Chapter 5

Inclusive Disruption: The Role of Financial Technologies in Filling Financial Inclusion Gaps in Russia

Oksana Smirnova
Moscow School of Management SKOLKOVO, Russia

Vladimir Korovkin
Moscow School of Management SKOLKOVO, Russia

Evgeny Plaksenkov
Moscow School of Management SKOLKOVO, Russia

ABSTRACT

This chapter discusses the important socioeconomic role of financial technologies in the emerging market which is Russia today. While the issues of financial inclusion are of recognized importance for the developing markets, until recently they were seen largely as areas of affirmative regulatory action, not of competitive play by private market actors. However, the advent of fintech companies changes the paradigm. Many fintech companies in Russia view the gaps in financial inclusion as attractive market niches and formulate relevant consumer offers. This chapter reviews their strategic approaches based on the study of five business cases, and introduces an analytical matrix mapping the approaches to existing inclusivity gaps. The model strengthens the existing policy aimed at developing financial inclusion as it allows a targeted cost-benefit analysis of market players’ actions. As Russia demonstrates many of the financial inclusivity challenges seen in other countries, the findings of this chapter have certain applicability in the context of both emerging and advanced economies.

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INTRODUCTION

Financial inclusion arguably lies at the foundation of economic inclusion, where finance is recognized as a backbone of any modern economic system. The access to modern financial instruments such as accounts, transfers, deposits and loans may not only bring immediate economic benefits to consumers, but also largely define their capabilities to pursue effective economic activity either through employment or through entrepreneurship. In this case financial services work as infrastructure systems like roads or communications networks, which are obvious public goods. What makes modern financial services unique is that their suppliers can legally discriminate between customers, refusing to provide services, either implicitly (through price barriers) or explicitly. Explicit discrimination is inherent in the current procedures of bank lending, where the supplier judges the ability of a customer to make certain future action (repayment of loan) through a proprietary process, which is largely non-transparent to the customers and the results of which are commonly irreversible for the affected customer. As was said, such discrimination is of broad consequence, as it not only precludes some customers from gaining immediate economic benefits, but also limits their ability to operate as actors within the modern market economy. While the system of discrimination is absolutely necessary within the current approaches to risk management in financial systems, it has unwanted social side effects, which are especially manifest in lower income economies.

Within this context the issues of financial inclusion are largely viewed as being a key to the overall agenda of inclusive growth. According to World Bank, financial inclusion is defined as the state when all interested individuals and businesses have access to useful and affordable financial products and services that meet their needs delivered in a responsible and sustainable way (World Bank, 2013). Financial inclusion can be considered as the key enabler of reducing poverty, as has been shown by empirical research, in that it improves macroeconomic indicators including economic development and stability (Beck et al., 2007). However, as seen from the definition, financial inclusion (or its absence) is a complex phenomenon, which may include various combinations of barriers: physical, social, economic, legal, etc.

Practically in every country of the world the traditional banks are not reaching the whole of financially active population, creating groups of “financial exclusion”. The size of these groups relative to the population and the reasons for exclusion differ widely, mostly correlating with the overall state of economic development. For instance, in the low income developing countries up to 80% of the population can be excluded mostly due to poverty and lack of financial infrastructure. In the advanced countries the excluded groups would comprise some 10 to 15% of the population, and the reasons for exclusion would be more complex (Demirgüç-Kunt et al., 2015).
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