

Social Banking: An alternative for unbanked and underbanked

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Abstract

Currently, consumers are familiar with technology in the digital age and people spend more time on social media due to the convenience of doing all digital financial transactions in one application, giving them more choices from platforms. Therefore, the social media platform business relies on the bank's strengths in fully digital financial services and the trust that customers have in the bank. In addition, consumers will be more convenient, not having to leave the social platform they are using to go directly to the bank's mobile banking application to perform financial transactions, thus making it easier for consumers to access financial services.

Social media platforms extend business models linked to banking services become to “Social Banking” that help people in the country reduce financial transaction costs or borrowing costs. Over the past year, a record number of new accounts have been opened worldwide by firms providing mobile money, fintech, and online banking services. Therefore, the concept of financial inclusion or increasing access to financial services is used to solve the problem of informal debt and inequality without limiting transactions to banks so that people in rural areas can use Social Banking to manage their finances.

This article is a study on financial technology known as “Social Banking”, an alternative financial service for the underbanked and unbanked, with the goal of studying trends and patterns of social banking. Social Banking is new, it is necessary to study and understand because it is a financial transaction through social media platforms that are related to security and privacy.

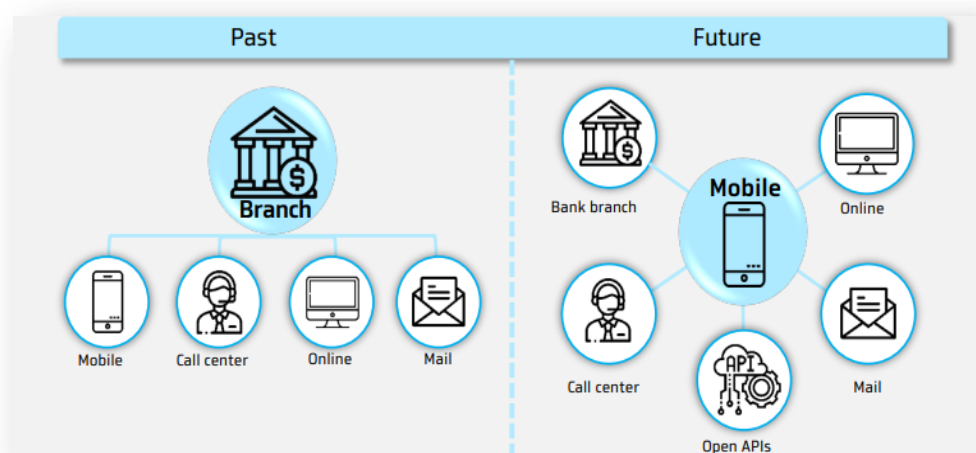
Keywords: *Social Banking, Unbanked, Underbanked.*

Introduction

Despite the fact that technology has become indispensable to millions of businesses, it still requires improvement. Because of the coronavirus outbreak, modern technologies like networking, cloud computing, security technologies for collaboration, and other digital technologies are being used quickly and widely. These technologies will play a big role in the future in business, lifestyle, and activities, as well as in financial transactions.

Previously, all financial transactions, including deposits, withdrawals, transfers, loans, Apply for a credit card, and open deposit accounts, had to be conducted at a bank; however, with the advent of the digital age, many online retailers, financial institutions, and banks have developed mobile banking services to assist, allowing customers to conduct transactions via mobile phones or smartphones, or have moved to use application on other devices. In the four years since the coronavirus outbreak, everyone has more preferred online payment services than the traditional one as it is safer and more convenient. Previously, branch banks were thought to be the hub for various transactions, but in the future, all financial transactions will be handled easily through digital platforms, which can be shown in Figure 1.

Figure 1 Comparison between past and future banking business models



Source: Ekachan & Thavornlan 2020 refer to Deloitte 2020

Mobile money and digital payments have paved the way for a new generation of products that have reduced costs and made serving unbanked and underbanked consumers a viable business proposition. Despite continuous innovation and steady growth in digital financial services, take-up of these products remains low, and usage rates are frequently disappointing. Many financial service providers are struggling to make these digital products deliver on their full potential for businesses and consumers (Niazi Z. & Savonitto A. 2015). Currently, a number of factors, including the COVID-19 pandemic and the advent of digital technology, have combined to accelerate this transformation. This change will lead to the "New Normal" era where more electronic financial transactions begin, including the need for more diverse and convenient financial services, which makes social banking suitable for the lifestyle of living in an era where nowadays, technology has become a part of daily life.

According Ekachan and Thavornlan 2020 refer to Social-Banking.org defines "Social Banking" as a financial service that integrates social, environmental, cultural, and economic activities at all levels with the goal of balancing the gap between traditional and a new model that depends on the cooperation of stakeholders as well as the needs and learning and development potential of both individuals and sectors. Social Banking is another Technology Disruption that has changed. The financial business model is a collaboration with the business sector that uses digital technology as the core (Core Business), or can be called doing business on a digital platform with financial service providers. This will allow both parties to benefit from a large database from studying consumer behavior. To be used in the development of digital marketing and financial products that meet the needs of customers in new ways.

Additionally, Chucherd 2021 from the Bank of Thailand defines social banking as an online banking service on social media apps. This is a business model in which the bank collaborates with a technology company that owns a social media platform that has a sizable customer database. In the long run, banks will be strengthened by their partnerships with top all-in-one super applications because they will be able to share data with partners and offer financial services to underbanked who do not have a deposit account or cannot borrow due to a lack of income proof documents. When social banking receives new information, it will be easier for this company to provide various financial services at the right place, at the right time, and to better meet the needs and potential of customers.

Content

In the past year, as the COVID pandemic swept across the globe and decimated world economies, issues of economic inequality rose to the forefront of social and political discourse. While most of the attention has been placed on racial and gender-based wealth gaps and income inequality, financial inclusion is also a crucial issue. Financial inclusion is the equitable access of individuals and businesses to low-cost financial services such as transaction bank accounts, savings and investment opportunities, credit, and insurance. Lack of access to these resources exacerbates income and wealth disparities and prevents the unbanked and underbanked from participating fully in the global economy. (Taylor 2022).

According to Investopedia 2022, which cites the Reserve Board of New York, 2019, "underbanked" refers to individuals or families who have a bank account but often rely on alternative financial services such as money orders, check-cashing services, and payday loans rather than on traditional loans and credit cards to manage their finances and fund purchases. This may be because they lack access to convenient, affordable banking services or because they need or prefer to use alternatives to traditional financial services.

"Unbanked" is an informal term for adults who do not use banks or banking institutions in any capacity. While often an issue in the developing world, there are also pockets of unbanked adults in developed countries, including the United States and developing countries. (Investopedia 2022) defines unbanked people as the people who generally pay for things in cash or else purchase money orders or prepaid debit cards. They also typically do not have insurance, pensions, or any other type of professional money-related services. They may take advantage of alternative financial services, such as check-cashing and payday lending, if such services are available to them. Additionally, (World Economic Forum 2020) give the definition of the unbanked people that they refer to adults who do not use or have access to any traditional financial services at all. They generally pay for things in cash and have no insurance, pensions, or any other type of professional money-related services. This study classifies unbanked people based on their use of "alternative financial services," implying that their reliance on these financial products which indicates that the traditional financial services industry has completely failed to meet their needs. Some of these products are used by less than half of the truly unbanked people, leaving about 3–4% completely disengaged (Voorhees 2020).

The central bank of the Philippines, which in 2007 became the first monetary authority to establish a dedicated office for financial inclusion, released a study in 2016 that explains why. With over 50 million unbanked individuals out of a total adult population of 72 million, the bank reported that nearly half of them (45%) cited insufficient funds as the primary reason for not having an account, as shown in Table 1. Most unbanked individuals are unbanked because they have no income. True financial inclusion starts with rescuing the unbanked people from poverty (Ventura 2021).

Table 1 World's Most Unbanked Countries

Country	Total Population (Millions)	Unbanked Population (%)	Cash Transactions (%)	Card Transactions (%)	#Of ATMs per 100,000 Adults	Internet Penetration (%)
Morocco	36.9	71	41	27	28.6	62
Vietnam	97.3	69	26	35	25.9	66
Egypt	102.3	67	55	27	20.1	45
Philippines	109.6	66	37	22	29.0	60
Mexico	128.9	63	21	44	61.5	66
Nigeria	206.1	60	24	27	16.9	70
Peru	33.0	57	22	62	126.7	49
Colombia	50.9	54	15	55	41.3	62
Indonesia	273.5	51	13	34	53.3	55
Argentina	45.2	51	18	45	60.9	76
Kenya	53.8	44	40	25	7.7	83
Romania	19.2	42	78	19	64.4	64
Kazakhstan	18.8	41	60	20	85.9	76

Country	Total Population (Millions)	Unbanked Population (%)	Cash Transactions (%)	Card Transactions (%)	#Of ATMs per 100,000 Adults	Internet Penetration (%)
Ukraine	43.7	37	60	28	96.3	57
Uruguay	3.5	36	26	53	120.1	68
South Africa	59.3	31	11	43	65.3	56
Turkey	84.3	31	8	71	84.0	65
Brazil	212.6	30	18	62	101.7	67
Bulgaria	7.0	28	63	26	94.3	63
Saudi Arabia	34.8	28	34	35	73.3	82
Chile	19.1	26	11	70	50.0	82
Hungary	9.7	25	45	44	61.0	77
Russia	145.9	24	17	37	165.5	76
India	1,380	20	17	32	21.0	34
China	1,439.3	20	6	22	95.6	54
Czech Republic	10.7	19	44	22	58.0	88
Thailand	69.8	18	16	26	115.1	53
Lithuania	2.7	17	12	24	38.6	78
Slovakia	5.5	16	41	17	61.8	82
Greece	10.4	15	29	54	63.4	70
Malaysia	32.4	15	11	32	44.7	80
Poland	37.9	13	12	25	70.6	76
Latvia	1.9	7	12	49	58.3	81

Country	Total Population (Millions)	Unbanked Population (%)	Cash Transactions (%)	Card Transactions (%)	#Of ATMs per 100,000 Adults	Internet Penetration (%)
Israel	8.7	7	1	76	133.2	82
USA	331	7	4	59	N/A	89
Spain	46.8	6	11	49	106.3	85
France	65.3	6	5	55	98.3	90
Italy	60.5	6	5	55	98.3	90
Taiwan	23.8	6	12	42	N/A	88
South Korea	51.3	5	2	73	267.0	95
Hong Kong	7.5	5	2	73	53.2	89
UK	67.9	4	7	56	110.3	95
Estonia	1.3	2	12	21	66.9	88
Austria	9.0	2	4	28	172.0	88
Singapore	5.9	2	4	75	58.8	84
Japan	126.5	2	6	68	124.1	93
Switzerland	8.7	2	2	25	97.2	94
Germany	83.8	1	4	11	119.9	93
Belgium	11.6	1	6	51	81.0	88
New Zealand	4.8	1	3	55	63.5	91
Australia	25.5	0	5	53	146.1	88
Canada	37.7	0	3	73	214.1	93
Denmark	5.8	0	3	54	44.8	97

Country	Total Population (Millions)	Unbanked Population (%)	Cash Transactions (%)	Card Transactions (%)	#Of ATMs per 100,000 Adults	Internet Penetration (%)
Netherlands	17.1	0	0	19	41.1	93
Finland	5.5	0	2	23	34.7	96
Sweden	10.1	0	2	46	31.9	96
Norway	5.4	0	3	50	31.6	97

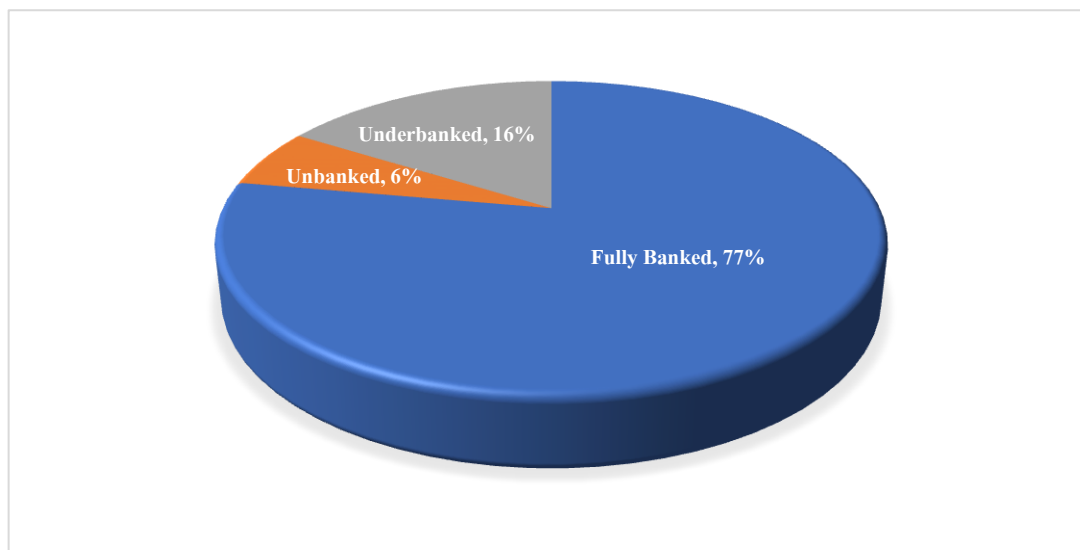
Source: Venura 2021 refer to Merchant Machine, 2021

The difference between unbanked and underbanked households is that underbanked households have a bank account but regularly use alternative financial services. Unbanked households, on the other hand, do not even have a checking or savings account (Investopedia 2022).

There are still gaps in banking access, despite the fact that the majority of U.S. adults have a bank account and use conventional banks or credit unions to handle their financial needs.

The term "unbanked" refers to the 6% of adults who do not have a checking, savings, or money market account. In 2018, 25% of adults without bank accounts used an alternative financial service, such as a money order, check cashing business, pawn shop loan, auto title loan, payday loan, paycheck advance, or tax refund advance. Furthermore, 16% of adults use alternative financial products in addition to their bank account, which is known as being "underbanked" with a bank account and no use of alternative financial products, the remaining 77% of adults are fully banked as shown in Figure 2 below.

Figure 2 Banking status



Source: Reserve Board, 2019

Low-income customers have a more complicated financial situation than high-income customers, so it is essential to comprehend their needs to meet their demands. Additionally, people with a high income have the ability to pay for unplanned expenses, have extra income, and make quick decisions. So, it is essentially to conduct financial products and services to help people with low incomes in dealing with complicated financial situations. These products and services must be innovative and truly meet their needs (Homchan, 2016).

Financial inclusion for underbanked and unbanked communities is one of the world's most pressing issues. While fintech is assisting in the rapid resolution of this issue, there are still approximately 1.7 billion unbanked people worldwide. Around 70% of Southeast Asia's population contributes to these figures, with Vietnam, Indonesia, and the Philippines accounting for the lion's share. Surprisingly, up to 63% of Thailand's adult population is either unbanked or underbanked. These include low-income consumers and micro- or small-to-medium-sized businesses that operate outside of the banking system. The Thai government is now working to ensure that 30 million Thais have access to the banking system and financial services by implementing modern digital technologies. Fintech is quickly becoming the best way to reach out to these people and ensures that they have the best financial access possible (Raj 2022). In addition, the most intriguing new type of

financial services would be social banking, which will reach people of all genders who use social media services on a daily basis, even if they do not have bank accounts.

According to the data on social media usage in developing countries such as Thailand, overall, Thais have reacted positively to the digital trend. There is a recent report that 52 million Thais, or nearly three-quarters of the country's population, are using the Internet and social media. According to the data, 94% of Thais between the ages of 16 and 64 have smartphones, and most social media users in Thailand are aged between 25 and 34, followed by 18 and 24 years and 35 and 44 years, respectively. Facebook, YouTube, and Line are the most popular social media platforms (Jarukornsakul, 2020). Also, Thais spend an average of 9 hours a day on the Internet, which is close to 3 hours on social media applications. This fits with other data that shows most Thais use their mobile phones to play social media games online. Shopping and financial transactions come in second and third, respectively.

Apparently, an online survey of Thai consumer behavior, 82% of Thais have purchased goods or services online, which food, toys, furniture, clothing, and travel seeing are the most growth in online sales last year and the most popular payment methods among Thais are credit cards, electronic wallets (E- wallets), bank transfers, and cash on delivery (COD). The popularity of Thais on social media, which reflected in the research results; "Conversational Commerce: The Next Generation of E-commerce" by Boston Consulting Group, reveals that up to 40% of Thais prefer Social Commerce, while the average in Southeast Asia is around 20%. It is obviously higher than other e-commerce platforms such as Lazada, Shopee, JD.com, etc. which have 35% and brand websites 25% respectively. Leading Social Commerce platforms have developed functions that make it simpler for consumers to complete trading transactions on their platform without having to re-open a bank application to make payments (Leesa-Nguansuk, 2019).

Social Banking is the integration of financial services with other business ecosystems to create mutual engagement between service recipients and service providers in offering products and services that meet the needs of customers in new ways. In Thailand, it has changed in a "More than just banking" manner (Ekachan & Thavornlan 2020). Social banking involves a platform-based transaction, it is a form of unbanked financial services that is accessible to a large number of people today and is known as "social banking." Social banking can be categorized into two types:

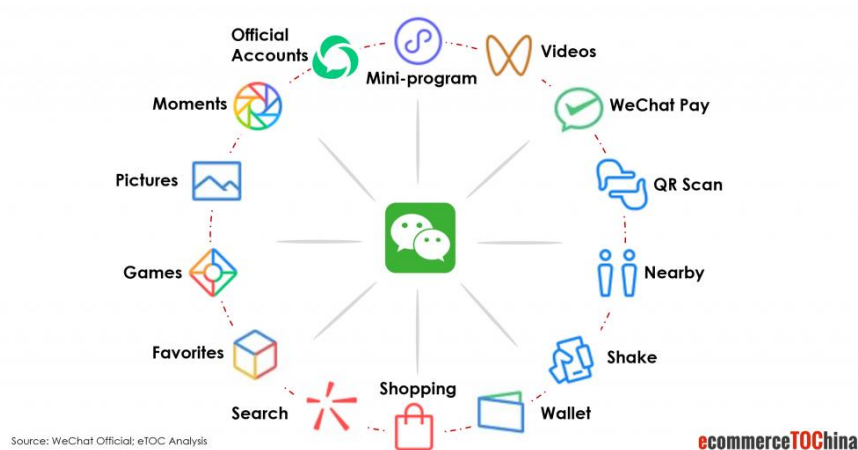
1. It is a partnership between platform owners with large customer databases and banks with strong financial services capabilities. In China, for example, payments can be made via Alipay and WeChat, which are widely used.

Figure 3 Alipay



Source: Shaw, 2022

Figure 4 Function within WeChat



Source: WeChat Official; eTOC Analysis

Leading banks are also very active in Thailand. For example, Kasikorn Bank has partnered with the Line application to establish LINE Kasikorn under the name "LINE BK" to launch products such as loan applications through the Line application, among other things (Chucherd, 2021).

Figure 5 LINE BK PLATFORM



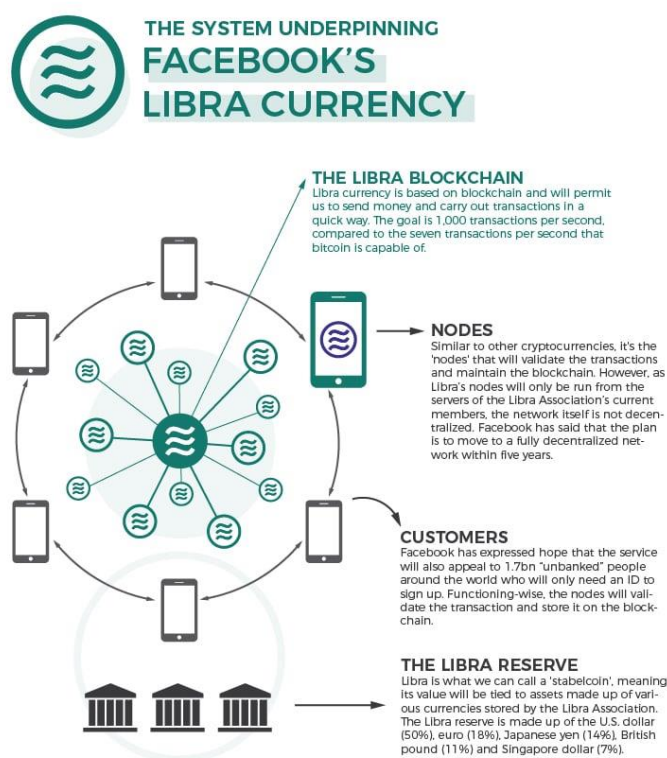
Source: <https://lineforbusiness.com>

LINE BK, which is the first social banking service provider in Thailand, recently disclosed their operating results for the year 2021, which demonstrated outstanding expansion. LINE BK aimed at boosting access to banking services among Thailand's unbanked and underbanked population, very small businesses, and the self-employed (Bangkok Post, 2022). After the launch of the services for one year, LINE BK discovered that the total number of users on the platform has exceeded 3.9 million, which is a response to the trend of Thais who are more open-minded to social banking services. LINE BK intends to continue its market penetration in 2022 and is making preparations to do so by highlighting three primary strategies. These strategies are centered on gaining access to customers in order to provide better and wider services, developing services in order to meet financial needs in a more convenient manner, and launching new products in order to increase the versatility of financial services. LINE BK is getting ready to launch a new campaign that will expand customer groups in Bangkok and other provinces. The goal of this campaign is to raise awareness about LINE BK and reach more customers in a manner that is consistent with the idea of "Banking in your Hand". Despite the difficulties presented by the COVID-19 pandemic in 2021, LINE BK was able to proceed as scheduled. In addition to having more than 3.9 million, LINE BK's

services have also garnered significant attention. It is evident from the activation data of four major services, namely 4.5 million deposit accounts, more than 100,000 special savings accounts, 2 million debit cards, and more than 500,000 lending accounts, that over 27 billion baht have been activated (Line BK, 2022).

2. The formation of large technology companies owning social platforms to create financial transaction services in cryptocurrencies, which can be used through E-wallet channels for trading, exchanging goods and services, for example, currencies. named LIBRA, developed by Facebook, which will be made available to users on this platform (Chucherd, 2021).

Figure 6 Libra Currency



Source: <https://www.e-zigurat.com>

Because most people nowadays have access to various social media applications, social banking has an advantage in terms of information. Therefore, social banking can reach a large number of people, even those who do not have a bank account can do financial transactions because there are many people who do not have bank accounts and do not have pay slips and therefore cannot

borrow or request loans from banks, causing them to borrow outside the system, but social banking can reduce this gap. Social banking weaknesses at present, or social banking, is still unable to build confidence among the people as much as it should.

In Thailand, there is a growing trend of cooperation between commercial banks and various digital platforms, such as social media and retail businesses, to strengthen the digital financial network, allowing service users to easily access financial services through partner networks and leading to the introduction of new types of financial services (Ekachan & Thavornlan 2020). The integration of banks and social media platforms has resulted in the term "financial inclusion," which, in addition to resolving disparities in access to financial services and informal debt, enables banks that transform into digital platforms to be adaptable and leverage even more ecosystems. In addition, social banking increases the customer base, profits, operational efficiency, etc. As shown in Figure 7 below, the efficiency of the current banking system is compared to that of digital platforms. According to the World Retail Bank Report 2020, platform-based banking development is more efficient than traditional bank system.

Figure 7 Platform-based banks meet business priorities more efficiently than traditional bank



Source: World Retail Bank Report 2020 refer to Capgemini Financial Service Analysis 2020

From the author's perspective, social banking is a novel financial service that has the potential to develop in the future and can serve clients of all genders and ages. It is likely that the underbanked and unbanked will be able to access a wide range of banking services merely possess a personal Social Media account. Social Banking has a number of intriguing features that will encourage more use from users, including:

1. Social banking is a low-cost financial service that does not require a visit to a bank branch; all that is required is a social media account to use the bank's services.
2. Social banking can provide financial services that are appropriate for consumers' behavior and lifestyle, as well as their income level.
3. Social banking reduces the problem of informal debt by allowing banks to offer loans to retail customers without pay slips or to small businesses.

Although customers will benefit from the convenience of Social Banking, users should be aware of the following precautions:

1. Social Banking provides quick and convenient access to financial services, which may cause us to incur unnecessary debt due to the ease with which we can apply for credit.
2. All financial transaction information that was once private and secure in transactions will be made available on platforms other than banks, where the user cannot be certain that their personal and financial information will receive the same level of protection as when dealing directly with a traditional bank.

Conclusion

Financial inclusion is the equitable access of individuals and businesses to low-cost financial services such as bank accounts, savings and investment opportunities, credit, and insurance. Lack of access to these resources exacerbates income and wealth disparities and prevents the unbanked and underbanked people from participating fully in the global economy. "Unbanked people" refers to adults who do not use or have access to any traditional financial services at all. Unbanked people typically do not have insurance, pensions, or any other type of professional money-related services. The majority of unbanked individuals are unbanked because they have no income.

People who use the unbanked and underbanked services are more likely to have low income, less education, or be in a racial or ethnic minority group. There are still approximately 1.7 billion unbanked people worldwide. The Thai government is working to ensure that 30 million Thais have access to the banking system and that financial institutions invent financial products and services that can reach as many people as possible, which is inevitable when being involved in social media, which is currently the most popular trend.

According to the data on social media usage in developing countries such as Thailand, overall, Thais have reacted positively to the digital trend. Facebook, YouTube, and Line are the most popular social media platforms. The most popular payment methods among Thais are credit cards, electronic wallets, bank transfers, and cash on delivery. LINE BK, which was the first social banking service provider in Thailand, recently disclosed their operating results for the year 2021. The total number of users on the platform has exceeded 3.9 million. This is a response to the trend of Thais being more open-minded about social banking services. LINE BK was able to proceed as scheduled despite the COVID-19 pandemic in 2021. In addition to having more than 3.9 million users, LINE BK's services have garnered significant attention. It is evident from the activation data of four major services that over 27 billion baht have been activated. This shows that more people are reaching financial services through social media, and one of them is the unbanked and underbanked of the past.

In Thailand, there is a growing trend of cooperation between commercial banks and various digital platforms, such as social media and retail businesses. The integration of banks and social media platforms has resulted in the term "financial inclusion" is more efficient than the traditional bank system.

Although social banking is a new financial service that has future development potential and can serve customers of all ages, while users benefit from the convenience of Social Banking, users should be aware of the Privacy and security from using Social Banking services as well.

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