

**INSTITUTE FOR  
CAPACITY DEVELOPMENT**

# **Fintech and Financial Inclusion: An Overview**

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# Fintech Improves Financial Inclusion

## Barriers to Household Financial Inclusion



Source: Global Findex database.  
Note: Respondents could choose more than one reason.

## Fintech Potentials

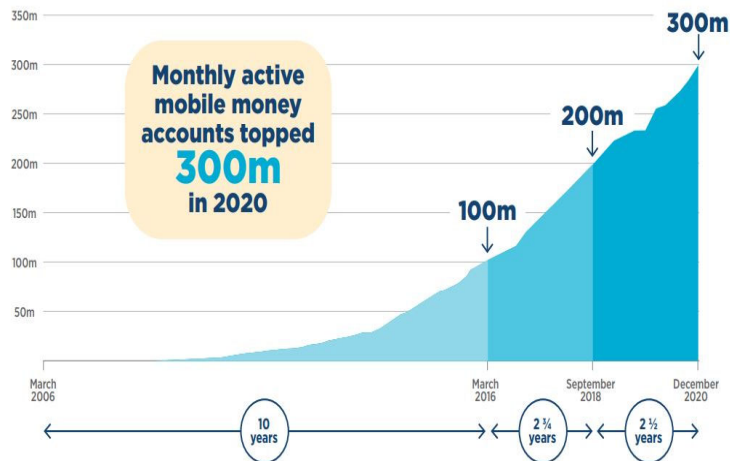
- Fast & convenient
- Low cost
- Alternative data
- Innovative algorithms & business models
- Tailored customer services
- Enhanced security
- ...

## Obstacles to SME Financing Access

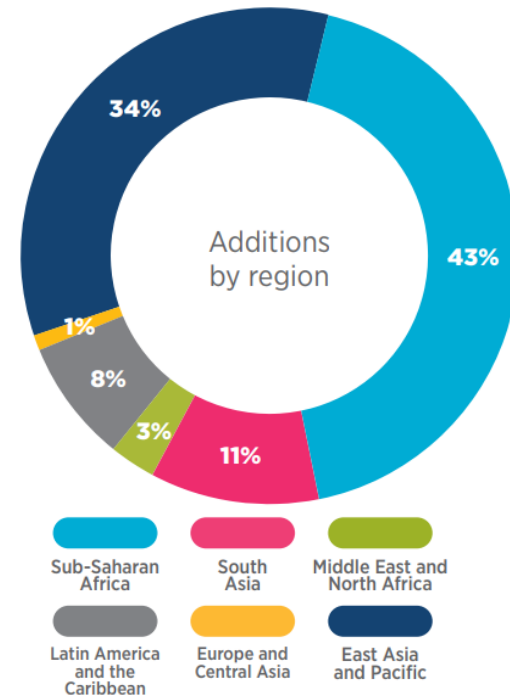
- Lack of profit for processing smaller loans;
- Lack of collateral;
- Lack of formal documentations;
- Lack of long credit history;
- ...

# Mobile Money: An Engine for Financial Inclusion

- Adoption of mobile money systems is particularly high in countries where financial infrastructure may be underdeveloped;
- Over the last decade, 1.2 billion previously unbanked adults gained access to financial services, primarily boosted by the increase in mobile money accounts.



Source: State of the Industry Report on Mobile Money, The Groupe Speciale Mobile Association (GSMA), 2021.

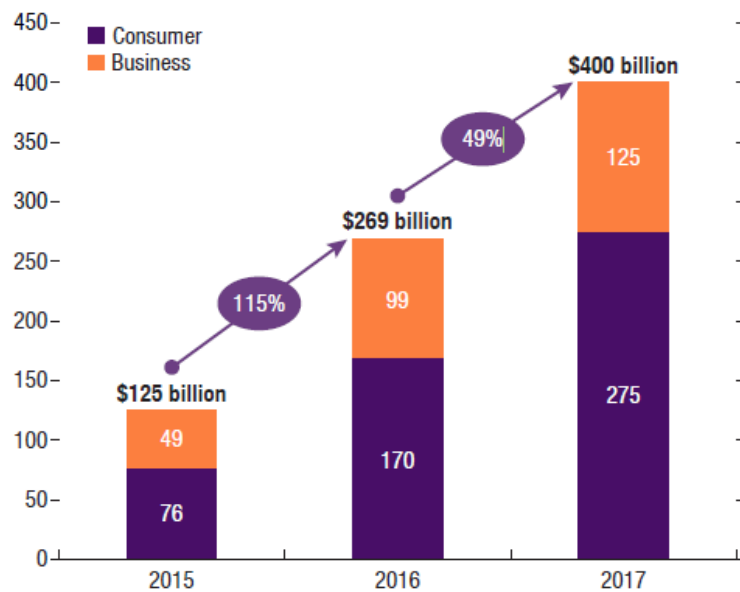


Source: State of the Industry Report on Mobile Money, The Groupe Speciale Mobile Association (GSMA), 2021.

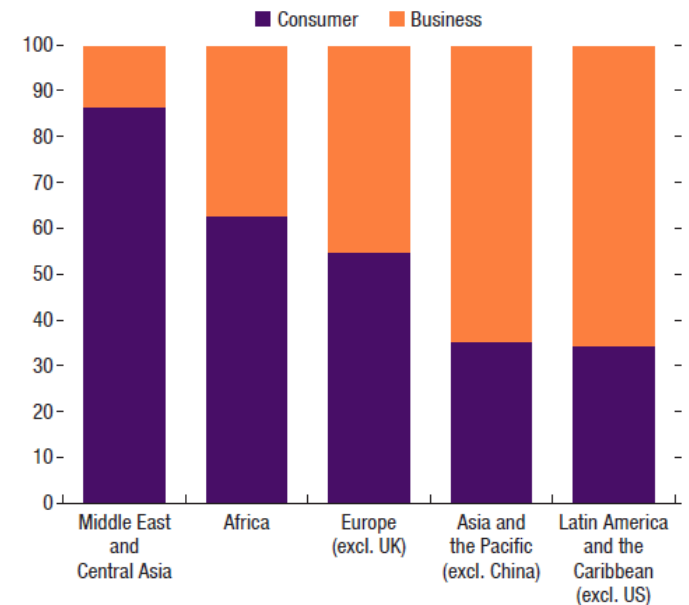
# From Spend to Lend

- Fintech lenders are able to reduce information asymmetry and to extend credit to poor households and small firms that traditional banks will not help due to information scarcity.
- Fintech platforms have also developed savings instruments that pool spare money from poor households, and channel it to individuals and firms in need.

### Global Fintech Lending by Main Segments



### Fintech Credit Composition by Region



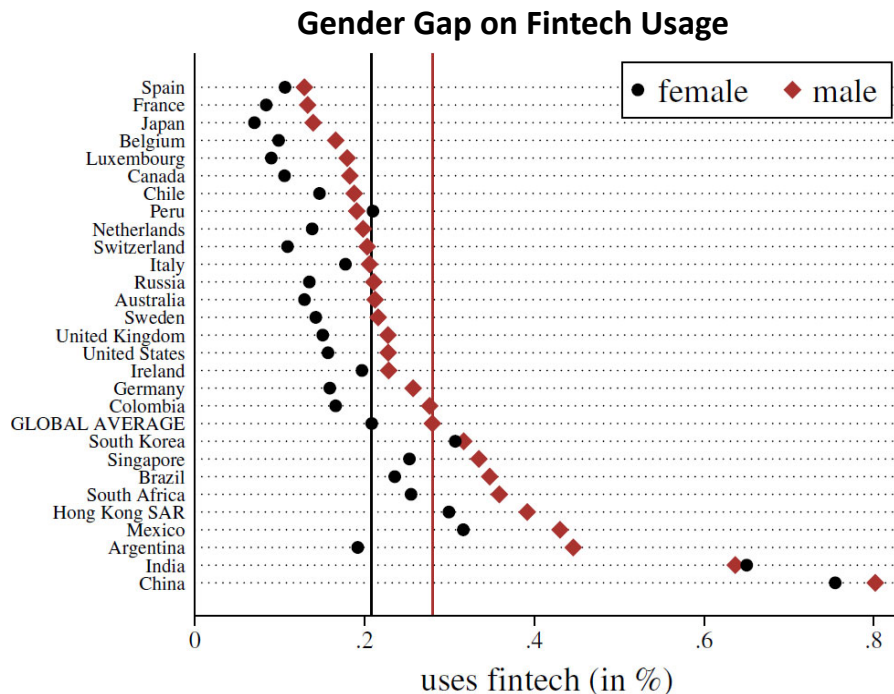
Source: Sahay, et. al., 2020. "The Promise of Fintech: Financial Inclusion in the Post Covid-19 Era," IMF working paper, No. 20/09.

## Potentials for Growth and Welfare

- Fintech innovations are also improving financial inclusion in other areas such as insurance, wealth management, and cross-border payments (most notably remittances).
- Digital financial inclusion has played an important role in mitigating the economic and social impacts of the COVID-19 pandemic, e.g. targeted fiscal transfers, contactless transactions, more flexible loan repayments.
- The promise of digital financial inclusion in enhancing economic growth, narrowing income inequalities, and reducing poverty are immense (Sahay, et. al., 2020).

# Mind The Gaps: Gender

- Gender gap in financial inclusion seems to have persisted even with rapid fintech development.
- Reasons could be complicated: cultural or social norms, various barriers in financial and digital literacy, access to internet, the design of the fintech products, etc.



Source: Chen, et. al., 2021. "The Fintech Gender Gap," BIS working paper, No. 931.

**Gender Gap: Traditional versus Fintech Financial Inclusion Index**

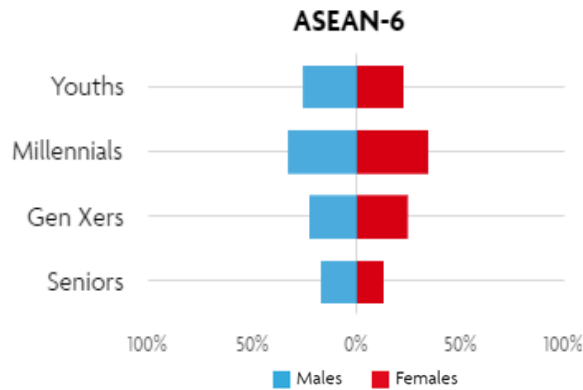


Source: Sahay, et. al., 2020. "The Promise of Fintech: Financial Inclusion in the Post Covid-19 Era," IMF working paper, No. 20/09.

# Mind The Gaps: Aging, Wealth, and Other Divides

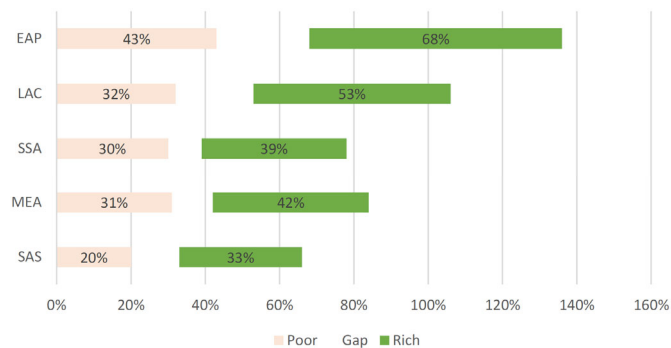
- Substantial digital access gaps between senior/young, rich/poor, rural/urban populations, as well as across countries and regions.
- Recent empirical analyses suggest that Fintech seems to have played a positive role in bridging some gaps, but not all (Tok and Heng, 2022).

Used Mobile Payment Apps in the Past Three Months



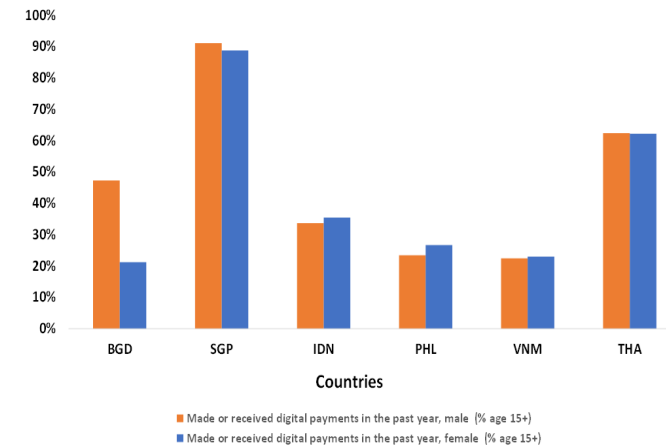
Source: UOB, 2021. "FinTech in ASEAN 2021: Digital Take Flight."

Made or Received Digital Payments in the Past Year



Source: Tok and Heng, 2022. "Fintech: Financial Inclusion or Exclusion?" IMF working paper, No. 22/80.

Made or Received Digital Payments in the Past Year



Source: Global Findex Database and Staff Calculation

## Financial Inclusion or Exclusion?

- The divide in the progress toward digital financial inclusion could become even wider, at least in the near future.
  - Unequal access to digital infrastructure
  - Social and cultural norms, lack of financial and digital literacy, lack of trust, discrimination
  - Potential biases could also be amplified by new data sources and data analytics
  - Possible demise of microfinance institutions due to various risks as well as changes in macroeconomic and global financial conditions.



## Concluding Thoughts

- Fintech is changing financial landscape and has the potentials to greatly improve financial inclusion.
- However, fintech alone is not sufficient to close various gaps in access to financial services.
- Fintech development may need to be complemented with targeted policy initiatives aimed at addressing various gaps.
  - Financial infrastructure; financial and digital literacy; standardization of fintech products; enhance regulations; address implicit biases; may still need to maintain access to cash, among others.
- Global collaboration and coordination needed to share knowledge, reach international agreements, and promote best practice.

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