

Fintech as a Strategy of Financial Inclusion in the Age of Digitalization¹

Hyo Eun Yang

Senior Researcher, Institute for Global Economics

1. Introduction

The fast-growing digital technology is changing the scene of financial markets all around the world. While the predominant mega-sized banks and their subsidiaries faced deteriorated profits or even bankruptcy affected by the 2008 Global Financial Crisis (GFC) and the continued economic downturn, innovative financial startups, under the name of ‘fintech,’ are gradually taking the main stage of financial markets by applying the most up-to-date technology to the design and delivery of financial services at a fraction of the cost previously associated with the traditional financial services. After a decade since the GFC called for an intensive restructuring of financial market structure, the rapid growth of the fintech industry is causing an unprecedented change in global financial markets which have not been achieved by any extensive regulatory reform efforts. As the innovative fintech companies changed the way financial services are designed and delivered in response to the changing needs of customers, traditional financial institutions are also busy transforming to increase their connectivity to customers.

While fintech has been widely considered as a new source of economic growth, it is crucial to ponder whether this progress is likely to contribute to the betterment of social values such as sustainable development and financial inclusion, or simply replace the legacy financial system with the state-of-the-art technology. This is of particular interest to those who are engaged with financial markets one way or another including policymakers, bankers, entrepreneurs, academics, and members of the civil society because a consensus on the socio-economic impact of fintech should be reached so that the entire economy can maximize the benefit of embracing innovation which is at the center of fintech. For the purpose, this paper examines (i) how fintech has changed the paradigm of financial services, (ii) the role of fintech for promoting financial inclusion, and (iii) the importance of “fintech ecosystem” as a practical way of utilizing fintech for the benefit of the entire economy.

2. How fintech changed the paradigm of financial services

Undoubtedly, the explosive growth of fintech in financial markets is closely linked to the dissatisfaction and distrust of financial customers to traditional financial institutions during the 2008 GFC. It is important to note that the way financial services are provided to customers by financial institutions has not fundamentally altered while several reform measures were adopted to redress the structural problems of the financial markets. At the same time, the emergence of millennials who are ‘digital natives’ and ‘conservative financial customers’ affected by the widespread mobile internet access and the serious economic recession caused by the 2008 GFC increased the call for alternative financial services that can meet their unique characteristics as a new generation of financial customers. In this regard, fintech as digitalized financial services that can be characterized as mobile-oriented,

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cost-efficient, and customized to the preference of individuals are just the right fit for the millennials who are tech-savvy, taking automation for granted, and putting convenience at the top of priority.

Sparked by the digital culture of millennials, fintech has been gradually adopted by other generations in recent years. According to the market survey of Ernst & Young in 2019, the general adoption rate of fintech services has reach 64% in 2019, up from 33% in 2017 and 16% in 2015. The rapid growth of fintech adoption rates across the global financial markets indicates that fintech is no longer a new type of financial services but already penetrated the financial services markets by changing the expectation and experience of customers. The rapid growth of fintech cannot be discussed without considering the fast-growing global mobile infrastructure. The growing market for smartphones is particularly indicative as fintech services are mainly provided via smartphone applications. On the global average, smartphones take 57% of total mobile connections excluding cellular IoT in 2017 and the figure is expected to reach 77% in 2025. Undoubtedly, this fast-growing mobile markets and infrastructure provide fertile soil for the development and popularity of fintech services.

3. Can fintech facilitate financial inclusion?

Fintech as a practical tool of realizing financial inclusion has well been acknowledged in the efforts of the United Nations (UN) on eradicating poverty and promoting sustainable development. In 2015, the UN General Assembly adopted the 2030 Agenda for Sustainable Development which set out 15-year plan to achieve 17 essential goals to overcome prolonged poverty. Interestingly, 13 out of 17 goals, such as the goals of no poverty, zero hunger, and reduce inequality, are recognized as achievable by promoting digital finance.

In the perspective of enterprises, fintech services for SMEs are particularly important because SMEs who were unable to access bank loans with favorable terms can significantly benefit from alternative funding sources through business-to-business (B2B) fintech services. The global market for fintech for SMEs is progressively growing and the average adoption rate of fintech for SMEs in China, Mexico, South Africa, which represent emerging economies, and the U.K. and the U.S., which represent advanced economies, reached 25% in 2019. As fintech services for SMEs require a high degree of accuracy and efficiency because the quality of such services directly affect the sales performance of businesses, the average adoption rate of 25% represents the high level of penetration of fintech for businesses. Overall, fintech has paved a new path of a paradigm shift for the benefit of customers, both individuals and enterprises. At the same time, the new round of competition fintech brought to the financial services markets resulted in increased efficiency of financial services by lowering costs and widening access to quality financial services.

4. Fintech ecosystem is key to success

While the merits of fintech as a vehicle and strategy of achieving financial inclusion is clear and achievable, it is less obvious when it comes to the question of ‘how to approach fintech as an industry.’ In this regard, it is important to understand the efficiency of the fintech ecosystem which represents the cooperative and competitive networks among participants of the fintech industry inclusion startups, financial institutions, policymakers, academics, and the civil society. While there are many different views as to the basic components of the fintech

ecosystem, it is essential to consider the four fundamental factors: talent, capital, demand, and policy. For a fintech ecosystem to operate most efficiently, it is important to make sure that all of the four factors are fully developed and that the participants in the fintech ecosystem form close networks so that they can produce synergy by cooperation and competition. Furthermore, the potential of fintech may be fully realized within a strategic framework of underlying infrastructure and supportive policy and regulatory environment that are highly focused on the facilitation of digital transformation.

5. Conclusion

Since the 2008 GFC called for financial inclusion as a way of reducing income inequality and empowering the underserved population in the global financial markets, fintech as a strategy of achieving financial inclusion has proved its potential of delivering inclusive growth by lowering barriers to financial services and widening the range of services and products that are sensitive to the changing preference of customers. Despite the inherent merit of fintech for financial inclusion, it is imperative for the participants of the fintech industry, including startups, investors, financial institutions, and customers, to fully comprehend the importance of fintech ecosystem as the efficiency of a fintech ecosystem ultimately affects the performance of fintech in the economy. Considering the interdisciplinary nature of fintech as an industry, the success of fintech as a facilitator of financial inclusion can be only realized when the factors consisting the fintech ecosystem are well integrated and connected. This means that all the stakeholders and players in the fintech ecosystem must actively cooperate and compete for the betterment of financial services.