

ESG Series

Social Part 2:

Diversity and Inclusion

Research & Insights

MONOCHROME ASSET MANAGEMENT

0.25 CPD Hours | FPA Accredited

Learning Outcomes

In this session, you will learn how Bitcoin enables diversity and inclusion in the context of the financial system, including:

- The barriers currently facing un-and-underbanked people
- Bitcoin as a means to financial sovereignty
- Levels of financial sovereignty through Bitcoin
- Obstacles facing Bitcoin's inclusivity

Note: This activity meets the guidelines for qualifying CPD, and has been accredited for continuing professional development by the Financial Planning Association of Australia (FPA). This does not constitute FPA's endorsement of the activity.

Introduction

It can be challenging to reimagine the current financial system. However, whilst most of us will continue to have access to and use traditional banking systems in the foreseeable future, Bitcoin may play a more significant role for the 31% of adults globally that remain unbanked and underbanked under the status quo.¹ In this article, we aim to discuss the key features that Bitcoin's technology offers this group, and how it differentiates itself from the traditional system that billions of people struggle to engage with.

Connecting the Unbanked

In our introductory article, we asked how does Bitcoin enable diversity and inclusion in itself? The answer is fairly straightforward; Bitcoin can be used and owned by anyone irrespective of nationality, ethnicity, race, gender, or socio-economic status. All that is required is access to the internet and a basic smartphone. We can examine Bitcoin's inclusivity even further however, specifically within the context of a traditional financial system, and ask the question, *what does this mean for the 1.7 billion unbanked and underbanked?*²

Hurdles Facing the Unbanked

Whilst the digital payments revolution has championed a cashless society, many people - either by choice or through circumstance - aren't engaged with traditional financial services. Several governments have made an effort to address this, attempting to bank the unbanked, but have not been entirely successful. For example, launched in 2014, India's 'People's Wealth Plan' helped drive the opening of more than 335 million bank accounts in the span of five years.³ However, data from the World Bank shows that half of India's bank accounts remain inactive and 83% of these newly opened accounts are technically 'active' but only experience one transaction per year.⁴ This suggests that though India's government managed to increase the amount of opened bank accounts, the accounts aren't actually being used to deposit money or carry out transactions and people are still not engaging with the digital payment system. Essentially, 'banking the unbanked' didn't actually bank that many at all. The barriers to financial inclusion evidently run deeper than the process of opening a bank account, and are more difficult to dismantle.

¹ World Bank, 'Financial Inclusion on the Rise, But Gaps Remain, Global Findex Database Shows (<https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows>)', World Bank, 19 April 2021, accessed 10 December 2021.

² ibid.

³ T Sanghara, 'Banking in India: Why many people still don't use their accounts (<https://www.aljazeera.com/economy/2019/6/21/banking-in-india-why-many-people-still-don-t-use-their-accounts>)', Al Jazeera, 21 June 2019, accessed 10 December 2021.

⁴ A Demirguc-Kunt et al., 'Global Findex Database 2017 : Measuring Financial Inclusion and the Fintech Revolution (<https://openknowledge.worldbank.org/handle/10986/29510>)', World Bank, 19 April 2018, accessed 10 December 2021.

The 2017 Global Findex Database, Measuring Financial Inclusion and the Fintech Revolution, sheds some light on the underlying problem.⁵ Overwhelmingly, un-and-underbanked adults live in the developing world, with the majority hailing from China, followed by India, Pakistan and Indonesia. Disaggregating further, it found that overall, women and poorer households accounted for a disproportionately greater share of the unbanked. Demographics aside, the database also reveals through a survey of 144 countries that there are a variety of reasons why people do not have an account with a financial institution. Not surprisingly, around a fifth of the respondents identified two physical, practical issues as a barrier; distance and documentation requirements. However, perhaps what is more interesting is that 16% of people cited a more intangible deterrent - distrust in their financial institutions, a concern that financially privileged people can afford not to worry about when they open a bank account.

Even those willing or possessing the desire to open an account simply cannot, as banks don't provide their services where it is not profitable for them to do so. As a business, there is little logic in opening a branch somewhere rural for example, where most people don't have an account and have little money to put in one to begin with. Adding onto the distance, they must also provide certain documentation such as different forms of ID, which not everyone possesses or has access to. Ultimately, they are excluded from the financial system.

Utilising Bitcoin

What allows Bitcoin to address many of the hurdles facing the unbanked is its distributed ledger ("blockchain") technology. At its core, Bitcoin is entirely inclusive, available to anyone with access to the internet and a communications device such as a smartphone. This is thanks to the fact that Bitcoin's peer-to-peer payment network exists parallel to the traditional financial system, rather than within it.

Providing Financial Sovereignty

Bitcoin's blockchain technology has massive implications in terms of privacy and security. Providing documentation is not necessary and you do not need to seek permission from a central authority to send or use Bitcoin. Given the level of distrust in financial institutions as a barrier to banking, these features are certainly appealing. People living under corruption and/or authoritarian regimes will benefit the most from this as they reduce their exposure to the risk of state surveillance or the possibility of their accounts being frozen, seized, or lost by banks and governments. Unfortunately we see this occur in several countries where people are being deliberately silenced or suppressed through forceful exclusion from the financial system. For example, in late 2020, citizens protesting against police brutality in Lagos, Nigeria had their bank accounts frozen by Nigeria's Central Bank for 3 months under the order of the government.⁶ More recently, many Nigerians have turned to

¹ibid.

²A Ewang, 'Nigeria Finally Unfreezes Protesters' Bank Accounts (<https://www.hrw.org/news/2021/02/11/nigeria-finally-unfreezes-protesters-bank-accounts>)', Human Rights Watch, 11 February 2021, accessed 15 December 2021.

peer-to-peer methods of payment and are utilising Bitcoin despite disapproval from the central authorities.⁷ Bitcoin's encryption and code ensures it is impossible for any entity to dictate or undermine one's financial sovereignty.

Furthermore, whilst distance and documentation are preventing people from opening a bank account, there are no such physical barriers required to start transacting with Bitcoin. With minimal set up requirements, Bitcoin relies on the continued development of technological infrastructure which is bringing people online and providing access to adequate communication devices. Consequently, there would be no need to visit the bank or an ATM as often as before. People can effectively 'bank' themselves and simply transact Bitcoin from their own pocket.

Levels of Sovereignty

Simply buying some bitcoin does not make you financially sovereign per se, but it gets you off to a good start. The below are the four broad levels of sovereignty that Bitcoin provides, each with its own risks, costs and trade-offs.

- Level 1 - You've just bought some bitcoin, and it is in your account on an exchange. As you are not in possession of the private keys to these coins, your access to and/or ownership of them is a dubious proposition. **Cost:** \$0.
- Level 2 - You've withdrawn your bitcoin to your mobile wallet on your phone. You are now the undisputed owner of your coins, and their fate is solely in your hands. However, you rely on your wallet provider to tell you your balance. **Cost:** ~\$150 (i.e. budget smartphone price in developing world) + Paper Wallet Backups (Free)
- Level 3 - If you have your own computer, you download Bitcoin Core and run your own node, and connect your mobile wallet to it. You can now verify your own balance and are fully sovereign. Having a full node now enables you to also run a BTCPayServer so that you can engage in commerce without needing a payment processor. You are your own bank. **Cost:** \$0 (if you have your own computer), ~\$300 for a basic second-hand computer
- Level 4 - You have your own computer, but you would like a dedicated device that is on 24/7. Your friends and relatives can connect to this always-on node to verify their balances or process payments through your BTCPayServer. Not only are you your own bank, but also a bank for your local community. **Cost:** ~\$500.

So whilst there are small financial barriers to entry to gain full sovereignty, the cost to run a Bitcoin node will reduce over time, as Bitcoin's computing and storage requirements grow linearly, whereas price of technology deflates exponentially.

⁷ C Oluocha and L George, 'Crypto trading thrives in Nigeria despite official disapproval (<https://www.reuters.com/business/crypto-trading-thrives-nigeria-despite-official-disapproval-2021-10-12/>'); Reuters, 13 October 2021, accessed 15 December 2021.

Obstacles to Bitcoin's Inclusivity

One of the most marked obstacles for true diversity and inclusion under Bitcoin, particularly in the short-term, is internet access and smartphone penetration. Much like the unbanked population, approximately 96% of those offline live in developing countries, and women continue to be overrepresented in this demographic as gender disparities persist.⁸ Connectivity is improving year by year, however. At least two-thirds of unbanked adults own a mobile phone suitable for financial services.⁹ Consequently this hurdle will become surmountable in the long term, provided that technological adoption continues to bring more people online, ultimately benefiting Bitcoin's accessibility.

Of course, just like the millions of newly opened bank accounts in India, the fact that Bitcoin is available to be used and owned by anyone doesn't inherently incentivise its use. It is entirely the decision of the individual whether or not they wish to use what is accessible to them. A growing appetite to accumulate savings might shift attitudes towards Bitcoin however, as the digital currency allows anyone to save as much or as little as they want. This is opportune for low-income households that tend to save very little and less frequently and do not have banks willing to provide their services nearby.

The ability to learn how to transact with Bitcoin may also limit its potential use. Without the sufficient employment of technology, whether that be via a mobile wallet or other platform alike, people will not be able to engage with the alternative payment system properly. This is not to say that in order to use Bitcoin you need to understand its underlying blockchain technology, but much like mobile banking, you will need to navigate a Bitcoin wallet to send and receive payments. This issue is more likely to affect older individuals due to generational gaps in technological literacy and experience in comparison to their younger counterparts. In fact, in the 47 UN-designated least developed countries (LDCs), young people are 1.53 times more likely to be connected to the internet.¹⁰ This implies that young people will more likely be able to engage in digital payments and that older generations may lag behind.

In time, these limitations will become less of a hurdle. The gap in internet and smartphone usage between developed and developing countries is shrinking, and as payment systems continue to go digital, physical cash will become scarce. Consequently, whilst ongoing opposition and regulation from central authorities may suppress the rate at which people adopt Bitcoin, its inclusivity is likely to improve with time.

¹⁹ World Bank, op. cit.

²⁰ ibid.

Conclusion

Bitcoin offers a financially inclusive method of digital payment that only relies on access to the internet and a smartphone. Though it is still some way from being completely accessible to the unbanked and underbanked population, it certainly provides an alternative which curtails several existing barriers to inclusivity in the traditional financial system. As improvements in technology continue to persist, more people will be well equipped to employ Bitcoin and engage in a different payment system that does not discriminate between users.

CPD Quiz

1. The 2017 Global Findex Database, Measuring Financial Inclusion and the Fintech Revolution reveals insights on the unbanked and underbanked population. Which of the following statements about the database is true?

- a) Distance and documentation are some of the reasons individuals identified for why they do not have an account with a financial institution
- b) The majority of un-and-underbanked adults live in China, India and Pakistan
- c) Overall, women and poorer households are disproportionately represented in the unbanked population
- d) All of the above

2. Which of the following statements about the way in which Bitcoin enables financial sovereignty is true?

- a) Bitcoin can be stored in a bank account at a financial institution
- b) Bitcoin can be used to buy any good or service
- c) Bitcoin allows individuals to reduce exposure to risks such as their funds being frozen, seized, lost or stolen by entities
- d) None of the above

3. Which of the following about Bitcoin's levels of sovereignty are true?

- a) The same level of sovereignty can be achieved with either a smartphone or computer
- b) Individuals have full ownership and control over the bitcoin in their account on an exchange
- c) By withdrawing your bitcoin to a personal mobile wallet, you become the undisputed owner of that bitcoin
- d) All of the above

4. Which of the following statements about the current obstacles to Bitcoin's inclusivity are true?

- a) A large majority offline population live in developing countries
- b) At least two-thirds of unbanked adults own a mobile phone suitable for financial services.
- c) Technological literacy, particularly within older generations
- d) All of the above

Complete the quiz online at monochrome.co/research for Continuing Professional Development (CPD) hours.



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