

## Exclusive access - Financial inclusion is making great strides | Special report

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AS THE EBOLA virus was devastating parts of west Africa in 2014, Sierra Leone's difficulties were compounded by its emergency-response workers going on strike. They were risking their lives, but were often paid erratically and not in full. Sometimes they travelled long distances to collect the money, in cash, to find that it had been disbursed to an impostor, or that the official paying it out would take a cut. So the government switched to making the payments digitally, to the workers' mobile-phone accounts. That way they were paid in a week in full, rather than after a month with deductions. Thanks to lower costs and reduced fraud, the new system was millions of dollars cheaper. The strikes ended; lives were saved.

According to a report by the Better than Cash Alliance, a partnership based at the UN of governments, companies and organisations promoting digital payment, Sierra Leone was well placed to make this change in two respects: about 95% of the country was covered by a mobile-phone signal; and 90% of the emergency workers had mobile phones. Even so, the obstacles were formidable. Only 15% of the workers had mobile-money accounts. Opening one could be hampered by a lack of documentation, made worse by the country's severe shortage of surnames (most people share just ten of them). Biometric identification, such as fingerprints, raised fears of infection from the Ebola virus (a problem that was solved by facial-recognition technology). But they got there in the end.

The episode offers a graphic example of how technology can deal with "financial exclusion" by greatly reducing the number of those without access to financial services. Almost inadvertently, the spread of mobile telephony and mobile-internet services has brought hundreds of millions of people into the formal financial system. Take bKash, of Bangladesh, one of the world's biggest mobile-money services. Started in 2011, it now reaches 30m registered customers. Kamal Quadir, a founder, says people used to keep their money under the mattress; now they can store it on their phones. The service "has become the collective mattress for all the common people of Bangladesh. Now the money is in digital form and they are in the banking system regulated by the central bank."

Since its inception in the Philippines in 2000 and its take-off in Sub-Saharan Africa more than a decade ago, “mobile money”—the transfer of cash by phone—has become a global phenomenon, welcomed and encouraged by governments and international organisations. In 2010 the G20 group of countries came up with a set of “Principles for Innovative Financial Inclusion”. In 2012 the World Bank, with funding from the Bill and Melinda Gates Foundation, produced the first “Findex”, or financial-inclusion index, an ambitious attempt to measure the scale of the problem and track efforts to tackle it.

This special report will look at some of the fruits of those efforts. It appears at a relatively optimistic time, when the ranks of the financially excluded are thinning fast and there are strong hopes that the process will accelerate further. One reason is the growth in mobile-phone and internet penetration, making finance accessible even to those living a long way from physical bank branches or ATMs. According to the Findex, 78% of the world’s unbanked adults receiving wages in cash have a mobile phone. Moreover, the “unbanked” are seen as an increasingly attractive commercial market. Firms as diverse as Ant Financial, an affiliate of Alibaba, China’s e-commerce behemoth, and PayPal, a Silicon Valley payments firm, make much of their role in expanding financial inclusion. Daniel Schulman, PayPal’s chief executive, says his company’s mission is “to democratise financial services”.

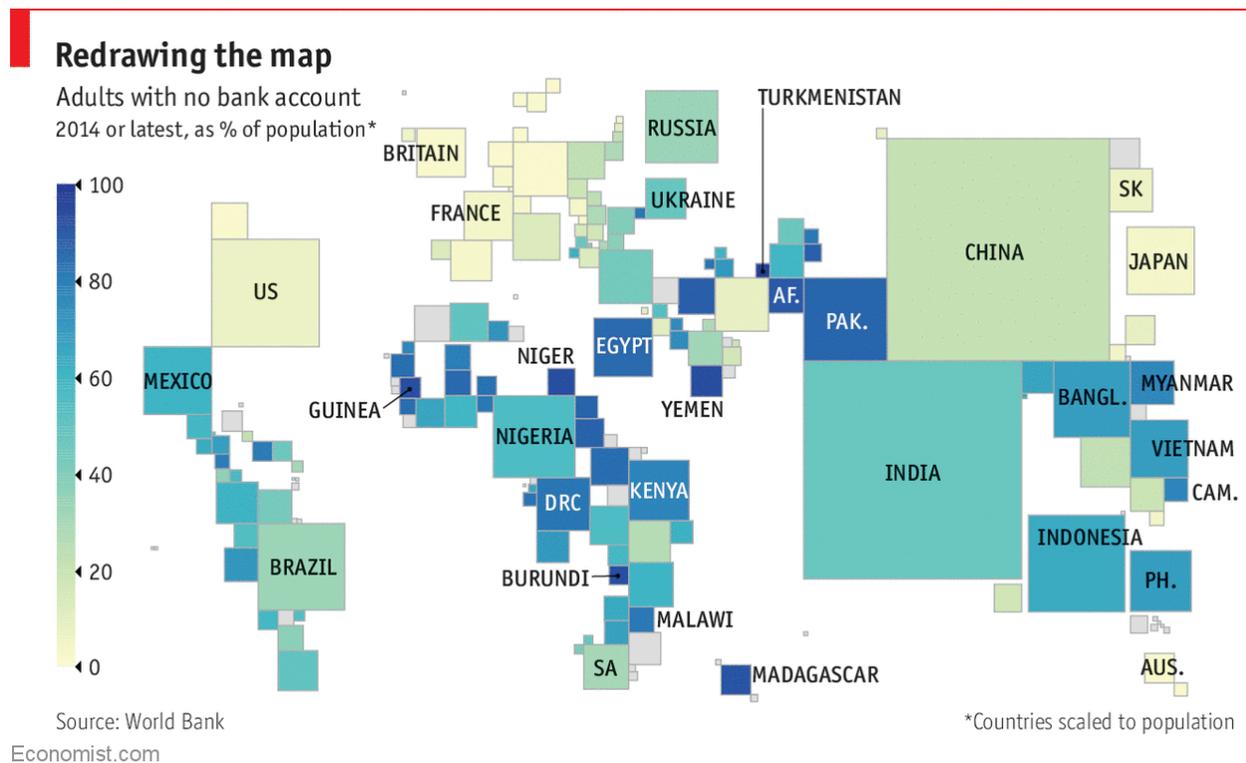
The report will consider whether non-profit organisations and businesses are right to be so upbeat about the prospects for more financial inclusion. On the commercial side, tensions have arisen between the different sorts of businesses engaged in this market: commercial banks jealous of their traditional quasi-monopoly on formal finance and yet wary of further risky adventures in “subprime” markets; mobile-network operators that now provide the infrastructure for payment, the most basic of financially inclusive services; the “fintechs”, aggressive financial-technology startups fizzing with bright ideas, idealism and sometimes greed; and, increasingly, the “platforms”, big internet firms that have a lock on how people spend their time online. The report will ask whether the winners from all this competition will be consumers, and “especially the relatively excluded”, as Olivia White of McKinsey, a consultancy, believes.

### **Making poverty profitable**

Although it will look at rich countries, it will focus mainly on the developing world, where the problem is most acute. One example of a country where financial exclusion is extreme but

prospects for greatly reducing it seem bright is Pakistan. Only 24% of the adult population there have bank accounts, a further 7% use other formal financial services and 24% are served informally. But the country has a huge population (about 210m), much of it young; a high level of mobile-phone penetration (146m accounts) and mobile-signal coverage; a decent regulatory framework; and a vibrant ecosystem of non-profits and foreign and domestic businesses committed to the market. Kosta Peric of the Gates Foundation believes that Pakistan is on its way to becoming “the first fully connected and inclusive economy”.

The latest “Findex”, its third iteration, based on 150,000 interviews and covering data for 2017, was published last month. The headline findings are striking: although the problem remains vast, progress has been spectacular. At 1.7bn worldwide, the number of the “unbanked” in 2017 was down from 2bn in 2014 and 2.5bn in 2011 (see map). The proportion of adults with a bank or mobile-money account was up to 69% last year, from 62% in 2014 and 51% in 2011. In the three years since the previous Findex, 515m people had acquired an account.



Notional access to an account is not the same as “inclusion”. The Findex report finds that a quarter of all accounts worldwide are inactive, with no deposits or withdrawals in the past 12 months. India’s numbers are especially misleading. Following the launch of a bold financial-

inclusion plan in 2014, which promised that every Indian would have access to a basic bank account, some 240m accounts were opened over the next two years. But it soon became clear that up to a quarter of them were “zero-balance accounts”, a euphemism for “unused”. So banks made sure most had at least some money in them, perhaps by depositing tiny sums, often out of the bank staff’s own pockets. “Zero-balance” made way for “one-rupee” (1.5 cents) accounts, but financial inclusion improved only on paper.

Even if the accounts are in use, some in the field argue that in itself this does little to enhance inclusion. It does not allow the holder to borrow, save or buy insurance. If financial exclusion is defined more broadly, it also covers many unbanked or underbanked people in the rich world, where the issue is attracting attention from policymakers.

In both rich and poor countries, financial technology, or fintech, is already seen as the dominant force behind the big advances of recent years recorded in the Findex. Leaving aside the relentless advance of the mobile phone, the optimism is inspired by progress in two areas. One is the development of cheap biometric systems allowing even the illiterate with no papers to establish a unique digital identity that a financial institution can use. In India, for example, 99% of the adult population now have a 12-digit universal identity number, known as Aadhaar. Such systems are not foolproof. A surprising number of people lack a distinct fingerprint, and iris recognition needs high-quality cameras. Biometric-based algorithms always involve a trade-off between precision and ease of use. But when other means of identification are added, security can be far tighter than it ever was in a paper-based regime.

Second, cloud computing allows ever greater numbers of financial transactions to be automated and unimaginable quantities of data to be analysed by artificial intelligence (AI). Ant Financial boasts a 3-1-0 model: three seconds to reach a credit decision; one second to transfer the money; no human intervention. Automation also reduces the cost of providing finance and makes it profitable to deal in smaller amounts of money. Instead of being a bad banking risk, the poor have become the business opportunity at the bottom of the pyramid. And new sorts of data, along with more sophisticated ways of using them, may compensate for the lack of a credit history and give the unbanked access to finance for the first time.

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