

INSIGHT

Leveraging Digital Solutions to Bridge Financial Inclusion Gaps in Asia and the Pacific



Pilot projects in the region demonstrate how digital technologies can increase access to finance even in remote areas.

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Introduction

Digital financial technologies offer a promising avenue to bridge financial inclusion gaps in Asia and the Pacific. A lack of formal access to financial services continues to prevail across large segments of developing Asia, particularly for marginalized groups and those residing in rural or remote areas, further entrenching the financial divide. Credit information constraints and the lack of access to finance moreover remain critical challenges for inclusive economic development in the region. Digital and mobile technologies offer various ways to help address these constraints in areas where the traditional financial infrastructure is not in place.

The Asian Development Bank (ADB) has solidified its support for the use of digital financial services to promote financial access through various pilot projects across the region. Experiences thus far have highlighted important lessons in the use of technologies to mitigate inequalities in financial access, spur economic growth, and enhance financial inclusion. Country experiences also highlight the potential of digital financial solutions to advance the Sustainable Development Goals (SDGs)—promoting the

adoption of technological advances to spur efficiencies in the provision of formal financial services (*SDG 9: Industry, Innovation, and Infrastructure*) and helping to close financial inclusion gaps faced by women, low-income individuals residing in remote areas, farmers, and other marginalized groups, in particular (*SDG 5: Gender Equality, SDG 10: Reduced Inequalities*).

Analysis

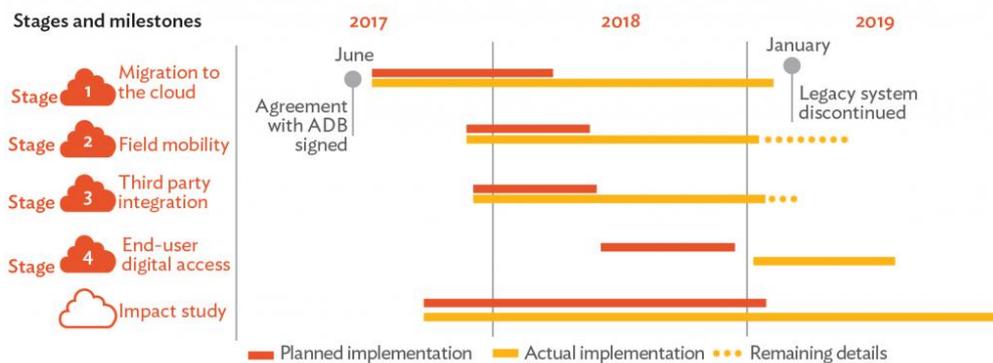
In the Philippines, a pilot project between ADB and Cantilan Bank, Inc. saw the adoption of a cloud-based core banking system in an underserved region of the country, in an effort to enhance the efficiency of banking operations while simultaneously expanding access to financial services. Financial inclusion remains an important challenge for the Philippines, with only three out of 10 Filipinos having a bank account and with 41% of unbanked Filipinos concentrated in Mindanao, the headquarters of Cantilan Bank's operations. The country's financial infrastructure is moreover unevenly developed, particularly lacking in rural and remote areas.

To address these challenges, Cantilan Bank and its service provider partner, Oradian, began the transition from a conventional onsite banking system to a cloud-based service system in 2017. Cloud-based banking systems allow for efficiencies in the operations of small and medium-sized financial institutions—and rural banks, in particular—in the form of more streamlined and affordable business processes. At the same time, such systems provide largely underserved and unbanked individuals with platforms for savings, loans, payments, and insurance.

The full migration to the cloud-based system culminated in the discontinuation of the legacy system in January of 2019 (Figure 1) and offered several lessons learned for possibly similar initiatives in the future. Among the factors that contributed to the project's success were considerable support from senior management, the close alignment of strategic vision among partners, and open dialogue and collaboration among the private sector, government, and ADB. The pilot further illustrated how governments can employ regulatory sandboxes to foster innovation and technological advancements while ensuring regulatory safeguards are in place to protect consumer welfare.

The experiences of Cantilan Bank underscored the need to allow sufficient time for implementation as difficulties initially unforeseen may arise and as the extent of support or manpower needed might be difficult to gauge during a project's inception. Difficulties in connectivity and integration of third-party solutions, accompanied by challenges in adapting business procedures for a cloud-based system, are possible reasons for further delays.

Figure 1: Implementation Timeline of Cantilan Bank's Transition to Cloud-Based Core Banking System



Source: Asian Development Bank. 2019. *Cloud-Based Core Banking in the Philippines*. Manila.

In Papua New Guinea, ADB is partnering with MiBank and Women’s Microbank in the distribution of a digital access tool to expand financial access to low-income individuals residing in remote areas. Among the country’s low-income population, 85%—predominantly women and rural dwellers—lack access to formal financial services. Internet use and electricity distribution moreover remain restricted to 12% and 20% of the population, respectively, owing to geographical barriers that lead to elevated costs. A digital access tool employing smart cards and Near Field Communications represents a promising solution, allowing for the verification of personal attributes and biometric information without the need for electricity or internet connectivity. This digital financial solution can help financially underserved individuals access credit, increase savings and investments, and therefore pursue expanded business and livelihood opportunities.

In Bangladesh, ADB has piloted the use of weather index-based crop insurance for rice farmers residing in three areas across the country, including drought-prone Rajshahi. This pilot project leverages on three innovative components—parametric weather indices, automatic weather stations, and mobile banking services—to increase the efficiency of payouts in line with precipitation levels, facilitate timely claims settlements in the aftermath of disasters, and speed up the collection of insurance premiums and the payment of claims. By enhancing the financial protection of crop farmers adversely affected by climate change, the project seeks to help farmers increase their productivity, stabilize their income, and navigate increasingly pronounced weather-based uncertainties.

In response to the lack of formal access to credit by micro, small, and medium-sized enterprises and smallholder farmers in Georgia, ADB is providing support for the development of a digital field application in partnership with FINCA Bank Georgia (FBG). In particular, tablet-based digital tools can help advance the automation of the credit management, loan underwriting, and client onboarding procedures of FBG, while reducing operational costs and expanding FBG’s rural customer base. Borrowers should also benefit from reduced customer service response and transaction times, simplified loan processes, and more affordable and accessible credit.

Implications

The diverse country experiences illustrate the potential of digital solutions to cut across country-specific contexts in order to address the challenge of limited financial inclusion. As the characteristics of particular groups lacking access to formal finance vary from country to country and the financial challenges and needs faced by each economy differ, the solutions need to be tailored to accommodate country specifics. Evolving technologies offer a new way to expand financial access and harness efficiency gains, thereby boosting financial inclusion and broadening economic gains and their reach to the whole society. In this way, digital financial solutions can help advance progress in achieving the SDGs, i.e. reducing inequalities that disproportionately impact women and other marginalized groups while helping to foster innovation and develop the finance sector.

While technological advancements have tremendous potential to advance financial inclusion and economic growth, they also highlight challenges that policymakers in the region need to take into consideration. First, regulatory processes and compliance structures need to be updated in line with the newly evolving technological landscape. Second, clear and user-friendly guidelines need to be put in place that allow institutions to leverage new financial technologies while balancing security, privacy, and data integrity concerns. Third, new approaches such as regulatory sandboxes can be considered to allow policy makers to test technological innovations in an enabling environment, while also ensuring regulatory oversight and consumer protection.

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Cyn-Young Park is director of the Regional Cooperation and Integration Division of the Economic Research and Regional Cooperation Department. During her progressive career within ADB, she has been a main author and contributor to the Asian Development Outlook, and participated in various global and regional forums including the G20 Development Working Group, as well as written and lectured extensively about the Asian economy and financial markets. She managed a team of economists to assess the socioeconomic benefits of ADB programs and projects and provide country diagnostic studies for effective ADB support to its developing member countries. Prior to joining ADB, she was an OECD economist.

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Peter Rosenkranz is an economist in the Regional Cooperation and Integration Division of the Economic Research and Regional Cooperation Department at the Asian Development Bank. His knowledge work primarily focuses on issues relating to financial development and stability within the context of regional financial integration and cooperation. Previously, he held positions at the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) as advisor on economic and development policy, and the European Central Bank (ECB) as a market infrastructure expert. He holds a PhD in Economics from the University of Zurich, Switzerland.

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Prior to her current position, Lotte was Regional Director of the Pacific Liaison and Coordination Office. She was also Chief of Finance Sector Group of the Sustainable Development and Climate Change Department. She provided 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. Prior to joining ADB, 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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Asian Development Bank (ADB)

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