Addressing the Role of Risk Management and Digital Finance Technology on Financial Inclusion

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Abstract

Financial inclusion focuses on population which is "unbanked" to get into the formal financial system. The new patterns of financial inclusion rely on digital technologies, and "fin-tech" continues to revolutionize the nature of provision. Very important fact is that 78% of access on financial services in developing countries involves mobile money. Financial digital technologies improve data transmission, analysis and give the small companies the opportunity to develop low-cost distribution models and risk-management practices. Taking into account that there are two major reason for financial exclusion – high cost and non price barriers, we are encourage to examine the necessity of managing the use of finance digital technologies due to the opportunities for all of society. Further, we examine these questions because bureaucracy and cost are some of main barriers in accessing banking and financial products and services by biggest part of society, using linear regression analysis to process the collected data.

Keywords: *financial inclusion, management, digital technology, finance, linear regression.*

1. Introduction

Financial inclusion brings the potential benefits as big part of population gain greater access to financial instruments and services. This kind of inclusion offers to individuals and SMEs to work themselves far from poverty, women are more employee and better fating with gender equality across societies, as avenues for money laundering may be reduced. These benefits are raised up using financial tools so the need of promoting financial inclusion is more than obvious, it is global priority.

International organizations make this goal – the spread of the financial services – very important priority, especially for developing countries.

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But on another side, here is China where stakeholders are in hand-in-hand with innovations such as (P2P) lending, which is an increasingly significant mechanism for financial inclusion, which is so far as challenge for the low-income populations.

The fundament of ambitious challenges and fast developments are regulatory and institutional environment for financial inclusion. The financial inclusion strategy and policy should ensure providers offering financial services and products and employ new technologies to deliver this. Also, key expectation here is the support that ensures safe provision services especially for populations in developing countries.

Reality underlines the need of detailed and transparent scoring system which will provide useful benchmark how developing countries are performed in enabling financial inclusion. The reason lies in existing a significant gap in most of the developing countries and the high aspirations announced at a global level to increase and strengthen financial inclusion.

2. Literature review

Financial inclusion focuses on population which is "unbanked" to get into the formal financial system. In this way, people will have the opportunity to access to financial instruments and financial services – savings, payments as transfers to credit and insurance.

This also is a kind of strategy which correct market failures and eliminate nonmarket barriers to access various financial products and services.

In total, financial inclusion is without doubt an important topic because it can influence the extent to which financial services and innovations can improve our lives. It is key to provide new opportunities for population in societies by driving forward inclusive global growth.

Defining financial inclusion as policy, contributes of finance to economic development and poverty reduction. This underlines the development of policies in finance in developing countries, and gives special place due to the positive impact that finance product and services have on misery index on the countries.

For example, the policies in financial sector take a place through three stages:

1. Fostering state-led industrial and agricultural development through directed credit;
2. Market-led development through liberalization and deregulation;
3. Institution building that aims at balancing market and government failures.

People that are not financially included, are not able to get affordable credit, and are financially at risk due to having no home insurance, struggle to budget and manage money or plan for the unexpected and not know how to make the most of their money (FSD, 2010). For example in the economic literature, cash. Also, another advantage is the use of communication infrastructure that is used by biggest part of population. The risk associate with the cash is lost due to theft.

Table 2. Model summary of banking services and companies' improvement

Model	R	R^2	Adjusted R^2	Std error of the estimate	
2	0.650	0.422	0.416	0.208	
Explanatory variable	B	Std error	T-value	P-value	Remarks
Constant	0.403	0.207	2.021	0.023	
Mobile banking	0.671	0.089	11.071**	0.000	S

S = Significant; ** = significant at 1% level
Source: Authors estimation, 2017

Table 2 shows that banking services meaning the use of POS, ATMs, Credit/Debit cards (β = 0.671; t = 11.071**; P < .01) have significant and positive impact on small companies improvement. The result indicates that banking services (R^2 = 0.422) has 42.2% decisive impact on small companies improvement. This analyze is very important taking into account the fact that POS, ATMs offer access to finance anytime. This manner allows small companies operators to carry out banking transactions after banking hours.

Table 3. Model summary of risk management/agent banking and companies' improvement

Model	R	R^2	Adjusted R^2	Std error of the estimate	
3	0.598	0.357	0.350	0.19415	
Explanatory variable	B	Std error	T-value	P-value	Remarks
Constant	0.547	0.213	1.407	0.059	
Mobile banking	0.641	0.072	7.163**	0.000	S

S = Significant; ** = significant at 1% level
Source: Authors estimation, 2017

Table 3 shows that risk management and agent banking (β = 0.641; t = 7.163**; **; P < .01) have significant and positive impact on small business companies. The result also showed that risk management and agent banking (R^2 = 0.357) have 35.7% decisive influence on small companies improvement.

Risk management is creating framework to manage the various financial risks, including procedures to identify, measure and control the risks. Here we mention some of the main players working on inclusive financing risk management – the World Bank, Center for Financial Inclusion, various independent risk consultants. At the end, financial inclusion through banking and financial products and services and digital technologies have the power to rise the financial fragility. Regarding this, the risk management is very important for facing with the potential risks arising from the changes in the composition of the financial system knowledge of population, especially in rural areas.

The fact is that small companies have positive perception of using finance digital technology. Financial digital technologies improve data transmission, analysis and give the small companies the opportunity to develop low-cost distribution models and risk-management practices. Mobile banking is an example of technological innovation. The situation in developing and emerging countries with low incomes is different that usage the fin-tech in developed countries. More detailed, in emerging countries people usually don't have physical access to a bank or banking services. Due to the several government initiatives in emerging countries, financial institutions are now looking or willing to offer banking services to "unbanked" population.

5. Conclusion

Access to finance can be critical for companies, especially for start-up companies. This determines the speed at which company grows and develops. Small businesses are one of the most important impetuses of the overall economic development which stipulates economic growth and significantly contributes in increasing the production and exports (Boshkov, 2016).

Therefore, in 21-th century fast access to banking and financial products and services is driving force in the economy. So, the governmental initiatives for financial inclusion are more than important for financial system in the time of changes. The research study shows that financial inclusion examines the question for overcome the problems with bureaucracy and cost, as solving the access exclusion due to risks. This need is detected especially at unbanked population. The result shows that population in developing and emerging markets have positive perception for mobile banking, banking service, the need of risk management practices and agent banking. Regarding this, the investment in such a system has critical importance for societies. The start point for financial institution is to convince the population and educate them through offering benefits that ease the lives of the people, the purpose that financial institution wants to reach. It is understanding that it will vary from country to country, depending on various challenges the unbanked population faces during their daily lives. So, it is commonly understood that the simple way for financial inclusion is offering new instruments and easy digital technology to companies' employees for transferring and receiving money, even small amounts of money. New technology and innovative communication tools change the financial system improving the speed and safety as determining new lifestyle of population, the easy one. **Q-as**

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