

INSIGHTS

Payments innovation for financial inclusion

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Financial inclusion enables and empowers people and communities, and can help drive economic growth by bridging economic opportunities and outcomes. Increasing financial inclusion for individuals and small businesses is an objective for policymakers, governments, banks and corporations alike. Payment innovations such as mobile money solutions have proved a catalyst for greater financial inclusion over recent years, but there is no ‘one size fits all’ solution, and challenges and complexities remain. Continued progress in mobile money, and by extension financial inclusion, requires greater cooperation on multiple fronts, involving governments, regulators, telecoms, banks and fintechs.

According to World Bank data from April 2018, the number of unbanked adults has fallen to 1.7 billion from 2.5 billion in 2011 and is continuing to fall, even taking into account population growth¹. Since 2011, an additional 1.2 billion people have connected to the financial system for the first time, and half a billion within the past three years².

Although progress is being made, enabling people around the world to access the financial system remains a critical development challenge. Financial inclusion is not only crucial for individuals, but also for

microenterprises and small businesses to access credit, reduce reliance on cash and extend their customer reach. By doing so, they can utilise financial products and services (such as credit and insurance) more freely, save and spend more securely, and increase their financial independence.

Mobile phones and financial inclusion

Understanding the factors that have led to rapid growth in financial inclusion since 2011 is essential to accelerate this further, particularly in Asia and Africa where the unbanked population is the largest. Two-thirds of the

¹ World Bank. Gains in Financial Inclusion, Gains in a Sustainable World. May 2018
<https://www.worldbank.org/en/news/immersive-story/2018/05/18/gains-in-financial-inclusion-gains-for-a-sustainable-world>

² World Bank, May 2018

world's inhabitants now own a mobile phone³ driving financial inclusion and increased access to services, such as mobile money. According to the GSMA, the global association for the mobile telecommunication industry, the mobile money industry now processes USD1 billion a day in 90 countries, through 276 mobile money schemes. Mobile money schemes have evolved significantly since the launch of M-Pesa in Kenya from peer-to-peer networks to full-service offerings for both consumers and businesses including bulk disbursements, merchant payments, bill payments and a variety of financial services.

As mobile money schemes expand their reach and range of services, large organisations operating in, or expanding into the emerging markets are embracing mobile money as an alternative to cash. Processing, handling and transporting cash is costly, labour-intensive and prone to security issues. With long working capital cycles and payment reconciliation timescales, these problems can be avoided by using mobile money.

Overcoming barriers through innovation

Although significant progress has been made towards financial inclusion through mobile money schemes, obstacles still remain, including poor financial infrastructure (across institutions, information technology and regulations that enable financial intermediation), a lack of suitable products that financially empower the unbanked, and geographic isolation of rural communities.

There are a number of developments that are helping to overcome these barriers. Instant payment schemes are proliferating globally, and regulators are mandating greater interoperability between mobile money providers and banks. Government and regulatory support for both

financial inclusion and payment innovation is becoming more prevalent in many parts of Asia and Africa where the unbanked population is the highest. The 'Digital India' initiative, for example, that aims to transform India into a digitally empowered society and knowledge economy, is closely connected with the development of the country's Unified Payments Interface (UPI). This platform facilitates real-time transfers between banks, but it also enables a range of peer-to-peer and consumer-to-business solutions.

Other opportunities are emerging alongside innovations in mobile money that will also have an impact on greater financial inclusion. Blockchain-based solutions offer considerable potential to reduce cost, increase security and promote trust in the financial services sector. Standard Chartered is investing in this area. For example, the bank has been appointed by Ant Financial to be the core partner bank for its new blockchain cross-border remittance solution to be offered initially through AlipayHK in Hong Kong and GCash in the Philippines.

The shift towards e-commerce in emerging markets supported by the wide spread adoption of smartphones, internet penetration and the proliferation of quick response (QR) codes are increasingly bridging the gap between large corporations and the last mile consumers. Payments using QR codes have seen a boom in countries such as China, driven largely by Alibaba's Alipay and Tencent's WeChat. In 2016, one-third, or USD2.6 trillion of the mobile payments in China took place via QR codes⁴. Other governments and regulators in many of the developing markets such as India, Thailand, Indonesia are also swiftly embracing QR code-based payments as part of their digital roadmaps to enable mobile phone users to make payments easily and reduce the use of cash.

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3 We are Social, April 2018: <https://wearesocial.com/us/blog/2018/01/global-digital-report-2018>

4 China Mobile Payment Report 2017, iResearch

Promoting choices and chances in life

Looking ahead, financial inclusion must continue to be a primary policy objective amongst governments, banks and corporations to ensure greater socio-economic development. Standard Chartered is committed to this and has invested in payment innovations that are relevant and adaptable to each market. For example, by partnering with mobile wallet providers, the bank has extended its reach into markets where mobile wallets are prevalent, to offer solutions that enable corporate and institutional clients to leverage the opportunities presented by mobile money, and enable efficient, scalable e-commerce and m-commerce solutions. As individuals and small businesses become financially independent and empowered, they also gain access

to a wider range of services, including credit, insurance and savings. However, just as every market is different, each payment innovation also has its own unique role to play in driving financial inclusion by giving people and businesses more choice, more security and greater life chances.

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