When it Comes to Financial Inclusion, We cannot Afford to Leave the Vulnerable Behind

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Key points

Financial inclusion is key to closing inequality gaps, which face becoming entrenched over time if the digitization of financial services is not inclusive.
In developing countries like Pakistan, women, the elderly, the disabled and other vulnerable groups are the least likely to benefit from the digitalization of financial services.
But by leveraging existing technologies in innovative ways, states can create a technological ecosystem that enfranchises them into the financial system.

It will be impossible to close the growing gap between the haves and have-nots of the world without a concerted effort to improve financial inclusion for the most vulnerable.The differences between those who benefit from the banking and financial systems and those who do not are particularly acute.

For countries in the developing world, the inequality between the winners and losers of digitization is particularly stark — and, if left unaddressed, could become more entrenched over time.

The lives of the disenfranchised must be brought into the financial comfort zone through access to services, products, and commodities currently available only to a limited number of citizens of nations with widespread digital capacity.

1 The Foundations of Financial Inclusion

To improve financial inclusion, countries must introduce one or more of the following three foundations of a financial ecosystem:

1. a national identification system to identify and register individuals and households of low-income groups;

2. financial access facilitated by the opening of bank accounts with ease, particularly for groups with lower literacy levels and a network of infrastructure in the country;

3. telecom penetration and digital access on a wide geographic basis.

In 2019, according to ITU's 2020, "Measuring digital development report", about 3.7 billion people globally were unable to access the internet. In the Least Developed Countries, 17% of the rural population had no mobile coverage, while 19% of the rural population was covered by only a 2G network — incapable of carrying the volumes of data required for advanced internet services.

2 A Financial Inclusion Ecosystem

Digital transformation has the capacity to revolutionize how people with less formal education or lower incomes interact with the banking system — if it is done right.As it stands, in some countries, filling out banking applications can be a bureaucratic nightmare, and banks may be less than helpful if they see little chance of a customer reaping them financial rewards down the line.

But digital banking makes it seamless for a telecoms subscriber to open a bank account on the "many-to-many" concept, by providing national identity credentials.

With end-to-end integration with all telecom operators and financial institutions, a centralized data and credit history of citizens helps financial institutions offer other financial products. This makes it even more convenient to undertake banking transactions.

Agent interoperability can also be a catalyst for financial inclusion, as it plays a critical role in helping government organizations to implement social welfare and relief programs, issue loans and provide digital insurance to the population.

To overcome the challenge of bureaucratic delays, governments must incentivize the private sector to invest in fintech, IT and telecoms infrastructure to render digital financial services for poverty alleviation at an affordable cost.

ITU's 2020 report noted that "increasing digital transformation is amplifying these existing socioeconomic inequalities. The risk is particularly high for women and girls, youth, persons with disabilities, older persons, and people living in remote areas."

As the world goes digital, the most vulnerable sections of the population are in danger of being all but left behind.

3 Pakistan's Approach

To mitigate this, existing technologies can be leveraged in innovative ways to enhance financial inclusion.

For example, using USSD (Unstructured Supplementary Service Data) technology — similar to SMS texting — Pakistan's Asaan Mobile Account (AMA) scheme connects subscribers of any major telecoms network to a panel of financial institutions. From there, they can open a bank account in less than one minute.

Asaan translates to "easy" in Urdu, and that is the point of the scheme — a simple technology that allows the financially excluded to enfranchise themselves into the basics of a digitized financial system.

It is a key part of Pakistan's mission to have half the country's population financially enfranchised by 2024.

In just six months since its launch, the AMA scheme has led to the creation of four million new bank accounts, the processing of 29 million transactions worth over $140bn.

And, critically, 31% of accounts created using the AMA scheme were made by women, compared with 18% of standard bank accounts in Pakistan.

4 An Operating Model to Replicate

Pakistan's model is simple enough to be replicated in developing countries that lack either the requisite banking and telecom policies but can establish the ID system necessary to put it all together.

By ensuring a smooth, simple and effective payment system for the underprivileged, vulnerable and poor, the one-stop business model operating in Pakistan can be easily adjusted to suit other developing countries. And it can do this while still being customizable depending on differing requirements — not only for the poor but also for the female population.

Bridging the digital divide must be a well-coordinated programme tailored to each individual country.

Presently, many of the most vulnerable people in developing countries are out in the "financial cold" and in danger of being left permanently behind. Replicating Pakistan's efforts could be a game-changer for millions of less fortunate citizens in the developing world.