Mastercard's Rama Sridhar on why fintechs drive financial inclusion

Fintechs brought much-needed credit to jobless workers amidst the pandemic crisis.

The months-long closure of the physical branches of many banks and non-bank financial firms due to the pandemic-fueled recession has highlighted the important roles of fintechs in addressing financial inclusion problems across Asia.

Workers laid off from their jobs in the past few months needed to find other means for their living expenses—and many may have been locked out of getting much-needing credit if not for digital lending offerings, which fintechs readily offer at just a few taps and clicks

"In many Asian markets, it is the fintechs—rather than traditional banks— that are moving the needle when it comes to digital financing and financial inclusion. Many of these innovators, in India and China in particular, have generated such scale and influence that they have acquired government support and sponsorship of the new banking service models they advocate," said **Rama Sridhar**, executive vice president, digital & emerging partnerships and new payment flows, Asia Pacific, Mastercard.

The global payments company has partnered with many fintechs across the region as part of its quest to support innovation and growth across the financial industry, Sridhar shared.

"Policy changes will continue to open up the banking system and all players must adapt to meet the needs of increasingly digital consumers who expect maximum choice and highly personalized experience," Sridhar noted, adding that given these developments, partnerships between fintechs and financial institutions will increasingly play a larger role in driving financial inclusion in the Asia-Pacific region.

Banks must adapt to meet the needs of increasingly digital consumers who expect maximum choice and highly personalized experiences

How do fintech firms help underserved and unbanked customers achieve greater financial inclusion?
When you are excluded, you are stuck in a cash-based economy and don't have access to the basic financial tools we take for granted, like saving and borrowing money or making contactless and electronic payments.

The needs of the underserved go far beyond just access to electronic accounts and payments. To make a real difference in their lives, we have to drive toward widespread usage. This means appropriately designed products, education, and acceptance infrastructure.

Fintechs are also powerful enablers of inclusion by addressing the financing needs of micro, small and medium enterprises (MSMEs) that have long been the backbone of the economy.

Five years ago, Mastercard set a target to bring 500 million people into the financial system and we have

Rama Sridhar, Mastercard's executive vice president

accomplished that goal. Now, we have expanded the pledge to bring a total of 1 billion people into the digital economy by 2025, including 50 million small businesses and 25 million women entrepreneurs.

In Malaysia, where there are several million foreign workers, the fintech Instapay is catering to this underbanked community.

Regulated by Malaysia's central bank, Instapay partnered with Mastercard to provide e-wallet accounts to migrant workers so they receive wages quickly and securely. For employers, the benefits include using technology for payroll management, reducing cash handling, lowering costs and eliminating downtime as the workers no longer need to queue up on paydays.

In Bangladesh and Cambodia, Mastercard partnered with the apparel industry to digitize supply chains by introducing a combination of digital payrolls and an educational tool. The "Digital Wages Toolkit" has been tested in Bangladesh with more than 10,000 female garment workers and has been adapted and translated for use in Cambodia.

Which specific financial services offered by fintechs have helped the industry to clear financing barriers for underserved and unbanked customers?
By accelerating the growth of electronic payments, fintechs have been monumental in bringing the underserved and

Mastercard's Start Path evaluates more than 1,500 applicants each year and selects about 40

unbanked closer to financial inclusion. This is because of the lower transaction and service costs. Fintechs are also able to reach people who would otherwise be unable to benefit from standard financial services because they have no bank account.

The trend is clear in Southeast Asia, where the gross transaction value of electronic payments—including e-wallets, account-to-account transfers and card-based cashless transactions—is projected to hit US$1.2t by 2025.

Peer-to-peer lending, where people borrow directly from other people, is another gap that fintechs are bridging between formal financial institutions and low-income households.

In Indonesia, for example, millions of people obtain funds through informal social gatherings where borrowers raise small loans from the rest of the group, usually repaid without interest after a year.

Now, Indonesian peer-to-peer lending is being digitized. Through its app, Indonesia-based fintech Mapan serves about 2.5 million members by facilitating loans and payments for purchases.

The onset of the pandemic and its effect in humans' daily lives are said to have led to the faster uptake of digital financial services. How has this affected fintechs?
The future of money is digital and there's just no turning back. Even in developing markets, technology is affordable for almost everyone and access to smart devices, mobile telecoms and the internet is becoming ubiquitous.

Whilst the global financial crisis of 2008 saw the emergence of fintechs, the pandemic has proven their value and underlined their role in financial inclusion by providing financing to consumers and MSMEs. Fintechs are bringing disruption to traditional models but also innovation, customization and greater choice.

With technology and the whole landscape shifting so rapidly and profoundly, it's essential to have successful partnerships to co-create and innovate.

That is why being a true partner to everyone in the new ecosystem is crucial for Mastercard, including the fintechs that we support and nurture.

Fintechs and traditional banks often make excellent partners with complementary capabilities

Now that traditional banks and lenders are also scaling up digitalisation, what role do fintechs play in the future of digital financing and financial inclusion?
Partnerships are crucial because huge numbers of people in Asia still need simple and secure access to financial services. Policy changes will continue to open up the banking system and all players must adapt to meet the needs of increasingly digital consumers who expect the maximum number of choices and highly personalized experiences.

Fintechs and traditional banks often make excellent partners with complementary capabilities. Banks provide fintechs with access to distribution networks, balance sheet strength and reputation, while fintechs offer nimble technical infrastructure to banks and more innovative client experiences.

Across the APAC region, there is plenty of room for growth in electronic payments. That creates huge opportunities for more innovation where many consumer segments remain underserved, not least in the small business and commercial spaces.

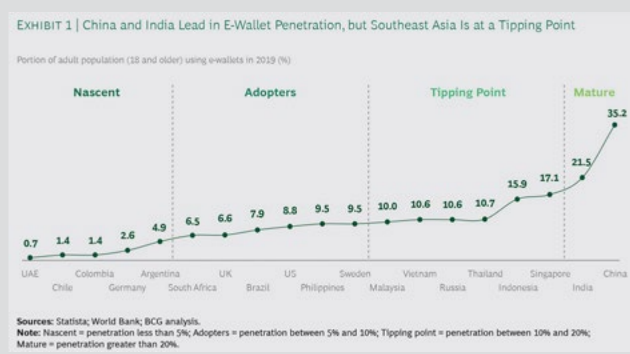
How does Mastercard support its fintech partners to help them scale up their services?
Mastercard has long partnered with fintechs. With that knowledge and expertise, we've been ahead of the industry in creating efficient and quick pathways to innovation and growth.

Our Accelerate platform helps fintechs rise to the next level by connecting them to technology partners, end-to-end solutions and ways to innovate. In Singapore and around the world, we run incubators, accelerators and partnership programs to support fintechs, collaborate with them and build smarter solutions.

The platform includes a full suite of programs—Mastercard Engage, Start Path, Mastercard Developer and Fintech Express—to help fintechs at various stages of development and growth.

Start Path evaluates more than 1,500 applications each year and selects about 40 startups that offer the most promising technologies and demonstrate a readiness to scale. Startups in this growing network have gone on to raise $2.7b in post-program capital and collaborate with Mastercard, major banks, merchants and other high-profile organizations.

More than 10% of Southeast Asia adults use e-wallets



Source: Boston Consulting Group