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Bridging Gaps: AI's Role in Financial Inclusion

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Overview

Technological advancements have paved the way for banks and financial institutions to broaden their services globally. However, despite ongoing efforts to tackle disparities in access, systemic biases persist, including those related to race, gender, income disparities, and unequal lending practices, contributing to financial inequality.

Prioritising financial inclusion is crucial for fostering global economic growth and AI plays a significant role in achieving this objective.

AI is enhancing financial inclusion by providing financial education and minimising fraud in transactions, empowering previously underserved populations.





Barriers to Financial Inclusion



Lack of Access to Banking Services

Lack of banking infrastructure in remote regions poses challenges for individuals to access basic banking services, such as opening accounts, saving money, or accessing credit.

1



Financial Illiteracy

A lack of basic financial understanding hampers effective use of financial services, hindering individuals from managing their finances, making informed decisions, and understanding banking products and services.

2



Gender Disparities

Cultural norms, legal restrictions, and social biases often limit women's access to banking and financial resources, affecting their economic independence and overall economic health.

3



The Impact of Financial Inclusion

IMPACT ON INDIVIDUALS

It is transformative for poverty reduction, empowering marginalised populations to save and invest, providing a tangible path out of poverty. Additionally, access to insurance and savings accounts enhances personal resilience, helping individuals navigate financial risks associated with unforeseen events like health crises, natural disasters, and economic downturns. Financial inclusion is the first step towards social equity.

IMPACT ON THE ECONOMY

It fuels economic growth by supporting small businesses and entrepreneurs, fostering innovation, job creation, and overall development. Beyond individual empowerment, it plays a crucial role in addressing global challenges, particularly by facilitating climate action in communities most affected by climate change.

Many market participants recognise the profound impact that financial inclusion can have on the economy and are collectively taking action. Here are some examples of how they are leveraging AI to promote financial inclusion.



Broadening Access to Financial Services

The Reserve bank of India has introduced [the 'Antardrishti' financial inclusion dashboard](#) to assess and monitor progress. In 2021, the RBI developed the Financial Inclusion (FI) Index, covering aspects like banking, investments, insurance, postal services, and the pension sector to measure financial inclusion.

[Trusting Social](#), a recipient of the [SFF Global FinTech Awards](#) in the AI category at SFF 2023, offers a solution called Trust Scores, that swiftly assesses a borrower's creditworthiness using their phone numbers alone. This innovation facilitates lending to underbanked consumers, enables real-time underwriting, reduces credit and fraud risks, and tailors personalised product offerings to optimise profitability and market share.





Addressing Lack of Literacy

The RBI has launched "conversational"

payments through the Universal Payments Interface (UPI), enabling users to make verbal transfer instructions processed using AI-based speech recognition. This initiative aims to promote financial inclusion and digital payment adoption, leveraging AI and digital platforms to bridge urban-rural gaps.

AI is beginning to gain significant traction in Africa's financial services space. Paystack, a Nigerian online payment gateway, uses AI-powered fraud prevention tools to safeguard user financial data during online transactions. Similarly, M-Pesa, Kenya's mobile money service, employs AI algorithms for fraud prevention and educates users and agents about online scams.





Promoting Climate Resilience

Nestlé and climate insurer Blue Marble have launched a pilot [weather insurance program](#) in Indonesia for over 800 smallholder coffee farmers, using satellite-based climate data to provide financial protection against unpredictable weather. Payments are issued automatically to affected farmers based on weather severity, supporting resilience and sustainability in coffee production.

Australian fintech firm FINSTREET has [launched a new AI platform](#) to help brokers find non-bank loan products for underserved borrowers such as migrants, small businesses, and those with unconventional income sources. The platform analyses data from various sources to recommend solutions and assess unconventional risks like those linked to climate change.



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