Operationalizing Data for Financial Inclusion

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Efficiently and effectively harnessing data is key to anticipating and responding to the needs of new and potential customers. Digital channels are proving successful for promoting financial products and services and more easily onboarding new customers at a high volume. However, there are challenges financial institutions (FIs) face in collecting and harnessing the right data to promote financial inclusion. The August session of DataTalk explored operationalizing data usage for innovation in financial inclusion. Topics discussed include customer accessibility versus use of financial services, the importance of data risk management for third-party data providers and harnessing digital channels to grow financial inclusion efforts. This briefing note summarizes the discussion held on August 23, 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

Accessing financial services. Across all jurisdictions, FIs face the challenge of reaching untapped customers. In areas where cities hold a highly concentrated number of existing and potential customers (which offers appropriate conditions for spending multiple resources in building physical branches to serve these customers) and where rural areas make servicing through traditional brick and mortar banking too costly, digital avenues are helping to lower costs of Know-Your-Customer (KYC), making the onboarding of new customers more attainable to more institutions, and facilitating controls related to money laundering (AML) in smaller and more frequent transactions.

Utilizing financial services. Of those customers who already have access to a bank account, many still are not taking full advantage of the products and services available to them. FIs are using data analytics to anticipate and respond to customer needs as a means of enabling consumers to acquire the services or products they want/need. Analyzing the information of retail customers to understand their cashflow and lending them money for very low amounts or analyzing SMEs cash flows to find and bridge resource gaps, for two examples. To be able to bridge these gaps, FIs need to have accurate data, which is created when costumers conduct transactions; therefore, private and public actors are seeking ways to nudge customers to use digital accounts as a means of increasing their digital footprints so FIs can more effectively tailor and deliver the services customers need.

Addressing gaps in data use and governance is key to furthering inclusion. Constraints on data availability and further limitations on who can access and use that data (after receiving customer consent) limit the efforts currently underway to foster financial inclusion through data usage. Accessing the right data is just the first step, but data quality and data literacy are equally important. As FIs often rely on external partners and third-party servicers to collect and analyze data, prioritizing risk management is key.

The economics behind the business determine availability. Most advances in financial inclusion efforts have been made after the private sector has found a way of designing business cases that make economic sense for the company and that promote inclusion at the same time. In this regard, considerations around literacy, taxes (some countries have a tax only applicable to digital transactions), and ease of doing business will end up having an impact on increasing access and use of financial services.

*We look forward to continuing the DataTalk series on Wednesday, October 25 8am Washington DC / 2pm Brussels / 8pm Singapore where we will discuss **developments in AI and impacts from data availability**.*