

## Digital technologies to improve financial inclusion

The Covid 19 pandemic has ravaged the Indian economy, with the worst-hit being the MSME and informal sectors. While the government has been inclined to provide support to these sectors, targeting efficiencies can improve through use of newer technologies. This is particularly important since the government is walking on a tight rope of balancing use of limited government resources with reaching out to utmost number of people.

In an article 'From Financial Innovation to Inclusion' by the IMF, the authors have opined that, "For technology to benefit everyone, private sector innovation needs to be supported by public goods". The article highlights the importance of digital technologies in bringing about financial inclusion by fulfilling the credit needs of the most vulnerable sections of the population. Following are a few excerpts of the report:

Despite a volatile global economy, World Bank data show that 1.2 billion adults gained access to a transaction account between 2011 and 2017. Much of this progress came directly from new digital technologies...

In India, public provision of foundational infrastructure has been the main driver, with a far-reaching impact. The digital identity (ID) initiative Aadhaar (Hindi for "foundation" or "base") has given 1.3 billion people access to a trusted ID so that they can open a bank account and access other services.

Building on the initiative, a new system lets users make low-cost payments in real time. As Bank for International Settlements (BIS) research shows (D'Silva and others 2019), India has increased bank account access from 10 percent of the population in 2008 to more than 80 percent today. Technology achieved in a decade what might have taken half a century with traditional growth processes.

As COVID-19 imposed social distancing and lockdowns, digital payments became a lifeline for many people. Small businesses were able to continue accepting payments, and individuals could send money to their loved ones quickly and at low cost... Governments worldwide used new digital infrastructure to reach households and informal workers...

Digital technologies can improve risk assessment... This is particularly relevant for services such as lending, as well as investment and insurance. Credit scores based on big data and machine learning can often outperform traditional assessments, particularly for "thin-file" borrowers, people or small businesses with little or no formal documentation.

Research by BIS economists and coauthors shows that almost a third of borrowers served by Mercado Libre, a Big Tech lender in Argentina, would have been unable to access credit from a traditional bank (Frost and others 2019)... Research with data from Ant Group suggests that, by relying on big data, Big Tech lenders have less need for collateral (Gambacorta and others 2019).

This can open up access to lending for borrowers who have no house or other assets to offer as collateral, and make loans less sensitive to asset price changes...

If public goods are appropriately designed, and if policymakers cooperate, digital technology can be harnessed to bring more people—particularly the poorest—into the financial system. Broad diffusion of technology may help make societies not only more efficient, but more equitable and better prepared for the digital future. Innovation must be shaped to benefit everyone.

## **Notifications**

### **PIB**

Cabinet approves MoU between India and Maldives

<https://pib.gov.in/PressReleasePage.aspx?PRID=1723645>

Cabinet approves MoU between India and Argentine

<https://pib.gov.in/PressReleasePage.aspx?PRID=1723640>

Cabinet approves MoC between India and Japan

<https://pib.gov.in/PressReleasePage.aspx?PRID=1723638>

Cabinet approves Model Tenancy Act for circulation to the States/UTs for adoption

<https://pib.gov.in/PressReleasePage.aspx?PRID=1723636>