9-2016

Fintech and inclusion: Opportunities and obstacles

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FINTECH AND INCLUSION: OPPORTUNITIES AND OBSTACLES

Published:
28 Sep 2016

Reliable technology and financial education are key

When Kenya's dominant mobile phone service provider, Safaricom, launched digital payment service M-PESA in 2007, few foresaw how it could revolutionise the finance industry. Beyond spawning ground-breaking innovations such as interest-earning accounts such as M-Shwari – millions of Africans had never earned interest due to the lack of a banking account – M-PESA has served to inspire the growth of giants such as China's Ant Financial, which some analysts say is worth US$75 billion. In other words, more than venerable investment bank Goldman Sachs.

Such fintech innovations have reduced the number of global unbanked by 20 percent to 2 billion people, giving a boost to the World Bank's ambition of universal financial access by 2020. But amidst the achievements, one should not overlook the hurdles along the way.

"Financial inclusion requires technology that works all the time, and that means the internet, power, cellphone systems etc.," says **Betty Wilkinson**, CEO of nonprofit organisation Financial Sector Deepening Zambia. "It also needs people who can repair them quickly when they are broken. It also requires an environment for learning and an ability to interpret that deals with language changes.

"We sent the Bank of Zambia's managers out to send and receive mobile money as training – they couldn't do it in the capital city because the agents did not have liquidity, and the cellphone system was incomplete in terms of interoperability. These are the limitations of fintech: If the power and cellphone systems aren't working, you can't use the technology that you've designed."

UNDERSTANDING FINTECH'S RISK

Wilkinson made those remarks in the discussion panel “The Financial Inclusion Experience: What can we learn” at the recent 6th Annual SMU SKBI Conference where Wilkinson highlighted the importance of addressing human needs instead of championing technology.

“In Kenya, there was a study about using ATMs. They found that women did a lot worse with debit cards than men did because the men associated with them found out that they had money. It was a problem for them – they stopped using the cards.

“In Zambia we did a finscope survey, and it showed that more women than men owned SMEs but women are much less likely to seek advice about finances. We also found that 90 percent of people said they would like to use technology if it was available but over half the people we talked to said, ‘We’d rather talk to a face than a machine.’”

She adds: “What can we do differently when we think about financial inclusion and fintech? We’re all talking about human-centred design and paying attention to the consumer but there are weaknesses in the system because of the way different organisations and people look at risk. If you ask a farmer what my risk is, his answer will be a lot different from if you ask the financial institutions that are lending to him or her, or to the regulators. The perception of risk and how to manage it is very different.”

Picking up on the topic of risk, **Tao Sun** of Ant Financial urged the fintech industry to be mindful of a fundamental fact: fintech and financial inclusion are rooted in finance. Says Sun: “In everything we are developing, we should not forget the nature of finance and its potential risks. This is a fundamental issue.

“It’s a balance between efficiency and risk. We have to think about the fundamental risks that come from finance: The risks include credit risk, liquidity risk, market risk, reputation risk, operation risk and even system risk.

“The second one is to think about the risks from fintech. There are two major risks. One is technology risk, the other being consumer protection, which is related to reputation risk.

If fintech companies consider these carefully and address them, they should survive. If not, they will become like much of the P2P companies in China which have disappeared.

He concludes: “Why is Ant Financial doing so well? It’s because the company’s management treats the risk seriously.”

MOVING FINTECH FORWARD

Despite these risks, fintech and the financial inclusion it has brought has been a boon to those at or near the bottom of the pyramid. U.K.-based startup WorldRemit is gaining popularity amongst migrant workers sending money home due its commission charges, which are lower than those of established incumbents such as Western Union.

“There are 250 million migrant workers around the world, and international remittances play an important part in sending money home,” elaborates **Juanita Woodward** of WorldRemit. “According to the World Bank, the average cost now is 7.6 percent, which is still too high. There had been a goal of five percent. Because of all the good technology available, they may even be looking at three percent.”

While WorldRemit’s main advantage is that remittances go straight into a bank account or a mobile money account, it still provides for cash collection points like Western Union does. Since its founding in 2015, WorldRemit has grown to over 50 countries and its app was used in 3.5 million transfers last year. But even as fintech and related technology brings inclusion, the panel argues there is a lack of outreach and education to bring more of the unbanked into the fold.

“If people don’t see the benefit of the financial products and what they bring to their lives, they are not going to use them,” Woodward says. “Financial literacy and financial planning are a very important part for financial inclusion for all socio-economic levels, not just for the bottom of the pyramid.”

Betty Wilkinson: “On the social side, the way we communicate to the unbanked and the financially excluded is really crucial. It must be done in their own language, through their own stories, in whatever way they learn best whether it’s oral culture, whether it’s a written culture. These things become very important when you’re talking about financial inclusion.”