

## Open Learning Forum

### Financing the Un(der)banked

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Executive Summary written by GBBC

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#### **Introduction**

With 38% of the world's population unbanked or underbanked (those who may have bank accounts but operate mostly through cash transactions), blockchain technology has significant potential to increase financial inclusion.

Underbanked populations are particularly vulnerable to exploitative financial services like payday loans, pawn shops, auto title loans, and rent-to-own schemes. These financial services take advantage of populations that are excluded from the traditional financial system. Underbanked populations face few options, high fees and difficulty building credit.

#### **Underground Economy**

The Federal Reserve estimates that the underground economy is equal to about 7%-11% of GDP in the U.S., or about \$2 trillion in 2018. Blockchain technology can bring the underground economy out of the shadows by providing an immutable ledger that is available to all participants. Blockchain platforms can use algorithms to generate loan amounts, terms, and interest rates; they can also automate underwriting and loan distribution.

#### **Credit**

Blockchain platforms also give lenders the ability to go beyond FICO credit scores and use nontraditional data to determine creditworthiness. For example, rental and utility agreements could be used as an indicator of income, with blockchain platforms tracking payment habits. Both Rotating Savings and Credit Association (ROSCA) and Peer to Peer (P2P) lending options stand to improve with the use of blockchain technology.

#### **Conclusion**

Various applications of blockchain technology can improve the financial standing of unbanked and underbanked populations. Blockchain platforms enable these populations to demonstrate their creditworthiness in unconventional ways, thus facilitating access to credit. With greater financial inclusion, unbanked and underbanked populations will not be as vulnerable to predatory financial schemes.