Much remains to be done to make financial inclusion a reality, Guy de Blonay writes in an essay for finews.first.

Financial inclusion is about making individuals have access to basic financial services. It is a key enabler for some of the United Nations’ seventeen Sustainable Development Goals (SDN). The importance of financial inclusion was officially recognized in 2015 when the United Nations’ General Assembly passed a resolution stressing the need for «full and equal access to formal financial services for all».

Much remains to be done to make financial inclusion a reality, however. Globally 1.7 billion people did not have a bank account in 2017 (World Bank). And this situation is disproportionately affecting vulnerable groups – such as low-income households, women and young people – in emerging markets.

Globally Around 1.7 Billion People Don’t Have a Bank Account
Technology And Digital Finance Are Key Drivers of Financial Inclusion

Historically, branches were the main driver of financial inclusion. However, they are often uneconomical outside of large urban areas and developed markets. The increase in internet penetration and the emergence of online and mobile banking have now created an opportunity to promote financial inclusion without relying on old branch networks. Digital finance is now seen as «the primary route for financial inclusion» by the United Nations Capital Development Fund.

The Penetration of Internet Services Is Increasing Steadily
Chinese Fintech Platforms Have Led The Way…

China is a good example of the way online and mobile banking can promote financial inclusion. Mobile payment applications like Ant’s AliPay and Tencent’s WeChat gained widespread acceptance in the last 10 years as QR codes and electronic payments displaced cash at the point of sales.

The near uniquity of Alibaba’s AliPay and Tencent’s WeChat has provided these companies with a platform to distribute financial services in a country where an estimated 224 million people did not have a bank account in 2017.

Ant Financial now sells lending, insurance and asset management products to a user base of over 1 billion individuals and 80 million small merchants. This new business has been growing twice as fast as the traditional payment business and represented 56 percent of the company’s revenues in 2019. At some point, Ant’s money market fund was the largest in the world with over RMB trillion of assets under management.

Online Represents a Growing Share of Financial Services in China
…But Are Now Facing Greater Regulatory Scrutiny

So far, companies like Ant Financial have acted as platforms. They provide access to clients as well as the data and technology required to assess the solvency of potential borrowers. But the traditional financial institutions are the ones that provide the funding and carry the risks.

This sharing of responsibilities has been beneficial for fintech companies. They were able to grow rapidly while avoiding the capital requirements and the risks that normally come with banking activities.

There are signs that public authorities are now concerned that this model could threaten the stability of the financial system. In China, the government first cracked down on peer-to-peer lending in 2018 following a series of scandals were investors found themselves unable to retrieve their savings.

Authorities are now trying to regulate the massive growth in online and micro-lending and are notably considering rules that would require the likes of Ant to take more loans on their own books. The ultimate goal seems two-fold: level the playing field with banks and make fintech players accountable for the risks on the loans they facilitate.
How to Access The Theme

There is a clear opportunity around financial inclusion however one has to be mindful of the regulatory risks.

In China, Alibaba (which owns a 33 percent stake in Ant) and Tencent could be impacted by changes in the regulatory framework. These risks already led Ant Financial to suspend its IPO in November 2020. In developed markets, payment platforms don’t yet enjoy the same level of ubiquity AliPay and Tencent have in China, and banks also tend to be more entrenched. However, there is still room to promote financial inclusion.

The Federal Deposit Insurance Corporation estimated that 6.5 percent of U.S. households did not have a bank account in 2017 (a proportion that reached 21 percent and 18 percent for the African American and Hispanic communities). An additional 18.7 percent of U.S. households were considered to be «under-banked». Innovative players are starting to take steps to address this untapped market.

Paypal Inc. offers Venmo, a payment app and digital wallet for millennials, and Xoom, a digital wallet solution that has become widely used by migrants in the United States – not all of whom would have bank accounts – to send money to relatives back in their home countries.

Square Inc. is famous for providing payment acceptance services to micro-merchants that are under-served by banks. It also offers a payment wallet similar to Venmo called CashApp. The function gained significant traction this year and has been extensively leveraged by the U.S. government to provide stimulus money to individuals and small businesses affected by the pandemic.

Paypal’s Venmo and Square’s CashApp already have over 60 million and 30 million users respectively.

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