


Chapter 75

Financial Innovation: Accelerating Financial Inclusion in South Asia

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ABSTRACT

Financial innovation and financial inclusion are helping countries to achieve inclusive economic growth by mitigating poverty. The purpose of the chapter is to examine how financial innovation accelerating financial inclusion in South Asian countries. The uses of internet banking, mobile banking, short message service (SMS) banking, electronic banking (e-banking), agent banking, mobile money accounts, and mobile wallet banking is increasing at an increasing rate, which is engaging the unbanked people in the financial systems. The robust growth of the mobile ecosystem in South Asia is contributing broadly to the engagement of financial inclusion. The empirical analysis was done by using data from the Global Financial Inclusion Database (Global Findex) and Global Financial Development Database to see how automated financial products and services are conveniently receiving by the unbanked population. The results of the analysis show that many financial innovations in financial products and services delivery from financial technology is closing gaps in financial inclusion significantly.

INTRODUCTION

Technologic advances, globalization, modernization is fostering the growth of financial innovation that is ultimately adding more and more people to the digital financial platform. Financial transactions can be made quickly and conveniently as well as at low cost because of the innovative financial products and services offered by the financial service providers like the bank, non-bank financial institutions, microfinance institutions (MFIs), insurance companies, mobile services providers. Those providers are providing services to their clients at ease that no one thought a decade back. Currently, in South Asian

DOI: 10.4018/978-1-6684-4503-7.ch075

countries: Afghanistan, Bangladesh, Bhutan, India, Pakistan, Maldives, Nepal, and Sri Lanka, the scenario for financial inclusion is notable. Every day more and more people are opening their accounts with financial services providers to receive hassle-free services from a different area. Technological advances in the financial sector are enabling the financial services providers to provide services in rural areas. Because of the high growth of financial technology (fintech), people in this part of the world is joining with the financial services industry by receiving and providing value that is ultimately helping the counties of this region to achieve the sustainable development goals and inclusive economic growth. Financial inclusion is also alleviating poverty by providing opportunities to the poor and unbanked people of this region. An efficient and inclusive financial system could provide a wide range of financial products from savings and loans to risk management to the poor and unbanked people. Access to formal financial products and services by the poor and unbanked people can impact positively to the economy because they can invest in education and development (Demirgüç-Kunt & Klapper, 2013). Nowadays, unbanked people can receive formal financial services like a loan from a bank's agent to start a business that fosters entrepreneurship. Besides loans, unbanked people did not have the opportunity to save their money in a financial institution a few years back. Now they can save their disposable income in the financial services providers company to earn some return on their surplus money.

Digital technology is the game-changer in the financial services industry like many other industries, and it is also enabling the financial services industry to gain an increased amount of revenue. Digital financial services (DFS) are showing the growing evidence in some African markets. They have the potential to grow and accelerate financial inclusion globally, especially in developing countries (Wyman, 2017). Similarly, Saksonova and Kuzmina-Merlino (2017) stated that competition between banks and financial technology (fintech) companies are growing in advanced economies as well as in emerging markets. The author also identified digital financial services offered by financial technology companies, discussed the benefits and shortcomings of innovative financial services and the traditional financial services, and investigated the degree of usage knowledge of the customers for using those fintech based financial services.

Globalization played a crucial role in the development of fintech because of the interaction between finance and information technologies (IT). Small and micro businesses are developing fintech based services without the help of the bank and offering formal financial services to their customers efficiently, conveniently, and safely (Saksonova & Kuzmina-Merlino, 2017). Besides, Bateman, Duvendack, and Loubere (2019) identified that financial technology (fintech) is seen as an essential tool for alleviating poverty and economic development. The authors discussed Kenya's mobile wallet M-Pesa company, which facilitates digital financial transactions through mobile phones. Particularly, fintech firms are changing the nature of the financial services industry and offering customer-oriented financial products and services by adding speed and flexibility to traditional financial products and services (Nicoletti, 2017). On the other hand, financial technology has a positive impact on the banking system of Asia because a bank can access a large market at a low cost (Alexander, Shi, & Solomon, 2017). In emerging markets, approximately 2 billion people are unbanked, and provision for financial technology companies is to create secure, convenient, and affordable products for those unbanked future clients (Alexander et al., 2017). The usage of banking services is much lower in South Asian countries, especially online banking or electronic banking (e-banking) or internet banking (i-banking) services. Besides, the demand for mobile banking (m-banking) is gaining extensive popularity because of the easy access to the mobile phone (Mani, 2016).

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