Cryptocurrency as a Means to Financial Inclusion

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Today, about 1.4 billion people have no financial account at a bank, mobile money provider, or other formal institution. Amongst them, individuals from sub-Saharan Africa, those with low-level education and women are overrepresented (Atkinson and Messy, 2013). This highlights the need for financial inclusion, which refers to the access to affordable and responsible financial services, and the empowerment to use them. It is a key enabler of seven of the UN's Sustainable Development Goals (CGAP, n.d.). Efforts such as financial education, strengthening emergent financial service sectors, and providing consumers with the protection and skills they need, are being implemented and show promising results (Atkinson and Messy, 2013). Given its omnipresence, it is only natural to explore opportunities in information technology as well. Could cryptocurrency accelerate financial inclusion? Unfortunately, it is not (yet) equipped to address the financial inclusion needs of marginalized populations.

The most obvious reason why cryptocurrency is not the best option for achieving financial inclusion is that its use often comes with high risks. Payments lack legal protection, they are typically irreversible, and some of the user's information may be public. Most importantly, the value of the currency can change constantly and dramatically (State of Connecticut, Department of Banking, n.d.). These factors form significant barriers to people with limited or no access to other financial services, especially those without disposable income.

However, these barriers do not entirely disqualify cryptocurrency as a tool for financial inclusion; there are numerous opportunities to be explored. Individuals could access financial services without a physical bank, which could be beneficial to those residing in "banking deserts" - regions where no banks are within reasonable distance. Furthermore, lack of trust in banks has been the second-most cited reason for not having a bank account in 2021, which is why independence from discriminatory banks through cryptocurrency is a compelling incentive. Additionally, 26 percent of unbanked people in low-income countries do not have sufficient ID documentation to open a bank account. For these individuals, cryptocurrency could be especially interesting, since no identity document is required (Financial Inclusion Insights, 2024). That said, it is crucial to emphasize that the current state and its potential are very different. Many platforms obligate the user to have a bank account, undermining the aim of serving the unbanked, rendering all the aforementioned advantages largely irrelevant (Carmona, 2022).

Moreover, despite the vast amount of money invested in crypto, it has not yet developed beyond its use as a speculative asset. Promises, for instance, using it as an alternative for cross-border remittances, remain largely unfulfilled because of the complexity of converting cryptocurrencies into local currencies, and the notable costs related with these conversions, making it an inviable substitute to cash (Carmona, 2022).

To summarize, in its current state, cryptocurrency is not yet a valuable addition to foster financial inclusion. Since its usage is high risk to marginalized groups, it does not serve the unbanked, and it is not presently a cost-effective, faster, or easier alternative to cash, it is necessary that policymakers clarify the problems they are trying to solve, and what groups they are trying to support, before overstating its potential and embracing cryptocurrency.

References

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