Poverty alleviation through financial technology

Swedish Institute Sustainability Forum 2016: Money Talks
November 23-24, 2016
Balingsholm, Huddinge
Stockholm, Sweden
Executive Summary

More than 800 million people are still living in extreme poverty (on less than US$1.25 a day). Many lack access to adequate food, clean drinking water and sanitation. Globally, 2 billion adults also remain unbanked. The unbanked are often extremely poor with insufficient income, hence they have no access to basic financial services such as bank accounts and loans. Furthermore, banks do not reach out to the unbanked because providing these services is considered high-risk and expensive. In addition, financial illiteracy among the unbanked is not uncommon.

The concept of poverty alleviation through financial technology aims to create a financial service ecosystem to provide easy and affordable digital banking for all, reaching out and converting the unbanked in targeted regions in India, Indonesia and Ethiopia.
Challenges in reaching out to the unbanked

Eradicating poverty in all its forms remains one of the greatest challenges for humanity. Access to financial services can serve as a bridge out of poverty. However, 2 billion adults remain unbanked globally. While some have excluded themselves voluntarily because of religious beliefs or lack trust and information on financial services, most of the unbanked are living in poverty with insufficient income and/or live in areas where financial services are not easily accessible. Therefore, they are excluded from basic access to financial services such as bank accounts and loans.

Some of the above challenges will be address by the proposed solution below. In general, banks have not been able to reach out to the unbanked because there is a general lack of spread in physical bank branches and providing these financial services to people in rural regions is very high-risk and costly. In addition, there is often a lack of trust and fear of high financial transaction costs due to low levels of financial literacy among the unbanked.
‘Bank the unbanked’ ecosystem

Poverty alleviation through financial inclusion harnesses partnership and collaboration between different actors within the financial services sector, with financial technology (fintech) companies and start-ups as driving partners of the process. Essentially, creating a financial process and ecosystem in different countries will be an effective method of reaching out to unbanked populations.

Figure 2: Bank the unbanked ecosystem. This model reflects how fintech start-ups can work in collaboration with banks, microfinance institutions and community agents. This ecosystem allows financial services to reach the unbanked and promote financial literacy to people living in poverty through formal or informal channels.

How will it work?

Fintech start-ups will work in partnership with national banks and microfinance institutions to provide financial services and resources to the currently unbanked. Through community agents¹ these fintech start-ups will be able to extend the reach of banks and microfinancing institutions to people living in rural or remote areas with limited access to physical and digital financial services. These community agents can also act as information providers, providing financial training and information to people living in poverty.

In some countries and/or regions where infrastructures are well established, fintech start-ups can work together with governmental agencies such as national identification agencies and telecommunications companies to reach the unbanked who have access to mobile services.

¹ Community agents are small business owners accessible to the unbanked such as shops or kiosk owners and other types of service providers.
Pilots in Ethiopia, Indonesia and India

Pilots in Indonesia, India and Ethiopia have been ongoing since November 2016, and will continue to be implemented in 2017. Each country's bank the unbanked ecosystem will differ as the infrastructure and regulations differ in each country. The common target is to provide access to financial services to at least 25% the unbanked population in select regions in India, Indonesia and Ethiopia.

A pilot has been launched in a mobile technology company in Indonesia. The aim is to introduce financial services to their ecosystem of existing and potential users and include those who were previously excluded from these services. Through working in partnership with two major banks, a new service has been launched to provide each user with a bank account and an e-wallet. Incentives such as peer-to-peer financial transaction capacity, whereby financial transactions between their service providers and users are performed through digital banking, will educate and encourage their users to continue using these financial services. This ecosystem has enabled the previously unbanked to gain access to basic financial services, e.g. bank accounts and other types of financial services such as insurance, microfinancing, payment plans and mortgages.

About the Swedish Institute Sustainability Forum

Bank the unbanked’ ecosystem was inaugurated as part of the Swedish Institute Sustainability Forum (SISF) 2016.

SISF is an exclusive and highly creative 48-hour global think-tank with a selected sustainability theme. It is held annually in the tranquil outskirts of Stockholm, Sweden. High-level individuals from all over the world gather to share experiences and discuss new solutions for current global sustainability challenges in an informal and productive atmosphere.

Known for its low-key and inclusive approach, the Forum serves a dual purpose: to help companies deal effectively with some of the key sustainability challenges of the 21st century, and to address pressing societal issues. The Forum’s objective is to foster engagement and commitment towards collective action and co-creation of open-source innovation.

In 2016, the Swedish Institute organised SISF in content collaboration with International Integrated Reporting Council (IIRC), Centre for Responsible Business, India, with input from Mistra Financial Systems.

For more information about SISF, please visit www.si.se/sisf or contact us at sisf@si.se