

Advancing Financial Inclusion via Instant Push Payment Interoperability



Financial Inclusion and the Digital Economy

The World Bank definition of financial inclusion¹ begins:

“...individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way...”

Unfortunately, rather too often, that is where many practitioners in this sector stop reading. As a result, we as a sector see that someone has a mobile phone, an account with a Micro Finance Institution (MFI), maybe a mobile wallet, and access to savings and loans, and we designate them to be “included.” And they are, according to some metrics, but it is probably more appropriate to view them as “underserved” – a precursor to “failed.” Failed by us, as a sector.

This somewhat limited approach has had the consequence of holding back progress in this vitally important area of development. In reality, giving people a basic account is just the beginning – financial inclusion is **really** about building on those foundations to develop equitable and appropriate access to all of the facilities of a national financial sector, and to everyone – people, businesses and government – in that nation.

This isn’t just important for the individual. It is also vital to the success of the digital transformation of our countries, in the transition to a digital economy. If any of the people are not fully included – if we haven’t moved them on from being merely underserved – then the potential of the digital economy will struggle to be realized.

The current measure of financial inclusion – access to loans etc. – assumes that everyone is a budding entrepreneur. This is no more the case in rural Nigeria than it is in Washington DC, and while access to loans is important it has a lower impact on the growth of an economy than does true financial inclusion.

What is True Financial Inclusion?

Beyond the basic “giving everyone an account,” true financial inclusion is achieved by interconnecting everyone (or their accounts!) – to each other, to businesses, and to government, all in support of the digital economy and the potential economic benefits that will bring, both individually and to the nation as a whole. In a word, interoperability.

Mojaloop is the perfect tool for this because it is not just a switch, it is also a translator, allowing banks to speak bank, MFIs to speak MFI, and mobile wallets to speak mobile, with Mojaloop interconnecting them all into a coherent whole. It does this through a variety of mechanisms which allow each party to engage at a level of risk that they feel comfortable with, so that the bank is not exposed to any of the limitations of the MFI, and the MFI won’t be exposed to the scale of transactions of the bank.



¹ <https://www.worldbank.org/en/topic/financialinclusion>

But it's not the bank, the MFI or the mobile wallet that Mojaloop is truly concerned with. It's their customers. The aim is to ensure that the customer of the smallest MFI can do business with the customer of the largest bank, and it achieves that by the provision of comprehensive support for:

- Connecting to a Mojaloop hub;
- Development of Scheme Rules;
- Development of a reconciliation and settlement model that meets the needs of all.

Instant Push Payments and Mojaloop

While interconnecting everyone is a necessary step, it is not in itself sufficient in the pursuit of financial inclusion. The key ingredient, facilitated by this financial connectivity and enabled by the transaction integrity inherent in the Mojaloop platform, is instant push payments.

Instant push payments provide that, when a customer (the payer) sends money, the recipient (the payee) receives a notification, and **can spend that money instantly**. This has some important consequences for financial inclusion:

A person at the Bottom of the Pyramid can use digital payments and participate in the digital economy, in the certain knowledge that the balance that is reported for their account is accurate (no debits to be applied overnight, no overlooked transactions!) and available to them to spend now. And this is not limited to others connected to their MFI/wallet operator. The interoperability inherent in Mojaloop ensures that they can transact with everyone.

Small business owners can take payments and re-use the money instantly in support of their business, improving the liquidity of their business by orders of magnitude over a payments model based on conventional card payments. When compared with cash payments, an instant electronic payment allows a shopkeeper to pay staff and buy further stock without leaving the premises, cutting down further on costs by not requiring cover for absence.

As the digital economy evolves, instant payments allow the development of appropriate solutions for insurance and pensions, moving away from expensive loans when family tragedies arise. Rethinking the traditional models that underpin these vital components of the financial sector in this manner is an opportunity to ensure they meet the needs of the underserved.

Instant push payments really are the key to true financial inclusion, and through that the economic development of entire underserved communities. Mojaloop has been developed to meet the needs of the disparate financial service providers that serve those communities – the MFIs, the SACCOs and the mobile wallets – to allow their interconnection into the wider financial sector.



To learn more about the Mojaloop Foundation,
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