ADBInstitute

policy brief

No. 2019-3 (April)

Closing the Gender Gap in Financial Inclusion through Fintech

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Key Points

- While the percentage of women owning an account in Asia and the Pacific increased from 2014 to 2017, the gender gap persists.
- For women living in rural areas in developing economies, a number of barriers may hinder them from accessing services at financial institutions: the distance from the bank, having insufficient documents to open a bank account, family or work responsibilities, or the mindset and certain attitudes towards financial institutions.
- Fintech may have a role in bridging the gender gap in financial inclusion. Ease of access and use can increase the formalization of women's transactions, protecting and educating them against fraud and unfair transactions and empowering them by making them agents of their own financial futures.

The Persisting Gender Gap in Financial Inclusion

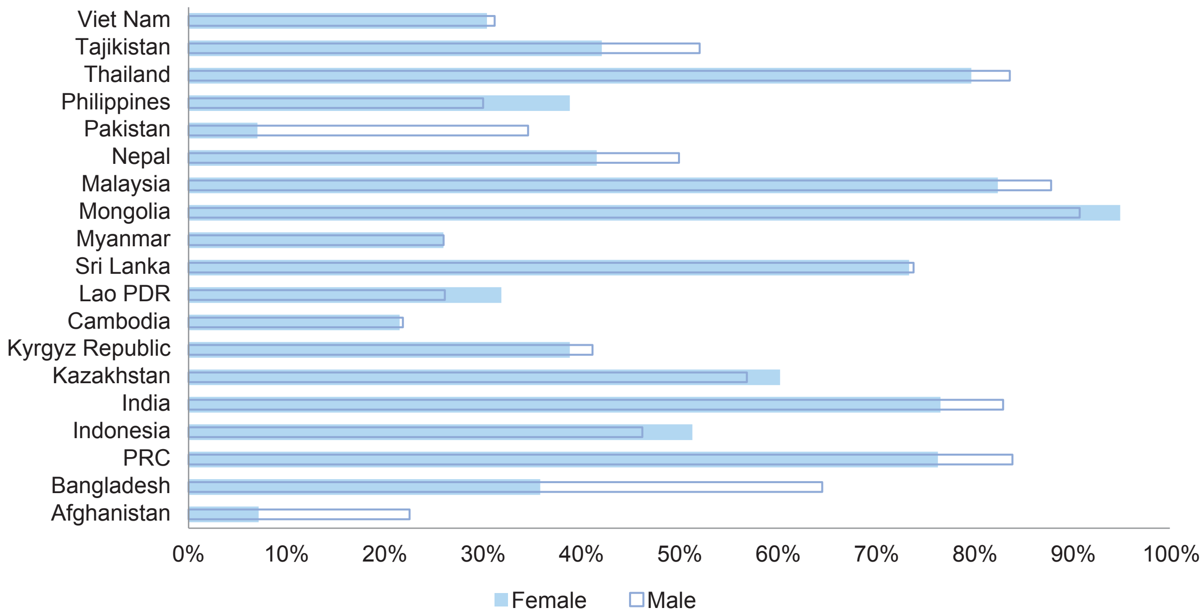
According to 2017 data from the Global Findex Database published by the World Bank, women are still less likely than men to own an account at financial institutions (Demirgüç-Kunt et al. 2018). In Asia and the Pacific, this is particularly true for Bangladesh, India, and Pakistan, where the gap between the percentage of men and women owning an account is almost 30%. In other subregions, the results seem to vary. Countries in the Southeast Asia and Central Asia subregions show interesting outcomes—data from the Philippines, the Lao People's Democratic Republic (Lao PDR), Indonesia, Kazakhstan, and Mongolia show that women are more likely to have accounts than men. In Viet Nam, Thailand, and the Kyrgyz Republic, the gaps seem relatively smaller compared to other countries.

In 2017, compared to 2014, the percentage of women owning an account in Asia and the Pacific increased. Notable increases in countries such as Tajikistan, Sri Lanka, India, and Indonesia have contributed to reducing the gap between men and women. Increases in the percentage of women owning accounts in the Philippines, Indonesia, Kazakhstan, and Mongolia have closed the gap and even reversed it. Most countries have made considerable progress, except for a 2% decline in Viet Nam and a surprising 51% decline in the Lao PDR.

While overall, more women are being financially included through having accounts at financial institutions, the gender gap persists. Given the complicated roles many women continue to play in their households, opening an account and managing their finances at a financial institution may not be a priority. Especially for women living in rural areas in developing economies, a number of barriers may hinder them from accessing services at financial institutions: the distance from the bank, having insufficient documents to open a bank account, family or work responsibilities, or the mindset and certain attitudes towards financial institutions (Murata and Sioson 2018).

ISSN 2411-6734

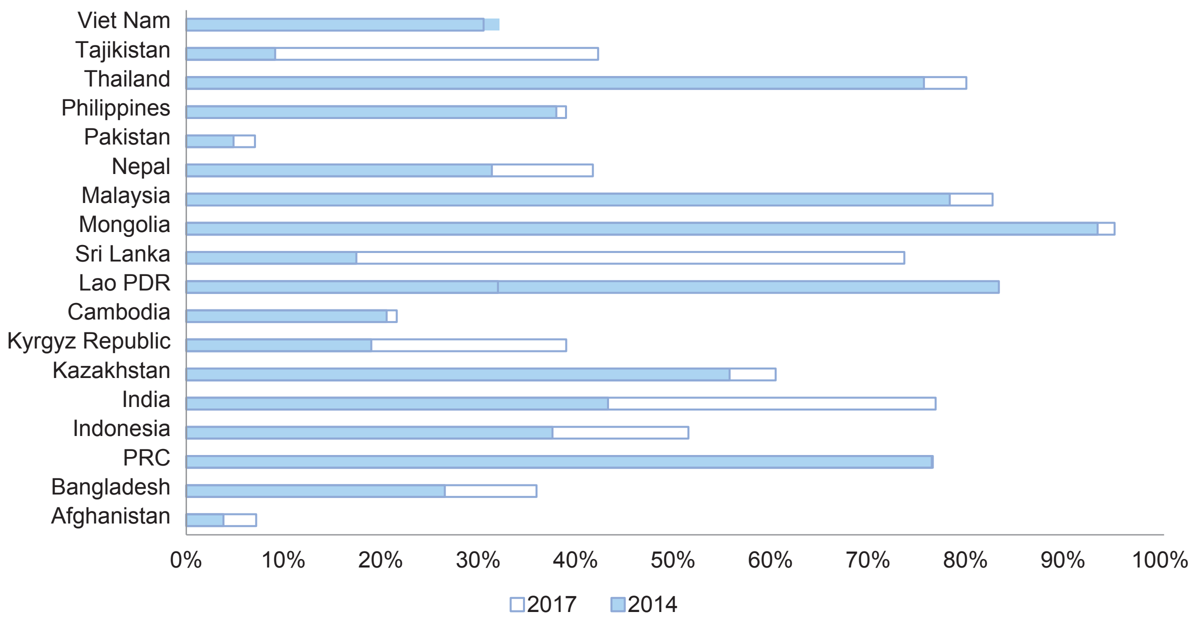
Figure 1: Share of Men and Women Owning an Account in Selected Countries in Asia and the Pacific, 2017



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Demirgüç-Kunt et al. (2018).

Figure 2: Percentage of Women Owning an Account in Selected Countries in Asia and the Pacific, 2014 and 2017



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Demirgüç-Kunt et al. (2018).

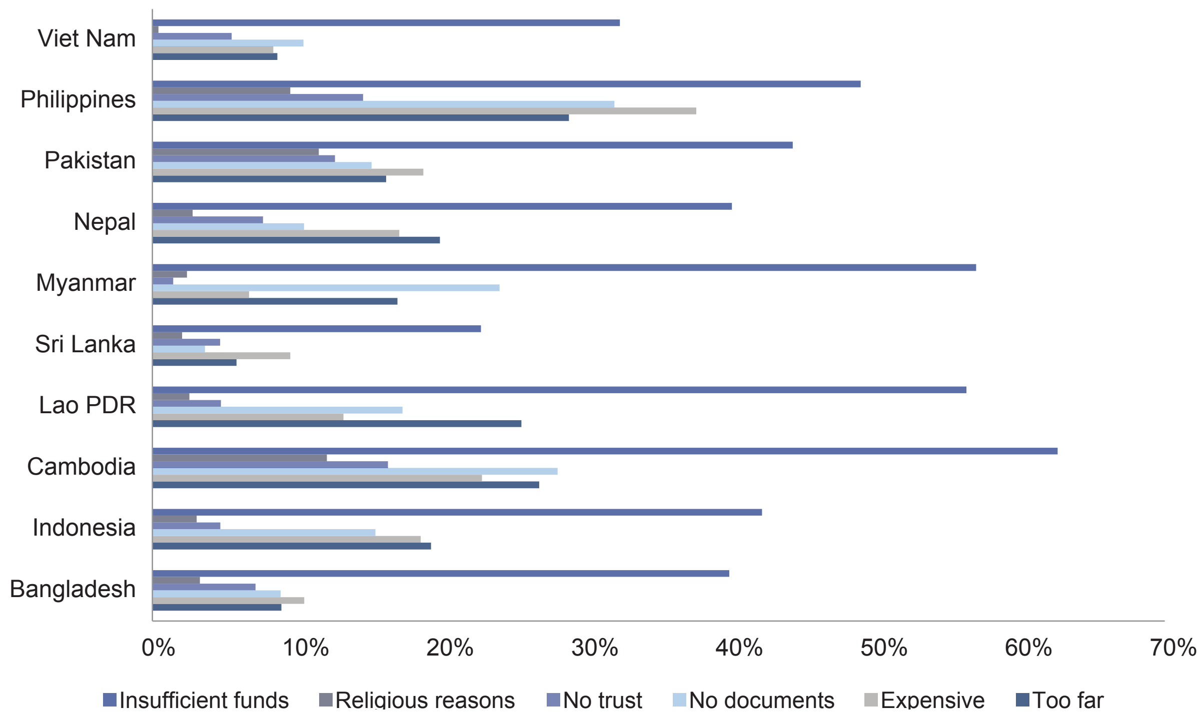
"Transaction costs remain high at many financial institutions, and strict requirements for personal identification can discourage many women from opening accounts."

Data from the Global Findex Database 2017 show that not having enough funds to open and maintain accounts is a major reason why people do not have accounts at financial institutions (Figure 3). Admittedly, in many cases, financial institutions require a certain amount for opening and maintaining a bank account, which can intimidate possible clients. Apart from this, transaction costs remain high at many financial institutions, and strict requirements for personal identification can discourage many women from opening accounts. According to the World Bank (Hanmer and Dahan 2015), one in six women aged 15 years or above report not having a bank account because of a lack of documentation. Other subjective reasons, such as cultural and religious factors, trust, and mindset, contribute to the low rates of inclusion of women in traditional financial institutions.

Harnessing Digital Payments to Reach the Unbanked

Financial technology is argued to be a tool that can facilitate the closing of the gender gap in financial inclusion. According to Ozili (2018: 330), digital finance pertains to financial services "delivered through mobile phones, personal computers, the internet or cards linked to a reliable digital payment system". While digital payments are not necessarily new, rapid advancements in technology in the past decade and increases in financial flows all over the world have put the focus on financial technology in recent years. Global investments in fintech have risen rapidly in recent years, and by the beginning of 2018, investments rose to $41.7 billion, surpassing the 2017 value of $39.4 billion in global investments (Fintech Global 2018).

Figure 3: Reasons for Not Having an Account at a Financial Institution (% of respondents)



Lao PDR = Lao People's Democratic Republic.

Source: Demirgüç-Kunt et al. (2018).

According to Lauer and Lyman (2015), the relationship between digital finance and financial inclusion is based on the premise that a large amount of the underserved and excluded population owns (or has) a mobile phone and that the provision of financial services through mobile phones and related devices can improve access to financial services for this segment of the population. This was bolstered in a United Nations brief released in 2016, which highlighted the role of digital finance in poverty reduction and in increasing financial inclusion rates in developing economies (United Nations 2016).

The continuing increase in remittance flows to developing economies has put the spotlight on fintech and how it can be leveraged to channel remittances into development (Rillo and Levine 2018; Murata and Sioson 2018). Fintech innovations can facilitate the faster and safer sending and receiving of remittances and lower transaction costs, which can translate to an increase in the amount of remittances being sent and received. Lowering transaction costs also includes lowering other costs related to sending and receiving, such as transportation costs to reach money transfer institutions, which can be expensive, especially for households cut off from main road networks. Further, newer innovations facilitate various types of transactions, which include more than sending and receiving and allow for deposits and savings. With the ability to carry out these transactions online, time can be freed up to be invested in more productive activities.

The role of mobile money and its potential for expanding financial inclusion was explored as early as 2009 in a study by the World Bank on the Philippines and the use of mobile money by the unbanked (Pickens 2009). The study's findings showed that more than half of active users of mobile money are unbanked and that about a third of the active users are living below the poverty line. In the 2009 study, the majority of the active users reported using mobile money technologies to receive domestic remittances. Since 2009, the number of clients using digital payments has been rapidly increasing. As technology advances, more user-friendly and integrated digital payment technologies are becoming available.

Data from the Global Findex Database show that from 2014 to 2017, for most of the countries in Asia and the Pacific, there were increases in the shares of users who received or made payments using digital payments. Significant increases in the range of 20%–40% are shown by Tajikistan, Thailand, Mongolia, Sri Lanka, Kyrgyz Republic, Kazakhstan, the People's Republic of China (PRC), and Bangladesh. However, one notable finding is that for Cambodia, the data show a decline in the percentage of users of digital payments for 2017.

Looking at Figure 5, we see that while the percentage of digital payment users may have increased, the gap between men and women in digital payments persists. Countries that had significant changes in the proportion of users using digital payments still show a relatively significant gender gap. India, Bangladesh, Tajikistan, and Pakistan still show large gaps, while Sri Lanka, Nepal, Malaysia, the PRC, and Afghanistan were able to relatively reduce the gaps between men and women when it comes to the use of digital payments.

Financially Empowering Women through Fintech

More work needs to be done to leverage fintech to address the gender gap in financial inclusion. As financial technologies become more advanced, easier to use, and more readily accessible, the impact they can have on addressing the gender gap is becoming more substantive. Evidence from earlier mobile payment technologies is just coming in, and the results point to the role of fintech in bridging the gender gap in financial inclusion.

M-PESA is one such technology. M-PESA is a mobile phone-based money transfer, financing, and microfinancing service launched in 2007 by the largest mobile phone networks in Kenya and Tanzania. It allows users to deposit, withdraw, and transfer money, and pay for goods and services simply and easily with a mobile device (Suri and Jack 2016). By 2017, M-PESA spanned 10 countries with about 10 million users. A recent study on its uptake by

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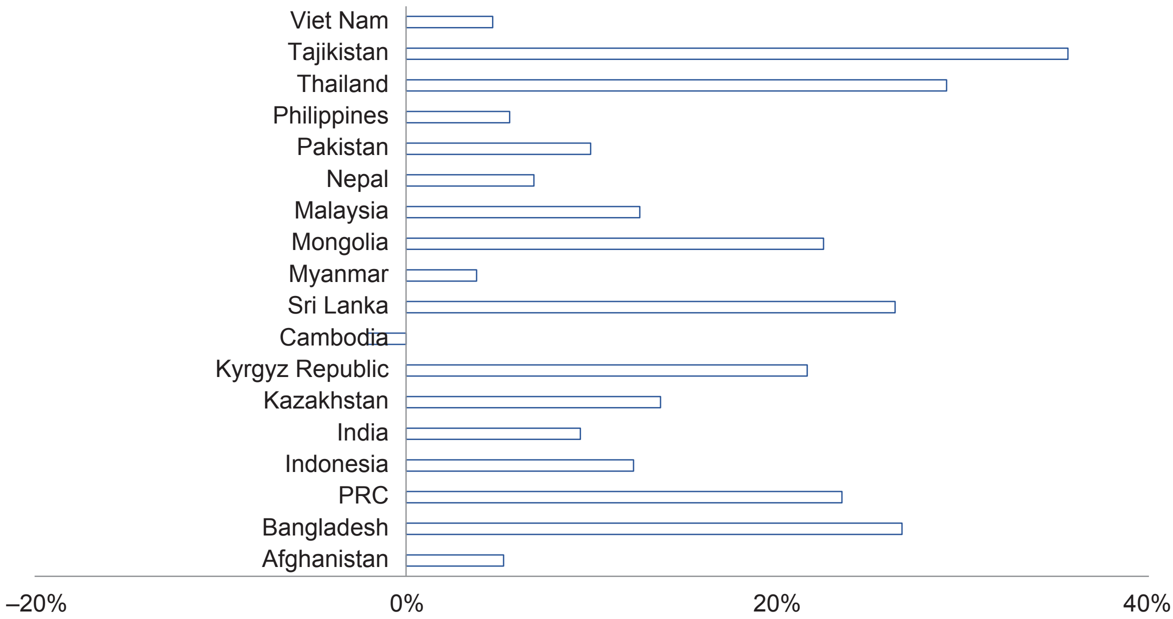
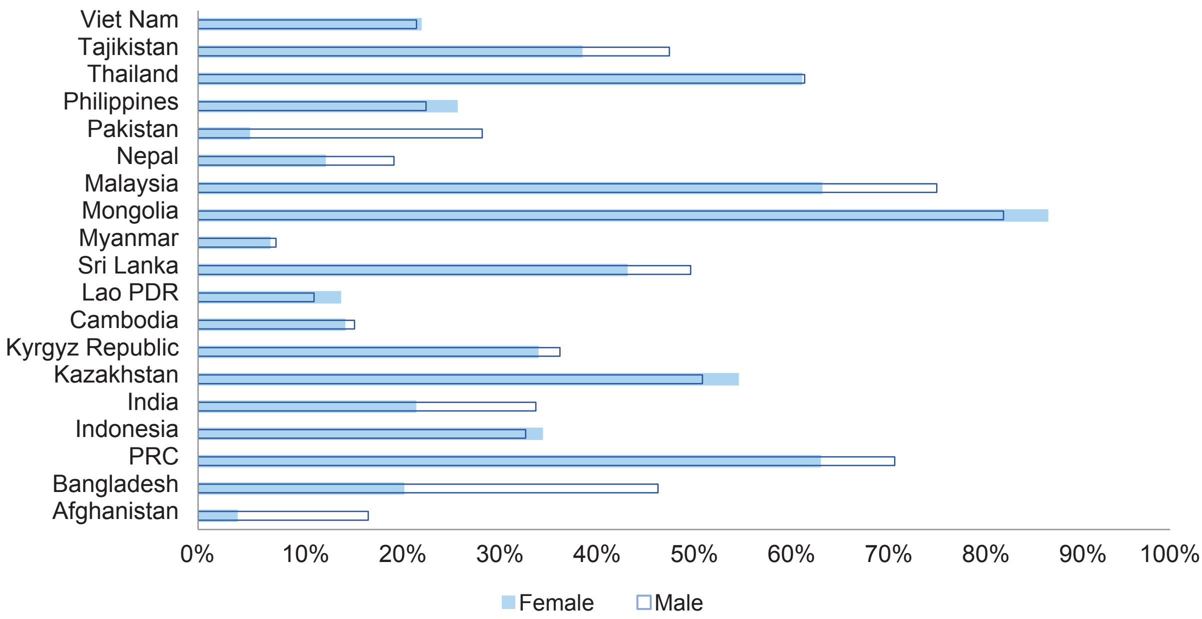
Figure 4: Difference in Share of Digital Payment Users between 2014 and 2017



PRC = People's Republic of China.

Source: Demirgüç-Kunt et al. (2018).

Figure 5: Share of Men and Women Who Made or Received Digital Payments, 2017



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Source: Demirgüç-Kunt et al. (2018).

"The ease of access and use provided by fintech innovations can increase the formalization of women's transactions."

Suri and Jack (2016) shows that it has lifted as many as 194,000 Kenyan households out of extreme poverty and that women, in particular, show the greatest gains. The findings show that with M-PESA, female users increased their consumption and their prospects in the workforce (Suri and Jack 2016). They estimate that because of M-PESA, about 185,000 individual women moved beyond subsistence farming into business or retail sales. The study shows that rather than livelihood or jobs-related intervention, the introduction of such products that address their financial exclusion at a more basic level can impact their financial behavior and mindset as it puts a range of options directly into their hands.

New rising fintech innovations, such as Tencent's WeChat Wallet and Alibaba's Alipay, to name a few, can be leveraged to bridge the gender gap in financial inclusion in Asia and the Pacific and around the world. WeChat Wallet and Alipay have a massive user base in the PRC; India's move towards a cashless society has facilitated the growth of such fintech as Paytm, and Indonesia's Akulaku now operates in the Philippines, Malaysia, and Viet Nam and provides various financial services including online installments for purchases (Fintechnews Singapore 2018).

Such fintech has the capacity to address the barriers women face in being financially excluded. The use of smartphones is becoming more widespread, permeating into the most remote and economically underdeveloped areas. Fintech can help bridge the gap in a number of ways. First, less stringent documentation and lower fees for opening and maintaining accounts are points where most fintech innovations depart from traditional financial institutions. Lowering costs for opening accounts encourages users, especially those that are underserved, to open and maintain accounts and to regularly conduct transactions.

Second, these innovations integrate various services—from deposits and withdrawals to payments for goods and services—making it easier for women who, between working and caring for a family, may not have enough time to go to a bank. Such ease of doing transactions can free up resources that would have been otherwise used for transportation to go to financial institutions.

Third, the ease of using these innovations can help women better manage their time, freeing up time for more productive activities, as evidenced by Suri and Jack's 2016 study on M-PESA. The integration of various financial services in fintech also encourages women to engage in other financial services that promote savings and investments. Savings are a very important buffer for households, especially those that are considered vulnerable and at risk of sliding into chronic poverty in times of financial crises and various shocks. Ouma, Odongo, and Were (2017) find evidence that the use of mobile phones to provide financial services promotes the likelihood of saving at the household level. They further find that the ease of saving also boosts the amount saved.

Fourth, and most importantly, the ease of access and use provided by fintech innovations can increase the formalization of women's transactions, protecting and educating them against fraud and unfair transactions and empowering them by making them agents of their own financial futures.

Leveraging Fintech to Bridge the Gender Gap

Acknowledging the role of fintech in closing the gender gap in financial inclusion also requires acknowledging the possible negative impacts digital finance could bring. Ozili (2018) notes that it should not be forgotten that providers of fintech are profit-seeking corporations, which can translate to being selective about their user base, preferring high- and middle-income customers over low-income customers. Further, providers can choose to withdraw or discontinue the provision of services to high-risk areas if there is no existing infrastructure that can sustain digital finance. Third, educational bias can impact the choice of clients as providers may choose to focus less on the delivery of services to communities

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with low financial education, as this would translate to lower profits and higher costs.

To address these challenges while taking advantage of the possibilities fintech offers, especially with regard to closing the gender gap in financial inclusion, it is critically important to ensure fintech services are easily accessible, affordable, and relevant for women. To facilitate this, better dialogue targeting and assessment of the needs of the underserved sectors of the population, including women, should be further promoted. Financial education may be key to encouraging more underserved communities to engage further in digital finance. Given the importance of savings and investments, information on the different ways to save is valuable for the underserved sectors of communities.

How to measure financial inclusion should be further discussed. Arun and Kamath (2015: 271) in their extensive review of policies and practices on fintech and financial inclusion argue that there is a need to “effectively measure the progress countries have made in enabling access to and driving usage of the different financial products—payments, lending, long-term savings/investments, and insurance”. Measuring access should look at the depth of penetration of these digital finance innovations to underserved communities and to the degree the products are used and how the products are being used.

Finally, targeted policy interventions by governments can play an important role in leveraging fintech to address the gender gap in financial inclusion. Relevant policy responses should take into consideration the following: (i) the need for robust and broad infrastructures for digital finance to thrive and survive; (ii) tailored and innovative fintech services for the underserved with a particular focus on women; (iii) flexible and comprehensive regulatory regimes to ensure access; and (iv) active coordination among the relevant ministries and institutions to enhance financial education.

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