Chapter 5
Dangers of Digital-Only Financial Inclusion

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ABSTRACT

The literature has not extensively examined the dangers of digital-only financial inclusion. The purpose of this chapter is to highlight the dangers of digital-only financial inclusion (DOFI). Using the discourse analysis method, the study showed that digital-only financial inclusion may be difficult to achieve when there is uneven availability and uneven access to digital devices. It was also argued that digital-only financial inclusion could lead to high cost of internet broadband, and it places much emphasis on accelerating digital access rather than protecting users who use digital finance platforms. Furthermore, it pays little attention to risk mitigation, and produces digital ID schemes that enable government surveillance. It also prioritizes digital access rather than financial health; and makes it easier to perpetrate fraud using digital means. Finally, it can enable the endless pursuit of power, and it prioritizes a digital version of financial inclusion at any cost.

1. INTRODUCTION

The term 'financial inclusion' is commonly defined as access and use of affordable formal financial services (Ozili, 2021a). Digital-only financial inclusion (DoFI) is the use digital technology to promote financial inclusion (Gallego-Losada et al, 2023). It involves using innovative digital technology to accelerate access and use of formal financial services (Ozili, 2022). An avid observer of the global trends

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in financial inclusion in the last five to ten years will admit that there is much emphasis on digital-only financial inclusion today. The evidence for this can be found everywhere you turn to. You will see buzzwords such as "digital financial inclusion", "digital financial services", and "fintech". How did we get to this point?

Recall that in 2017 the World Bank estimated that 2 billion people do not have a formal bank account which they can use to access available financial services (Ozili, 2021a), meaning that these people are financially excluded. This statistic led many experts to think of strategies to accelerate financial inclusion, by reducing the number of adults without a bank account (Dev, 2006; Atkinson and Messy, 2013; Peric, 2015). As a result, private sector actors, development organizations and government agencies reached a consensus that digital technology is the most effective way to accelerate financial inclusion in the 21st century. Therefore, promoters of financial inclusion began to place great emphasis on achieving financial inclusion using digital means, with little consideration for non-digital strategies for financial inclusion.

Existing research show overwhelming evidence that technology-enabled digital innovations, such as mobile phones, fintech and central bank digital currencies (CBDCs), can accelerate financial inclusion much quicker if the right conditions and incentives are in place (Ouma et al, 2017; Sahay et al, 2020; Ozili, 2023a). However, there is little academic and policy discourse about the associated dangers or risks of digital-only financial inclusion (DOFI). In fact, the critical literature has shown that the benefits of DOFI are either overstated or the conclusions are formed based on incomplete information (Ozili, 2020). Proponents of digital-only financial inclusion seem to forget that digital technology is only a tool, and that is all it will be – both now and in the future. This should make the reader think deeply about what digital-only financial inclusion has to offer, bearing in mind that digital technology is only a tool to accelerate financial inclusion, meanwhile, financial inclusion itself entails much more than providing digital access to formal financial services.

This chapter identifies the dangers of digital-only financial inclusion (DOFI). The discussion in this chapter adds to the existing literature that explores the harmful consequences of technology in society (e.g., Feenberg, 2010; Healy, 2012; Biggi and Giuliani, 2021). The discussion presented in this chapter also adds to the financial inclusion literature that identifies some benefits of digital-only financial inclusion (e.g., Ozili, 2018; Daud, 2023; Shaikh et al, 2023; Obiora and Ozili, 2023; Peng and Mao, 2023; Ozili, 2023b), but which have not extensively identified the associated risks of digital-only financial inclusion. The analysis in this chapter further adds to the development literature that explore the benefits and challenges of technology-enabled development (see. Gorman, 2002; Vinuesa et al, 2020; and Mubarak and Petraite, 2020).

The remaining sections of this chapter are classified as follows. The related literature is discussed in section 2, while some dangers of digital-only financial