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EXPLAINER

How Digital Finance Can Help Achieve Global Sustainability Goals

More people today own a mobile phone than a bank account. By combining mobile technology with banking, digital finance is expected to help improve access to finance particularly among the poor. Photo credit: ADB.

Alibaba's digital financial services group shares its experience in using digital technology to reach the unbanked and underserved.

Introduction

Digital technology holds the most promise for making financial services accessible, affordable, and sustainable.

Mobile phones alone have made it easier and affordable for those who do not have a bank account to send and receive money, make payments, and even get access to credit. What is remarkable is how the technology has spread rapidly across income groups around the world, even penetrating the bottom of the pyramid.

In the People's Republic of China (PRC), where there are more than a billion mobile subscribers, Alibaba's Ant Financial Services Group has capitalized on digital technology to diversify and broaden its customer base to include the unbanked and underserved. It is making e-commerce accessible, affordable, and safe to use. It is raising efficiency and security for delivering financial services, including small business loans and personal credit. It is mining user data and payment histories of Alibaba, one of the largest e-commerce companies globally, to assess creditworthiness of customers with little or no credit history.

Digital Finance and the SDGs

Financial inclusion is vital in achieving the United Nations' 17 Sustainable Development Goals (SDGs). It is an enabler of at least eight of the goals, including eradicating poverty, ending hunger, and reducing gender and income inequality.

However, making financial services accessible, affordable, and sustainable is a tall order, said Ant Financial's chief strategy officer Chen Long at a forum on digital finance and the SDGs organized by the Asian Development Bank.

"When it is accessible and affordable, it tends to be not sustainable. It will be driven by government subsidies or charity actions. If it is accessible and sustainable, it tends to entail high-interest loans," he remarked.

Chen noted that only a few (big companies and the rich) have access to good financial services, while there are about two billion people in the world without bank accounts. In emerging markets, only 10% of the population have credit cards.

Digital finance is seen as the game changer for financial inclusion. According to a McKinsey Global Institute report, it has the potential to reach "1.6 billion unbanked people, more than half of them women."

"I think digital finance will have a crucial role for sustainable development because it's scalable, inclusive, bottom up, and spreads very quickly," said Chen.

What Can Digital Finance Do?

Digital technology is moving at an unprecedented rate, and it is changing the infrastructure of finance.

"If we look at the emerging markets right now about 80% of the population already have mobile phones," said Chen. "Among the poorest 20% of people in the world, about 70% already have a mobile phone. This is according to the statistics by the World Bank last year (2016)."

In addition, exponential growth in computing power and its recent by-products—such as big data, artificial intelligence, and cloud computing—have opened wide opportunities for using digital technology to increase financial inclusion.

“For finance to do a good job, we have to have the ability to get access to customers, and get information to assess risks,” said Chen. “I would like to argue that digital technology is fundamentally changing our ability to get access to customers and to assess risks.”

In 2015, Ant Financial launched Zhima Credit (or Sesame Credit), a private credit scoring platform that uses data from Alibaba’s services to measure people’s creditworthiness. This has helped to bring in as customers the large volume of small businesses and consumers who lack access to credit.

Zhima’s mission is to build digital trust, said Chen. “It can be used in many areas. If you go to [the PRC], sharing a bicycle is a huge phenomenon now. In many cities, they just use a mobile phone and don’t need a deposit to enjoy this service…. If you fall from the bicycle, take a picture and you can get insurance immediately.”

The Alibaba Group is also using digital technology to improve efficiency and lower costs in order to offer affordable services. Artificial intelligence handles millions of requests and questions from online shoppers daily, while cloud computing can process more than a 100,000 transactions per second.

As a result, Chen said it costs far less for Ant Financial to lend smaller amounts to small and medium enterprises than traditional banks. “It’s not worth it for them [the banks] to look at these small customers. We have a 3-1-0 experience: it takes the merchants about 3 minutes to apply, 1 second to get money, and 0 manual interference,” he said.

How to Make Financial Innovation Work

The secret behind Alibaba’s success is that it first focused on building customer trust in e-commerce.

“If you want to promote financial innovation, you need to solve a pain point in real life. In our case, it was e-commerce,” said Chen. “Online shopping is a new form of commerce where the buyer and seller don’t see each other, so they don’t really trust each other…. The buyers will say, ‘Unless I receive the goods, I won’t pay. The sellers will say, ‘Unless I receive the money, I won’t deliver.’”

Alipay was created in 2004 to address this lack of trust between online sellers and buyers. The online payment platform preceded Ant Financial, which currently runs it. Alipay introduced an escrow service and served as a go-between and guarantor for online transactions.

“We started with the fax machine…. We use the fax machine to contact the seller and say ‘OK, the money is already here. You can deliver.’ The item is delivered to the buyer, confirmed with the buyer, and payment is released to the seller. That sounds like a very simple arrangement, but it led to the explosion and exponential growth of e-commerce and internet payment at the same time. So that was our humble start,” related Chen.

Applying digital technology in finance (or any other sector) also has some inherent issues that need to be addressed. Among those identified by Chen were data safety and privacy protection.

“You need to have the technological ability to solve problems throughout the data life cycle,” said Chen. He noted that today’s technologies make it possible to get good data, ensure its safety, and protect privacy of information. To prevent data leakage and violation of privacy, data collected from customers are stripped of sensitive information and encrypted.

“The result is we understand you and provide you with the right services, but we don’t know who you are,” Chen explained.

The ability to assess risks is also an important aspect of digital finance. “The future of digital finance is embedded in the real economy, in the ability to assess the real economy and the risks,” said Chen. “If you can only get money online, but don’t know how to assess risks, then you will be in trouble. We have to balance risks and benefits, and have entry standards to practice digital finance.”

Resources

Ant Financial

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United Nations Capital Development Fund. Financial Inclusion and the SDGs.

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Lotte Schou-Zibell
Chief of Finance Sector Group, Asian Development Bank

She provides technical leadership on inclusive finance, finance sector development, and infrastructure finance; and in developing sector policies, strategies, operational plans, and directional papers. She leads innovative pilot projects using digital technologies. She was Director for International Economic Policy at the Swedish Ministry of Finance, a financial supervision and regulation expert at the Swedish Financial Supervisory Authority and central bank, and an IMF consultant.

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