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Technology and Innovation for Boosting Financial Inclusion



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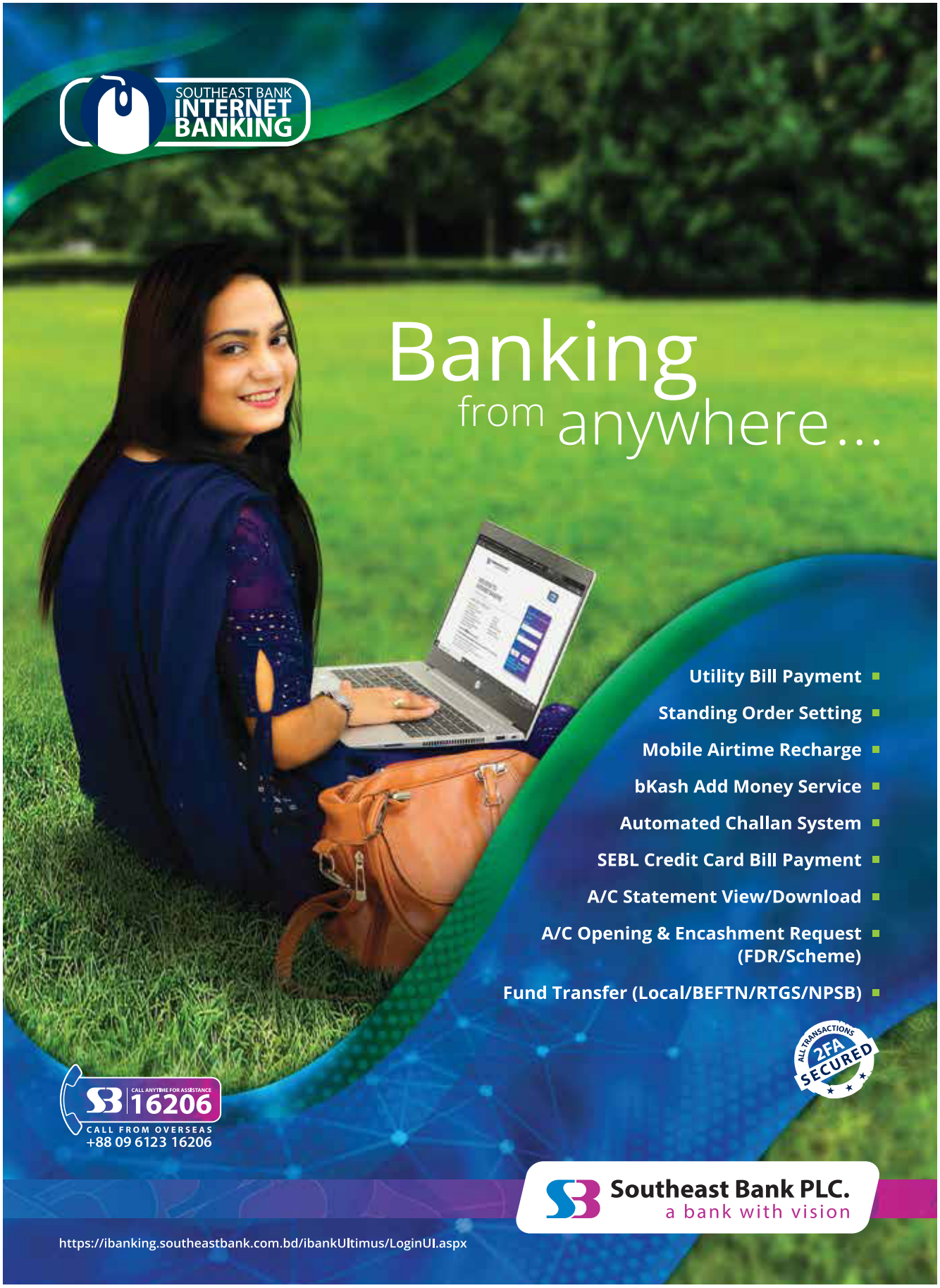
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From the EDITOR

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

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

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

Financial Inclusion Policies and Regulations

Regulation defines the environment in which financial services providers (FSPs) work. This environment may act as a financial inclusion enabler or, if very restrictive, may cause the financial exclusion of certain groups. The G20 has identified the need to “provide an enabling and proportionate legal and regulatory framework for digital financial inclusion” as one of its HighLevel Principles for Digital Financial Inclusion.

Providing an enabling framework requires that regulators follow the rapid transformation of financial services without discouraging innovation while keeping consumers protected and ensuring stability in the financial market. Examples of regulation in this regard include personal data management regulations like the General Data Protection Regulation (GDPR) in the EU. Further, examples may be drawn from changes in regulation regarding the Know-Your-Customer (KYC) and Customer Due Diligence (CDD) principles. There can be principle of Simplified Due Diligence (SDD) and guide on how to combine digital identity technologies with the CDD principles. Allowing simplified customer due diligence for lower-risk accounts and transactions is one of the key enablers of financial inclusion in terms of regulation.

The digital transformation of the financial sector has also allowed the development of solutions that facilitate handling with increasing regulatory requirements. On the one hand, SupTech solutions aim to increase the efficiency and effectiveness of market supervision through automated data collection and analysis; on the other, RegTech involves "the use of new technologies to solve regulatory and compliance requirements more effectively and efficiently”. Through RegTech solutions, FSPs can comply with regulatory requirements more efficiently and less costly, which can improve their capacity to better serve consumers.

Public policy also plays a key role in enabling financial inclusion. Over the last decade, Bangladesh is implementing financial, educational, and digital inclusion strategies that serve as roadmaps to increase financial and digital inclusion and capabilities. Bangladesh has adopted a five-year National Financial Inclusion Strategy (NFIS) to ensure “financial inclusion for all” by 2026.

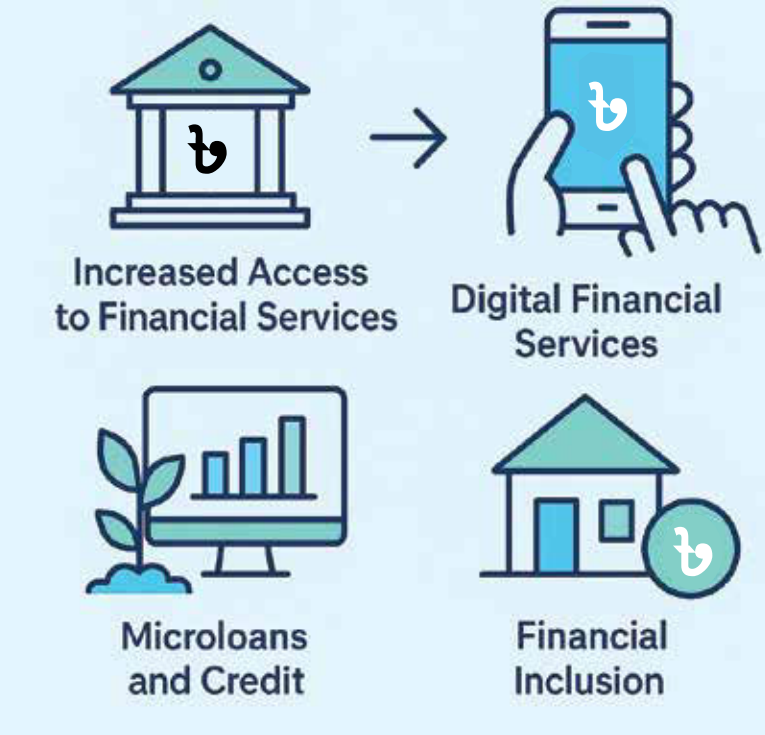
All in all, the expansion of digital financial services has created new opportunities to reach the vulnerable and excluded populations. However, it also presents new challenges and risks that need to be addressed by regulators and policymakers.

It is necessary to find a balance between protecting the user, protecting the financial market, promoting innovation, and leaving no one behind. It gets more complex when we consider that -- thanks to technology -- the operations of FSPs are becoming more and more global, which calls for greater harmonisation of regulation between countries.

For these reasons, public policy and regulation to boost financial inclusion has emerged as an area in Bangladesh in which there is a need to focus more research and analysis. Several such areas in which policies and regulations are needed to go through close scrutiny cover issues like consumer protection and safeguarding; cybersecurity regulation; gender lens in financial inclusion policy; interest rates regulation; Know Your Customer (KYC) regulation; policy for digital and financial literacy; regional/global harmonisation of financial services regulation; RegTech, regulatory sandboxes; SupTech and the like.

Fintechs Rapid Transformer of Rural Finance Landscape

With a diverse landscape and a rapidly rising class of women entrepreneurs in rural areas, advent of fintech innovations has added tremendous power towards transforming the rural financial landscape in Bangladesh. This is also creating the enabling conditions for rural women entrepreneurs to access financial services who had historically faced significant hurdles in accessing traditional banking services. The geographical remoteness, coupled with women's lack of collateral and male-dominant banking culture, have always made it difficult for banks and other financial institutions to extend their reach to rural women entrepreneurs,



At present, the rise of fintech startups has revolutionised the country's financial sector. Leveraging technology and mobile devices, fintechs have become instrumental in breaking down the barriers to accessing financial services by rural women including the CMSME women entrepreneurs. Fintechs have introduced digital payment solutions and mobile wallets that allow rural women entrepreneurs to make transactions, pay bills, and transfer money using their smartphones or basic feature phones, reducing the reliance on cash and improving financial efficiency.

Similarly, digital banking revolutionises rural financial system, fostering access to financial services through USSD (Unstructured Supplementary Service Data), agent banking, and other technologies. Agent banking providers establish partnerships with local businesses, for extending banking services through POS devices. These solutions enhance financial access, support institutional savings, and facilitate transactions for rural women entrepreneurs.

Fintech platforms have also pioneered digital microfinance initiatives, providing small loans to rural women entrepreneurs and individuals who were previously excluded from the formal banking sector. As a result, traditional credit assessment methods, such as credit scores and bank statements, are often not available or relevant to these rural borrowers. This has been one of the major hurdles for rural women entrepreneurs to access credit from traditional banks and other financial institutions. In contrast, the digital lending platforms use alternative credit assessment methods, including data from smartphones and payment histories, to extend credit to these underserved populations and entrepreneurs. Thus, digital lending is making it easier for rural women entrepreneurs to access loans with flexible eligibility criteria.

Many fintechs are developing mobile apps that

offer financial education and literacy tools in Bangla. These apps empower rural women entrepreneurs to make informed financial decisions, manage their finances better, and understand the benefits of savings and investments. Fintech innovations are also entering the insurance sector, introducing digital insurance platforms that can provide affordable and accessible insurance products tailored to the specific needs of rural women entrepreneurs. These solutions can offer coverage for agriculture, health, life insurance, asset losses and other categories, while also extending protection in the event of natural disasters.

The NID biometric identification system has been a crucial enabler of fintech initiatives. It allows rural individuals and entrepreneurs in remote areas to open bank accounts and access financial services using their unique identity. This integration has streamlined the onboarding process and reduced the need for extensive paperwork.

All these transformations are moving fast, but we still have a long way to go to create an inclusive rural finance system. While fintech innovations have made significant strides in promoting financial inclusion in rural Bangladesh, many challenges persist and new challenges are also emerging. Connectivity and internet infrastructure remain uneven in remote rural areas, limiting access to digital financial services. Additionally, the challenges of digital transformation in banking and financial institutions include the high cost of modern tech solutions, cultural resistance within tradition-dominant organisations, prudent leadership lacking seriousness towards fundamental change, rivalries between winners and losers of changed scenarios, inadequate project management and ownership, and a lack of knowledge sharing due to traditional regulatory constraints.

Overcoming these hurdles requires substantial investments both in physical and human capital, shift in organisational culture, support from proactive leadership, adoption of effective project management strategies, and fostering knowledge sharing across all stakeholders. For Bangladesh, embracing newer vintages of fintech solutions is pivotal for successful digital transformation capable of ensuring enhanced financial security and wide ranging scalability along with providing substantial cost-effectiveness.

At present, all indications highlight that fintech innovations are driving financial inclusion in rural Bangladesh, supported by multiple government initiatives for creating a truly digital country. Collaboration between fintech, traditional financial institutions, and regulators is no doubt the key to overcoming challenges and ensuring last-mile delivery of fintech benefits. Mobile financial transactions and agent banking services have witnessed a record surge in recent years and the digital lending market is growing rapidly to reach newer heights. More interestingly, the major share of this growth is coming from the rural sector.

The government and Bangladesh Bank are pushing for rapid expansion of digital banking service centres to improve access to financial services for the rural residents. Agent banking outlets are physical ‘branches’ of banks that offer digital banking services. These outlets offer services such as account opening, cash deposits and withdrawals, fund transfers, and loan applications. This is making it easier for rural residents to manage their finances and access financial services without having to travel to a formal bank branch.

About two-thirds of Bangladesh’s population resides in rural areas, highlighting the importance of providing basic financial services to these communities. Fintechs have been adapting their products and enabling doorstep delivery of financial services. The trust challenges are also being addressed through local agents and partnerships with MFIs and retail stores.

In the ultimate analysis, collaboration between fintechs, traditional financial institutions, and regulatory authorities is crucial in addressing challenges and ensuring that the benefits of fintech reach the last mile in rural Bangladesh.

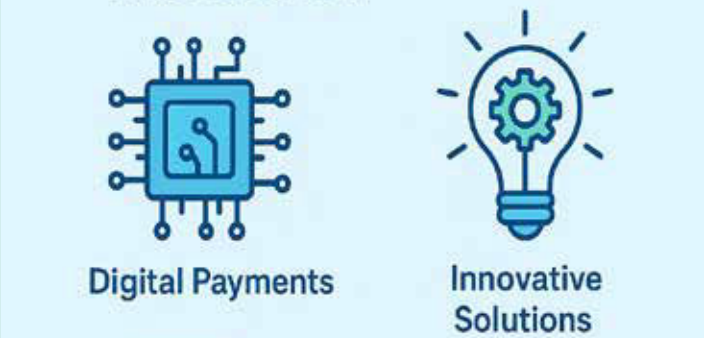
Technology and Innovation for Boosting Financial Inclusion

In recent years, as a result of innovation and technology developments, the financial industry has witnessed the entry of new actors, products and services, distribution channels, and data sources, among others. The digital transformation of financial services presents challenges but also new opportunities. In this sense, digital financial services have the potential to address barriers to access the financial system.

For example, technology can bring an alternative for one of the main causes of financial exclusion is the lack of ID. In this case, digital ID can help expand digital financial services. Moreover, blockchain technology has the potential to expand financial inclusion, for instance, by offering self-sovereign identity solutions or by diminishing costs of cross-border payments. Through blockchain technology it is possible to reduce information asymmetries and gaps, among other access barriers such as through developing an identity protocol based on self-sovereign identity for building credit history.

Big data and Machine Learning can also help transform the financial sector. Big data analytics has the potential to diminish knowledge barriers, and thus expand access to financial services to populations that, under traditional criteria, would be excluded from the system. The large amount of data that currently exists can also enable new actors to provide financial services. For instance, Super Apps and E-commerce platforms can offer financial services with the potential to reach populations traditionally excluded from the system.





In this context of innovation and a wider variety of actors arises the concept of open banking. This is a banking practice that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions through the use of APIs. This promotes competition within the industry, which can result in lower costs and better service to consumers.

Another technology development that is trending in the financial sector is digital currencies. Digital currencies are relevant for financial inclusion as they can potentially help to attract more people to the digital economy. Regarding Central Bank Digital Currencies (CBDC), many countries including Bangladesh are considering implementing a CBDC.

However, while technology presents opportunities and tools to expand financial access, it brings challenges related to data privacy, cybersecurity, over-indebtedness, and may also reinforce exclusion patterns, for instance, due to biased algorithm design and the existing digital divide.

For these reasons and because it is an area that is constantly evolving, Bangladesh has to move cautiously in using technology and innovation to boost financial inclusion. In particular, several areas need to be targeted for exploring potentials and resolving challenges such as artificial intelligence and machine learning; blockchain technology applications to boost financial inclusion; digital identity; government-issued digital currencies; open banking/open finance; and Super Apps.

Gender Equality in the Financial Sector

Despite recent years' advancements in financial inclusion, women account for the largest share of the unbanked population and are still lagging in terms of access to the financial system in Bangladesh. According to the World Bank's 2021 Findex Database, the gender gap in account access between women and men has increased to 20 percentage points in 2021 from 11 percentage points in 2011. On the other hand, account ownership gaps between richer and poorer adults and between more and less educated adults have narrowed significantly between 2011 and 2021. This shows one complex social challenge. Why gender gap in financial inclusion is so stubborn compared with income and education gaps?

This gap can be explained by constraints both on the demand and supply sides that include low financial literacy levels, lack of ID, lack of collateral, low mobile phone ownership, lack of sex-disaggregated data, and inadequate product design. Additionally, the root of the challenge lies in social dynamics of financial inclusion in the country.

The rise and expansion of fintech promises the possibility of reaching women and other populations traditionally underserved by the financial system. However, there is a digital divide that prevents women from having equal access to digital financial services. According to some recent statistics, gender gap in financial inclusion is highest in mobile financial services (35 points) followed by banking services (17 points). The gaps between women and men in terms of smartphone ownership and internet access also remain high. Moreover, there is a fintech gender gap in terms of use of fintech solutions.

While several observable determinants such as demographics, economic status, education, employment and marital status are no doubt important in explaining the gender gap, there exist social dynamics and many restrictive gender norms and customs that can provide useful insights on women's financial exclusion. In many respects, existing norms and values restrict women's financial inclusion and remain mostly responsible for the gender gap.

As such, a key area to explore is the potential on how to make digital finance work for women's economic empowerment that is a pre-requisite to closing gender gap in financial inclusion. The challenge is to overcome the specific barriers and exploit the opportunities of digital transformation. In the short term, the efforts may cover several directions such as: developing a comprehensive gender disaggregated national financial data warehouse; awareness and skill development through regular training on financial and digital literacy; adoption of a separate policy plan to achieve meaningful financial inclusion for women leading towards economic empowerment; gender friendly business environment in financial institutions; structured support measures for women entrepreneurs; changing the mindset, and other specific measures.

The above measures can be effective if these are supported by women's greater access to education, employment and income; dismantling of restrictive gender norms; ensuring women's right to property; and eliminating child marriage and gender-based violence.

Policies are needed also to motivate greater financial autonomy for women by investing in digital infrastructure, such as biometric identification and digital financial accounts. These infrastructures which are keys to broader digitalisation across the entire economy and society would motivate women to have their own accounts and directly transact using these accounts that is the first step towards developing their capabilities that they need to increase financial autonomy.

The fact is that despite technological advancements and benefits brought by the digital age, women remain less likely to access the financial system. Closing the gender gap still continues to remain an outstanding debt in the finance industry. Because of its persistence and complexity, the gender gap in the financial sector is one of the areas that need more research and efforts to address it.

Within gender equality in the financial sector, several research areas are highly relevant at present to gather relevant insights for policies on closing the existing gap in Bangladesh. These include, for example, financial needs and behaviour of low-income women in the digital era, gender gap in access to digital financial services, non-conventional collateral for women, non-financial services to decrease the gender gap, and use of Artificial Intelligence (AI) and big data to close the gender gap in financial inclusion.

For success, the entire process needs to be supported by further digitalising the financial landscape of the entire country. Along with gender-informed and culturally-sensitive policies and practices, increased digitalisation will lead to enhanced financial capability and inclusion of all poor and excluded women. The key will be to adopt a more customer-centric approach including gender-inclusive financial products and services tailored specifically towards all specific groups of women.

Women's Financial Inclusion: Why Focus on Financial Capability?

Over the past two decades, Bangladesh's drive towards financial inclusion of the excluded and underserved populations has shown some interesting insights. One exciting outcome of these efforts has been on emphasising to harness the potentials on how to make digital finance work for women's economic empowerment -- a key attribute of financial inclusion. In this context, the challenge is to identify the ways to make digital finance work for women's economic empowerment through overcoming specific barriers and exploiting the opportunities of digital transformation of the microfinance sector in which women, especially the rural poor women, are the key players in Bangladesh.

As for women's financial inclusion, the Global Findex 2021 shows that although 53 per cent of adults in the country own a financial account, the gender gap in account access between women and men has increased to 20 percentage points in 2021 from 11 percentage points in 2011. The good thing is that account ownership gaps between richer and poorer adults, and between more and less educated adults, have narrowed significantly.

The above highlights one complex social challenge: Why does gender gap in financial inclusion is so stubborn compared with income and education gaps? The roots of this challenge may be traced to the social dynamics of financial inclusion in the country.

Available evidence overwhelmingly supports the hypothesis that mobile money has been playing the major role in bringing the financially excluded disadvantaged and vulnerable groups into the formal financial system in Bangladesh. This is supported by the fact that 29 per cent of the adults reported having a mobile money account in 2021 compared with only 3 per cent in 2014. Of these mobile money users, almost half use mobile money as their only form of financial account.

Looking from a gender perspective, it is found that women have also benefited from this rise in mobile money account ownership. Global Findex 2021 shows that 20 per cent of women owned mobile money accounts in 2021 compared with only 2 per cent in 2011. Moreover, as women's financial access has increased, their use of different financial services has risen as well — which is especially true for digital payments. Among women mobile money users, an overwhelming 82 per cent used their mobile accounts to make payments, such as bill, merchant and utility payments. Further, about a third of women payment users also used their mobile accounts to send remittances. In contrast, savings and borrowing via mobile money among women were only a few (4 per cent and 7 per cent respectively), and 11 per cent of women with a mobile money account used it to store money.

Across all socio-cultural divides, the greatest appeal of mobile money lies in its use as an efficient, affordable, and safer alternative to traditional banking institutions. For instance, by eliminating the need to travel, mobile money accounts reduce social and administrative constraints so that women can safely receive money and transact while at home. Yet, some binding constraints keep women with mobile money accounts from benefiting as much as they could. A major factor is their loss of control over financial resources. In the Bangladesh society, multiple reasons exist as to why women may have to relinquish control over their money, either willingly or under compelling circumstances. A major culprit is the male dominated culture and norms. More specifically in the traditional rural society, smartphones are sometimes considered taboo for women and girls, and women's access to mobile banking agents—who are mostly men—might be constrained by women's hesitation to give their phone number -- necessary to access a mobile money account -- to a male agent. Taking a photo to set up an

account may also be problematic for women if they are required to remove their head coverings.

Even after a woman has successfully opened a mobile banking account, additional barriers are also present that may prevent the woman from enjoying its benefits. The low levels of awareness on mobile financial services and cash flow constraints often limit the use of mobile banking by low-paid women workers. Apparently, a lack of awareness on the close links between economic empowerment with personal agency and financial decision making and similar other perceptions limits women's motivation to widen and deepen their use of mobile banking.

Aside from culture, other factors may also compel women to hand over control of their money to their husbands or other male family members. Usually, most women digital financial service users rely on agents to complete transactions and nearly two-thirds of women with mobile money accounts need help using them. This is a major barrier for women since they have to fully rely on agents as a result of which they may be exposed to financial abuse. This forces women to rely on male members in the family.

Obviously, these challenges affect women who already have accounts. However, there are additional barriers that keep women away from account ownership in the first place. While the cost of opening and operating a financial account is a barrier for low income unbanked women, many others suffer from lack of enough knowledge about digital financial services and its advantages. Further, they also lack the confidence in handling these accounts.

The above challenges indicate that additional efforts are needed to dispel several knowledge gaps and barriers that make women less responsive to the potentials of mobile financial services. There are often misconceptions relating to the use of mobile banking covering such diverse issues as it is too expensive, mobile banking is difficult to use, and mobile banking is not for the poor women. Overall, there seems to exist a lack of confidence among the poor women especially in the rural areas that acts as a major barrier that prevents them from proactively pursuing access to and use of financial services as an essential prerequisite for economic empowerment.

An important policy response to break the vicious cycle is to install a strong consumer protection framework for building trust and furthering the cause of women's financial inclusion. Policies are needed also to motivate greater financial autonomy for women by investing in digital public infrastructure, such as biometric identification and digital financial accounts. These infrastructures which are keys to broader digitalisation across the entire economy and society would motivate women to have their own accounts and directly transact using these accounts that is the first step towards developing their capabilities that they need to increase financial autonomy.

Specifically, this will also build their financial confidence. The exposure to digital accounts, in addition to self-learning of how to use these accounts, will also lead them to use a wider range of features leading to broader empowerment and improving financial capability. The approach could be supported by further digitalising of the digital payment landscape across the country. Along with gender-informed and culturally informed policies and practices, increased digitalisation will lead to increased financial capability and inclusion of rural poor women. The key will be to adopt a more customer-centric approach, including gender-inclusive financial products and services tailored across all groups of women.