Benefits of digital-only financial inclusion

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Abstract

Many countries are using digital tools and technologies to increase financial inclusion and improve the well-being of households and communities. There is growing interest in using only digital tools to increase financial inclusion. A term used to describe this is digital-only financial inclusion. This chapter identifies the benefits of digital-only financial inclusion. The benefits include convenience, ensuring digital access to additional financial services, generating useful data to improve customers' welfare, increased safety, enabling the democratisation of financial services, improving social welfare and economic growth, reaching the poorest in remote areas, and increasing digital literacy. Policymakers and financial sectors agents should be aware of the benefits of digital-only financial inclusion while being mindful of the associated risks.

Keywords: financial inclusion, digital financial inclusion, fintech, digital technology.

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1. Introduction

The purpose of this chapter is to identify the benefits of digital-only financial inclusion.

Digital-only financial inclusion involves increasing financial inclusion using digital technology alone (Malladi, Soni and Srinivasan, 2021), while financial inclusion refers to access and use of affordable financial services to improve the welfare of people (Demirgüç-Kunt and Klapper, 2012).

Financial inclusion is a key enabler of inclusive development in any country (Siddik and Kabiraj, 2020). Although some progress has been made to increase financial inclusion using brick-and-mortar financial institutions such as microfinance institutions (Ghosh, 2013; Milana and Ashta, 2020), there are still significant challenges such as financial institutions refusing to establish a branch in the most remote areas due to lack of customer patronage, lack of enabling infrastructure and high operational costs (Ghosh, 2013). Due to these challenges, there is growing interest in using digital innovations to augment existing efforts to increase financial inclusion especially in developing countries (Banna, Hassan, and Rashid, 2021; Ozili, 2021). Existing digital innovations have been used to increase financial inclusion such as Fintech, blockchain technology, artificial intelligence (AI), mobile money providers, Bigtech providers and central bank digital currency (Tok and Heng, 2022; Kshetri, 2021; Ahmad, Green and Jiang, 2020; Irfan et al., 2023).

Recently, there are debates about using only digital tools to increase financial inclusion (Peric, 2015; Tay, Tai and Tan, 2022). A major argument in the debate is that digital-only financial inclusion would overcome some of the challenges that hinder unbanked adults from accessing and using formal financial services. Proponents argue that digital-only financial inclusion would leverage on existing digital infrastructure to offer a convenient, faster, and secure access and use of formal financial services (Son, Liem and Khuong, 2020; Ozili, 2022). There is also some concern that digital-only financial inclusion would pose some risks (Sun, 2018; Ozili, 2018), but these risks can be mitigated by introducing digital and regulatory safeguards to protect users (Weihuan, Arner and Buckley, 2015). Despite the risks, the benefits of digital-only financial inclusion seem to outweigh the risks. Therefore, there is a need to identify the potential benefits of digital-only financial inclusion to understand what countries stand to gain in using digital technology to increase financial inclusion. This study adds to the existing debate by identifying the potential benefits of digital-only financial inclusion.

This study contributes to the financial inclusion literature that examines how digital technology can be used to increase financial inclusion in several countries. It also contributes to the literature that examine the role of digital technology in fostering development in countries.

2. The benefits of digital-only financial inclusion

Digital-only financial inclusion presents many benefits ranging from convenience, ensuring digital access to additional financial services, generating data to improve customers' welfare, increased safety, enabling the democratisation of financial services, improving social welfare and economic growth, reaching the poorest in the most remote areas and increasing digital literacy. We elaborate on these benefits in the subsections below.

2.1. Convenience

Digital-only financial inclusion brings people into the formal financial system in a convenient way. Digital-only financial inclusion has made it possible for unbanked adults to open an account using their mobile devices and without needing to visit a physical bank or other financial institutions (Imerman and Fabozzi, 2020; Pazarbasioglu et al., 2020; Ozili, 2018). Digital-only financial inclusion also makes it easy for banked adults to monitor their personal finance activity and manage their money using the digital bank application installed on their mobile phones or other digital devices (Lee, 2019). It saves time that would be used to visit a physical financial institution (Bachas, Gertler, Higgins and Seira, 2018). It enables individuals to make payment easily on their mobile devices and without having to fill physical bank teller to make payments (Ozili, 2023a; Zulfiqar, Chaudhary, and Aslam, 2016). It enables individuals to receive real-time notification of inflows into their accounts and saves them the time that would be used to visit a bank to verify whether a payment has been made or received into their account.

2.2. Digital access to additional financial services

Digital-only financial inclusion also grants faster digital access to a wide range of financial services that are difficult to access using non-digital means (Hollanders, 2020). Without digital access, banked adults will go out to different financial institutions to obtain the specific financial services they need (Kara, Zhou, and Zhou, 2021). This would be burdensome for low-income and poor banked adults. Banked adults that have digital access to their bank account will be able to access the credit, insurance, mortgage, investment, and pension services that are offered by financial institutions through a banking application or software (Ozili, 2023b). Most often, the banking application or software becomes a one-stop shop to access basic financial services and any additional financial services that are delivered through the banking application or software (Ozili, 2023b).

2.3. Generate data to improve customers' welfare.

Achieving digital-only financial inclusion through Fintech and Bigtech platforms enables the generation of real-time big data (Beck, Gambacorta, Huang, Li, and Qiu, 2022; Ozili, 2023c). Financial service providers can use the generated data to design financial services that are tailored to meet the specific needs of their customers (Ozili, 2021). They can use the generated data to identify and understand the demographic characteristics of their customers. The insights gained from such information can be used to offer tailored financial services to various customer segments. The data generated from Fintech and Bigtech lenders can also be used to design lending products that have flexible repayment options to meet the needs of low-income and poor customers (Ozili, 2023).

2.4. Increased safety

Digital-only financial inclusion also enables banked adults to convert their savings into a safe digital store of value. This will allow banked adults to store their money digitally for as long as they want, and without fear of losing their money (Salampasis and Mention, 2018). Digital-only financial inclusion also generates a digital audit trail that enables the tracking of payments; thereby giving banked adults an additional layer of safety and certainty about payments (Ng and Kwok, 2017). This would significantly reduce the risk of theft, loss, and other crimes associated with cash-based transactions (Giudici, 2018; Clements, 2021).

2.5. Enables the democratisation of financial services.

Achieving financial inclusion using digital technology, e.g., fintech, would give everybody a right to manage and move money digitally and remotely (Philippon, 2019; Williams, 2021). Everybody – regardless of race, gender, education level or income level – will be able to access financial services using digital means. Agents of digital financial inclusion, such as fintech and Bigtech providers, are increasingly targeting the underserved population, including low-income earners, the youth, women, and rural communities, who experience significant barriers in accessing banking, savings, and investment services from brick-and-mortar banks and other financial institutions. The agents of digital financial inclusion are helping to democratise access to banking and financial services by providing the underserved population with benefits beyond just savings and payments (Ozili, 2018; Philippon, 2019). Digital-only financial inclusion also allows many people to participate in the digital economy and enables small and medium scale enterprises (SMEs) to plug into the digital economy with digital tools that enable them to access capital and manage their business operations efficiently and profitability (Rasheed, Siddiqui, Mahmood, and Khan, 2019).

2.6. Improve social welfare and increase economic growth.

Achieving financial inclusion through Fintech and mobile money apps can reduce household poverty because migrants will be able to use mobile money apps to send money to their families back home to provide them with basic subsistence (Anzoategui, Demirgüç-Kunt and Pería, 2014). Achieving financial inclusion through Fintech and mobile money apps will also give banked adults access to digital banking solutions that enable households to obtain finance much quicker, become self-employed, start a business, generate income, and contribute to economic growth (Jones, 2018). Digital-only financial inclusion will also give banked adults access to digital payment platforms that enhance the efficiency of the financial intermediation process and boost the digital economy towards positive economic growth (Ye, Chen and Li, 2022).

2.7. Reaching the poorest in the most remote areas.

Banks, as agents of financial inclusion, choose which areas to open a bank branch and which areas to not open a bank branch. The decision to open a bank branch is often determined by a cost-benefit analysis of opening a branch in a specific location (Tok and Heng, 2022). Many times, banks are reluctant to open a branch in remote locations where poor unbanked people live due to challenges such as high cost, low patronage, and lack of infrastructure. These challenges create an opportunity to use digital solutions to bridge the gap. The advantage of digital-only financial inclusion is that digital financial access points (e.g., POS, ATMs, mobile banking applications) can be provided to people in remote locations and can help in bringing formal financial services to people living in remotes areas where banks and other financial institutions have refused to go (Tok and Heng, 2022, Ozili 2018).

2.8. Increase digital literacy.

Adopting digital-only financial inclusion gives banked adults an opportunity to be part of the digital development of society (Vyas and Jain, 2021). It will give existing and newly banked adults an opportunity to learn about the benefits of digital apps, how they work and how digital apps and platforms can be used to improve their welfare (Sinha, Pandey, and Madan, 2018). They will learn how to use digital tools to send and receive money, and they will learn how to use digital passwords to protect their accounts from unauthorized access. They will also learn how to manage their financial resources digitally. This will not only increase banked adults' digital literacy, but it will also equip them with the relevant skills they need to participate in the digital economy (Chen, Teng and Chen, 2022).

3. Conclusion

Many countries are adopting digital innovations to increase financial inclusion. This has led to growing interest in the benefits of digital financial inclusion. This chapter focused on the benefits of digital-only financial inclusion. The identified benefits of digital-only financial inclusion include convenience, ensuring digital access to additional financial services, generating useful data to improve customers' welfare, increased safety, enabling the democratisation of financial services, improving social welfare and economic growth, reaching the poorest in the most remote areas, and increasing digital literacy. Policymakers should ensure that digital-only financial inclusion benefits everyone, not just a few people. Policymakers should also introduce safeguards to mitigate risks arising from the use of digital innovations to increase financial inclusion. The safeguards should mitigate risks without stifling innovation. Future studies can extend this study by identifying the risks or dangers of digital-only financial inclusion.

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