COVER STORY
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WHAT IS HOLDING BACK FINANCIAL INCLUSION?

Financial inclusion and financial capability continue to be top priorities for global governments, with significant progress made in recent years in the provision of useful and affordable financial products and services. But there's always plenty more that can be done to tackle financial exclusion and address new emerging challenges with an estimated 1.7 billion people still unbanked. We turned to the fintech community to learn what more can be done.

MAURIZIO RAFFONE, CHIEF FINANCIAL OFFICER AT EMBEDDED FINANCE PLATFORM CREDIFY

Financial inclusion suffers from a catch-22 problem: while traditional banks and insurance companies are undergoing substantial digital transformation to become more efficient and leaner, the pace of such transformation is slow. This slow process is partly due to the careful approach by regulated financial institutions and partly due to the unbanked and underbanked customer base being more of a long-term profit opportunity than a short term one.

Some fintech companies are structurally better suited to offer financial services to the underbanked and unbanked but many are focusing on higher margin clients and services, with many fintech companies actually delivering digital transformation solutions to traditional financial companies.

Therefore, unless financial incentives are put in place by governments, financial inclusion will be a long process as the economic benefits of servicing more affluent customers, both retail and corporate, will capture the focus and resources of both traditional financial and fintech companies.

SAMEER GULATI, PRESIDENT OF FINTECH AT ZENBUSINESS

The uncomfortable truth is that driving higher financial inclusion is just not worth it for banks and financial institutions. Of course, every single one of them does something in that regard, but typically it's just enough to not get called out for doing zero.

Historically, three things have gotten in the way of higher financial inclusion: cost of distribution, financial education, and incentives of banks. The good news is that in the past few years, the first two have seen meaningful improvement through digitisation, fintechs, and nonprofits. However, the misalignment of incentives of banks remains a stumbling block.

KIM MINOR, SENIOR VICE PRESIDENT, GLOBAL MARKETING AT PROVENIR – A RISK-DECISIONING FIRM

While great strides have been made in financial inclusion, there are still barriers that are leaving many consumers out of the credit market.

Those roadblocks include limited internet connectivity in underserved communities, making it harder to access financial institutions, physical branch closures, and financial service fees that impact vulnerable customers disproportionately. Identity verification is another key challenge as fraud escalates.

However, the tide is turning with the growing adoption of alternative data and artificial intelligence (AI) among the financial services market.

A recent survey of 400 decision-makers in fintech and financial services organisations across the globe revealed that 51 per cent recognise the importance of alternative data in supporting financial inclusion. Alternative data is a more varied way for lenders to evaluate those individuals with a thin (or no) credit file to put together a more holistic, comprehensive view of an individual's ability to pay. This vastly benefits those who c an't be easily scored via traditional methods, while also benefiting financial institutions, by expanding their total addressable market.

Additionally, for unbanked and underbanked consumers, AI gives organisations the opportunity to support those consumers' financial journeys. Because AI can identify patterns in a wide variety of alternative and traditional data, it can power highly accurate decisioning.

By deploying new technology such as AI and embracing alternative data, fintech and financial services organisations can close the gap and support inclusive finance.

MILIND MEHERE, FOUNDER & CEO AT ALTERNATIVE INVESTMENT PLATFORM YIELDSTREET

Alternative assets have proved to be valuable for portfolio diversification and to protect against market volatility. However, unnecessary barriers have prevented most investors from accessing private markets. Some of these barriers are unjustified and unfair.

While, on their face, accreditation rules exist to protect investors, there are no regulations in place to stop these same investors from heavily allocating to certain public equities that suffer from risky information asymmetry compared to large asset managers and professional investors. So why are investors not allowed to freely take advantage of carefully vetted private market opportunities?

By opening up access to these asset classes and wealth-creation strategies, innovative investing platforms are modernising alternative investing while ultimately working to shrink the wealth gap.

BRAD TOMPKINS, CIO AT FINTECH LENDING PLATFORM VERGENT LMS

One thing that is holding financial inclusion back is a language barrier. There may be opportunities for individuals to better manage their financial situation, but they are either not aware of them or unable to take advantage of them because it's not communicated in their primary language. Whether in lending or banking or whatever the case may be, the customer interface needs to support any language that the individual desires and is most comfortable with.

In lending, more specifically, there is a challenge when it comes to credit. Most underserved communities are underserved due to the absence of traditional credit data. Lenders who want to be more inclusive need to be able to underwrite using non-traditional data like rent or utility payments to prove the borrower's ability to make payments on a regular basis. When lenders are able to do this, it opens new opportunities of who they can serve and brings greater financial inclusion for borrowers of all kinds.

JAKE SELTZER, CO-FOUNDER & CEO OF BLOCKCHAIN POWERED FINTECH PLATFORM FINANCE BLOCKS

Blockchain technology plays a crucial role in lifting people out of poverty and providing better services to the populations of low and middle-income countries. It is a system of recording information that makes it difficult or impossible to change, hack, or cheat the system.

Think of blockchain as an incorruptible digital ledger of transactions duplicated and distributed across the entire network of computer systems on the blockchain. This process can be transformative for low and middle-income countries as corruption is the single largest issue affecting the unbanked.

Furthermore, I believe this technology will directly impact the global economy by way of the youth. I think of them as the innovators of tomorrow, and financial and investing literacy will encourage higher education and break generational debt while creating new generations of the middle class.

NICK CHANDI, CEO AND CO-FOUNDER OF LENDER-FIRST FINTECH PLATFORM FORWARDAI

Credit invisibility affects over 19 per cent of Americans, disproportionately affecting marginalised groups, including minorities, low-income individuals, immigrants, and younger generations. Since traditional lending risk management uses credit scoring as the base for lending decisions, this leaves a massive gap in financial inclusivity.

Many financial institutions are looking to alternative data sources to help them perform enhanced risk assessments to remediate this. For instance, with a direct API, lenders can access small business accounting reports directly. This can help lenders make quick decisions based on a context-rich reflection of a small business borrower's current financial health, rather than depending solely on historical data that may be non-existent for credit-invisible individuals.

With more data sources, financial institutions are now moving into forward-looking, predictive data as well. Cash flow forecasting is a prime example. Asset-light small businesses might be unappealing to lenders since they don't have collateral. However, cash flow-based forecasting could project if the business has high cash-generating potential, helping lenders approve borrowers that would have otherwise been declined due to light credit reports.

Financial institutions must move away from discriminatory risk management practices and leverage real-time and predictive data streams. Failure to do so will only continue to hold back financial inclusion.

MELINDA HIGHTOWER, HEAD OF MULTICULTURAL STRATEGIC CLIENT SEGMENTS AT UBS WEALTH MANAGEMENT USA

The financial services industry was not built with inclusion in mind. Because of the lack of foundational inclusivity, there is a very real trust gap between clients and firms that has been generations in the making. Representation throughout the financial ecosystem must improve if we wish to achieve fuller, more equitable participation. For example, only 1.4 per cent of US-based assets are managed by diverse-owned firms, i.e., firms that are minority-owned, women-owned or both, despite investment performance of diverse-owned firms being equal to those of their less-diverse peers. At the same time, representation is not the singular remedy to achieve financial inclusion.

Rather, it will take the collective effort of mission-driven organisations within the growing ecosystem supporting economic inclusion.

NICOLE VALENTINE, FINTECH DIRECTOR AT ECONOMIC THINK TANK MILKEN INSTITUTE

We underestimate the power that cultural and community narratives and experiences have on our belief systems and trust in financial institutions. When we examine the availability and access to money, business loans, and other financial services and products globally, it is not debatable that underserved communities have historically lacked access, which is paramount to a diverse and inclusive banking and financial ecosystem.

The practice of financial inclusion is more than just conversations and focus groups among industry stakeholders, it's an honest acknowledgement and assessment of past failures and a new way forward, including a commitment to building financial experiences that deliver on the promise of affordability, agility, and accessibility – a key element of what fintech is designed to do.

The financial services industry will benefit from policymakers, financial experts and institutions investing in opportunities and resources that are available to all communities, citizens, and businesses. Industry leaders have the power to prioritise financial inclusion and build new narratives and more fulfilling financial experiences, but is the desire to create meaningful change there?

KRISHNA VENKATRAMAN, CHIEF DATA OFFICER AT CONSUMER LENDER KUESKI

In Latin America, the main obstacle to achieving financial inclusion is the high cost of delivering services to the underbanked. This includes factors such as the geographical distance, poor availability of consumer credit information (leading to higher risk), the lack of trust in financial institutions, the complex requirements to participate in traditional banking, and low levels of financial education among consumers. Some are simply not aware of the benefits of having 'good credit'.

The relationship between these obstacles and the socioeconomic characteristics of Latin American consumers are deeply intertwined. In Mexico, cash is king for reasons both cultural and practical. Approximately 57 per cent of the population works in the informal economy, which means they are not paying taxes. This results in an underbanked country, where 90 per cent of transactions are made in cash and 63 per cent of the population does not have a bank account. In addition, over 80 per cent do not have access to a credit card and only 22 per cent of shops have a point-of-sale terminal, which further contributes to the enormous lack of financial inclusion.

Even though Mexico has the 15th largest economy in the world, the country is ranked among the lowest in terms of its banking penetration rate – number five globally. Among those that have been neglected by traditional financial institutions, we're seeing a domino effect where it's nearly impossible to start building a healthy credit history because they don't have access to those products in the first place. The arrival of fintech seems to have changed that, as many companies are now seeking to improve people's lives through the use of technology – mostly based on machine learning and artificial intelligence – to provide more inclusive financial services and products.

TREVOR GOOTT, DIRECTOR AFRICA & INDIA AT PAYMENTS PLATFORM UNLIMINT

The main factor holding up the uptake of these financial inclusions products and services is simple economics. Banks and fintechs can deliver these services, but only if it is economically viable, because they are answerable to their shareholders.

Governments on the other hand have a responsibility too and are answerable to their citizens. The separate and joint roles of business and government must be recognised because financial inclusion cannot be successful without the cooperation of both

The solution is for policymakers to create the legislation to both support financial inclusion for its citizens and to incentivise the providers of these products and services. Other issues to consider include financial education and financial literacy. However, this can easily be solved by businesses if there are the correct incentives in place by the government.

PAVEL MATVEEV, CEO AND CO-FOUNDER OF WIREX

Widespread crypto adoption has the potential to increase levels of financial inclusion, but there are still some barriers that are preventing it from entering the mainstream. Previously, crypto hasn't been considered user-friendly, and there's often a lack of accessible information about how to use different crypto services and the benefits crypto can offer, such as decreased costs for transactions and financial inclusion for the unbanked.

Increasing awareness about the benefits crypto can offer would be a significant step in moving towards financial inclusion. Recent research has shown that one of the main challenges facing crypto adoption is concerns about volatility, so it's vital that companies continue to provide accessible information about digital currencies, which could be by promoting the benefits of stablecoins which mitigate the concerns around volatility while still retaining the benefits of crypto.

Countries like the Central African Republic have recently announced Bitcoin adoption, which has given its citizens a new way to participate in the economy, and other countries could soon follow suit.