are not stable enough to borrow from formal financial institutions. These services have improved their access to credit, but there are questions about whether the poor are being abused in the process.

Obviously, mobile financial services benefit many people who would otherwise have remained unbanked. And many of these people include the poor, the youth, and women. It is seen that the majority in Kenya access digital credit for business purposes, such as investing and paying salaries and to meet everyday household needs. The findings show that digital credit can help small enterprises to scale and to manage their daily cash flow. It can also help households cope with things like medical emergencies.

But, it is also seen that more than a third of the borrowing is for consumption, including ordinary household needs, airtime and personal or household goods. These are not the business or emergency needs envisaged by many in the investment world as a proper use for digital credit.

Further, the speed and ease of access to credit through mobile applications causes many borrowers to become heavily indebted. In Kenya, at least one out of every five borrowers struggles hard to repay their loan. This is double the rate of non-performing commercial loans in conventional banking. Moreover, despite their small size, mobile loans are often very expensive. Interest rates are high and borrowers are charged for late payments.

The success of mobile-based lending business model depends on constantly inviting people to



borrow. Potential borrowers receive unsolicited text messages and phone calls encouraging them to borrow at extraordinary rates. Some platforms even contact borrowers' family and friends when seeking repayment.

It is also not always clear to the customers what they will have to pay in fees and interest rates or what other terms they have agreed to. The model has been accused of making borrowers unknowingly surrender important parts of their personal data to third parties and waive their rights to dignity.

Thus, with mobile lending models, there are concerns about how the business model would make people even more vulnerable. The most prominent is the debt culture that emerges as a byproduct of mobile-based lending: borrowers fall into the trap of living on loans and accumulating bad debt. The key question thus is: what can be done to improve the system so that everyone benefits?

Although the digital loans are low value, they may represent a significant share of the borrowers' income. This means they will struggle to repay them. Overall, the use of high-cost, short-term credit primarily for consumption, coupled with penalties for late repayments and defaults, suggests that mobile-based lenders should take a more cautious approach to the development of digital credit markets. Further, comprehensive regulatory mechanisms are needed for all digital lenders including the mobile lending platforms.

Borrowers often take loans without fully understanding the terms and conditions. Disclosures should include key terms and all conditions for the lending products, such as costs of the loan, transaction fees on failed loans, bundled products (services offered and charged for in tandem with the loan) and any other borrower responsibilities. It is also necessary that all lenders are monitored and evaluated for viability and compliance and are subject to public disclosure laws.

The digital credit system should encompass all lending categories – prudential, non-prudential, registered and informal entities. The failure to ensure comprehensiveness of the system would allow borrowers to seek funds from several platforms at the same time, creating a 'borrow from X to pay Y' scenario. The Credit Information Bureau should be equipped to generate reports based on complete set of data.

Credit reporting systems also need to be stronger. They should get information from all sources of credit, including digital lenders, to improve the accuracy of credit assessments. Efforts to make the system work better should consider whether digital credit screening models are strong enough and whether rules are needed to ensure first-time borrowers are not unfairly listed. There could also be rules about reckless lending or suitability requirements for digital lenders.



Smartphones

Financial Inclusion Enabler

Historically, the lack of ability to obtain a credit for potential borrowers induces a vicious cycle-- a lack of loan means the consumers cannot build credit scores, in turn making it challenging to secure a loan. Fortunately, AI-enabled alternative credit scoring is overcoming this limitation, creating opportunities for online lenders and fostering financial inclusion. Still, around half of the adults in Bangladesh lack access to mainstream financial services and other corresponding benefits that come hand-in-hand with being 'banked'. With the majority of the country's consumers being mobile-first Internet users, smartphones are transforming this. Mobile Internet use enables the creation of new instruments available to assess consumer creditworthiness, opening up access to debt capital markets.

Smartphones can play a key role in fostering financial inclusion among the unbanked population, especially in Bangladesh where mobile Internet usage has seen tremendous growth. Smartphone metadata has great promise to advance financial inclusion. Analysts can glean behavioural insights into consumer behaviour, and by using the data, they can then convert consumers into customers. These insights relate to the willingness to pay back a loan, as well as loyalty, behavioural consistency and ethical standards.

Platforms that can enfranchise the under-banked and unbanked generate new opportunities and build brand strength. Customers on such platforms will come to associate the financial brand with the financial instruments and opportunities they can

then access, creating a virtuous cycle centred on the financial brand.

Financial institutions and fintechs need to emphasise greater transparency -- and therefore trust -- in their business, alongside security, given the sensitive personal and financial information they store. While transparency is a key element in building trust, it does not automatically build trust, requiring mindful communications that are purposeful and grounded in ethics.

Without being self-serving or violating confidentiality, thoughtful transparency creates an information environment where people can trust they will be able to access pertinent information to operate with integrity and make informed decisions, as well as enter genuine professional relationships.

Trust -- a crucial differentiator -- is more important as regulators implement data privacy standards. For businesses, this means secure systems and processes must be underwritten by the intangible of trust. Financial institutions need to assume a breach will occur and plan to mitigate damage, given that preventing an attack is impossible; consumers interact with their money in diverse ways and hackers will eventually find a way.

If end-users fail to see any benefit and security in a new innovation, then it will not achieve a meaningful outcome. Revenue cannot be traded for trust in the long run, so customers must be able to control the quantity of data accessed; have transparency of how that data is used, and be able to explicitly consent to data access. All this is part of sustaining trust.

Only using secure measures from the start, keeping customers in the loop to minimise indirect costs; minimising the data accessed and anonymising it where possible; as well as encrypting it, can only benefit the companies. The investment in compliance might be tedious, but the yield in customer trust is compelling.

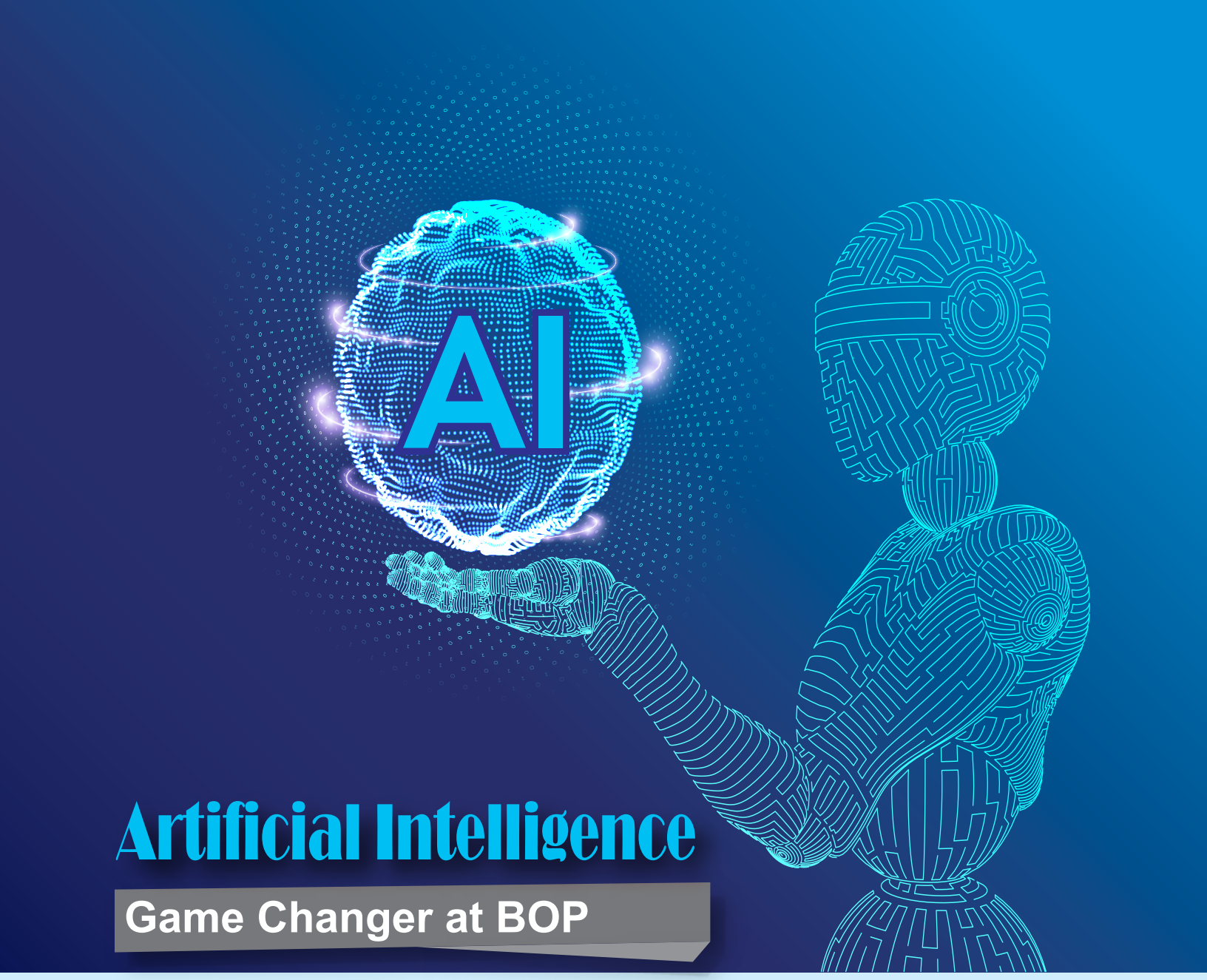
With increased investment in artificial intelligence (AI), the main business advantages arising from AI are its enablement of 24/7 mobile banking and its augmentation of security and fraud detection. Part of a wave of technologies that includes blockchain, robotic process automation (RPA), and cloud computing in financial services, the key is leveraging to pull actionable information from unstructured data.

The advantage of AI-based credit scoring systems over traditional systems is their capacity to unearth hidden relationships between variables that are not always apparent to traditional credit scoring systems, as well as conducting a more nuanced evaluation of data. AI can provide complex, in-depth rules. Meanwhile, traditional credit scoring models employ simple rules, often rejecting borrowers who may otherwise be credit-worthy. Self-learning credit scoring models can continuously improve themselves via machine learning (ML) as new data feeds into the system.

This opens the case for alternative credit scoring, which is critical to serving the unbanked. For consumers, this facilitates access to homeownership and consumer credit opportunities, as well permitting small businesses to access debt capital.

This also establishes a compelling case for digital scorecards' usability across different verticals, as the symbiotic relations that develop in financial services translates across industries. For instance, it can be deployed by travel booking companies, ride-hailing services, and e-commerce operators. The behavioural insights gleaned from metadata also have sector-agnostic applications.

Disrupting the high cost of credit assessment and verification is fundamental to facilitating financial inclusion. Financial identities for consumers translate to a larger customer base, with the potential to tie them into various ecosystems and rotate customers between services. Expanding from transport services into deliveries, financial services, and retail wealth management highlight the potential of alternative credit scoring for driving both business growth and financial inclusion at a macro level throughout Bangladesh and South Asia.



Artificial Intelligence

Game Changer at BOP

Artificial Intelligence (AI) is emerging as a convenient tool to empower people at the bottom of the pyramid (BOP). With voice-over-internet and assistants like Siri, Alexa and Google Assistant becoming available in different languages, millions will be able to access online education, digital libraries, healthcare, agri-services, e-commerce, entertainment and, most importantly, financial services. The challenge now is to get there and ensure transformation of the potential into reality.

Financial inclusion still remains a challenge for Bangladesh, although more and more people are getting financially included through accessing financial services. Mobile financial services are not only plugging leakages but also ensuring timely benefits and access to welfare payments for the disadvantaged, especially during this Covid-19 pandemic. The need is to scale-up these initiatives to provide more financial services to the poor and disadvantaged, marginal farmers and the self-employed by enabling easy access to credit and ensuring that agriculture activities are supported and businesses are funded to help add value and create jobs.

With the push for increasing access to financial services by the excluded, banks and financial institutions will have to be wary of financial frauds and must be equipped to conduct fair credit assessments. AI-based tools can enable all this by using data and machine learning algorithms to detect financial frauds, assess credit worthiness and help the banks offer quality advice to the customers. AI

can also help improve customer service, sales, and retention efforts of the banks. AI has grown in significance in finance primarily due to generation of massive amounts of data and low cost of storing and accessing such data, coupled with improvement in computing power and reduction in the cost of computing.

In Bangladesh, where many people do not have access to brick-and-mortar banks in their neighbourhood, AI-enabled tools are facilitating branchless banking, reducing costs for banks and making financial services accessible. Banks are communicating with people through messaging apps and are educating them about their financial health. AI-enabled chat bots are answering queries 24X7 and helping people understand how things work. Once this is made possible in all areas, and hopefully with a voice interface, it will make financial services even more accessible to all. So, a farmer in rural Rangpur or a fisherman in Patuakhali can get to know about the credit instruments a bank offers and make a conscious call about which loan to take. Banks can also access data on farm yields or market prices, assess the financial health of a customer and the credit risk without having to physically meet the potential customer.

AI being rapidly scalable makes it suitable to the needs of the financial world. The potential of using data analytics and AI algorithms to assess the credit worthiness of startups, MSMEs and emerging tech companies is huge. Many entrepreneurs and tech companies are adopting disruptive approaches to create value by leveraging the available data, and making products and services that have huge potential. Many of these need access to credit in their initial years. The big question then is: how do banks upgrade their capabilities to assess the potential of these entrepreneurs? This will require the bankers to reorient the way they assess potential businesses and credit risk, for which they need to understand how technology works and how value is created. This change, backed by algorithm-based analysis of contracts and business models, can transform access to financial services for tech startups and will, in turn benefit the banks by opening up new revenue streams.

Bangladesh, which has a wide space for financial inclusion as also a large middle class, is a great market for AI in financial services. As a large startup hub, Bangladesh's tech entrepreneurs are innovating with AI to design customised solutions for the local market. The potential in Bangladesh is huge given the fact that not only do the country has around 70 million internet users but also another 50 million potential internet users who will be on boarded over the next decade. With the expansion of fibre-based internet to the villages over the next few years, the potential of tech-enabled financial services in the country is waiting to be unleashed.

Bangladesh has a base of large and innovative public digital platforms which are utilising AI to empower people by inviting them to participate in the digital economy. Consequently, Bangladesh has emerged as one of the world's fastest growing digital payments market. AI solutions are helping to solve problems and local enterprises who invest in and develop these solutions will have a huge potential for growth.

Trust is of key value in the financial sector. With its rules-based financial infrastructure, proven track-record of compliance and experience of running cost-effective digital financial tools, Bangladesh can emerge as a trustworthy partner and can become an AI garage, developing AI-backed financial solutions for other countries as well.



Closing Financial Inclusion Gender Gap to Fight Covid-19 Pandemic

Almost universally, women have less access to financial services than men and the Covid-19 pandemic has exacerbated the challenge. Since the onset of the pandemic, more women than men have lost their jobs and income earning opportunities. Losses in women's income have an indirect impact on women's economic empowerment and household welfare since their incomes are more often used for food, health and other social services for the benefit of the children and other family members.

What accounts for the gender gap in access to and use of financial services? In most countries, the gap reflects societal constraints, resulting from domestic regulations and customs that exclude women from financial services. For example, banks often require collateral to lend and demand that assets be registered in the borrower's name. In some instances, women cannot have bank accounts or businesses in their own name without the husband's permission.

The way financial services are set up can pose other impediments. For example, minimum balance requirements for opening an account can work against women whose business revenues are relatively small and irregular. Also, documentation requirements can penalise women, particularly in rural areas and in the informal sector, if they lack official pay slips or proof of residence. Physical access to credit providers poses another challenge, as women face constraints in travelling time or distance. Financial institutions often do not have offices in the rural areas.

Reducing the gender gap in financial inclusion would require applying a gender lens to all policy actions. The barriers impeding women's access to financial services are multi-dimensional. Hence, the approach needs to be coherent with measures applied to redress the structural impediments to the socioeconomic empowerment of women. Such a coherent approach requires actions at the multi-sectoral level covering at least four dimensions:

1. Collect up-to-date and regular data on women's access to and use of financial services: The design and implementation of the policy mix for women's better access to financial services would benefit greatly from the availability of disaggregated data on women's particular situation. Such data should include not only the account penetration rate but also the progress on women's economic empowerment, to help assess the impact of financial exclusion facing women.

2. Apply a gender lens to all policy measures: Recent years have seen innovative efforts by the financial sector institutions including banks and MFIs to extend access to finance to women and other underserved people. Expanding networks of agents in financial services including post offices and retail outlets can also contribute towards reducing the gender gap in financial inclusion.

3. Promote digital financial inclusion: Digital and mobile financial services can include savings, microinsurance and information-based services, such as data tracking financial services usage to facilitate credit risk assessment. Remittances' transfer also benefits from digital solutions that reduce costs. These innovations promise to address some of the challenges faced by women. However, the gender digital divide, including digital literacy must also be bridged.

4. Address demand-side constraints: Policy measures to redress demand-side constraints would be extremely helpful. Actions can include education or training to improve women's financial literacy and education including consumer protection in financial services and transactions. Initiatives to improve women's physical access to financial institutions, for instance providing desks reserved for women, is one of the policy measures that can be implemented at all levels.

Consistently applying a gender lens to financial inclusion and focusing on innovative policies, initiatives and measures that identify women's needs, gaps and bottlenecks and implications for future action are the keys to women's financial empowerment.

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Cover Story

The persistence of traditional institutions, failure to catch-up rapidly with modern technology and 'consumer-unfriendly' approaches to providing financial services has led the financial sector to embrace digital transformation. Other major changes are also taking place-- cryptocurrencies are proving their resilience, mobile financial services are spreading fast, and traditional financial institutions are investing in innovative digital start-ups at larger scales.

A number of fintech innovations have also taken place in Bangladesh and other developing countries—think of bKash which started its operation in 2011 and created the wave for rapid expansion of mobile financial services in the country. At present, fifteen banks in the country are providing mobile financial services having over one million agents countrywide with the number of registered users approaching 95 million. Apart from the banks, the Bangladesh Post Office is also providing mobile financial services under its digital financial service platform. Despite significant progress, there is still a huge number of populations with limited or no access to formal finance. Without access to formal, regulated financial services, many individuals rely on unregulated credit, often with staggeringly high interest rates. Rather than delivering benefits for the long-term, this can result in individuals rapidly accumulating debt.

Banking on the unbanked

Far from presenting a risk to the lenders and the broader economy, expanding the financial inclusion and reducing the number of under-banked population offers a significant opportunity, and could add significantly to the rapid expansion of the economy. As such, efforts from the traditional and fintech players to increase financial access must continue in Bangladesh--in order to help alleviate poverty, create more productive employment, support the small entrepreneurs and start-ups, and promote shared prosperity.

In recent years, improvements in connectivity infrastructure and increases in smartphone penetration have gone some way towards addressing many of the problems hindering financial inclusion. Many individuals who have struggled to obtain access to formal finance are taking advantage of mobile lending solutions, particularly in areas where the cost of deploying banking infrastructure is high.

For start-ups and cottage, micro, small and medium enterprises (CMSMEs), mobile banking helps to streamline operations (many of which are traditionally manual and labourious), reduce overheads, and widen their customer base via online services. Developments in mobile-based financial services and the growth of the CMSMEs means that more (and more tailored) products and

services can be made available, providing these enterprises with custom-made solutions to best support the needs of their individual business.

These are no doubt steps in the right direction, and good news for those who are able to take advantage of lending and start/sustain their businesses. Yet in order to get on the ladder, the micro-entrepreneurs are required to show their credit history to potential lenders and service providers. For those with no previous relationship with formal financial services – and therefore no data accumulated on their financial activity – this is problematic.

Credit risk: a barricade to progress

Many of the traditional banking infrastructures designed to manage corporate credit and consumer savings are mostly unprepared to meet the challenges of both substantial expansion of credit and specific requirements of the unsecured borrowers. Further, in traditional banking, much of the initial risk assessment and data storage processes are manual. For example, traditional lending practices typically screen out the 'thin-file' customers. These are the customers with a limited credit history, and are often rejected due to lack of information on how risk-tolerant or risk-averse they are when it comes to finance. The absence of available background information on record creates a challenge for these customers to receive the financial support they need. With a limited credit rating, some lenders may demand a high level of security before providing credit to these borrowers.

In these circumstances, one option is to take out loans with high repayment rates, but in the more likely case of being unable to pay back the loan, these borrowers jeopardise their ability to receive formal finance in future, as any loan default is considered in the information that credit bureaus provide in deciding the next loan disbursement by the lenders. As such, along with investments in and development of new fintech products which support payments, lending, transfers and so on, more attention is needed to the critical first step in the financial inclusion roadmap--credit risk assessment along with providing and adopting new, digital methods of credit risk assessment.

A new approach needed

The credit bureaus are working to deploy infrastructures which support financial inclusion often pioneering modern fintech techniques and offering financial institutions with source of data through traditional credit files or digital files of aggregated data. As a result, lenders can provide access to financial services at a lower cost, to more people, while also reducing risk.

With modern technologies, solutions such as psychometric analysis allow lenders to combine new credit scoring methods with traditional models. Psychometric credit testing, based on questioning a person on their perceptions of the world, allows customers who lack relationships and historical financial data to build up a credit file and access funds.

In these scenarios, individuals are asked to answer a set of numerical and linguistic questions, and their responses are used to gain insight into their thought processes, behaviour patterns and spending habits — which are then used to predict their credit risk. The set of questions is based on the five-factor model of personality variation, also referred to as the OCEAN model, considered as one of the most trusted and accepted models of personality. By mapping psychological traits to other data, psychometric credit score tools can be used to build propensity models across the consumer risk lifecycle and help lenders and insurers acquire new customers. These include those individuals who may have previously been rejected, not due to their risk level but due to the lack of information related to their financial activity.

The approaches and solutions to reducing the number of under-banked individuals do exist—what is needed is a concerted, sector-wide commitment to adopting and leveraging them, with stakeholders working alongside providers of these tools to benefit their own businesses and wider economy and society.



Changing Social Norms for Women´s Financial Inclusion

Photo: KKF

In South Asia, women are 38 per cent less likely to own a mobile phone than men. In addition to social norms around women's phone ownership, collective attitudes concerning women's paid work, inheritance and asset ownership, and mobility outside the home impact the division of labour within the household. These social norms negatively affect women's ability to benefit from outside economic opportunities—in turn, many women are not able to access and use financial services that would help them.

For women's financial inclusion, it is therefore imperative to understand the social norms that limit women's access to and use of financial services and the degree to which these norms can be changed to achieve financial inclusion goals. This requires going beyond the supply-side solutions that focus on investments in financial services providers. The focus should be to better understand the social norms at play and to devise strategies that engage a broader range of stakeholders at different levels of the market needed for more impactful change.

Social norms refer to the rules and accompanying behaviours that govern social behaviour, perceptions, and conduct. Gendered social norms permeate actions, perceptions, and expectations at the individual, household, and community level. There are two types of social norms: injunctive norms and descriptive norms. Injunctive norms reflect what an individual feels or understands internally to be the most appropriate behaviour. Descriptive norms, on the other hand, reflect what an individual sees or believes to be the most common behaviour of others around him/her. Descriptive norms are more likely to be easier to influence than injunctive norms because they are often derived from misperceptions.

In designing and implementing initiatives for increasing women's financial inclusion, most interventions work within existing social norms to address market constraints for women. These interventions do not attempt to change the unequal power relationships between individuals within a community or challenge the deeply rooted expectations regarding women's unpaid care work, ownership rights or 'appropriate' professions. Instead, they focus on supporting women's paid work by providing workarounds to social norms constraints, such as limited mobility or lack of collateral, that restrict women's economic participation.

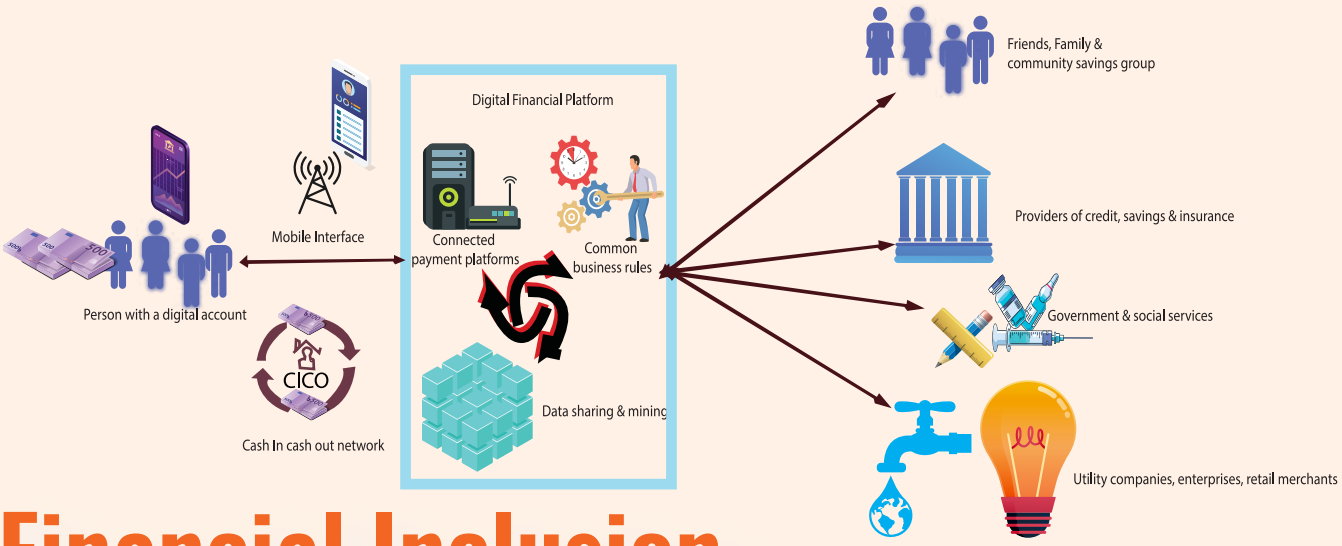
However, it is now increasingly being recognised that creating workarounds to address norm barriers without changing underlying social dynamics can limit the effectiveness and impact of these interventions and, in some cases, can lead to unintended negative consequences, such as loans diverted to male relatives, increased workloads that do not alleviate other household/community responsibilities, and increased intimate partner violence. Norm transformative interventions that explicitly work to change social norms through direct engagement of men, women, and the broader community around these barriers are much less common, but increasingly being considered.

Unlike norm-aware approaches that seek to create alternative channels for women's financial inclusion, norm transformative solutions attempt to change or remove those barriers and open up equal access for women to the formal financial sector. This requires thinking beyond traditional partners in financial inclusion (i.e., banks, financial services providers and regulators) to engage a range of individual, community, and institutional actors (e.g., family members, community organisations, media, enterprise support providers) needed to challenge the traditional perceptions on women's roles that limit their ability to be economic actors and to create scalable and lasting societal change.

The financial inclusion practitioners can learn much from other sectors, such as public and reproductive health, education, gender-based violence, and the environment, where understanding the social norms is increasingly being embedded into the programme designs. In this respect, some key insights suggest that programmes that seek to shift social norms should leverage peer-group influence to bring about change; interventions should respect participants' experiences and values as well as context-specific local realities; interventions that do not overemphasise negative social norms or apply punishments can avoid unintended consequences, such as incurring backlash or shifting norms change in the wrong direction; programmes that focus on gender-specific norms change should benefit all groups and should not pit one group against another; and normative change does not usually happen all at once.

Understanding the social norms at play and the potential influence they may have on financial inclusion programing is not always straightforward given the plurality of informal rules which can differ dramatically in local contexts even within the same country. Common norms, such as restrictions on women's mobility and safety, intra-household decision-making, and unpaid work and perceptions of appropriate roles for women in the community, tend to restrict women's access to and use of finance. Knowing exactly how norms apply in any given context and the opportunities for shifting behaviours through both norm-aware and norm-transformative efforts are critical for closing the gender gap in financial inclusion.

For targeting women, it is necessary to incorporate a social-norms dimension to look beyond the classic supply side constraints to access and use of financial services. Diagnostics that explore how women use existing financial services, expectations around women as financial actors, perceptions around access and ownership of new technology will be critical to designing programmes that bring together women and men to promote changes that will ensure impactful and transformative approaches to women's financial inclusion.



Financial Inclusion

The Digital Pathway

The dominance of physical cash in the lives of the poor does not only make it harder for them to manage their finances – it also perpetuates their exclusion and marginalisation from the formal economy by making it more expensive to serve the poor by the formal institutions.

A major barrier is the cash handling infrastructure required to transact with cash-based customers. A bank or utility company can transact with a digitally-embedded customer simply by linking their corporate 'digital' account to the customer's 'digital' account. In contrast, any provider wishing to serve a cash-based customer must first establish physical infrastructure to interface with their cash. This can take many forms: the government delivers safety net payments to the poor and disadvantaged households via distribution points; utility companies build cash acceptance networks; microfinance institutions (MFIs) pay loan officers to physically collect and disburse loan payments; and so on. The cash-digital divide thus drives a wedge between the poor households and the formal economy by forcing banks, utility providers, and other institutions to deploy costly infrastructure to store, transport, and process their cash.

Another key barrier is that the providers know very little about cash-based customers. This is because cash transactions leave no digital record. Beyond a cash-based individual's local geography, no providers know that a poor client regularly repays his/her loans to the lenders or sends money to his/her family regularly. This information asymmetry causes the providers to lump low- and high-risk customers into the same risk pool, thus raising the cost low-risk customers must pay to access financial services and preventing some providers from serving this customer segment altogether. This market failure is most clearly seen in insurance and credit markets, but it even applies to savings and payment products which pose fraud and money laundering risks to providers who do not have visibility into the financial histories of their customers. The anonymity of cash can also extend to spot transactions in the marketplace: market traders may be reluctant to buy goods from a new vendor if their anonymous cash-based transactions are not backed up with a digital record.

Obviously, connecting the poor people to the digital financial system will not solve all the cost barriers to reaching poor people with financial, utility, and other services. However, at the least this will strip substantial cost out of the system, paving the way for more robust commercial efforts to serve the poor.

Thus, the key question is: what is needed to bridge the cash-digital divide? Fundamentally, we need to build low-cost 'on-ramps' that enable the poor people to convert their physical cash into digital money, and we need to integrate those on-ramps with formal institutions so that the poor people can meet their financial needs in digital form. Once the poor customers are transacting (at an affordable price) with their peers, banks, the government, and utility companies, we will be achieving digital financial inclusion.

Once the poor households are connected to an integrated digital financial system, they will receive direct welfare benefits through several channels, including access to a basic store-of-value account; payment connections to peers; payment connections to institutions, like utility companies, enterprises, and the government; and access to enhanced financial services.

How do we realise this vision? First, we must recognise that digital financial inclusion is a multi-stage process. We cannot expect the poor customers to migrate from a cash environment to a digital economy in one giant leap. At the most basic level, communications infrastructure must be put in place in poor and rural areas to enable the customers and the cash-in/cash-out (CICO) agents to communicate with the provider's transaction authorisation system through a mobile phone or other digital interface. Once the connectivity layer is in place, the providers can undertake the considerable task of extending CICO retail networks into poor and rural communities and connecting customers to the digital payment grid. Remote payments (such as migrant labourer remittances and government social transfers) are effective gateway products to fuel digital adoption.

The expansion of digital payment platforms has already linked large numbers of the poor people to digital accounts in Bangladesh, but the key challenge now is to successfully leverage mobile connectivity to transit from availability of digital payments to widespread availability of digitally-enabled savings, credit, and insurance services. Such a move forward has to overcome several barriers, such as appropriate pricing; technical integration through improving application programming interface (API) to enable a more seamless integration with providers of savings, credit, and insurance services; and regulatory challenges in the market where a range of savings, insurance, and credit providers would compete to offer customers the best possible products over existing mobile money platforms.

The final stage in the quest for an inclusive digital economy is to encourage the people to make small daily purchases (for food, household necessities, etc.) in digital form. This will close the digital loop, decreasing the leakage of money back into cash and increasing the velocity of digital money. However, before customers can make in-store purchases digitally, significant friction and cost must be removed from each transaction. Providers will also have to deploy new business models and acquiring strategies because the current POS- and card-based approaches create a cost floor that is too high for serving the poor customers. Efforts are underway to reduce the transaction costs and allow for micro-transactions which has already unlocked a number of hardware (e.g., Square) and software (e.g., PayPal) innovations that have the potential to change the traditional merchant structure for retail payments, as well as compress the onboarding costs and equipment required to process electronic payments.

For moving towards an inclusive digital economy, the relevant stakeholders will have to step outside their comfort zones to test new commercial and regulatory models. Banks, for example, are unlikely to promote 'bank-led' pathways to digital payments in poor and rural communities if they try to maintain a tight grip on all aspects of their distribution channels. Instead, they will have to give their distribution partners (e.g., mobile operators, retail distributors) enough compensation and branding space to encourage them to build a national CICO network. Similarly, mobile operators are unlikely to facilitate the migration from payments to financial services unless they loosen their grip on the user experience. The mobile operators will have to convert their closed APIs into open platforms that would make it easier for application providers to integrate with their payment systems.

Similarly, the policymakers are unlikely to see material gains in digital financial inclusion if they cling to regulatory models which fail to distinguish between the risks posed by payments from those posed by financial intermediation. The digital pathway to financial inclusion will indeed be shaped by those willing to revisit the long-held assumptions in financial services regulation, telecommunications, and banking.



Big Data Collects Debt without Harassment

The above hypothesis can be tested using a new technology. There are, for example, a large number of borrowers who are not repaying their loans on time, and the explanation ranges from failed businesses to medical emergencies and many other reasons.

But delinquency may also emerge from mundane reasons e.g., borrowers forgetting their due dates or failing to withdraw cash to pay the financiers. Like in many other markets, these last-mile hurdles pose a frustratingly complex challenge to the creditors. They also increase the overall risk premium for small loans. In recent years, three major advances may be noted. First, the world's cheapest data prices have made smartphones ubiquitous. Second, a strong push for financial inclusion has seen proliferation of the opening of no-frills accounts. Third, the banks are now on a nationwide mobile payment network that is fast, convenient and supports apps.

Yet, for all the help from the technology, debt collections are still hard due to many barriers. The small and rural borrowers simply do not know how to use the new digital tools. Or, they miss a deadline because of a temporary cash flow mismatch. When the creditors respond by handing over the borrowers to third-party recovery agents, scandals emerge involving the cash-strapped small businesses.

This is emerging as a universal problem. Even when things do not go to such extremes, unpleasantness and soured relationships usually follow with the customers. 'The best way for a bank or a financial institution to lose a customer is to give the account to a collection agency', says the chief executive of a startup that works to boost collections without human contact. 'You can do collections without collectors'.

The startup has developed an automated voice call, not an app, which lets the borrowers choose when they can repay the loans and how. The selections trigger text messages with online payment links. The bot stays on the call to help the borrowers navigate the unfamiliar world of online money transfers. It sounds fairly straightforward, but the task is enormous with millions of loan portfolios spread across large number of banks, MFIs and other financiers.

The value to the lenders also comes from the behavioural clues that the method picks up in the process of nudging the customers to pay on time. By training the algorithms to mine the data, one can predict which customers will most likely resume paying after missing a couple of installments, and who will probably default. Turning over a much smaller set of problem loans to collection agencies means good customers do not get put off by strong-arm tactics. For creditors, the bad loan ratios and loss provisions fall, improving profitability.

From remittances and working capital financing to microinsurance and 'buy now pay later' options, fintech is disrupting conventional finance. However, collection technology has received far less attention and investment. This is likely to change as big-data analysis of repayment kinks and quirks complements the yes/no decisions of underwriting algorithms. The two can even combine — to screen good customers and retain them. While letters and phone calls are still the most common across the industry, text messages, artificial intelligence-informed chatbots and other automated tools are increasingly being adopted by the technology-driven financial institutions.

The future debt collection will be heading towards less 'muscle' and more intelligence—but of the artificial kind.

Women are Key Money Managers

Despite many criticisms surrounding microfinance, one thing is clear — it empowers women in general and empowers disadvantaged women in particular. Women represent the vast majority of the microfinance borrowers. As such, they have especially important roles to play in managing finances. Studies show that women manage small family businesses efficiently and are reliable microfinance clients, with lower default rates. This finding alone serves as a strong counterpoint to the belief that the poor are risky clients. But the truth is that we do not really know the reasons behind this. Are women more trustworthy, better multi-task performers and more intuitive than men? Probably, the best conclusion we can infer is that the management of finance has a positive impact on women's decision-making power and empowers women. And perhaps this financial education allows for the self-selection of microfinance clients as generally reliable and trustworthy women.



Women migration especially to the Middle East is a recent phenomenon resulting from the high demand in the service sector in these countries. The women migrant workers started to increase in the Middle East from the beginning of the 2000s but still represent a small minority in relation to overall Bangladeshi migrant flows.

Can we extend the women-as-better-money-managers bias to the migrant workers? Can we say that these migrants — being empowered, end up knowing how to manage finances better than if they hadn't been abroad? There is not much evidence on this. But one of the key findings from the available scanty evidence is that women migrant workers use remittances as a form of 'mothering from abroad'. These mothers are the principal or unique breadwinners and that regardless of whether they are married or not, their families are a particularly important part of the lives of these women. It is the principal reason of their migration: that is, to ensure the well-being and future of their children; and is the key motivator for the financial strategies they adopt. Unsurprisingly, the family situation is a big determinant of the investment strategies of these migrants, it shapes their entire decision to migrate, it shapes the entire need for these women to work.

These migrant's physical absence from home is compensated somehow by the remittances they regularly send to their families which cover the basic needs of the children. This echoes similar opinions that money can be used as a mechanism for expressing care and responsibility. In certain cases, remittances can have more beneficial effects when migrants are mothers of the children in question, with differences in the usage of remittances for basic consumption vs. durable goods.

These evidences no doubt shed light on our knowledge of the financial strategies of the poor and the use of remittances by migrant home households; however, strangely enough, the links between migration and remittance studies on the one hand and financial inclusion on the other have rarely been examined. These seem to be two separate streams of study--with migration and remittance studies being more macro in nature while financial inclusion studies remain more at the micro-level. However, combining these set of studies would allow us to have a more comprehensive understanding of the reasons and objectives of migration from a poverty alleviation perspective, the actions of the migrants in order to achieve these objectives, and finally, what microfinance clients have in common with the migrants. This will also put the spotlight on a key lever in the financial inclusion story--the role of migration with women, especially working mothers, at the heart of it.



Innovation and Regulation in the Digital Age

Interview with Jo Ann Barefoot, AIR

Jo Ann Barefoot is CEO & Founder of AIR – the Alliance for Innovative Regulation and host of the global podcast show Barefoot Innovation. A noted advocate of `regulation innovation´. Jo Ann is Senior Fellow Emerita at the Harvard Kennedy School Center for Business & Government. She has been Deputy Comptroller of the Currency, partner at KPMG, Co-Chairman of Treliant Risk Advisors, and staff member at the US Senate Banking Committee. She is an angel investor, serves on the board of Oportun, serves on the fintech advisory committee for FINRA, is a member of the Milken Institute USFinTech Advisory Committee, and is a member of the California Blockchain Working Group Advisory Board.

Could you tell us what drew you to fintech and regtech?

I've spent my whole career working with financial regulation -- as a US bank regulator, a staff expert for the US Congress, and in the private sector. I've focused mainly on regulatory efforts to promote consumer protection and financial inclusion. Several years ago, I spent two years at Harvard University as a senior fellow, researching financial innovation. One day I had an epiphany -- that fintech innovation has the potential to solve many, and maybe even most, of the problems we try to address through regulation, especially for financial consumers. And then in the next moment, I also realised that this potential would never be realised unless these new innovations are wisely regulated. As a former bank regulator myself, I knew this would be challenging because regulators are generally not designed to keep up with rapidly changing technology. Accordingly, I founded AIR, the Alliance for Innovative Regulation, to help solve that problem. We work to catalyse and guide conversion of the financial regulatory system to digitally-native form, in order to foster fair finance.

What does it take to close the gap towards financial inclusion? Who should be involved? How is digital identity an enabler for financial inclusion?

Financial inclusion is one of AIR's principal goals. It's clear to us that fintech -- and regtech -- can massively expand financial inclusion in numerous ways. On the fintech side, we can close the inclusion gap by continuing to foster the delivery of financial services through mobile channels, which are low-cost and can reach everyone -- unlike traditional brick and mortar branches. Mobile payments accounts can become a base level delivery platform, on which we can add other financial services like lending, investing and insurance. Cryptocurrency can also drive inclusion, especially in places where fiat currencies are volatile or for people who rely on cross-border remittances, which increasingly can cost little or nothing to execute.

Lending inclusion can also be expanded by enabling the use of new kinds of data in credit underwriting to make risk analysis much more granular and accurate.

And, we can drive financial inclusion just by reducing the costs of regulation and compliance through technology. These costs are very high in the financial sector. Making the industry more efficient will enable it to profitably reach and serve for more people.

Another way to expand inclusion is to use regtech tools that can more easily find noncompliant activity that excludes some people. New data and methods can detect illegal discrimination as well as patterns of scams and predatory activities, helping target scarce human resources to the highest-impact activities. AIR is planning a focus in 2021 on using technology to assure consumer protection in emerging markets with high levels of fintech, recognising that many of these countries can "leapfrog" straight to digitally-native regulatory strategies, for high gains in efficiency and effectiveness.

What do you feel is the role of digital identity in reducing gender inequality and advancing women`s digital financial inclusion?

Digital ID is especially crucial for women. It's common in many countries for government-issued identity papers to go just to the head of household, which is typically a man. This makes it hard for women to establish their own economic relationships, especially with banks. The lack of access has cascading impacts, hampering women in everything from entrepreneurship and rising out of poverty to escaping abusive situations.



Applying Blockchain Technology for Financial Inclusion

Financial inclusion is an important issue in blockchain creating once-in-a-lifetime opportunity. Although financial inclusion is complex with many dimensions, let us use three easy-to-understand examples showing how blockchain technology can resolve the problems.

The Story of Akinyi

Akinyi, a young mother, lives in a remote village in Kenya. She needs cash to buy groceries for her family, but it takes a full day to walk to the nearest bank. Now, she sends a simple text message to transfer e-cash to a local agent, who lives close to her residence and gives her the cash, working as a human ATM. This is the magic of M-Pesa, a mobile money system introduced in 2007. M-Pesa users can convert between e-cash and real cash using local agents, who are retailers or local business people authorised to provide and receive cash (they receive a small fee for their services). They are the 'human banks' in places where there are no physical bank branches. This is a solution that involves technology plus humans to 'bank the unbanked'. The convenience of M-Pesa has given the time to Akinyi during which she can focus on more valuable activities, like learning new skills or teaching her kids, instead of taking a day or two to walk to the bank. This is financial inclusion.

The Story of Arabella

Arabella is a homeless woman in Amsterdam who had a particularly difficult time during the Covid-19 pandemic. She spent much of her time sleeping on the couches of friends along with occasional nights at local homeless shelters. Arabella lives on cash, often panhandling for her daily needs. At the height of the pandemic, no one wanted to reach into their wallets or touch another human being, which meant she had to spend some days hungrier than usual.

The 'Helping Heart' contactless jacket is a social experiment that allows people to donate to Arabella by just holding up their mobile phones to her jacket. The money can only be redeemed at her local shelter, for food and other basic items. The technology also allows Arabella to save a little bit from each charitable donation, so that she can build towards a more stable future. Literally her 'Helping Heart' coat is a mobile banking account! It is a way of using technology plus humans to help bank the unbanked. This is financial inclusion.

The Story of Raj

Raj is a rural farmer in a remote village in India. He lives a difficult life, as he has only a small plot of land to survive with his family. The monsoon season is unpredictable: whenever there is too much or too little water, he loses his crops.

However, he is not alone in the struggle; there are millions like him who struggle for survival in the country. India has invested in a visionary programme known as India Stack to solve the hard problems of money and identity. India Stack is an open-source digital infrastructure (a set of open APIs) that gives everyone access to;

- A unique digital identity, based on their fingerprint and eyescan.
- A paperless layer, where digital records can move with a person.
- A cashless layer, where money can flow between digital wallets.
- A consent layer, where you share only what you want to share.

Now Raj can easily receive government grants for his small farm: he scans his fingerprint at a local bank to confirm it is him. The money is sent to his digital wallet, eliminating the need for paper checks, eliminating the money taken away by the middlemen and corruption, and getting him the financial assistance he needs. India Stack is a way of using technology plus humans to ensure that Raj (and others like him) has access to money, and an easy way of proving his identity so he can receive the money. This benefits everyone. And this is financial inclusion.

Mr. Jean-Michel Godeffroy, a former Director of the European Central Bank, gives a simple formula on how blockchain can help solve the financial inclusion problem;

Central Bank Digital Currencies + Digital Wallets = Financial Inclusion

The Central Bank Digital Currencies (or CBDCs) simply means that every government will eventually issue its own cryptocurrency-- the US will have a 'digital dollar', EU will have a 'digital euro, Bangladesh will have 'digital taka' and so on. Digital wallets are typically accessed through a computer or a mobile phone (not necessarily a smartphone). When you think 'digital wallets', think of everything in your wallet: your government ID card, credit cards, and cash. Mr. Godeffroy's formula says that with government-backed digital currencies, plus digital wallets on human phones, we can solve the hard problem of financial inclusion, because we can get money to everyone with a mobile device, even those without traditional banking accounts.

In a way, improving the financial access — in the form of CBDCs and digital wallets — brings in fresh money flow, which brings in more benefits and raises everyone's quality of life. And all these are inter-connected. It is not just about seeing the poor getting back on their feet and becoming empowered or not just about a micro-entrepreneur being able to get a loan. Financial inclusion is about all these people being able to be more productive, have more self-esteem, and contribute more towards greater benefits for all.

Creating better governance

Financial inclusion of this kind will lead to better governance as blockchain is programmable money. Imagine a situation where CBDCs can be used only to buy specific things, like food and basic household necessities or pay for children's education. With programmable digital money, it is possible to ensure this. As the India Stack has shown, programmable money can be used to reduce corruption and middlemen, and get need-based money directly into the digital wallets of those who need it. This creates safer and better governance ensuring a more efficient use of government's welfare payments.

It is always expensive for the government to serve the poor, who often do not have bank accounts, or know how to manage money when they get it. CBDCs plus digital wallets are a solution. With efficient blockchain investment, we can make this transition. With CBDCs and digital wallets, financial inclusion for all is not a distant reality.



Is Fintech the Biggest Driver?

Ensuring universal access to financial products and services features in eight of the seventeen SDGs including an enabler for ending poverty and hunger and achieving gender equality. Moreover, financial inclusion has the power to boost economic growth and support industry and innovation. It would also help the countries to find a way out of the damages brought about by the Covid-19 pandemic.

The traditional conception of financial inclusion highlights the issues of unbanked or underbanked leading to the slogan of 'banking the unbanked' as the choice for solving the challenges of ensuring universal financial access and financial inclusion. But, in the present digital age, the idea of financial inclusion has evolved to mean something wider than simply equipping all with bank account.

With the rapidly unfolding dynamics of the digital technologies, the traditional banks are falling behind the digital curve. Still, regulation is perhaps the most critical challenge facing the traditional banking sector when it comes to the issue of financial inclusion. In the changing digital world, the lagging speed of regulatory changes acts as a double-edged sword. In recent years, regulation has proved to be a limiting factor in the ability of the banks and traditional financial service providers to innovate and keep pace with the increasing shift to digital and mobile-first. Compliance also creates high barriers to entry for banking services.

The limitations of the banking industry to quickly respond to the changing dynamics of the digital world seem to have enabled the digital-native fintech firms to take advantage over the traditional financial service providers in terms of promoting financial inclusion. It is becoming increasing evident that, in certain segments, the banks simply cannot compete due, for example, to heavier capital requirements and relatively lighter regulations on the part of the fintechs.

The changes are becoming increasingly visible across all groups of population, indicating that fintech is playing a pivotal role in financial inclusion while also emerging as a popular choice for the consumers.

For example, mobile payment networks such as Bangladesh's bKash or China's Tenpay have long since replacing cash at all income levels. Meanwhile, In European countries, people are increasingly turning to so-called 'challenger banks' such as Monzo, Revolut, or N26, while traditional banks are seeing a decline in search traffic. A survey recently undertaken by Ding, the world's largest mobile top-up service, shows that four in five people at all earnings levels are engaged in some kind of prepaid services.

The rise in prepaid services is one of the more intriguing developments in enhancing universal access to products and services. Traditionally, prepaid services were considered somewhat inferior to subscription-based plans. However, the shift to mobile has reversed this perception, with consumers actively choosing prepaid mobile services over subscription-based models. Many are using more such services including prepaid utility bills, gift cards, vouchers or credit cards.

The core reason for this shift is the speed and flexibility of prepaid services. Anyone can purchase a SIM card and start using it instantly, topping up within a few seconds. Similarly, prepaid models allow users to have a high degree of control and visibility over their spending.

The issue is, what comes next? After all, the journey towards universal financial inclusion is still underway. Further development of the pillars underpinning the ongoing fintech transformation is no doubt critical to success. For instance, while mobile penetration is high among the unbanked, increasing the availability of 4G and eventually 5G services will provide the bandwidth to offer a more sophisticated range of mobile-first financial services beyond pure payments and remittances. These may include the provision of credit lines or insurance coverage, further narrowing the financial inclusion gap.

The success of the platforms such as Europe's challenger banks and China's WeChat provide a blueprint for what financial inclusion success could look like in future in the form of 'super apps'. WeChat users can get updates from official government and company accounts, make everyday payments, book a medical appointment, apply for a loan, hire a taxi, top up their phone and avail many more services. Revolut has expanded from being a convenient way to pay across borders into offering investments in commodities and cryptocurrencies, along with insurance services, savings plans, and other financial services.

The ease and convenience of having all of these services in a single app, available across international borders, will no doubt be a huge step forward for inclusivity. Ultimately, it is likely that, at least for the retail users, the role of traditional banks will decline as the countries continue their shift towards financial inclusion powered by fintech.



The Last Mile

The story of the digitally-enabled Bangladesh is the story of technology bridging the last mile to connect the remotest corners of the country and blurring the divides between the rural and urban. The technology transformation has been rapid and far-reaching in the financial sector including the banking industry.

Technology in Bangladesh's banking sector traditionally comprises many layers, especially across the rural financial landscape. Over the decades, physical services were used to deliver cheques to the central clearing repository, followed by computers without internet and security systems in the presence of a brick and mortar structure. Traditional banking culture is best described as one of 'going to the bank branch to update the passbook' or where one if forced to hold onto cash with no way to deposit it into the centralised, electronic system. Now, the digital financial inclusion world is changing the entire banking culture in the country.

In Narua, a remote village in the country, a group of women gather--some with cash in hand and others with empty hand. Halima is a local agent who bridges the last mile between the bank branch and this small village. She delivers the cash when the villagers need it and collects deposits from those who have some money to spare. The 'bank' she carries with her is a simple laptop or point-of-sale (PoS) device, with which she carries out the authentication against the individuals' NID before the cash exchanges are performed. The branchless banking platform, 'a pocket mobile bank', can function on multiple devices – from POS machines to cellphones -- and is releasing the country's rural and underprivileged people from within the invisible folds of an informal economy. With NIDs and rapid spread of mobile financial services, these excluded are coming to the fold of technology-infused financial transactions. The digital banking platform sees millions of daily transactions proving that technology is a great last-mile leveler.

Similarly, Bangladesh Post Office is an essential service, a carrier of vital communication and financial services to some of the country's most inaccessible and off-the-grid corners. The story of the digital transformation of the post office network sees technology pull together the postal system into a cohesive inter-linked system that operates on a single platform. Bangladesh Post Office is rapidly undergoing a digital makeover, with adoption of mobile devices. The postal service provides not just mails, but financial services as well through 'Nagad'-- a dynamic and secure digital financial service that facilitates customers' daily financial transaction needs like cash-in, cash-out, send money.

Both the banking industry and Bangladesh Post Office truly offer a transformation story--bolstered by the technological re-imagination. This is what strong last-mile partners can ensure. No one stays invisible and no one is left behind. Digital technology can empower all.

Implication of Emerging Gig Economy

The gig economy is often viewed as an adversary of job security and workers' social protection. In Bangladesh, this however may be a different story.

With its rapid expansion in recent years, rising numbers of producers, businesses and gig workers are using the new digital economy to make a living in the country. Many of these digital platforms that are driving this new economy rely on a ubiquitous digital payment system that is enabling transactions to take place between the micro-merchants and gig workers and the buyers of their products and services. For instance, e-commerce platforms are not only serving as an important driver to bring people into the formal financial system, they are also creating new and more lucrative opportunities for work for millions of businesses, producers and service workers.

In the developed countries, the rise of the gig economy and the enabling platforms are viewed by many as contributing to the deterioration of stable jobs and an erosion of labour protection and rights. While the gig economy is recognised for offering workers flexibility and a chance to be their own bosses, there is evidence that remuneration has not lived up to what many of the gig platforms promise, and workers are working longer hours for less.

However, this narrative does not necessarily appear to hold in Bangladesh in the context of the digital economy. For one thing, Bangladesh's labour market seldom has the secure jobs that the gig economy is purportedly displacing. Instead, the digital platforms are enabling a certain formalisation of the informal work that has thus far remained inferior to formal jobs. The new digital platforms are contributing to standardising and organising a set of workers who had previously been left to fend for themselves. There are three important contributions that digital platforms are making towards the lives of the businesses and gig workers in Bangladesh:

1. Investing in skills

It is striking to see the type of investments that many of the platforms are making in training the enterprises and the gig workers on their platforms.



For example, the e-commerce platforms offer many learning opportunities for their businesses including events and video streaming tips that cover topics such as taking appealing pictures of their products and getting halal certification to expand the appeal of their products among Muslim customers.

2. Providing social protection

Many service providers are expanding to lifestyle services offering some form of social protection to their working staff with the rationale that this improves their loyalty in the highly competitive environment.

3. Facilitating access to financial services

Nearly all platforms are layering multiple financial services for their businesses and gig workers. Digital credit, insurance, and investment products such as mutual funds are becoming available in the market. This is enabling businesses and gig workers to expand their activities and have access to financial services that improve their resilience to shocks.

The impacts of these platforms on the economy are increasingly becoming visible as evidenced by the rapidly rising number of agents, businesses and gig workers getting involved in these activities. Many entrepreneurs are adding rewarding livelihood activities to their normal jobs taking the advantage of e-commerce sites. Women entrepreneurs are particularly benefitting through expanding their markets substantially using these platforms.

Undoubtedly, the need is to dig deeper into the dynamics of the emerging gig economy and better understand the impact of the new jobs in the country's future labour market.

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টাকা* ভ্যাট সহ

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বিকাশ

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