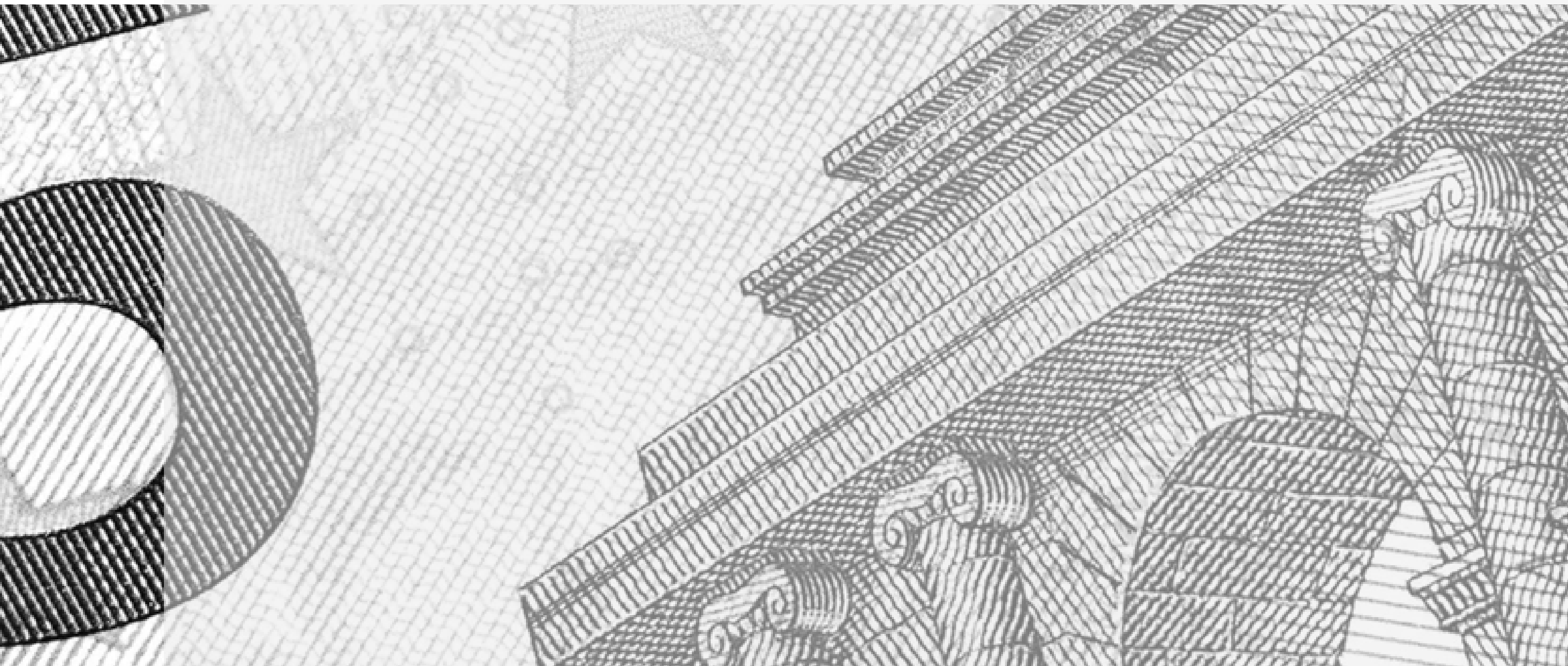
MICROFINANCE CENTRE

THE CONTRIBUTION OF THE FINTECH SECTOR TO FINANCIAL INCLUSION AND HEALTH

A REVIEW OF OPPORTUNITIES AND CHALLENGES



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EXECUTIVE SUMMARY

THIS PAPER SUMMARIZES KEY RESEARCH FINDINGS ON THE CURRENT STATE OF THE FINTECH INDUSTRY IN SIX COUNTRIES (UK, NETHERLANDS, POLAND, UKRAINE, TURKEY AND THE CZECH REPUBLIC) IN THE CONTEXT OF THEIR POTENTIAL CONTRIBUTION (POSITIVE AND NEGATIVE) TO FINANCIAL INCLUSION AND FINANCIAL HEALTH OF INDIVIDUALS AND SMALL BUSINESSES.

The analysis of each individual country (available as separate reports from the MFC's website)[1] paints a diverse picture: highly varied levels of fintech company development on the one hand, and on the other equally varied levels of financial inclusion and challenges to financial health. While some fintechs started with an explicit mission to tackle financial exclusion or improve financial health, the majority of the new digital financial service providers operate as profit-making concerns, often challenging legacy financial institutions.

Fintech services often reach those that traditional financial services cannot: excluded and underserved clients. While these services may have beneficial effects on clients' ability to manage money and use financial services, there is also harder-to-reach segment that still may be excluded by technology-driven services.

This paper offers a simple framework for a comparative analysis of fintechs' contribution to financial inclusion and health of individuals and small firms. The analysis points to the fact that while substantial progress has been made on the supply side, it is still unclear how the intended users – excluded and underserved people – buy these new services and use them to their benefit. Also, key differences among countries as to the scope and depth of policies promoting financial inclusion through the new financial technological applications remain.

The analysis identifies three types of country clusters in relation to the link between fintechs and financial inclusion: economically advanced countries, which have made major inroads in making fintech services available broadly accompanied by supportive policies; middle to upper-income counties, where the existence of fintech does not necessarily translate into greater inclusion or better financial health and where supportive policies are incomplete or fragmented; and emerging countries, where both the fintech sector and financial inclusion policies are at an earlier stage of development and formulation due to lack of access to technology, low digital literacy and high transaction costs.

The paper recommends actions to undertake on the demand, supply and policy levels to ensure that fintechs contribute positively to financial inclusion and financial health. Our field research uncovers several important knowledge gaps, especially related to the demand side of the relationship between fintechs and financial inclusion. Without a better understanding of people's interest in and uptake of fintech services, it is impossible to assess the potential impact of new technological applications on levels of financial inclusion and financial health. The latter concept, in particular, requires empirical studies (driven by clearer definitions) to determine the impact of fintechs on users' financial well-being.

1. WWW.MFC.ORG.PL/LIBRARY

FINANCIAL INCLUSION: INDIVIDUALS AND BUSINESSES HAVE ACCESS TO USEFUL AND AFFORDABLE FINANCIAL PRODUCTS AND SERVICES THAT MEET THEIR NEEDS FOR TRANSACTIONS, PAYMENTS, SAVINGS, CREDIT AND INSURANCE. IT INCLUDES ACCESS TO FINANCIAL SERVICES, USAGE OF THOSE SERVICES, AND QUALITY OF PRODUCTS AND SERVICE DELIVERY.

FINANCIAL HEALTH: HAVING DAILY FINANCIAL SYSTEMS THAT HELP INDIVIDUALS AND BUSINESSES BUILD RESILIENCE FROM SHOCKS AND PROVIDE THE ABILITY TO PURSUE LONG-TERM FINANCIAL GOALS.

OBJECTIVES OF THIS STUDY

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The objective of this synthesis paper and our country-level research was to review the current state of engagement of the fintech sector in the financial inclusion and financial health of unbanked and underbanked groups, either through direct service provision or partnerships with traditional financial sector players. Based on our field assessment of six European countries, this study highlights emerging opportunities and existing challenges in policy and practice. It also explores the potential for developing technology-based partnerships among the various service providers and use of new technologies for better financial inclusion and health.

COUNTRY INTERVIEWS AND RESEARCH APPROACH

Six countries are included in our research: the UK, Netherlands, Poland, Czech Republic, Ukraine and Turkey. These countries were selected as together they represent varying levels of current financial inclusion and financial health, and effectively capture the diversity of the market landscapes and policy initiatives. The country reports are available on the MFC website.

The fintech companies interviewed offer financial products and services directly to vulnerable and excluded groups (self-employed people, microenterprises, migrants, farmers), provide money management tools for self-employed and micro-entrepreneurs, or offer solutions to traditional financial sector (banks, loan funds, loan companies, savings and credit unions, etc.) indirectly serving the low end of the market.

We conducted our study using a mix of secondary and primary research methods, including desk review, fintech sector expert interviews, and interviews with fintech companies and traditional financial sector players.

FINANCIAL INCLUSION, FINANCIAL HEALTH AND FINTECH

Financial inclusion is described as a state in which everyone who can use them has access to a range of quality financial services at affordable prices delivered by a range of providers in a competitive market with convenience, dignity and consumer protection to financially capable clients.[2] Financial health is a condition in which a household or an enterprise effectively manages its income and expenses, is resilient to financial shocks and plans its financial future with a long-term perspective.

2. HOW FINANCIAL INSTITUTIONS AND FINTECHS ARE PARTNERING FOR INCLUSION: LESSONS FROM THE FRONTLINES (ACCION, 2017)

The country research reveals that not all countries operate in line with an agreed definition of financial inclusion and financial health, as is the case with Ukraine and Turkey. Among countries that have some form of definition, that definition is rarely universal; the concepts have different meaning for different stakeholders—as is the case of the UK where official policy definition differs from that of the Financial Inclusion Commission. When defined and adopted by policy-making bodies, financial inclusion typically focuses on the availability of financial services that are appropriate for low-end users (supply side) ignoring actual use of services (demand side). Almost uniformly, countries participating in the study lack a clear definition or unambiguous understanding of financial heath, especially in relation to small firms.

To date, the relationship between financial inclusion and financial health has not received significant research or policy attention; the implicit assumption is that deeper financial inclusion will lead to advances in the financial health of individuals and small firms, although countries are starting to focus on the potential exclusion created by fintech, not just its positive contribution to inclusion and health.

FINTECHS, FINANCIAL INCLUSION AND HEALTH: AN ANALYTICAL FRAMEWORK

Our assessment framework, which compares the diverse landscapes and ecosystems of fintechs in relation to financial inclusion and financial health, is presented in Table 1. This framework reviews the role of fintech in financial inclusion and health from the point of view of demand for digital financial services, supply of services, and policies and regulations enabling fintechs to operate.

Supply-side criteria include the existence and entry of new fintech firms into the financial market, the presence of fintechs in all segments of the financial market, the adoption of new technological solutions by traditional financial service providers (internally or through partnerships with fintechs), and the outreach of fintechs to users at the low-end of the market. Demand criteria include the potential demand for financial services by financially excluded individuals and small firms, interest and uptake of financial services offered by fintech companies, and the use of technology-based financial services by target clients. Policy criteria focus on the existence of financial inclusion policies, recognition of the role of fintechs in the provision of financial services, a favourable ecosystem for fintech development, and mitigating strategies for potential negative impacts that new technologies can bring to some financial service users.

Demand-side aspects of fintech and financial inclusion and health were not the core focus of this research. However, it is important to include demand-side dimensions into the assessment framework a complete analysis. Demand aspects were interrogated using secondary data and research, and our analysis is by no means exhaustive in this respect.

TABLE 1: CRITERIA FOR ASSESSING THE CONTRIBUTION OF FINTECHS TO FINANCIAL INCLUSION AND FINANCIAL HEALTH

DIMENSION	ASSESSMENT CRITERIA
SUPPLY	Fintechs exist
	Fintechs operate in all products and segments of financial market
	Traditional financial institutions employ new technologies
	Traditional financial institutions partner with fintechs
	Fintechs target low-end of market excluded segments
	Fintechs serve low-end of market excluded segments
DEMAND	Unserved demand for financial services (exclusion)
	Potential demand for money management services
	Interest in and uptake of fintech financial services
	Interest in and uptake of fintech money management services
	Excluded individuals use fintech financial services
	Excluded individuals use fintech money management services
POLICY	Financial inclusion is a public policy issue
	Financial health is a public policy issue
	Financial inclusion ecosystem exists
	Fintech is recognised as a factor in financial inclusion
	Favourable environment for fintech exists
	Negative impacts of fintech on inclusion mitigated

KEY RESEARCH FINDINGS

Our review of fintechs and their contribution to financial inclusion and financial health of individuals and small businesses paints a very diverse picture across Europe in terms of the availability of fintech services, the demand for these services, and the policies that enable and promote the penetration of digital financial services into underserved market segments.

SUPPLY-SIDE CRITERIA

EXISTENCE OF FINTECHS

Fintechs operate in all countries analysed in this study, but there is a significant difference between countries in terms of the number of active fintechs, types of services they provide, market segments in which they operate, and interest in, and relation to, financial inclusion and health agenda. The UK (the most advanced country in this respect) has about 1,600 fintechs operating in nearly all segments of the financial market. Ukraine, on the other hand, is at an early stage of its fintech revolution, and only boasts 80 fintechs. In each country studied, there were low barriers to entry for new fintech companies, with new entrants still arriving on the market in significant numbers. This signals a market that is still in the early stage of development, and space for fintechs to reach underserved segments and challenge traditional financial institutions.

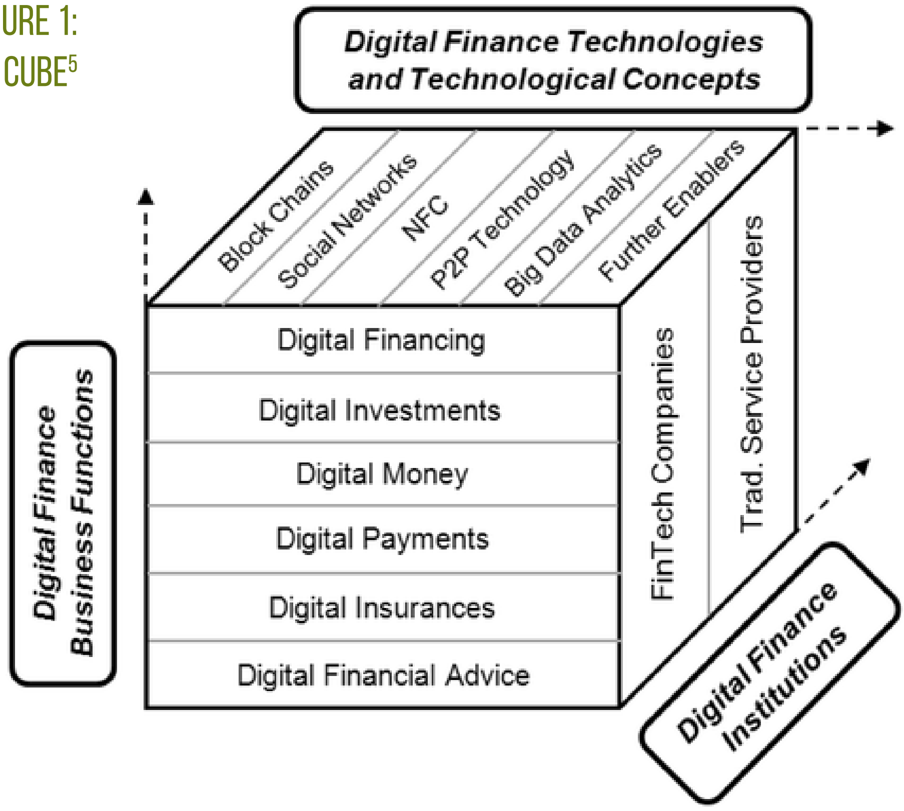
Entry is often facilitated by access to equity and venture capital which is readily available in the UK and the Netherlands but less so in Ukraine, for example, where the emergence of fintech lags behind more developed countries. The type of risk capital available in a country may also explain why Ukraine's fintechs focus on less-risky services (e.g. payments) and Dutch, British and even Polish fintechs can venture into more risky territory such as small business lending and equity financing.

Finally, we note that the fintech market is very volatile;[3] exits, failures and acquisitions are not uncommon. Many fintechs operate nationally as well as globally to exploit economies of scope and scale, while facing little regulatory barriers to operating beyond national limits.

FINTECHS IN VARIOUS SEGMENTS OF THE FINANCIAL MARKET

In the countries we studied, fintechs operate in all financial market segments (see Figure 1) although there are differences between countries as far as the most popular segments are concerned. In the most developed fintech market (the UK), fintechs operate in all segments, while in other countries fintechs dominate in the banking, insurance and payment segments, in addition to specialized services such as foreign exchange and (to a much smaller extent) personal financial management and advisory services. The Netherlands boasts an exceptionally high number of financing providers. Overall Dutch peer-to-peer lending volumes rank fourth in Europe. While in other European countries consumer loans prevail, business

FIGURE 1:
THE DIGITAL FINANCE CUBE[5]



3. Since our interview in March 2019, Loot entered into administration due to financial problems. One Turkish fintech, Izyco, was acquired by PayU. We expect yet more movement in this segment over time.
4. Source: Gomber, Koch, Siering (2017) Digital finance and fintech: current research and future research directions

lending constitutes the bulk of alternative lending in the Netherlands. Late entrants to the fintech scene, such as Ukraine and Turkey, focus more on traditional financial services to compete with the current banking system and less on disruptive financial innovation that challenges the financial system.

TRADITIONAL FINANCIAL INSTITUTIONS EMPLOYING NEW TECHNOLOGIES

Without fail, all traditional financial institutions in all countries studied have invested in and employ a range of new technologies as part of their financial service packages.

In Turkey, for example, a few traditional banks have developed fintech solutions to improve the customer experience. QNB Finansbank developed Enpara.com, a digital banking platform that allows it to offer digital-only financial services. Online services are more favourable for clients in terms of costs and financial gains (no fees on money transfers and credit cards, favourable interest rates on loans, higher interest deposits). They can be obtained remotely (rather than by visiting a branch) through an online platform or mobile app. The emergence of Enpara caused a sudden change in the Turkish banking system, prompting several other banks to follow suit. While traditional players have typically invested far less in R&D than fintechs, since 2012 more and more banks have been launching their own fintechs. Statistics show the growth in the number of mobile banking users—from 8 million in the beginning of 2015 to more than 40 million in the first quarter of 2019.

In the Netherlands, incumbent financial institutions are typically forward-looking, and earmark funding for spin-off ventures that compete directly in the fintech space. Some examples of spin-off ventures include ABN AMRO's moneyou (online savings, loans and mortgages), Rabo Bank's Tellow (automated accounting for SMEs) or ING's YOLT (a money management app). Almost all of these initiatives are geared towards retail and small business consumers, and focus heavily on financial management or financial health.

TRADITIONAL FINANCIAL INSTITUTIONS PARTNERING WITH FINTECHS

Many established financial institutions quickly recognised the benefit of developing operational partnerships with fintechs, namely that partnerships are more cost-effective and less risky—and faster than developing solutions in-house. Dutch banks often use "white label" ready-to-go solutions developed by fintechs, offering them within their own branding and marketing strategies. In this way, incumbent banks can leapfrog the innovation development process without spending time and money on their own R&D. Examples of successful white label solutions include ABN AMRO's Grip app for personal finance management, and its Kendu app for automated small-scale investing.

Several challenger banks such as Monese and U Account in the UK, which do not have banking licenses, open escrow accounts with traditional banks to offer banking services to their clients. Also, payment services providers in Ukraine link with local banks (mainly PUMB, Oshadbank, Alfa Bank and international payment service providers such as VISA and Mastercard) to offer services because they can't offer services directly.

Service delivery partnerships are seen in the area of facilitating access to banking services through online marketplaces and product comparators. In Ukraine, both hotline.finance and Treeum partner with banks and insurance companies to promote their products.

Technology partnerships are typically seen amongst financial technology providers that do not directly serve the target population, but rather serve the financial services providers such as banks or non-bank financial institutions and telecoms who do. Their business model is described as "B2B2C" (business to business to customer). Amongst fintech companies interviewed as part of this study, Portmone is noteworthy for engaging in two models of service delivery: B2B2C (for working with banks and Ukr Pochta),[5] and B2C (business to customer), inasmuch as it provides services directly to individual clients and businesses through its website.

FINTECHS TARGETING LOW-END OF THE MARKET AND EXCLUDED SEGMENTS

Some fintech organisations, especially in more developed financial markets such as the UK and the Netherlands, claim to have started operations with a clearly defined target market of unserved and underserved people. In the UK, some challenger banks were created to operate in the unserved market. However, there is little evidence to prove that they were successful in doing so. Some fintechs that launched with the idea of targeting people locked out of the financial system found it challenging to reach these clients, and realised that there are more barriers to usage of financial services than mere access through technology.

In countries with a significant share of unbanked population (Turkey, Ukraine), few solutions offer access to services for unbanked people. A notable example is Ininal in Turkey which offers prepaid debit cards which are used for cashless transactions.

Other solutions for excluded groups focus on facilitating access to financial services offered by traditional finance providers or other fintechs. Examples of these solutions include alternative credit scoring models for individuals (such as Aire or Colendi) and SMEs. The latter group includes Tarfin in Turkey—an alternative credit scoring system that assesses the creditworthiness of farmers and enables local agriculture input sellers to extend credit financed by local banks and factoring firms.

While there are many examples of personal finance management solutions present in all markets covered by our study, they tend to focus on the wealthier segments of the population. The reasons for this include:

- Scale: It is easier to reach scale in the segment of tech-savvy, middle-class individuals with aspirations and/or sufficient resources to manage, usually young families.
- Revenue potential: Customers with comfortable income levels are more likely to purchase financial advisory services than low-income individuals and small firms.

A notable exception is the UK, where a number of solutions address the needs of financially constrained or over-indebted people, or those with a poor credit history, and have a clear goal of helping users of financial difficulties.

For microbusinesses and the self-employed, a major challenge is access to funding, rather than access to a bank account and payment services. For this reason, small-scale firms are often targeted by fintechs (such as iwoca) offering debt products or factoring services (the latter is well-developed in Poland and the Netherlands). Fintechs also appear to exhibit a certain level of

5. UKRAINIAN POST OFFICE

empathy for small firms: many fintechs were themselves microcompanies in the recent past.

However, some fintechs (e.g. dopay, Ininal) provide financial services that allow excluded people to access digital services but do not include them in the mainstream financial system through, for example, linking to a bank account. This creates an opportunity to participate in the payment system using digital channels and it is as yet unclear how users will be further included in terms of access to other financial services, such as business loans, mortgages or deposit services.

FINTECHS SERVING LOW-END EXCLUDED SEGMENTS

It is interesting to note that a number of fintechs entered the financial services market without an explicit commitment to users at the low-end of the market, individuals and small businesses, and ended up heavily involved in that market segment during the process of operating the fintech business. However, the extent of these activities is not known and requires more research into the reasons why low-income and excluded users found the new fintechs attractive. This could provide new information about consumer preferences and choices in the fintech segment.

DEMAND-SIDE CRITERIA

UNSERVED DEMAND FOR FINANCIAL SERVICES (EXCLUSION)

All countries studied here have made significant progress in expanding financial inclusion. The UK and the Netherlands have reached almost complete inclusion in terms of bank account ownership (approximately 99 per cent), Poland and the Czech Republic reached approximately 81 per cent, and Ukraine and Turkey have reached 63 and 69 per cent, respectively. However, even in countries with high levels of formal inclusion, there is a large segment of vulnerable clients who either lack access or underuse financial services to their detriment.

Overall, each country has a sizeable group of individuals and small firms (on the latter, there is less precise data) that can benefit from new forms of digital services, including those offered by fintechs. The poorest 40 per cent of the population are less likely have an account with a financial institution, but this too varies; while almost 100 per cent of this group in the Netherlands has an account, only 53 per cent of the poorest in Ukraine do. Gaps in other segments also exist. In Ukraine, 69 per cent of adults with primary education or lower don't have an account. In Turkey, large numbers of unbanked people are unemployed (56 per cent) and women (46 per cent). In the Czech Republic, the majority (59 per cent) of young adults (15-24 years) remained unbanked. To date, efforts to measure financial inclusion of SMEs focus on access to and use of loans, while other financial products (such as factoring or trade finance) attract less attention of the researchers and policy makers.

POTENTIAL DEMAND FOR MONEY MANAGEMENT SERVICES

At this point, it is difficult to assess the demand for personal finance services offered by fintechs, but the EY Global Fintech Index 2019 reports high levels of awareness of the existence of digital advisory solutions.

While there is no research on current demand for money management services, large numbers of individuals exhibit poor financial management practices that affect their financial health. According to Eurostat, 25 per cent of adults in Czechia and 34 per cent in the UK are unable to meet unexpected expenses. A portion of this group of people could benefit from financial advisory services. There is no data on the potential demand for money management services offered by fintechs for SMEs.

INTEREST IN AND UPTAKE OF FINTECH FINANCIAL SERVICES

Consumer fintech adoption varies across countries. In the UK and the Netherlands,[6] 71 and 73 per cent of adults use fintech services, respectively, and a large percentage of SMEs do as well. Data on the adoption of fintech in the other countries included in the study is not readily available in the EY Global Fintech Report, an indication that usage rates are below 25 per cent (the cut-off point for the EY study).

INTEREST IN AND UPTAKE OF FINTECH MONEY MANAGEMENT SERVICES

Non-financial services are important, and there appears to be solid awareness of existence of these services amongst individuals and small businesses. Our initial research in this area signals that these services enjoy moderate interest, especially those that unite money management advice with active support for personal financial management.

USE OF FINTECH FINANCIAL SERVICES BY EXCLUDED AND UNDERSERVED CLIENTS

There is no precise data on current use of fintech financial services by excluded and underserved individuals and small firms. Anecdotal information gathered through our interviews suggests that excluded groups do use fintech services, especially those that offer access to accounts and short-term borrowing.

USE OF FINTECH MONEY MANAGEMENT SERVICES BY EXCLUDED AND UNDERSERVED CLIENTS

Little is known about current use and usefulness of fintech financial health products and services with respect to financially excluded and underserved people. Service use data is collected by fintechs but is not made public and, more importantly, are not verified or consolidated to offer a clear picture of the benefits of fintech services to low-end users.

POLICY-RELATED CRITERIA

FINANCIAL INCLUSION AS A PUBLIC POLICY ISSUE

In some countries, such as the UK, financial inclusion has been on the policy agenda for the past two decades—with key policies, institutional initiatives and national strategies in place to advance financial inclusion. The UK is the only country in Europe with a ministerial position devoted to this area. In 2018, the Dutch central bank[7] outlined its vision for financial inclusion and created a broad-based working group to coordinate initiatives and activities. Other countries, such as Poland, have yet to articulate a financial inclusion policy, however Poland's central bank has spearheaded an extensive national initiative on financial literacy. Other countries exhibit a less-committed approach to financial inclusion and financial health on the national policy level. Turkey has in the past attempted

6. EY GLOBAL FINTECH ADOPTION INDEX: HTTPS://FINTECHAUSCENSUS.EY.COM/2019/DOCUMENTS/EY-GLOBAL-FINTECH-ADOPTION-INDEX-2019.PDF
7. WWW.DNB.NL/EN/BINARIES/DNB%20VISION%20ON%20FINANCIAL%20INCLUSION_TCM47-375850.PDF?2019111117

to define financial inclusion as a national policy issue, but these efforts were halted due to political changes in the country. It is also noteworthy that no European country (with the exception of Belarus) joined the global movement of financial inclusion facilitated by the Alliance for Financial Inclusion (AFI).

FINANCIAL HEALTH AS A PUBLIC POLICY ISSUE

Relatively little policy level attention is paid to financial health and financial well-being of individuals and small firms. In some respects, this is understandable given that financial heath is a relatively new concept, and its scope and methodologies are in development. The UK is an example of a country where financial health is well-defined for individuals but not for SMEs. However, this does not mean that personal finance, financial literacy or over-indebtedness are unimportant on a policy level, rather that they are not consolidated into a consistent financial health framework.

EXISTENCE OF A FINANCIAL INCLUSION ECOSYSTEM

The UK is a good example to follow how to establish an ecosystem of organizations, policies and programmes to engage all stakeholders at all levels. This is important to provide overall guidance and coordination to various financial inclusion and health initiatives, and also to develop a strategic approach to involving financial technology and fintechs in the process of closing the exclusion gap. The new initiative of the Central Bank of the Netherlands is another example of creating a national financial inclusion ecosystem.

RECOGNITION OF THE ROLE OF FINTECHS FOR FINANCIAL INCLUSION

Expectations for new technologies and fintechs are high; they are seen as the potential answer to many problems around financial inclusion and financial health. Fintechs are recognized for their potential to reach excluded clients and offer them services that would be unavailable or uneconomical without the economics of scale offered by technology. Until we have a better understanding of the actual contribution and limitations of fintechs to financial inclusion, their presence in the market will doubtless be met with optimism (if not hype). At this point in time, the prevailing approach of regulators is to allow fintechs to operate without strict financial regulation, and to offer opportunities to experiment through the creation of regulatory sandboxes (as is the case in the UK, the Netherlands, Poland, and most recently Ukraine). Other governments do not offer specific innovation support for fintechs.

PRESENCE OF A FAVOURABLE ENVIRONMENT FOR FINTECHS

In general, fintechs enjoy a favourable operational and legal environment, and have been allowed to function within existing legal and regulatory frameworks (with regulatory adjustments as needed for their growth along the way). The UK has the most vibrant and active fintech market, and is a leading global fintech hub with a thriving ecosystem. The UK government's recent Fintech for All[8] competition is a good example how a government can steer fintechs towards financial inclusion. While the policy environment in other countries may not be as friendly as that of the UK, progress is being made. In Poland, the largest fintech hub in Eastern Europe, the Financial Authority (Komisja Nadzoru Finansowego, or KNF) has created strategic partnerships with their global counterparts and since the beginning of 2018, fintech entities can benefit from KNF's Innovation Hub program. The Hub supports the fintech companies by identifying relevant regulatory

8. HTTPS://DIGIT.FYI/FINTECH-FOR-ALL-COMPETITION/

requirements[9] although it is not focusing strictly on financial inclusion.

In Poland, a recognised barrier to financial innovation is the attitude of the Financial Supervision Authority (the Polish FSA) towards new market players. The Polish FSA, as an institution, does not include amongst its strategic goals support for the creation and promotion of innovative solutions. The priorities of the Polish FSA are limited to ensuring stability, security, and transparency on the market, creating market trust and protecting the interests of market participants. Whilst all of this is of the utmost importance for the creation of a sustainable and innovative financial sector, it may not be sufficient to ensure innovation per se.

The Netherlands has a two-prong model for financial market regulation, in the form of the Authority for Financial Markets (AFM) and the Dutch Central Bank (DNB). These two policymaking bodies closely follow tech trends, and are open to exploring innovation without compromising consumer protection and AML compliance. The Dutch Central Bank and the Authority for Financial Markets have jointly launched an innovation hub and regulatory sandbox to facilitate the technological transition being underway in the financial services market. In Turkey, a government-backed taskforce (called the Financial Technologies Permanent Sub-Committee) launched in 2018 to unite talent from across the public and private sectors to support startups innovating in financial technology. The taskforce is responsible for setting a national vision for Turkish fintech startups, as well as articulating a strategy and a roadmap for the industry. State support plays an important role in startup growth in Turkey, with the Scientific and Technological Research Council of Turkey (TUBITAK) and the T.C. Small and Medium Enterprises Development and Support Administration (KOSGEB) providing investment to idea-phase startups.

In Ukraine, the government has begun implementation of PSD2 (Payments and Service Directive 2)[10] process which will create more favourable environment of fintechs, in which they will have access to bank data and will be able to reach customers which would be otherwise not accessible.

POTENTIAL FOR MITIGATION OF THE NEGATIVE IMPACTS OF FINTECH ON INCLUSION

Financial service providers, including fintechs, may create incentives for individuals to over-borrow or get trapped in the wrong services.[11] The ease with which borrowers have access to additional online digital credit might tempt them to borrow beyond their means—leading to higher default rates and negative financial outcomes. To date, none of the countries studied has paid significant attention to the potential negative impacts of fintech on inclusion, and this issue merits research[12] to inform policymakers and regulators of potential risks.

EMERGING COUNTRY CLUSTERS

As described, substantial differences across the European countries exist in terms of the prevalence of fintechs and their role in financial inclusion and financial health. Using the assessment framework presented in Section 2, sample countries included in this study can be grouped into three clusters: advanced, moderate and emerging. The advanced group includes the UK and the Netherlands; moderate: Poland and the Czech Republic; emerging: Ukraine and Turkey.

Table 2 presents the primary characteristics of each cluster from the point of view fintechs' supply, demand and policy around financial inclusion and health.

9. www.flandersinvestmentandtrade.com/export/sites/trade/files/market_studies/2018-fintech-in-poland.pdf
10. The new PSD2 Directive is a fundamental piece of payment legislation in Europe. It will go into effect on 14 September 2019. The PSD2 regulation will drastically impact the financial eco-system and infrastructure for banks, fintechs, and businesses using payment data for the benefits of consumers.
11. Laibson, David (1997) "Golden Eggs and Hyperbolic Discounting", The Quarterly Journal of Economics, 112(2), 443–478.
12. Emerging research shows that negative impacts exist and pose a danger to financial inclusion. For a recent study on the US fintech market see: www.newyorkfed.org/medialibrary/media/research/conference/2019/fintech/Yao_Fintech

TABLE 2: FINTECH AND FINANCIAL INCLUSION: EMERGING COUNTRY CLUSTERS

	ADVANCED	MODERATE	EMERGING
SUPPLY	Fintechs operate on a significant scale, some explicitly targeting low-end users	Fintechs operate but do not play an important role, they focus on select types of services that may benefit low-end users	Fintechs are less numerous, early stage and not broad-based, no explicit focus or reach to low-end users
DEMAND	Low-end users interested in and willing to use fintech services	Low-end users begin to recognise the value of fintech services and use them alongside traditional services	Low-end users unaware of the value of non-bank (fintech) financial services
POLICY	Consistent and deliberate policy focusing on financial inclusion that recognises fintechs as important players for advancing inclusion and health	Aspects of financial inclusion policies exist but not a consolidated ecosystem that embraces new technology to solve the challenges of financial inclusion and health	No (or nascent) financial inclusion policy or national strategy; enabling ecosystem for fintechs is weak and not viewed as a major contributor to financial inclusion

OPPORTUNITIES FOR FURTHERING FINANCIAL INCLUSION AND HEALTH

OUR SIX-COUNTRY REVIEW OF THE ROLE OF FINTECHS IN DEEPENING FINANCIAL INCLUSION AND IMPROVING FINANCIAL HEALTH OF INDIVIDUALS AND SMALL FIRMS POINTS TO SEVERAL UNEXPLORED OPPORTUNITIES TO LEVERAGE THE POWER OF TECHNOLOGY AS WELL AS TO UNDERSTAND THE LIMITATIONS OF FINTECHS IN FURTHERING FINANCIAL INCLUSION AND HEALTH.

DEMAND-SIDE ACTIONS

TRACK UPTAKE, USAGE AND IMPACT OF FINTECH SERVICES ON FINANCIAL INCLUSION AND FINANCIAL HEALTH

Whilst digital financial solutions claim to improve financial health, there is currently no evidence base with which we might approach the question what works best, why and for whom. There is a need for studies on the outcome of fintech services that link usage with financial health, and explore the potential downside of using technology-based financial and money management advisory services, with a particular emphasis on impact of the financial management solutions on the financial health of individuals.

UNDERSTAND THE NATURE OF DIGITAL EXCLUSION

Demand for financial services can either expand or contract in response to the increased use of technology and the emergence of fintech service providers who, more often than not, deliver impersonal and inflexible services. It is important to define and track the incidence of (and reasons for) exclusion from digital financial services, and promote appropriate solutions for excluded individuals and businesses. As a starting point, it is imperative to understand the nature of digital exclusion that may be driven by a lack of skills, lack of access to technology, or lack of awareness, amongst other reasons.

BUILD AWARENESS OF FINANCIAL INCLUSION AND DIGITAL FINANCIAL SERVICES

Low-end individuals and small firms face numerous challenges in accessing formal financial services, not least of which is a lack of awareness of the benefits of digital financial services, and how to access and use such services. There is ample scope for financial education and public awareness campaigns in this respect.

HELP CONSUMERS MAKE RATIONAL CHOICES ABOUT DIGITAL SERVICES AND PROVIDERS

As our research shows, there are a large number of new fintechs offering new types of financial services, in many cases too many services for an average consumer to make an informed choice. Creating comparison sites for individuals to compare the increasing number of solutions for improving their financial health (similar to comparison sites for financial inclusion products) will help them make informed and responsible choices.

UPGRADE THE FINANCIAL CAPABILITY AND TRAINING PROGRAMS TO INCLUDE DIGITAL FINANCIAL SERVICES

Most financial education and literacy programs need to be updated to reflect the new reality of managing money and using financial services in the market that is digitalized, technology-based and complex.

CLARIFY DEFINITIONS FOR SMES

We see a strong need to create a consesnsus-driven understanding of financial health in relation to micro- and small businesses, and develop tools for monitoring financial health for SMEs. While the concept of individual financial health is reasonably defined and commonly understood, there is less clarity with regards to financial health for small firms—especially given the fact that within a country there will be a wide variety of firms (at different stages of growth) and market conditions.

SUPPLY-SIDE ACTIONS

ENCOURAGE FINTECHS TO DEVELOP TOOLS TO IMPROVE THE FINANCIAL HEALTH OF BUSINESSES, NOT JUST INDIVIDUALS

We see the need for more advanced tools for businesses, beyond mere invoicing and tax reporting tools. This can be achieved by promoting interesting solutions developed in other countries and facilitating access to grants or startup capital for promising concepts through open competitions and accelerator opportunities.

ACTIVELY WORK WITH FINTECHS THAT SEEK TO WORK IN THE FINANCIAL INCLUSION SPACE AND OFFER THEM TECHNICAL SUPPORT TO REACH THEIR GOALS

Fintechs that want to work in the low-end financial market often lack a good understanding of their target market: their real needs and challenges, and how to effectively reach them. Technical assistance here may strengthen fintechs' efforts to expand financial inclusion.

DEVELOP AN ASSESSMENT TOOL FOR RANKING FINTECHS ACCORDING TO KEY CRITERIA IMPORTANT FOR FINANCIAL INCLUSION

With product and service offerings ranging from alternative credit scoring to blockchain-based remittances and AI-powered financial advisory—fintechs may have a strong and transformative impact on financial inclusion and health. It is worthwhile to develop a consistent criteria-based assessment tool to rank the country's top contributors to financial inclusion, and to promote these innovations and create benchmarks for other providers. Such an assessment can complement other existing methods such as the Inclusive Fintech 50 initiative.[13]

FOSTER COLLABORATION BETWEEN FINTECH COMPANIES AND OTHER FINANCIAL SERVICES PROVIDERS OPERATING IN THE FINANCIAL INCLUSION SEGMENT

A few partnerships have emerged organically, however there is potential for more widespread (and less obvious) collaborations that may be very effective for advancing financial inclusion and health (for example organisations working with specific excluded target groups such as migrants) or linking fintech service providers with debt advisory and debt restructuring services that focus, to a large extent, on financially vulnerable people.

ANALYSE THE FAILURES OF FINTECHS AS CAUTIONARY TALES AND OPPORTUNITIES FOR LEARNING FOR THE FINANCIAL INCLUSIONS SECTOR

Fintech failures are typical, inevitable, and likely to continue. It is important to understand the reasons fintechs exit from the market, draw lessons for the sector, and understand the impact of failures and untimely exits on consumer

13. WWW.INCLUSIVEFINTECH50.COM

confidence, financial inclusion and health (where users become sceptical about the promise of new financial services).

POLICY-LEVEL ACTIONS

FORMULATE CLEAR AND ACTIONABLE FINANCIAL INCLUSION AND FINANCIAL HEALTH STRATEGIES ON A NATIONAL LEVEL TO GUIDE THE DEVELOPMENT OF FINANCIAL INCLUSION

The lack of consistent national financial inclusion policies limits overall progress in this area, and makes it difficult for the fintech sector to position itself in the financial inclusion and financial space.

CREATE A SUPPORTIVE ENVIRONMENT FOR FINTECH SOLUTIONS WITH AN EMPHASIS ON FINANCIAL INCLUSION AND FINANCIAL HEALTH

Encourage government investment in technological solutions that advance financial inclusion and financial health, define a favourable legal and regulatory framework and create start-up vehicles such as sandboxes and accelerators to nurture new solutions and bring them to market.

SUPPORT THE CREATION OF NATIONAL FINANCIAL INCLUSION TASK FORCES TO UNITE ALL STAKEHOLDERS TO ADVANCE FINANCIAL INCLUSION AND HEALTH

As the example of the UK shows, stakeholder collaboration brings many benefits. National task forces (or similar collaborative platforms) may facilitate better understanding among various players and lead to faster uptake of fintech services by low-end users.

LAUNCH A PAN-EUROPEAN POLICY DIALOGUE INITIATIVE FOR POLICYMAKERS AND REGULATORS TO DISCUSS FINTECH REGULATION AND ITS IMPACT ON FINANCIAL INCLUSION

Inasmuch as regulating fintechs and developing financial inclusion policies are complex and often-uncharted territories, a pan-European policy dialogue forum may offer opportunities for learning and sharing experience and disseminating emerging good practice.

CONCLUSIONS AND OPTIONS FOR FUTURE ACTIONS

SUMMARY

Our six-country research represents one of the first systematic attempts to explore the role that fintech solutions may play in advancing financial inclusion and financial health of individuals and small businesses. As such, this study offers a rare glimpse at this complex (and largely opaque) relationship, and uncovers many new areas for future research.

Fintechs create the potential for a more inclusive financial services market and create more favourable conditions for excluded and marginalized users. The broadening and decentralization of financial services may lead to an ecosystem in which banks and fintech companies can work more collaboratively in sharing resources, making it easier to respond to a rapidly changing world. In Europe, this has been facilitated by, among other things, policy initiatives allowing third-party providers to access bank data— effectively democratizing data ownership and moving it into the hands of users.

We draw the following high-level conclusions from our study:

Fintechs exist and operate in all countries: The UK is the unquestionable leader in Europe, but other countries have a few hundred fintech operators and will soon reach a critical mass of providers in all markets that is sufficient to create consistent uptake. Smart policies and regulation advances market development, and the availability of risk capital play a role in the rise of fintechs.

The sector is new, innovative and volatile: There are many new entries and exits are common, either through mergers or acquisitions by other providers (including traditional banks), but also through outright failures. However, the fintech sector is no longer comprised of only start-ups, and there are a number of maturing companies offering a broad array of financial services and operating globally.

Fintechs operate in all segments of the financial market, but are most often found in payment services, lending and financial advisory services. However, there are differences across countries: a larger diversity is seen among fintechs in more technologically mature markets than in the less developed countries (such as Ukraine), where the primary focus is on payment services (which also happen to be less risky than other segments such as lending).

The uptake of fintech services is growing, although it is still unclear how these services are embraced and used by excluded and underserved clients. However, surveys show increasing awareness of fintech services in most countries.[14]

Some fintech companies enter the market with a vision of serving the low-end market segment that is ignored by traditional providers; other fintechs find themselves working in excluded and underserved markets even though it was not their original plan.

14. EY Global Fintech Adoption Index 2019.

Some fintechs offer financial services to the unbanked individuals without including them into the mainstream financial system. This allows the excluded persons to benefit from digital services without becoming banked and fully included.

The policy environment differs across countries, both in terms of financial inclusion and fintech support. More advanced countries have been forging the inclusion agenda for at least two decades (as is the case of the UK), adding the digital financial services and fintechs as another way to address financial inclusion and health. Other countries (such as Ukraine and Turkey) do not have a coherent approach to financial inclusion and financial health, which makes the role of fintechs less strategic and defined.

OPPORTUNITIES FOR FUTURE ACTIONS

In addition to the action points presented here, there are at least three lines of research that would add substantial value to the fintech financial inclusion agenda, especially in the area of financial health—which is critical for the well-being of individuals and small firms.

First, an impact study of fintechs and financial health using an RCT (randomised control trial) or other research approach would determine the impact of technology-based financial money management services on the well-being and financial health of individuals. The study could focus, for instance, on a segment of the population that seeks debt advisory and debt restructuring services. These services are increasingly provided by fintechs using artificial intelligence alongside traditional debt advisory. Traditional debt restructuring is fraught with poor results and high recidivism. Fintechs could potentially offer more consistent services based on a broader analysis of consumer behaviour. Such impact studies should be followed with detailed research to understand how fintech services contribute to financial health of clients.

Second, the supply side of fintechs operating in the financial health segment is poorly understood. New fintech companies incorporate psychology, behavioural economics and AI alongside financial literacy and money management techniques, but little is known about what works, how and why. Understanding emerging practices in fintech money management and financial health could provide valuable information for consumer public education, while at the same time weeding out potentially ineffective or harmful approaches to automated money management advisory.

Third, it appears that financial health receives little attention at the policy level. A review of supportive policies for financial health, together with emerging practices and challenges, could help to understand the policy dimension of financial health and financial well-being.

Fintech and digital financial services will continue to play an important role in developing and supporting new solutions for responsible sustainable financial inclusion and financial health in Europe—and further research will help us understand the dynamics of this relationship. We also see a number of opportunities at the intersection of financial inclusion and financial health that need to be further explored to advance financial inclusion and health, in particular the extent to which the former influences the latter. It is also important to continue the dialogue and collaboration between the traditional and digital financial sectors and the social finance sector in Europe to find common understanding how each sector contributes to financial inclusion and financial health.

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