COVID-19 OUTBREAK: THE INFLUENCE ON DIGITAL FINANCE AND FINANCIAL INCLUSION

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ABSTRACT

The current COVID-19 outbreak is unprecedented in its scope, has placed a massive pressure almost on all countries. This crisis is challenging, testing each country's vital infrastructures at various levels and sternly harming the livelihoods of people all around the world. However, the Covid-19 outbreak could be a turning point for digital financial services. Digital financial services, driven by financial technology (Fintech) have a huge potential to increase the speed of the transaction, reducing costs while maximizing economies of scale, lower the costs, and tools to buffer the impact of the Covid-19 outbreak in various ways. On the other hand, financial inclusion as a result of digital financial services can also improve access to finance and boost economic growth. Thus, this paper explores the influence of Covid-19 on the use of digital finance to accelerate financial inclusion during this pandemic. Data were collected through the literature on digital finance, financial technology (Fintech), and financial inclusion during pre and post Covid-19 outbreak. Digital financial services have the potential to promote financial inclusion, and response particularly throughout the outbreak where the physical presence of financial institutions is absent.

Keywords: Covid-19, Digital Financial Services, Digital Payments, Financial Inclusion, FinTech

1. Introduction

In the current economic landscape, financial services have become the main enablers to build socioeconomic and perform various functions to facilitate economic activities, even during the crisis. Rapid development in information and communication technology (ICT) over years has transformed the financial industry towards more efficient, innovative, and smooth financial services delivery. The emergence of digital finance has a significant implication in various sectors in the economy, particularly in the banking sector. It changed the methods retail banks are designing and conducting their business operation as well as experienced the evolution of customer preferences. Digital technologies, such as telecommunication, mobile internet, block chain are parts of the leading tools in penetrating the financial consumers who are excluded from the traditional financial system. The transformation in digital finance has altered the approach of designing and distributing financial products and services. In 2016, the digital finance platform has become one of the critical tools in accelerating financial inclusion across the globe. Digital finance services consist of payments, remittances, savings, credit, takaful, and insurances can be delivered through a digital channel such as internet banking, mobile banking, mobile wallets (apps), and credit or debit card. Therefore, the Global Partnership for Financial Inclusion (GPFI) has introduced G20 High-Level Principles for Digital Financial

Inclusion (HLPs) to encourage the government to embrace digital approaches towards financial inclusion (AFI, 2018). However, the use of digital finance still challenging, and requires more time and effort for long-term success and public acceptance, mainly for retail financial services. The challenge of balancing between potential benefits, trust, and risks in innovations are more acute in the developing world (Al Nawayseh, 2020).

Financial inclusion, on the other hand, plays a major role in the inclusive growth of the country and can be better achieved with digital technology. The G-20 and the World Bank have led the initiative to increase financial inclusion to reduce the poverty levels in developing and emerging economies. There are approximately 775 million potential female users of mobile money in East Asia & the Pacific (Peterson K. Ozili, 2018). The implementation of digital finance will have a substantial impact not only on financial inclusion but also inclusive economic growth (Asian Development Bank, 2017). There is an urgent need for developed or developing countries to utilize the benefits offered by digital finance services as it could enhance competition and increase excess among societies. Bank Negara Malaysia (BNM), United Nations Capital Development Fund (UNCDF), and Malaysia Digital Economy Corporation (MDEC) have launched the Digital Finance Innovation Hub to support financial inclusion in Malaysia (Bank Negara Malaysia, 2018). The collective works towards financial inclusion will promote the use of technologies to encounter the underserved community in Malaysia. According to BNM, the transaction of e-payment per capita increased from 97.5 in 2016 to 110.6 in 2017, whereby the transaction volume per capita for cheques declined in the same period from RM52,646 (2016) to RM44,215 in 2017. This scenario shows that more people are turning to digital financial services as it offers many benefits for them.

In 2020, the COVID-19 outbreak has surprisingly changed the world, deaths are increasing daily, the economy is losing its stability, entrepreneurs are looking for many strategies for survival or else exit strategy and low-income households are struggling to earn money for families particularly in developing countries that have imposed lockdown restrictions. The infection has contributed to medium- and long-term impacts on health services and affected the economy. The World Health Organization (WHO) categorized COVID-19 as a pandemic with over 3 million cases and 207,973 deaths in 213 countries and territories. In this situation, the importance of fintech has been compounded by the role of digital payments in curbing the spread of Covid-19. Some governments are currently providing incentives to pay for goods or services digitally via mobile money or e-wallets during the outbreak. They also seek ways to disburse funds to the needy quickly and effectively. Households also looking for rapid access to online payment and financing. More generally, the COVID-19 outbreak has offered unexpected opportunities for digital finance usage especially underserved groups while promoting and improving financial inclusion where the physical presence of the financial institutions is absent (Agur et al., 2020; Boakye-Adjei, 2020). Taken all of these as an added value to response COVID-19 outbreak, digital financial services offer major benefits and allow for physical distancing, which is of particular value during the pandemic. Thus, this paper intends to highlight the influence of the COVID-19 outbreak on digital finance and financial inclusion and its benefits to a different segment of society.

2. Literature Review

2.1 Digital Finance

Digital finance is a financial service provided through mobile phones, personal computers, the internet, or cards linked to a reliable digital payment system known as fintech providers. Digital financial services are financial services offered primarily by financial institutions and commonly refers to as financial technology (fintech). These new solutions encompass payments, remittances, and credit accessed and delivered via digital channels. The purpose of this digital platform is to stimulate poverty reduction and to achieve financial inclusion (United Nations, 2016; Agur et al., 2020). Undeniably, the adoption of digital finance benefits financial services users, digital finance providers, governments, and the economy. Digital finance also plays a crucial function to support financial inclusion and economic growth (Peterson K. Ozili, 2018). Moreover, the implementation of digital finance through fintech providers has a positive impact on financial inclusion in emerging economics (Tabitha & Stella, 2019).

Digital financial services deliver financial products and services via digital channels such as internet banking, mobile banking, mobile wallets (apps), and credit/ debit card. Digital financial services refer to a variety of financial services accessible via a digital channel such as remittance, savings, credit, and other banking facilities (Ross & Louise, 2015). The execution of digital finance in emerging countries offers affordable, convenient, and secure banking facilities to the poor that ultimately lead to greater financial inclusion. In this ecosystem, fintech providers act as a channel to deliver new financial products, enable customer communication and interaction. Moreover, the proper usage of current digital finance services will serve as a powerful tool to achieve financial inclusion in the long term (James 2017, Peterson K. Ozili, 2018). To reduce the spread of COVID-19, digital payments can support physical distancing, permit payment transactions and ease the government to reach those in need. This technology could also speed up the transaction and assist large informal sectors which are in urgent need of support (Agur et al., 2020).

2.2 Financial Inclusion

Most countries around the world have recognizes financial inclusion as one of the key foundations in policy development. This derives from the awareness that the inclusive financial system is very crucial in combatting poverty and promoting sustainability towards inclusive economic growth (Ouma et al., 2017). Access to financial services is the basic principle of financial inclusion. Financial inclusion can be described as the delivery of financial services to all segments of consumers at an affordable cost. It emphasizes three main dimensions, access, usage, and quality (AFI, 2018). Financial inclusion is the access and applying a set of adequate financial services by households and firms. It is essential for advancement as it can benefit poor family units improve their lives while likewise impelling financial movement. Digital financial services are held out as key money-related answers for enhancing monetary consideration in which financial inclusion plays a crucial role in bridging the gap between cash and digital payments (Stella, 2019). Rajani Gupte et al., 2012 explained the three dimensions to measure the extent of inclusion specifically; (i) depth (penetration) of access using a proxy measure of the number of bank accounts per 1000 population, (ii) availability to measure proximity of access using the number of bank branches and number of ATMs per 1000 population and (iii) used to measure the extent and frequency of use by the customers.

A plethora of researchers explained financial inclusion as the person who owns an account at a formal financial institution that allows them to do borrowing and saving transactions, mortgages, insurance, short-term credits, or any payment services at a minimum or reasonable cost. Additionally, financial inclusion also promotes the culture of saving habits among individuals and accelerating an efficient payment mechanism. It is not promising for the overall economy to achieve financial and economic stability without financial inclusion. Therefore, banks and other financial providers should play an important role to provide a platform to enable the access of financial services to the poor and disadvantage social group (Purvi & Medha, 2015, Alexandra & Laurent, 2016). Evidence shows a strong positive correlation between financial inclusion and economic growth in a particular country. The higher the degree of financial inclusion, it will contribute to total economic growth. Malaysia has recognized that the inclusive financial system plays a crucial role in providing access and ensuring sustainable long-term economic growth (Bank Negara Malaysia, 2016).

2.3 Benefits of Digital Financial Services

The COVID-19 outbreak that extremely attacked the whole world from the beginning of the year 2020 until today has placed big impact and forces us to change the way we transact in many aspects from our common norm to the new norm. All people around the world are equally responsible for social and physical distancing procedures to flatten the curve of COVID-19. Back before the COVID-19 outbreak, many transactions such as business activities, social activities, religious activities, and others can be executed face-to-face or by physical mode. However, these kinds of activities are no longer relevant to be practiced conventionally since the digital transaction has taken place due to the COVID-19 effect. Besides the negative impacts of the outbreak to the entire globe such as employee retrenchment, businesses shut down and others, from the positive sides it unlocks opportunities for digital financial services to accelerate and enhance financial inclusion through fully utilizing the technology. Agur et al (2020) reported that the settlement of payment activities through digital can be one of the precious efforts to break the chain of COVID-19 and support the physical distancing imposed in several countries. Instead of reducing the daily number of COVID-19 cases, the utilization of digital financial services in day-to-day activities creates an abundance of benefits to the countries and societies including the customers. Firstly, it is affordable to the customers to make any payment activities using digital payment. Digital payments as one of the active digital financial services make it more universally affordable, easy to access by worldwide customers, more convenient, and indirectly enhances the opportunity of financial inclusion among society around the world. This digital platform facilitates the process of transferring and receiving payments to be faster and more efficient as the process only be done through a mobile phone or other devices, (Mohammed, 2018; Ozili, P.K, 2018; Agur et al, 2020; Tariq and Hans, 2017).

Secondly, the encouragement by the government on utilizing the digital financial services during the Covid-19 pandemic or even before contributes to the cost-effectiveness. Traditional paying wages transaction for instance still use the traditional method of disbursement which involve paycheque and others (to the extent that these are handed over and cashed physically). However, due to health guidelines to break the chain of Covid-19, paying wages and other public transfers must be done digitally. It seems to be more cost-effective (Agur et al, 2020; Naumenkova et al, 2019). A similar opinion by Leora, 2017, found wage disbursement digitally benefits employees and is safer and more cost-effective for employers. Thirdly, the implementation of transactions using digital financial services tends to improve the socio-economic standard of living. The transformation from the common method of cash payment to any form of cashless payment or the use of any kind of innovative digital instruments by society leads to an increase in the socio-economic standard of the people (T. Thomas & Suresh. T.S., 2020). Forth, many risks can be reduced by having digital financial services. Traditional cash-based financial services open rooms to the risks of loss, theft, and other financial misconducts (Mohammed, 2018). Besides eliminating previously mentioned risks, full utilization of digital financial services also has benefits to the government as well as the regulator of the financial system in controlling the dissemination of fake money in the market (Ozili, P.K, 2018).

Last but not least, one of the most important benefits of digital financial services is that it significantly contributes to the country's economic stability. Through the enhancement of digital technology, digital financial services platform, and the awareness on the wide range of digital financial products and services including credit facilities, investment products, and others to the households as well as small, medium, and large businesses provide sustainable competitive advantages for the business development in terms of economy virtualization. In the end, the stability of the digital financial services can lift up the aggregate expenditure thus improving the country's gross domestic products (GDP) levels (Ozili, P.K, 2018; Vovchenko et al, 2017). Thus, the impact of the Covid-19 pandemic on digital financial services should be emphasized on the positive side towards the enhancement of financial inclusion which directly will increase the stability of the economy and society's well-being.

2.4 Digital Financial Services and Financial Inclusion

On the other note, the COVID-19 outbreak has also provided opportunities for financial inclusion to move forward. On the positive side, there are also indications that people are shifting their method of the transaction from cash transactions to digital payment, with potential benefits for financial inclusion. This outbreak seems to enhance the role of mobile money and the penetration rate of opening mobile money has also facilitated the speed, efficiency, and safety to the users. A high level of financial literacy can lessen the negative effects of economic crises on low-income households, thus improving their well-being (Barajas et al., 2020; Ozili, 2020).

At present, advanced digital financial services via mobile phones and similar devices have been launched in at least 80 countries. This is to encourage millions of low-income customers to exclusively shift from the use of cash-based transaction to digital financial services. Indeed, the anticipated benefits offered by digital finance and financial inclusion have led several regulators from developed countries to utilize digital financial services. Financial services offered through digital platforms aim to alleviate poverty and contribute to the financial inclusion of developing economies (Ozili, 2018). Although digital finance has some challenges such as affordability, security, and adaptability, the significant impact on financial inclusion cannot be denied. Digital finance tools such as internet banking, mobile banking, mobile wallets (apps), credit card, and debit card have a significant influence on financial inclusion as a whole (Tabitha & G, 2019). Research by McKinsey World Institute funded by the Bill and Melinda Gates Foundation (BMGF) reveals that digital financial services can increase the Gross Domestic Profit (GDP) of developing and emerging countries by US$3.7 trillion by 2025. Moreover, it also has the potential to expand digital banking to 1.6 billion people in developing countries and create 95 million employments opportunities across all sectors, if the implementation of digital finance succeeds. All these initiatives should be supported by excellent digital platforms, infrastructures, and government policies to make finance more inclusive as it is strongly linked with sustainable economic growth (AFI, 2018 & James, 2017).

3. Discussion and Conclusion

This study provides a discussion on digital finance and its influence on financial inclusion during the COVID-19 outbreak. Generally, during the COVID-19 outbreak, digital finance through the fintech platforms offers opportunities to improve access to digital channels and broaden financial inclusion. Innovations in technological platforms provide opportunities for financial institutions to transform the current finance environment by making it more inclusive, unrestricted, and accessible by the individual at all segments of societies. Despite the challenges and risks, digital finance provides interesting, affordable, user-friendly, and convenient financial products and facilities. Safeguarding current advantages and aggressive use of digital finance could help economic growth during the storm of Covid-19. At the same time, this should be combined with strong efforts to counter financial crime and assure consumer protection.

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