FINTECH FUTURES | REPORTS

MAMBU

Creating financial inclusivity in a digital-first future

Introduction

Technology in the financial services sector continues to gallop forward year on year. As macroeconomic factors and the ongoing effects of the COVID-19 pandemic push users towards digital services, banks and financial services providers have pivoted to meet that need at pace, as demand for fintech apps rises by as much as 72%.[1]

As the industry takes a collective step forward or as some take a collective step to catch up with fast movers, others are left behind. While more options than ever before appear for users needing services from basic accounts to commercial lending, many still struggle to access them from traditional providers.

The rate of global financial inclusion has increased in the past ten years. Latest figures from the World Bank show that 69% of adults have access to a bank account or mobile money provider globally, an increase from 51% in 2011.[2] Despite this, 75% of consumers rely on a money transfer service or payments fintech to transfer their cash.

The part financial services and inclusion can play in restarting and supporting the global economy in the wake of the pandemic can't be ignored. Ensuring access to financial services appears in more than half of the UN's Sustainable Development Goals.[3] The digital finance market, upon which a majority of people in newly developed and developing markets rely, is estimated to be worth US$3.7 trillion to those economies between now and 2025.[4]

Yet the notion of underbanked and unbanked customers featuring primarily in emerging markets is a falsehood that the industry also needs to address. In Europe, up to 40 million people sit outside the banking mainstream.[5] In the US, 22% of the population – 72.5 million people – can be counted as underbanked.[6]

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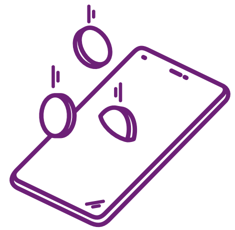

$3.7trn
the valuation of the digital finance market by 2025

So, what does it mean to be "unbanked" or "underbanked"? If accessibility to a bank account is the prime metric, then perhaps there should be some soul-searching among financial institutions, as consumers wary of charges and debt turn to fee-free fintechs to help them save and spend. Banks are losing the opportunity to act as vital support to a significant chunk of the population, and are allowing new fintechs to become the go-to for those seeking easier access to the financial system.

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[1] https://www.computerweekly.com/news/252480978/Coronavirus-Use-of-fintech-apps-in-Europe-accelerates

[2] https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows

[3] https://www.uncdf.org/financial-inclusion-and-the-sdgs

[4] https://www.mckinsey.com/~/media/mckinsey/featured%20insights/Employment%20and%20Growth/How%20digital%20finance%20could%20boost%20growth%20in%20emerging%20economies/MGI-Digital-Finance-For-All-Executive-summary-September-2016.ashx

[5] https://www.wsbi-esbg.org/press/latest-news/Pages/Close-to-40-million-EU-citizens-outside-banking-mainstream.aspx

[6] https://www.gfmag.com/global-data/economic-data/worlds-most-unbanked-countries

"The financial sector still has a reputation for being complex, fraught with scandal and distrust. People don't want to give their money and personal information to a business where perhaps they have seen their parents, grandparents or others around them lose money in the past.

Knowledge is still disproportionate to the complexity of banking. Mortgages remain incredibly complicated. Do I have enough money to secure a loan? What do I need to apply? Do I have the right documents? These are common questions asked by those who are unbanked.

Richard Morgans, general manager UK and Ireland, Mambu

"While the new smaller challengers may well set themselves up to understand and address the needs of the underbanked, it remains hard to achieve critical mass in the industry.

The sunk costs and previous investments of the large institutions require payback, and the fastest way to this is typically through those already highly engaged with banking products and services.

Andrew Arwas, head of corporate development, Chetwood Financial

Education meets technology

Why, despite growing numbers of people having access to digital services, are we still seeing not-insignificant numbers of people locked out of the system? What can financial institutions look to when trying to encourage better interaction from traditionally underserved communities? There are three main reasons:

Ease of access
Customers use mobile phones as a primary channel because it is intuitive and seamless when opening accounts. Creating an account on Facebook, Amazon, or Google Mail doesn't take days, it takes minutes. In many cases opening a bank account doesn't match up.

Cost of access
Opening and maintaining a bank account in many countries is an activity that has an inherent cost attached to it. This is usually derived from expenses incurred by the bank in the operation of the account, which can run up to US$400 per customer.

Comfort of access
Humans prefer situations and scenarios that are comforting and familiar to them. Older generations still use branches because it has always been that way for them. Similarly, younger generations prefer mobile over anything else because it's how they grew up. Accessibility applies to both ends of the spectrum.

New technologies and strategies available in the market today can address all three of these access issues for a bank willing to grasp the opportunity. For example, time-costly processes such as onboarding can be shifted from a meeting in a branch with manual printed documents to a photo capture of an ID card or a recording of the customer speaking a phrase. The demand is also there, with 68% of consumers expecting the ability to onboard at their bank completely digitally.[7]

"There is still limited education on the subject of money and personal finances. To learn valuable lessons on finance, those of us in the banked community have relied on trial and error which is not an option for everyone."

New entrants who offer bank accounts and financial literacy for children, like GoHenry, help in some regard. However, they may not be right for everyone, and the solution isn't just to open an account and learn as you go. Financial institutions should offer more personalised services to educate consumers, and innovative technologies play a key role in enabling this.

Richard Morgans, Mambu

Accessibility needs extend beyond a person's access to cash. A re-examination of language in terms of service and on banking documents can be crucial to removing complex barriers and meet ease-of-access needs.

Gaining an insight into the needs of diverse customers means having a diverse set of people at the very heart of an institution. Many in the industry are doing everything they can to provide adequate representation on board and executive level, but also among developers and those at the heart of the systems powering everyday services.

"There has to be a different approach to identifying target segments, understanding the needs and developing innovative solutions. There has to be an acceptance that these offerings may not sit easily along the traditional banking product ranges.

Andrew Arwas, Chetwood

Despite this, there is still much further to go. 65% of firms signed up to the UK Treasury's "Women in Finance" charter have missed their 2020 targets for women in senior positions.[8] Major banks are also struggling to hire racially diverse talent, with some reporting Black representation among senior roles at 0.9%.[9]

"The industry needs to bring together regulators, telcos, fintechs and use technological advancements to improve access to financial services. In short, financial inclusion is a collective effort and isn't the sole responsibility of fintechs. Governments and big banks need to also contribute to the change and lead the scale-up of economic inclusion interventions.

Kaushik Sthankiya, chief commercial officer, Sokin

[7] https://www.signicat.com/blog/the-battle-to-onboard-2020-the-impact-of-covid-19-and-beyond

[8] https://www.fintechfutures.com/2021/03/65-of-uk-financial-institutions-miss-treasurys-gender-representation-targets

[9] https://www.reuters.com/business/finance/racial-diversity-data-britains-top-banks-2021-02-03

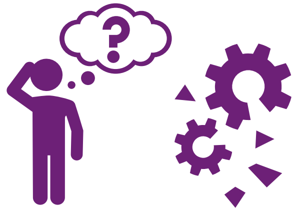
Overcoming legacy issues

Legacy technology and costly maintenance issues can mean banks must pass on costs to their users. Adopting and utilising cheaper, faster, and cloud-native software can reverse this, and mean an institution can break down cost barriers by offering low-fee or even fee-free accounts.

Unlocking and simplifying processes in the back office has a two-way benefit of freeing employee time and effort to complete everyday operations. This creates greater time to focus on reimagining the way a financial institution can serve both prospective and existing customers.

> *Some large banks have set a good example of building off of old systems to introduce new products and services to address these issues. An example of this is HSBC's initiative to help vulnerable people open bank accounts, which started in the UK helping rough sleepers and was later expanded to Hong Kong.*
>
> *When the legacy system is excluding hundreds of thousands of people through no fault of their own, it is the responsibility of banks to find and implement new solutions.*
>
> **Richard Morgans, Mambu**

How can financial institutions pivot to offer greater inclusivity to a potential customer base? Ditching workhorse infrastructure and legacy systems at the flip of a switch is no small undertaking. Yet when the benefits of digital, agile systems are demonstrated in the marketplace, and 62% of customers express a preference for new models of banking, there is often an imperative to shift as soon as possible.[10]



Legacy infrastructure can hold back inclusive strategies

Migration to a next-generation, cloud-native banking platform can reveal almost instant benefits. IT costs associated with core operations can reduce by as much as 50%[11] through the elimination of drawn-out upgrade cycles, faster launch of products, and a greater return on investment.

Equally, a modern digital core banking platform can increase the pace of innovation through faster product development, accelerated deployment of superior digital journeys and integration with third parties. All of this can contribute effectively to improving inclusivity-focused products and getting them to market in a timely manner.

> *An institution finding legacy technology standing in the way of its desire – its 'strategy' – to address inclusion, can ring-fence a new model through which to address this need. If institutions simply cite their legacy tech as the reason for not addressing inclusion, but don't try to address the problem in other ways, then it's just an excuse.*
>
> **Andrew Arwas, Chetwood**

> *There is no reason why legacy banks and financial institutions cannot innovate and improve their services for the benefit of their customers. Banks and financial institutions have a duty of care towards their customers to improve security, access and provide new innovative services to help them grow.*
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> **Kaushik Sthankiya, Sokin**

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[10] https://www.mastercard.com/news/europe/en-uk/newsroom/press-releases/en-gb/2020/november/life-under-the-new-normal-accelerates-digital-banking-adoption-across-europe

[11] https://www.mambu.com/insights/articles/digital-core-banking-50-cost-save-opportunity-for-european-banks

Conclusions

We will continue to see large contingents of previously disadvantaged communities, including small businesses and individuals, accessing financial services through different and more diverse channels. While this interaction has begun with mobile banking, it won't end there. Users are becoming financially literate and are demanding services and platforms providing options previously only available to institutional players.

Not only this, but those customers used to the "old" ways of banking are now turning – with reluctance or otherwise – to digital interactions as a matter of course when physical banking becomes harder to come by.

Traditional financial institutions need to take a deeper look at their strategies from an operational and technological perspective, to grasp the opportunities that are appearing before them. In both offering new digital services to emerging tranches of users, and digitising existing physical processes with ease of us in mind for older, or slow following customers.

> *Without meeting the expectations around financial inclusion, banks and financial providers risk missing information on underserved segments and consequently locking them out. Historically speaking, this could happen when lenders rely on traditional data sources that are often limited in capturing information.*
>
> *To mitigate the issue of neglecting a key target audience, lenders, payment providers and wealth managers must prioritise the delivery of hyper-personalised offerings to meet the customer wherever they are in the journey.*
>
> **Richard Morgans, Mambu**

> *If banks and FIs continue to focus their innovation on the 'haves', while offering little for the 'have nots' or 'have lesses', there is a growing possibility that this will be the generation that punishes them for this behaviour.*
>
> *The market is much more transparent. The costs of moving are reducing. The traditional brand allegiances are not a given. Maybe it won't be a revolution in 2022, but it is surely a risk that grows in likelihood and severity faster each year.*
>
> **Andrew Arwas, Chetwood**

To both drive financial inclusion and to reap the benefits of it, financial institutions must ensure that their operations are as efficient and cost effective as possible, able to provide rapid onboarding, insights on data and product servicing. Banks need to look at the systems driving those options on both the front end and the back office and evaluate where and when change needs to occur, and what technologies will help to drive them there.

About Mambu

Mambu is the world's only true SaaS cloud banking platform. Launched in 2011, Mambu fast-tracks the design and build of nearly any type of financial offering for banks of all sizes, lenders, fintechs, retailers, telcos and more.

Our unique composable approach means that independent components, systems and connectors can be assembled in any configuration to meet business needs and end-user demands. Mambu has 700 employees that support 200 customers in more than 65 countries - including N26, OakNorth, Tandem, ABN AMRO, Bank Islam and Orange Bank.

www.mambu.com

About FinTech Futures

FinTech Futures is a digital publishing platform for the worldwide fintech community – from the industry veterans to those just entering the space, and everyone in-between!

We provide daily news, in-depth analysis and expert commentary across a comprehensive range of areas.

Our broad readership and solid reputation, combined with in-depth coverage across fintech on a worldwide scale, makes us the leading resource for technology buyers, sellers, developers, integrators and other specialists across the sector.

Our website attracts nearly one million monthly page views and our daily newsletter is delivered to over 42,000 key decision-makers in the financial services and technology sectors. The brand is active across the key B2B social media platforms, with over 40,000 followers on Twitter @FinTech_Futures and over 20,000 members in our LinkedIn groups.

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