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How does Fintech drive

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HOW DOES FINTECH DRIVE FINANCIAL INCLUSION?

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Banks could learn from fintech companies' use of unstructured data to extend financial services to do good and turn a profit

According to the World Bank, the number of unbanked adults worldwide fell from 2.5 billion in 2011 to 2 billion three years later – a 20 percent drop. In the same time period, the number of people worldwide who have a bank account grew by 700 million. Much of that growth has come in developing areas such as India, Southeast Asia and sub-Saharan Africa. The M-Pesa mobile finance platform in Kenya and Tanzania is well-known for bringing financial services to millions of previously unbanked and the unbankable.

On the other side of the globe in China there is Alipay, Alibaba's online payment platform that not only facilitates online consumer shopping but also cross-border payment for online merchants. It became the world's largest mobile payment platform in 2015, overtaking PayPal, and in 2013 launched Yu'e Bao (余额宝), a wealth management platform that handled nearly US$100 billion by the end of 2015.

Such financial technology – or Fintech – innovations have delivered financial inclusion to hundreds of millions of people in recent years. So what is stopping it from delivering universal financial services?

"There are four main barriers," explains **Anju Patwardhan**, Standard Chartered Bank's former Global Chief Innovation Officer. "One is lack of infrastructure. It's a small percentage but these people could be living in an area with no internet access or cellphone towers. A larger percentage consists of people who cannot afford mobile or internet access as in they can't afford to buy the smartphones or they can't afford to pay for the data plans, and therefore they are excluded.

"The third big reason is awareness and education. Basic technical literacy and basic financial education is very much needed. And the fourth big reason is content: a lot of the content is in the language that isn't people's first language. In fact, 80 percent of the internet's content is in 12 languages that aren't the first language for a lot of people. The biggest enabler for financial inclusion is technology so we have to solve these problems."

LAUGHING ALL THE WAY TO (AT?) THE BANK

While Fintech companies continue to innovate and bring more unbanked into the financial fold – and turn a profit in the process – brick-and-mortar banks are forced to examine how to get a slice of the growing pie. Banks' usual refrain of "We can't use unstructured data" that are not traditional financial metrics often leaves them on the outside looking in while technology companies such as Google (Android Pay), Apple (Apple Pay) and Alibaba (Alipay) create e-wallets and platforms to provide financial services without the need to go through a bank.

Patwardhan, who spent years in a risk management capacity in consumer banking, explains the reason for banks' reluctance to enter the market segment.

"I have been one of those people who made policies which excluded a lot of people from being able to borrow from banks," Patwardhan admits. "There were several reasons [for these policies]. Part of it is from the Korean debt crisis, the Hong Kong bankruptcy crisis, the Indian micro loans crisis; there were lessons learnt based on which the banks made those policies."

She adds: "But the other big reason was these loans were small, the cost of servicing them was high, losses were high, and therefore they were not commercially viable from a risk-return perspective. Whereas now with the use of big data and machine learning, with the use of alternate data sources which are available, it is possible to do credit assessment. It is possible to reduce the cost of underwriting, and therefore it is possible for big banks to now do this in a commercially viable manner.

"That's an area that is done very well by a lot of fintech companies but not so well yet by the banks, but hopefully there will be progress in the future."

Banks could take a page from the playbook of companies such as Experian, an Irish data analytics firm. The company is an investor in Mobivi, a Vietnamese online payment platform that helps people create a credit profile without a bank account.

"[Mobivi] partnered with industries and companies…and goods and services are offered to the employees of these companies in interest-free instalment plans that they pay back from their salaries," explains **Maria Paula Oliveira**, Strategic Projects & Planning Director at Experian Asia Pacific. "The beauty of this is it not only allows for access to goods and services, it also builds credit history. It builds something they did not have.

"Financial inclusion is not only bringing the unbanked into the banking system, it's using other data – not financial data – from the unbanked to allow them to remain unbanked but still have access to things that are basic to their lives."