Fintech, Financial inclusion, and financial literacy in Asia (Abstract)

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Abstract

"Fintech", or financial technology, describes a new breed of firms that specialize in providing financial services primarily through technologically enabled mobile and online platforms. This differs from earlier generations of finance-related technology, as it provides services directly to consumers rather than focusing on providing services to already-established financial firms. Fintech is changing finance in fundamental ways, from investment management to capital raising to the very form of currency itself. Fintech innovation has lowered the barriers to entry, expanded access to financial services, and challenged traditional understanding about how finance works. Nevertheless, use of fintech products and services introduces new kinds of risks, such as cyber crime, and requires digital financial literacy to be used safely and effectively.

Financial inclusion can be described as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It primarily represents access to a bank account backed by deposit insurance, access to affordable credit and the payments system. Studies show that financial inclusion can significantly reduce poverty and boost shared prosperity, but efforts to foster inclusion must be well designed. Regarding access to basic payments and savings, the evidence on benefits, especially among poor households, is quite supportive. For firms, particularly small and young firms that face greater constraints, access to finance is associated with innovation, job creation, and growth. Financial inclusion also entails risks such as excessive borrowing. Therefore, financial literacy is very important to enable consumers to access finance safely and effectively. Financial literacy is multi-dimensional, a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Financial literacy is a strong predictor of retirement planning and wealth, and also of debt management capacity. Financial literacy levels are generally correlated with income, but overall levels are relatively low.

Fintech payments growing rapidly, but loans and cryptoassets are small. We find that financial knowledge is positively associated with higher fintech awareness and usage. General and financial education programs could raise the demand for fintech services and promote financial inclusion. A large share of informal firms is already using fintech services, especially e-commerce. Use of fintech positively associated with business continuation and sales increases of small firms. These results should strengthen the case for policies to promote fintech innovation, financial inclusion, financial literacy and digital financial literacy.

AI has the potential to increase both green finance and financial literacy. Green finance is greatly limited by the lack of information about firms' and households' financial sustainability as well as information about the environmental impacts of the investments they might make, but use of AI could improve this situation. AI could also provide individually-tailored tutorials on financial and digital literacy, which could make it scaleable to masses of people.

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