Fintech can promote financial inclusion in emerging economies

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Financial technologies—fintech—are rapidly expanding and providing easier access to financial services worldwide. The COVID-19 pandemic has further accelerated the need for contactless transactions.

A new study from the University of Illinois evaluates fintech systems in 16 emerging markets. The researchers conclude [digital technologies]() overall provide greater access to [financial services](), but some barriers to usage remain for vulnerable populations.

"Emerging economies have great potential for harnessing the power of fintech to speed up economic development. It can be an incredibly powerful tool to help improve financial inclusion and resiliency," says Angela Lyons, associate professor in the Department of Agricultural and Consumer Economics at Illinois and lead author on the study.

Lyons and co-authors Josephine Kass-Hanna and Ana Fava analyze data from the 2017 World Bank Global Findex database and link it with new data that ranks countries on the basis of their fintech ecosystems. Their study focuses on ten big emerging economies (Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey) and six other rapidly developing economies (Chile, Colombia, Malaysia, Nigeria, Russia, and United Arab Emirates).

"Until recently, researchers haven't had a lot of tools to measure fintech development. We were fortunate to be able to work with the company Findexable. We had access to their proprietary measure, which uses a comprehensive metric to look at three core dimensions–the quantity and quality of fintech companies, as well as the business environment in each country," Lyons says.

"Our study provides one of the first multi-country assessments of the relationship between fintech and financial inclusion. It establishes a starting place for other researchers to build upon."

The researchers include financial measures such as account ownership, saving and borrowing behavior, the use of formal and informal services, and sending or receiving remittances. They also measure ownership and use of mobile phones, mobile apps, and digital technologies for financial transactions.

"Overall, we do find positive associations; for the most part fintech is helping to improve financial inclusion," Lyons says. "However, greater access to financial services does not necessarily mean greater usage."

There are still many barriers to usage, including digital literacy, cost, and limited consumer protections, especially for disadvantaged populations such as women, younger, older, less educated, and poorer individuals. Such challenges require continued political interventions to address infrastructure and regulations, the researchers note.

The COVID-19 pandemic has sped up the transition to digital financial services worldwide, further underscoring the need to ensure vulnerable populations have the tools and knowledge to use digital technologies.

"These populations are likely to require additional enabling support that goes beyond digital infrastructure and fintech development to include regulation, supervision, consumer protections, and financial and digital literacy," the researchers conclude in the paper.

The Department of Agricultural and Consumer Economics is in the College of Agricultural, Consumer and Environmental Sciences, University of Illinois.

The paper is published in *Emerging Markets Review*.

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