Financial inclusion and Fintech during COVID-19 crisis: Policy solutions

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Abstract

This article offers a number of policy solutions to improve financial inclusion during the COVID-19 crisis. COVID-19 is a global health crisis to which some of the usual global solutions like greater financial inclusion can help. Financial inclusion remains a powerful development tool to improve access to finance and to support vulnerable individuals and households during the coronavirus or COVID-19 crisis. The documented policy solutions for financial inclusion can help mitigate the effect of the COVID-19 crisis through the combined use of Fintech and short-term policies.

Keywords: digital finance, Fintech, financial inclusion, access to finance, regulation, financial services, COVID-19, Coronavirus, SARS-CoV-2, lockdown, social distancing, pandemic, recession, financial crisis, policy.

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1. Introduction

This article offers a number of policy solutions to improve financial inclusion during the COVID-19 crisis. COVID-19 is the disease caused by SARS-CoV-2 – a novel strain of coronavirus from the SARS species (Ozili and Arun, 2020). COVID-19 has taken the world by surprise. The death tolls are rising daily, the economy is losing its balance, entrepreneurs are looking for exit strategy, individuals are hungry, and households are struggling to feed their families particularly in developing countries that have imposed lockdown restrictions. To address these issues, quick solutions and immediate support measures are required.

Governments are already reacting to the coronavirus crisis by issuing policies. Some governments have issued policies, others have issued and withdrawn policies that did not achieve its objectives, while others are waiting to issue policies that improve financial inclusion. Poor individuals and households in rural and urban areas are already facing the severe impact of the COVID-19 crisis. Now is the time for governments and financial institutions to play their part in providing greater access to financial services for poor individuals and households as soon as possible during the crisis. Governments, working together with financial institutions, must first and foremost be able to provide financial access to poor individuals and households with the necessary support to ensure their survival in these times.

Developing countries have the largest share of the world's unbanked population (Chaia et al, 2009; Cull et al, 2013; Dupas et al, 2018), and have low levels of financial inclusion compared to developed countries (Ozili, 2020b). It is expected that the effect of the COVID-19 crisis on the unbanked population will be more severe in developing countries due to weak health care system, low level of financial development, regulatory weaknesses and weak rule of law. Generally, high levels of financial inclusion can help to mitigate the negative effects of economic crisis on poor households thus improving their welfare (Han and Melecky, 2013; Ozili, 2018). But, in the absence of high levels of financial inclusion, deliberate policy measures must be taken such as those proposed in this paper. The rest of the paper is structured as follows. Section 2 discuss the policy literature. Section 3 presents the policy solutions. Section 4 concludes.

2. The Policy Literature

A body of literature examine the policy issues associated with financial inclusion in the financial inclusion literature. For instance, Mader (2018) critically assess the philosophical foundations of financial inclusion and contest the idea that financial inclusion improves development outcomes or helps in reducing the level of poverty. Hannig and Jansen (2010) argue that greater financial inclusion presents opportunities to enhance financial stability. They show that financial inclusion poses risks at the institutional level but these are not systemic in nature, and that the risks prevalent at the institutional level are manageable with known prudential regulatory tools and strong customer protection. Chen and Divanbeigi (2019) test the relationship between regulatory quality and financial inclusion outcomes, and find that countries that have high regulatory quality have a high number of account ownership in a formal financial institution compared to countries that have low regulatory quality. Ozili (2020a) investigates the association between social inclusion and financial inclusion, and find a positive and significant correlation between social inclusion and financial inclusion for Asian countries, Middle Eastern countries and African countries but not for European countries.

Evans (2018) finds that factors such as capital formation, bank credit, broad money, population growth, remittances, interest rate and regulatory quality significantly influence the level of financial inclusion. Tran and De Koker (2019) argue that strong anti-money laundering (AML) and combating terrorism financing (CFT) regulatory frameworks for microfinance institutions can help to align financial inclusion policy objectives with financial integrity in the activities of microfinance institutions. Ozili (2020b) in a recent review of literature, finds that financial inclusion affects, and is influenced by, the level of financial innovation, poverty levels, the stability of the financial sector, the state of the economy, financial literacy, and regulatory frameworks which differ across countries.

Overall, the policy literature shows that many factors can influence financial inclusion objectives and policies especially institutional factors and macroeconomic factors. But the literature has not examined how a health crisis might affect financial inclusion, and the policy solutions needed to promote financial inclusion during a health crisis.

3. The Policy Solutions

#1. Promote better payment services through Fintech during and after the COVID-19 crisis

As COVID-19 is causing many countries to go on lockdown, Fintech can provide the safest way to transfer money to loved ones directly from smartphones. It is probably the safest, cheapest and most convenient way to send money to loved ones during the health crisis. Fintech can allow users to transfer money to any bank account, pay for bills and services to merchants and businesses in any part of the country and across borders. Financial technology can also provide a framework for incorporating and leveraging technological opportunities to promote access and use of transaction accounts. When such framework is in place, individuals in urban areas can pay bills, and can easily send money to their loved ones in rural areas to help them cope with the economic consequence of the COVID-19 crisis.

#2. Increase trust and cybersecurity in Fintech

Poor individuals and households need to trust Fintech platforms during the crisis. Fintech businesses should emphasise greater transparency, and therefore trust, in their business operations, alongside security. Increasing transparency alone will not build trust. Communication alone will not build trust. Rather, a combination of ethics, regulation, supervision, communication and transparency will be the major elements for building trust, which will prevent Fintech businesses from being overly self-serving or violating user confidentiality in delivering financial services to poor individuals and households during and after the crisis.

#3. Regulators should be proactive and assume Fintech will breach user privacy

Regulators worldwide are implementing data privacy standards. Regulators need to assume a breach of users' privacy will occur and plan to mitigate damage by protecting users. Preventing an attack on Fintech platforms or preventing data theft is almost impossible because consumers interact with their money in diverse ways on Fintech platforms and hackers will eventually find a way to compromise these platforms. But when a robust consumer protection framework is in place, the authorities will be able to monitor user privacy violations and seek redress for affected users. Users need to feel safe when using Fintech platforms. If users do not feel secure in a new innovation, then the innovation will not achieve a meaningful outcome.

#4. Prioritise digital financial services for remittances

The COVID-19 crisis illustrate how essential digital finance has become for poor individuals and households in challenging socio-economic circumstances. Many families and individuals around the world rely on payments sent home from migrant workers abroad using international digital payment systems, and these international firms are targeting the needs of the unbanked across the world. Using mobile devices to send remittances are becoming an efficient instrument in the push toward financial inclusion. Governments in each country should create an enabling political and legal environment that prioritize digital financial services to permit the flow of remittances into the country. Regulators must see the benefit in prioritizing digital financial services, and regulators should provide a clear path toward regulating Fintech and digital financial services providers. Regulators should also ensure Fintech businesses are licensed. Finally, governments should adopt policies that increase Fintech patronage. Governments can encourage digital remittances by reducing the cost of digital remittances to encourage large remittances from migrant workers.

#5. Do all it takes to get money to people as fast as possible

Getting money to people quickly during the COVID-19 crisis is important. Governments should make cash transfers to its citizens if they have the capacity to do so. Priority should be given to unconditional cash transfers to poor individuals and households, and such transfers should be sent early and often. Insurance companies should give insurance payouts to people affected by the unforeseen crisis. Banks should maintain liquidity throughout their branch networks so that poor individuals and households can withdraw money when they need to. More importantly, digital payments and digital transfers should be promoted as the means to receive welfare transfers to reduce the need for physical cash during the crisis.

#6. Do all it takes to keep enough money in the hands of people

Giving money to poor individuals and households is one thing. But making sure that they always have enough money at all times is another thing. Policy makers should ensure that individuals and households have access to shops, supermarkets and grocery stores during the crisis so that they can get the essential items they need to survive through the crisis. On the other hand, access to non-essential activities, like partying, leisure, entertainment and outdoor sports, can be restricted to ensure that households do not spend all the money they have on non-essential items leaving little money left to spend on emergencies that may arise during the crisis. As much as possible, governments should do whatever it takes to ensure that households have enough money to meet basic subsistence during the crisis.

#7. Keep money circulating every time during the crisis

ATM cash machines should be loaded with sufficient cash at all times. Also, the monetary and fiscal authorities should ensure money is in constant circulation – money in all forms – such as loan, overdraft, unconditional cash transfers, domestic bonds, etc. This will help in reducing uncertainty and anxiety in these times, although such measures can lead to inflation in the economy.

#8. Reassure individuals and households that their money and financial transactions are safe

Governments should assure members of the population that their money and financial transactions are safe. The government should also reassure the people that there will be uninterrupted access to financial services during the crisis, and even during lockdowns. Reassure the people that digital channels and alternative payment channels will be available for use at all times. The government should assure people living in remote communities that local bank branches will remain operational during the crisis, and the government should ensure that all local banks have sufficient liquidity to give out cash to members of the local community when they come to withdraw money.

4. Conclusion

This article offered a number of policy solutions to improve financial inclusion during the COVID-19 crisis. It advocates: (i) promoting better payment services during the crisis, (ii) increased trust in Fintech, (iii) proactive regulation, (iv) prioritising digital financial services for remittances, (v) the continuous circulation of money, (vi) doing all it takes to get money to people as fast as possible, and (vi) ensuring that people have enough money at all times during the crisis. It is now important for governments, financial institutions and Fintech businesses to make the right decisions quickly to assist poor individuals and households. These trying times will be a major test of government's resolve to promote financial inclusion at any cost.

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