The Future of Financial Inclusion

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Abstract

This paper provides insight into the trends to expect in the future of financial inclusion. The author identifies the past and recent changes occurring in the financial inclusion space, and based on these changes, make predictions about what to expect in the future of financial inclusion. The author predicts that, in the future, financial inclusion will witness increased digitalization; increased personalization of formal financial services; the provision of a wide range of formal financial services from a single platform; a shift from account number to mobile number to drive financial inclusion; more women will become financially empowered and financially independent; government will become more directly involved in delivering basic financial services to the poor; and we will witness the emergence of new financial innovations that continuously reduce transaction costs. These future trends will have implications for financial inclusion in Asia, Europe and particularly in Africa where the level of financial inclusion is low.

Keywords: Financial inclusion, digital finance, Fintech, access to finance, central bank digital currency, women.

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1. Introduction

The purpose of this paper is to offer insight into the future of financial inclusion.

I have been an avid observer of the global research and development in financial inclusion for many years now. Financial inclusion started as a scheme to expand access to finance for poor people and the unbanked segments of the population. It has now become a recognized solution to reduce extreme poverty in developing and poor countries. Many financial inclusion enthusiasts see financial inclusion as a tool for development or a gateway to end poverty and increase shared prosperity, meaning that financial inclusion is a means to an end. And they are right!

I have carefully and critically assessed the new developments in the financial inclusion space, such as the evolution of Fintech, mobile banking, agent banking, artificial intelligence, blockchain and central bank digital currency for financial inclusion (Ozili, 2018; Ozili, 2021b). These developments have changed the way financial inclusion is being achieved, and more changes will emerge in the future. These developments increased my curiosity to understand what these innovations seek to achieve, and to gain more knowledge and insight into what the future holds for financial inclusion. The outcome of my knowledge finding, my interaction with industry and development experts, and my critical reflection of the changes occurring in the global financial inclusion space, led me to reach some conclusions from which I make some predictions about the future of financial inclusion.

The existing literature has not offered foresight into the future of financial inclusion. The existing literature has explored the role of past and present innovations in increasing the level of financial inclusion (see, for example, Lumsden, 2018; Kempson and Collard, 2012; Adams, 2018; Sawadogo and Semedo, 2021; Kumar and Pathak, 2022). The literature has also examined how microfinance institutions and digital financial innovations have helped to promote financial inclusion (see, for example, Schreiner, 2002; Chemin, 2008; Lacalle-Calderon, Perez-Trujillo and Neira, 2018; Chemin, 2008; Ozili, 2022). But no studies have attempted to offer insight into what to expect from financial inclusion in the future. This paper fills the gap in the financial inclusion literature, by offering some insight into what to expect from financial inclusion in the future.

The insight offered in this article contributes to the literature in the following ways. First, it contributes to the literature that examine how emerging changes are affecting the level of financial inclusion in many countries. Second, the insights offered in this article contribute to the development literature that explore how new innovations can change the face of development in the future. Finally, the insight offered in this article adds to the debate about the changing role of financial institutions and government in the pursuit of financial inclusion as well as the role of digitalization. Today, the global economy is becoming more digital, investment in technology is growing, the automation of financial services is increasing, the use of data is increasing, and the use of cash is declining. These developments will play a major role in driving inclusive growth and in reshaping the global financial sector. These developments will affect how people engage with formal finance, it will affect how access to finance is granted, and it will have implications for the future of financial inclusion.

The rest of the paper is structured as follows. The review of related literature is presented in section 2. Section 3 presents a discussion of how financial inclusion has been achieved in the past. Section 4 presents a discussion on how financial inclusion is achieved today. A discussion about what to expect from financial inclusion in the future is presented in section 5. The conclusion of the paper is presented in section 6.

2. Literature review

Several studies acknowledge that the field of financial inclusion is changing rapidly. Sriram (2019) show that financial inclusion which, in the past, was an agenda driven by the State with institutional, policy and regulatory interventions, has now shifted to become an agenda driven by private sector agents with the aid of digital technology. Lumsden (2018) also show that digital technology is used to solve the poverty problem by helping poor people take advantage of the benefits of formal financial products and services in the financial system. Murthy, Vidal, Faz, and Barreto (2019) point out that donors and investors are supporting new fintech innovations that maximize development impact for low-income and excluded customers. Barr, Harris, Menand, and Xu (2020) argue that central banks can take advantage of emerging digital technologies from virtual currencies to mobile payments and QR codes which provide opportunities for central banks to develop the payments infrastructure and support ongoing efforts to reduce poverty and inequality. Lumsden (2018) argued that implementing innovations, such as mobile financial systems, can speed up financial inclusion and spur economic growth, and countries that resist these innovations will miss many opportunities.

The opportunities of financial inclusion are enormous. For instance, Kempson and Collard (2012) envisioned financial inclusion to be about ensuring that everyone has access to an appropriate account into which income is paid and the account can be held securely, accessed easily and used to make remote purchases by telephone and on the Internet. Adams (2018) argued that financial inclusion matters because it helps individuals to take advantage of economic opportunities and it provides valuable services to the neglected segments of society. Lee, Wang and Ho (2022) show evidence that foreign aid inflow increases financial inclusion in the recipient country. Sawadogo and Semedo (2021) show that financial inclusion reduces income inequality in countries with high institutional quality. Sakyi-Nyarko, Ahmad and Green (2022) show that greater financial inclusion can potentially improve food consumption, medical treatment, cash income and school attendance outcomes.

Other studies identify the enablers of financial inclusion. Kumar and Pathak (2022) show that more financial awareness through education increases the level of financial inclusion. Similarly, Sharif, Naghavi, Waheed and Ehigiamusoe (2022) found that education reduces the gender gap and improves financial inclusion. Ozili (2018) argued that digital finance that is offered through Fintech providers has positive effects for financial inclusion because of the convenience that digital finance provides to individuals with low and variable income. Demirgüç-Kunt et al (2018) also emphasize that digital technology offers benefits beyond expanding account ownership and increasing account use. They show that digital technology can also be used for digitizing payments which can improve payment efficiency by increasing the speed of payments and reducing the cost of disbursing and receiving payments, and it can also enhance the security of payments and lower the incidence of associated crime.

Other studies have called for caution in the way financial inclusion is being achieved due to hidden risks and institutional bias that exists. Ozili (2021a) draws attention to the economic bias that exist in banks. He argued that banks issue tailored products and services that exclude poor customers and favour wealthy bank customers. Ozili (2021a) warned that if such barriers are not removed, banked adults who are dissatisfied with such bias may end up leaving the formal financial sector and become unbanked again. Markose, Arun, and Ozili (2022) show that certain financial inclusion interventions delivered through public banks are not sustainable because the government has to subsidize the cost of delivering and sustaining financial inclusion interventions.

Other studies show a relationship between financial inclusion outcomes and improvements in other areas of the economy and society. For instance, Dikshit and Pandey (2021) argue that financial inclusion can contribute to achieving the sustainable development goals because it addresses the challenges related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. Ozili (2021b) argued that policymakers should understand the interaction between financial inclusion and poverty levels, financial innovation, financial stability, state of the economy, financial literacy, and regulatory systems.

3. Financial inclusion in the past

In the past, financial inclusion was achieved mostly through the proliferation of microfinance institutions in rural and urban communities. This strategy involves opening a microfinance bank or institution in communities, and moving credit officers to the microfinance bank to serve customers in the communities. The marketing officers and credit officers go out to persuade members of the community to patronize the micro loans offered by the microfinance bank. Establishing microfinance institutions (MFIs) as a strategy to increase the level of financial inclusion became a popular idea in the late 1990 and early 2000s. It was also considered to be a strategic intervention for development due to its focus on small or micro loans for poor people and for people who cannot access formal loans from major financial institutions.

The microfinance movement gave poor households the opportunity to improve their lives either as customers or through membership (Morduch, 1999). Some of the many benefits of using microfinance institutions to promote financial inclusion include: improved welfare of the poor (Schreiner, 2002); increased access to finance (Chemin, 2008), the provision of microcredit to the poorest individuals (Lacalle-Calderon, Perez-Trujillo and Neira, 2018), employment benefits for members of the local community as they can work in the microfinance institutions in their local community (Mosley and Rock, 2004), increased school enrolment for boys and girls in the community as parents can borrow money from microfinance institutions to pay the tuition of their children (Chemin, 2008). The desire to take advantage of these benefits led many developing countries to establish microfinance institutions. Soon after, hidden risks and issues began to emerge which include non-personalized financial products and services, high overhead costs, top management executives using MFI's funds to live a lavish lifestyle, discrimination against single women when issuing loans, gender discrimination, and favoritism. Despite the presence of regulation, these issues have been difficult to eradicate in many microfinance institutions. As a result, a new strategy for achieving financial inclusion emerged which involves using digital technology to increase the level of financial inclusion.

4. Financial inclusion in the present

Today, financial inclusion is achieved using digital technology that is embedded in mobile phones, Fintech software, banking applications or on digital devices, for example, the ATM, point-of-sale (POS), quick codes or unstructured supplementary service data (USSD) codes, etc. The use of digital technology as a strategy to achieve financial inclusion began after the 2008 global financial crisis, and it soon became a popular approach to drive the financial inclusion agenda. This strategy ensures that a person who owns a smart phone can remotely access basic formal financial services, such as deposit and savings products, without needing to visit a physical financial institution or microfinance institution. The use of digital technology to achieve financial inclusion is superior to the microfinance model because it brings formal finance into the hands of people through their mobile (smart) phones and it avoids the high fixed cost incurred by microfinance institutions in expanding financial services to underserved communities. The digital technology revolution has also led to the emergence of InsurTech, RegTech, Proptech and Fintech players, payment service banks (PSPs) and payment service providers (PSPs), who also play an important role in delivering payment services to underserved communities for greater financial inclusion. The benefits of using digital technology to promote financial inclusion include the following: it reduces the time to request a loan and the time to receive the loan, Fintech credit increases credit supply in the local community (Schreiner, 2002); low cost of financial services (Sahay, 2020; Ozili, 2018), fast and efficient financial services (Peric, 2015), convenience to users (Ozili, 2018), it saves time (Yahaya and Ahmad, 2018), and the low fixed cost incurred. Due to these benefits, many financial institutions have partnered with technology firms to develop financial technology that can assist in expanding the reach of formal financial services to people in underserved communities. The use of digital technology to increase financial inclusion also presents some risks which include: privacy issues, unauthorized use of customer data, cyber-security threats, high rates of fraud and high transaction costs. Due to these risks, new strategies are being developed to achieve financial inclusion more effectively and efficiently in the future.

5. The future of financial inclusion: what to expect

Financial inclusion has proven to be a game changer in the quest to uplift people from extreme poverty. Below are some developments to expect from financial inclusion in the future.

5.1. The future of financial inclusion is digital

The future of financial inclusion will be digital. The digital finance revolution which started in the early 2000s has shown that the future of financial inclusion is digital. Digital technology has made it possible for unbanked adults to open a bank account using their mobile phone without visiting a bank branch (Ozili, 2018). In the future, more financial services will be embedded into digital devices, or mobile phones, to enable people perform basic transactions such as buying and selling on e-commerce platforms. Also, in the future, Fintech players will increase their alliance with banks in order to find an easier way for unbanked adults to access digital payments and financial services such as personal loans and mortgage loans which can help them improve their welfare and livelihoods.

5.2. Increased personalization of formal financial services

In the future, there will be heightened personalization of basic financial services, such as personalized savings product, personalized interest-bearing loans, personalized account opening package. The personalization of basic formal financial services will be the key ingredient to attract customers who want financial services that take into account their personal life situation and circumstance. The digitalization of financial services will play a major role in personalizing basic financial services and there will be increased coordination between interpersonal customer service and digital technology in delivering personalized finance to members of societies.

5.3. A wide range of financial products and services will be offered in a single platform.

Presently, different types of financial services are offered by different financial institutions and through multiple mobile banking applications. The implication is that it leads to multiple transaction costs when dealing with different financial institutions. It leads to increase in transaction cost when using multiple banking applications to access different financial services. It also leads to increase in transaction cost when moving from one financial institution to another financial institution to access multiple financial services. Future developments in financial inclusion, enabled by digital technology, will usher in an era where all types of basic financial services will be available to banked adults from a single source. This source can be a mobile app, a digital device or a financial institution. This development in financial inclusion will encourage a large number of unbanked adults to join the formal financial sector to enjoy the numerous financial services that are available and offered from a single source. Unbanked adults, after joining the financial sector, will no longer need to visit different financial institutions or use different mobile banking apps to access formal deposit, savings, investment and mortgage finance products. Rather, they will be able to access multiple financial services from a single source, thereby reducing transaction costs and saving time.

5.4. A shift from account number to mobile number to drive financial inclusion

Many scholars point out that achieving financial inclusion through bank account ownership requires providing documentation which may be burdensome to unbanked adults (Karpowicz, 2016; Ozili, 2021b). It is difficult to remove or significantly reduce the account opening documentation requirements because providing account opening documentation fulfils the know-your-customer (KYC) requirement in existing anti-money laundry (AML) laws.

Financial technology companies that want to reach unbanked adults will find a way to bypass this hurdle. They will find a way to deal with the burdensome account opening problem. They will find a way to bypass the bank ‘account number’, and find another number that has user identification information which can be used to drive financial inclusion for unbanked adults. As a result, there will be a shift away from bank ‘account number’– which presents some documentation difficulties for unbanked adults – to a shift to ‘mobile number’ to drive financial inclusion. Since most people in rural areas already have a mobile number, the mobile number can be used as a gateway to access basic financial services because mobile numbers already carry some important user identifying information. Fintech and other technology companies will push for the use of mobile number to access basic financial services in order to bypass the cumbersome documentation requirement associated with the bank 'account number' which discourages unbanked adults from joining the formal financial sector.

5.5. More women will become financially empowered and independent

Existing international financial inclusion programs, led by the Bill and Melinda Gates Foundation, CGAP and the Women's World Banking, are already providing unbanked women and poor women with the tools they need to improve their access to basic financial services. The goal of such programs is to ensure that more women become financially independent and economically empowered to improve their lives and the lives of their households. These programs are helping vulnerable women to protect their finances by opening savings, checking accounts, and giving them the ability to obtain formal loans without needing the validation or permission of a male head. As a result, in the future, more women will be able to utilize basic financial services such as loans, credit, and insurance. They will be able to invest and seek profitable investment opportunities and compete financially with men in society. In the future, technology such as AI and blockchain will play an important role in reducing the gender bias that hinders access to basic financial services for women. Such technologies can be modified (using AI and machine learning) to give women more access to basic financial services so that no woman is left behind. Full financial inclusion cannot be achieved in the future without carrying women along.

5.6. Government will become more directly involved in delivering basic financial services to the poor

Presently, the government does not issue financial services directly to customers. The government usually license financial institutions to offer financial services to users within a regulatory framework. This has been the status quo in the last three decades. Recently, many governments have begun to invent their own innovative financial products, services and payments infrastructure such as government-to-person (G2P) payment solutions and central bank digital currencies (CBDC). These government-led innovations can help to increase financial inclusion. The government or authorities will be able to use their own innovations to drive financial inclusion without competing directly with Fintech and financial institutions. Consequently, in the future, we will witness many governments becoming directly involved in delivering basic financial services directly to unbanked adults. A government will be able to use its innovative financial products and services (e.g. CBDC) to reach unbanked adults in communities where Fintech agents and financial institutions are unwilling to serve. This means that, in the future, the financial inclusion ecosystem will no longer be dominated by financial institutions, Fintech agents and technology companies alone. The government and its agents will become a key player in the financial inclusion space.

5.7. Emergence of new financial innovations that continuously reduce transaction cost

In the future, new innovations will emerge to significantly reduce the cost of financial transactions or the cost of delivering financial services. These cost-reducing innovations will focus on the cost structure of financial services. They will redesign the cost structure and seek ways to eliminate some cost components in order to reduce the cost of financial transactions or the cost of delivering financial services. As a result, the future will witness intense competition among financial sector agents as each agent will seek new ways to reduce the cost involved in delivering financial services to banked and unbanked adults. The emergence of cost-reducing financial innovations will also lead to a race to lower transaction cost which is beneficial for financial inclusion.

5.8. Consumer protection, data privacy and unethical technology will remain a major issue

Presently, the use of digital technology to promote financial inclusion has raised debates about consumer protection, data privacy, the presence of exploitative digital technology. There are also issues about the way consumer data will be used and the limit to which consumer data can be used by third-parties including the government. Even though many countries have begun to take steps to address some of these issues, there is no immediate quick-fix solution to address these issues arising from the use of digital technology to promote financial inclusion. As a result, these issues will persist for a long time. Consumer protection, data privacy and the ethical nature of digital technology will remain a major issue in the future of financial inclusion. There will be contention about who should grant access to consumer data, and whether the customer (i.e. data owner) and data aggregators should jointly provide consent before private consumer data can be shared to third-parties for commercial purposes. There will be contention about government control over digital financial transactions due to fears that the government can easily manipulate digital financial systems and create a system of social control. Large corporations will also seek to exploit data from digital systems and use it for commercial purposes.

6. Conclusion

This paper made some predictions about what to expect from financial inclusion in the future. Three major forces will change financial inclusion in the future. They are 1) technological developments, 2) the growing demand for personalized financial services, and 3) the need to make profit from consumer data. The selection of trends was done on the basis of my experience as a senior scholar of financial inclusion and from consultations with industry and development experts. I predicted that the future of financial inclusion will witness increased digitalization, increased personalization of formal financial services and the provision of all financial services from a single source which might be a location, a platform or a device. I also predicted that there will be a shift from account number to mobile number to drive financial inclusion. Also, more women will become financially empowered and financially independent. The government will become more directly involved in delivering basic financial services to the poor. There will be the emergence of new financial innovations that continuously reduce transaction cost. There will be challenges regarding consumer protection, data privacy and unethical technology. These predictions highlight the trends to expect in the future of financial inclusion. These future trends will have implications for financial inclusion in Asia, Europe and particularly in Africa where the level of financial inclusion is relatively low. Future studies can offer additional predictions about the future of financial inclusion. Future studies can also develop models that assess the relationship between financial inclusion and individual welfare in the long run.

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