A Work-in-Progress:
Towards Financial Inclusion and a Cashless/Cash-lite Society in Asia

By Muhammad Solyh Ahmad | August 16, 2021, 10.00am

Overview

"*Universal access to financial services is within reach—thanks to new technologies, transformative business models and ambitious reforms*," J.Y. Kim, President of the World Bank Group shared back in 2014 of his optimism to the G20 leaders of how he saw 2020 to be a watershed year where greater progress can be achieved for financial inclusion enabled by digital technologies[1].

It has been more than a year into the milestone set in that speech as we take stock of the developments that have happened thus far in Asia with special focus on the region's developing economies in their pursuit for greater financial inclusivity amidst a growing *cashless* society.

Innovations and Developments Across Asia

The transition of the global economy into its *Fourth Industrial Revolution* – A term coined by the founder and executive chairman of the World Economic Forum (WEF), Klaus Schwab in his article published by *Foreign Affairs* in 2015[2], marked an era of rapid change spearheaded by technological innovations disrupting and creating new industries in fields such as robotics, artificial intelligence, decentralised consensus, fifth-generation wireless technologies, and more.

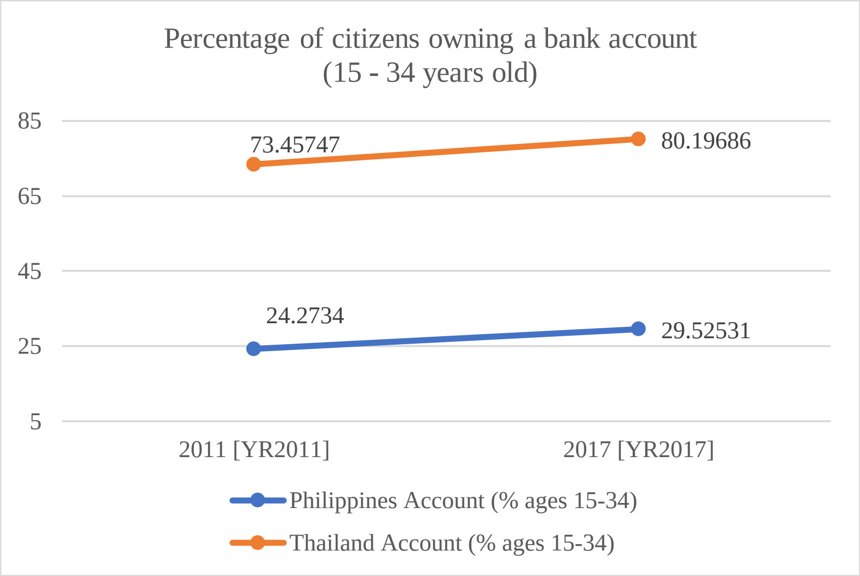
Industries and nations across the world have since incorporated this into their innovation policies and strategies, which brought along impact to the larger society as businesses are increasingly digitalised. Consumers are now quickly getting online through greater access and reach with improvements made to digital infrastructures enabled by mobile, social media, analytics and cloud, changing the way consumers buy and use products and services. An analysis by Accenture and the WEF noted that digitalising consumer industries is projected to cumulatively rake in profits and value creation to a tune of US$10 trillion between the years 2016 to 2025[3]. These have thus invariably shaped the financial and retail payments industries and regulations that govern this space.

Zooming back into the Asian region, central banks and monetary authorities have leveraged on a younger population who are mobile-ready through the implementation of solutions such as national Quick Response (QR) standards, e-payment gateways, real-time interbank funds transfer systems with cross-border interoperability, and projects piloting the use of central bank-issued digital currencies.

To support these developments, recent policies through the passing of digital bank guidelines by the Philippines' Bangko Sentral Ng Pilipinas in December 2020[4], and Bank of Thailand's additional regulations on the supervision of IT risks in accordance with the Payment Systems Law in April 2021[5] for e-payment service providers and non-bank institutions are amongst some of the initiatives central banks and authorities have undertaken to enhance the digitalisation of its finance systems.

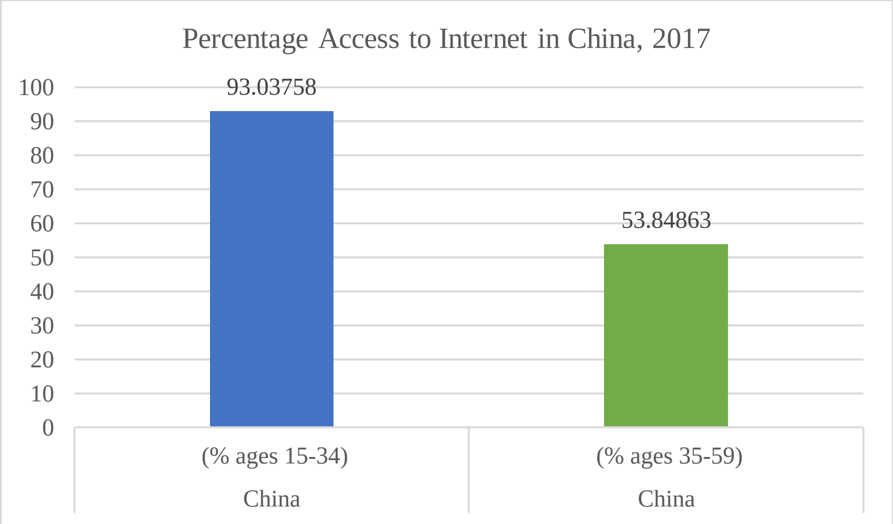
Building on this climate of innovation are countries like Thailand and Singapore who have announced in April 2021 the world's-first linkage of real-time retail payment systems between Thailand's PromptPay and Singapore's PayNow allowing individuals and businesses to instantly transfer money using unique identifiers such as their personal identification number or mobile phone numbers, on top of its QR payment standards[6]. This development points toward a larger objective of integrating the markets and financial systems across the ASEAN nations in Southeast Asia[7]. Alongside these innovations include other retail payments innovations from the tech industry, enhancing the experience of consumers in this digital economy. All these innovations have lowered the cost and barriers to entry for businesses and individuals alike whilst boosting the broader inclusivity of financial innovations within the country and across the greater region.

These developments echo the direction where policies are supporting an environment of innovation that has a real impact on society, as established from the following historical data. According to data findings in 2017 from the World Bank's Global Findex Database[7], 98.3 per cent of the Thai population between the ages 15 to 34 have access to mobile phones, and 87.5 per cent possessing access to the Internet. Of that demography, 80.2 per cent of them owns a bank account as compared to 73.5 per cent in 2011. This trend is similarly seen in the Philippines as well, where the younger population of the country is seeing an increase in the percentage of citizens owning a bank account when there is greater access to mobile phones and the Internet (seen in the table below).

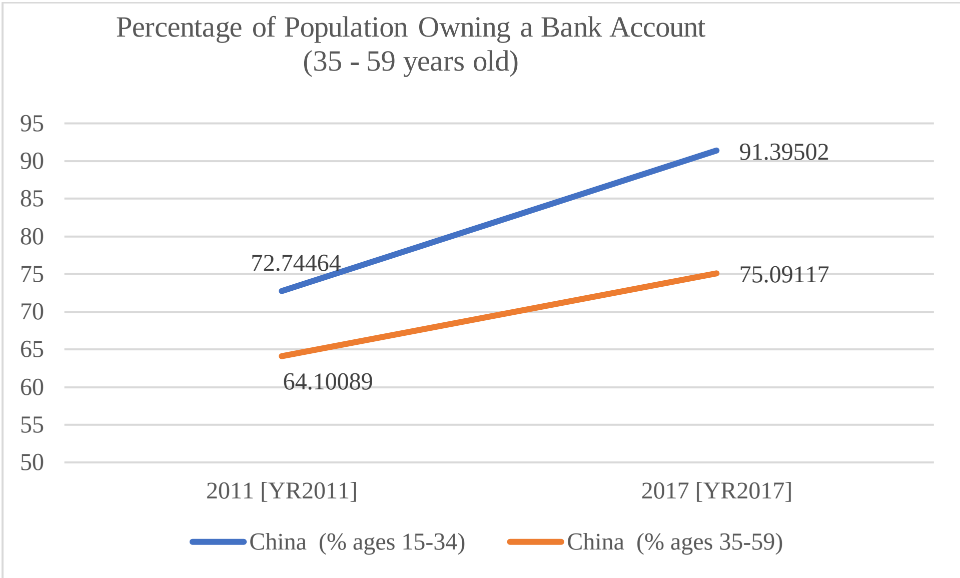


Source: World Bank's Global Findex Database Financial Inclusion indicators[7]

Comparing China – often regarded as the sterling example of a cashless society – to these findings from the two Southeast Asian economies reveal a similar trajectory, albeit to a varying degree with 96.2 per cent of the Chinese population between the ages 15 to 34 having access to mobile phones, and 93 per cent possessing access to the Internet. Of that demography, 91.4 per cent of them owns a bank account as compared to 72.7 per cent in 2011, which marks a drastic increase of 18.7 per cent within a short span of 6 years. This runs in contrast to a lesser extent with a percentage increase of 11 per cent within the same span of time for the older demography if we were to sample between the ages of 35 to 59 years old.



Source: World Bank's Global Findex Database Financial Inclusion indicators[7]



Source: World Bank's Global Findex Database Financial Inclusion indicators[7]

The data further presents another concerning statistic for the bottom 40 per cent of households aged 15 and above, which saw a promising increase from 46.6 percent in 2011 to 72.6 per cent in 2014, before dipping back to 68.4 per cent in 2017 of the Chinese reported possessing a bank account or using a mobile money service.

Drawing preliminary insights from the limited scope of data presented in this study correlates to how developments in finance and retail payments may not have been as inclusive and might have left out some segments of society as nations transition themselves into a cashless, or, *cash-lite* society.

Not a Panacea

As countries grapple with the exacerbating impact of the COVID-19 pandemic, the transition to a cashless society accelerates amidst the backdrop of rapid digitalisation in the finance and retail payments sector, thus begging the question of whether rapid digitalisation in the retail payments sector will be the panacea to achieving financial inclusivity and a cashless society.

The wide adoption of QR standards across Asia has been seen as a low-cost solution towards achieving a cashless/cash-lite society with China leading the way. In FY2020 alone, China transacted US$1.92 billion through its QR deployments[8]. With QR standards possessing the ability, and one of the many solutions adopted to accelerate the digitalisation of economic activity at a scalable, accessible and low-cost manner, some questions arise on what are the pathways toward realising a truly inclusive and cashless society. This can be associated with having the right policies, infrastructure and participation from industry to drive such innovations, which can be seen through the rapid development that China has experienced in this space in recent years[9].

Having all the right factors checked underscored the ability for China to achieve a cashless society in double quick time, which many Asian economies aspire to reach. Despite being a cash-driven economy in the past, the environment harboured many enterprising Chinese companies and they saw the initial lack of regulation at a time that saw the creation of online payments and mobile payments applications which paved the way towards widespread adoption. Throughout the recent history in Chinese payments development, the PBOC and regulatory agencies have undertaken interventionist actions to mitigate monopolistic behaviour from the industry[10]. Together with a centralised government structure that is unique to the country, regulations and policies are easily implemented; contributed by a rich culture of innovation and enterprising solutions that rapidly evolve its digital payments systems and infrastructure. Hence, Chinese society reaped the benefits of being cashless in a short amount of time. Nonetheless, some payment innovations came at an expense of those who lacked the means and accessibility to infrastructure and knowledge or ability to connect to the Internet. This is a gap that will and should be addressed with time through scale and adoption, including sustainable and proactive policies that balance innovation and the needs of the society-at-large.

Conclusion: A Vision and Hope for the Underbanked

As Asia looks on to countries like China which have achieved some level of success in financial inclusion and enlarging a cashless society, policy makers and regulators must adopt approaches that are suitable to the context of their society, whilst balancing the need for innovations. Some innovations do tend to favour the young and thus, new and creative approaches should also be undertaken by governments and its stakeholders to include various social strata and demography prevalent in the country. This way, sustainable pathways can be achieved without preventing the vulnerable, underbanked population in countries from reaping the benefits of a digitalised and inter-connected economy.

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