

PRESS RELEASE
“Finance for All: Wedded to fintech, for better or worse”

Technology risk is high in financial inclusion market

Survey identifies potential pitfalls

New technology is delivering considerable benefits to the financial inclusion market – but is also creating new risks that service providers need to manage if they are to succeed.

This is the main conclusion of a new survey of the risks (or Banana Skins) in the provision of financial services to people in emerging markets who have little or no access to these services.

The report¹, *Finance for All: wedded to fintech, for better or worse* is based on responses from over 300 practitioners and close observers of the industry in 70 countries. The survey was conducted by the Centre for the Study of Financial Innovation (CSFI), an independent London think tank, and supported by the Center for Financial Inclusion at Accion and the Citi Foundation.

The survey identified 18 areas of risk for service providers and ranked them by the scores given by respondents. Technology risk was the clear leader.

While technology opens the way to huge growth in the provision of financial services, it is expensive and complex, and contains risks of its own. Chief among these is the risk that providers will fail to understand it effectively and place themselves at risk. By facilitating access to credit for less sophisticated customers, technology could lead to irresponsible borrowing and debt difficulties. Technology may also attract providers who are more interested in commercial gain than in the social goals of financial inclusion,

Finance for All 2018

(2016 position in brackets)*

Rank	Risk	Score out of 10
1	Technology risk (4)	7.20
2	Strategy (1)	6.73
3	Political risk (12)	6.63
4	Credit risk (8)	6.61
5	Risk management (2)	6.57
6	Product risk (7)	6.51
7	Governance (9)	6.50
8	Talent (15)	6.49
9	Management (10)	6.49
10	Regulation (16)	6.38
11	Macro-economic risk (6)	6.13
12	Crime (20)	6.09
13	Client relationships (14)	6.06
14	Competition (13)	6.04
15	Client acquisition risk (-)	6.04
16	Reputation (18)	6.03
17	Funding (19)	6.02
18	Service delivery risk (-)	5.89

*In the survey *Financial Services for All 2016*

¹ For the background to the report, see Notes to Editors.

or those who are unable or unwilling to design products specifically for the excluded.

A regulator in South East Asia commented: “The use of technology has huge potential in reaching and servicing the unbanked, yet we cannot do it without a probable increase in the inherent risk of failure of systems or infrastructure, data breaches and leakage of information. These pose a threat to cyber security, while the multiplicity and network of providers involved in providing finance could blur lines of accountability that could pose risk to consumers.”

The survey also identifies risks that are seen to be rising in this market. Chief among these is political risk, such as interference by government in the form of interest rate caps on loans, debt waivers and subsidised competition. The risk of bad debts is also seen to be growing as the problem of indebtedness among low income populations persists.

Weakness in the governance and management of service suppliers continues to be a concern. The risk of crime, particularly fraud, cyber crime and money laundering, is a growing worry.

On a more positive note, risks that are seen to be receding include the state of the global economy thanks to growing signs of recovery, and the availability of funding for financial inclusion services, particularly in the form of “impact investing”.

The 52-page report provides a commentary on each of the 18 risks identified in the survey, and breaks down responses by type and region, providing detailed views of the concerns by geography and different classes of respondent.

David Lascelles, survey editor, said: “These results show very clearly that people are worried about the potential for technology to do harm by alienating customers, encouraging irresponsible behaviour and exploiting lack of financial sophistication. Many respondents called for stronger consumer protection. There is a clear warning here.”

Deborah Drake, vice-president at the Center for Financial Inclusion at Accion, said: “Identifying the primary risks that service providers face is the first step to mitigating and overcoming them. This report is essential to understanding our dynamic sector as well as ensuring provider sustainability and consumer protection and empowerment.”

Philip Brown, managing director, risk, Citi Inclusive Finance, said: “We can celebrate that technology is revolutionising the sector, facilitating growth and inclusion. But the basics of financial service provision, client protection and minimising exclusion remain the same. This report captures the dominant pervasiveness of technology across all aspects of risk, and offers views from different perspectives while highlighting the related impact on clients – raising risk awareness at Board level on fundamental strategy/governance issues.”

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Hard copies of *Finance for All: wedded to fintech, for better or worse* are available free from:

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Finance for All: wedded to fintech, for better or worse is the latest survey in a series going back to 2008 and previously titled *Microfinance Banana Skins*. The new title reflects the evolution of the microfinance business into a wider market for the provision of financial services to the world's financially excluded, with the participation of a greater range of suppliers, including commercial banks, technology companies and telcos.

The Centre for the Study of Financial Innovation (CSFI) is an independent London-based think tank which researches trends in the financial sector. www.csfi.org.uk. It is supported by 75 public and private institutions, and has no political agenda.

The **Center for Financial Inclusion at Accion (CFI)** is an action-oriented think tank that engages and challenges the industry to better serve, protect, and empower clients. We develop insights, advocate on behalf of clients, and collaborate with stakeholders to achieve a comprehensive vision for financial inclusion. We are dedicated to enabling 3 billion people who are left out of – or poorly served by – the financial sector to improve their lives. For more information, visit www.centerforfinancialinclusion.org.

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. We invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfil our mission and drive thought leadership and innovation. For more information, visit www.citifoundation.com.