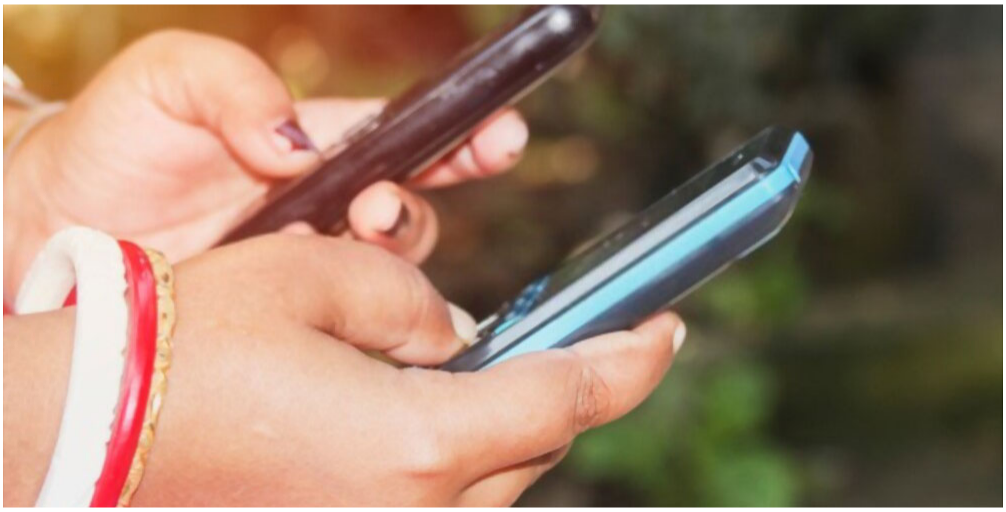
INSIGHT

Maximizing Fintech's Impact to Achieve Financial Inclusion



The growth in usage of mobile phones and internet has led to many innovations such as online and on demand financial services. Photo credit: Shutterstock.

Achieving financial inclusion through technology-based solutions presents both opportunities and challenges in Sri Lanka's financial sector.

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Introduction

Financial inclusion has been widely recognized as an important instrument for reducing poverty and vulnerability and achieving the Sustainable Development Goals (SDGs). Aside from financial access, it also involves the secure and efficient provision of high-quality financial services.

Technological developments, such as fintech solutions, biometrics, mobile applications, the internet, and artificial intelligence (AI), play an important role in achieving financial inclusion as they help enhance the quality of financial services and extend these to those who have been excluded or underserved by traditional financial institutions.

Sri Lanka has a high level of access to financial institutions compared to some South Asian countries and an increasing number of service providers and technological innovations. However, policies must be put in place to achieve greater financial inclusion.

Analysis

Sri Lanka's financial sector comprises a wide range of institutions—both formal and semi-formal —that provide services, such as loans, savings, payment, money transfer, and insurance. Aside from banks, leasing and finance companies or cooperatives and nonfinancial institutions like mobile network operators have emerged in recent years as important providers of financial services, particularly digital financing.

High transactions costs, documentation requirements, burdensome procedures, and time lags are inefficiencies often associated with financial services.

Although many adults have bank accounts, there are several "dormant" accounts with only a minimum balance, or irregular savings, due to distance to bank branches and high transaction costs. Opening a bank account often requires several documents as well, which prevents or discourages clients.

Many international remittances are sent through informal channels as migrant workers consider bank and other formal channels costly. Distance to bank branches (from their workplaces) and lack of awareness on available products among migrants working overseas are the other contributory factors.

Likewise, utilization of insurance through formal sources has remained low due to high cost of insurance, difficulty in paying the premium at regular intervals, lack of trust or confidence, and lack of awareness regarding the benefits of insurance among low-income groups.

In recent years, various technology-based solutions including mobile banking, mobile insurance, and biometrics have emerged in Sri Lanka's financial sector.

The growth in usage of mobile phones and internet has led to many innovations. Banks and mobile network operators have launched their own e-wallets or mobile wallets and payment apps to provide their clients with online and on demand access to financial services like money transfer, bill and retail payments, and other banking activities.

Meanwhile, mobile microinsurance addresses several challenges, such as costly transactions, poor infrastructure, and lack of awareness and demand for insurance from clients, particularly those from low-income segments.

These innovations provide access to various financial services in a convenient, secure, and timely manner, lower transaction costs, and help extend financial products and services to the unbanked.

Recent technological developments, such as artificial intelligence (AI), biometrics, and blockchain, have also helped enhance the efficiency and security of financial services. Fingerprint and face- or voice-recognition tools are used by financial institutions to authenticate customers across various channels. AI-enabled tools like virtual assistants and chatbots help identify the requirements and preferences of customers while providing 24/7 services. Though these are time- and cost-saving solutions, only a handful of financial institutions have deployed these technologies.

Implications

Despite the time- and cost-saving benefits of these technologies to the financial sector, there are some challenges for the labor sector that need to be addressed:

- The potential of these developments to make certain banking tasks obsolete leaving many employees jobless,
- Workforce being replaced by AI-enabled machines,
- Demand for high skilled employees that deal with advanced technological innovations, and
- The need to upgrade or upskill employees.

Without the right policies in place, these technologies could also aggravate the "digital divide" in Sri Lanka as access to diverse services and products could be leveraged more by the tech-savvy population or the ones with smart phones and alienate the already marginalized groups—the poorest who may not have access to smart phones and the internet. Moreover, these technologies are likely to be embraced easily by the youth or millennials but less likely to be used by older generation, thus widening the gap between different demographics.

Resources

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