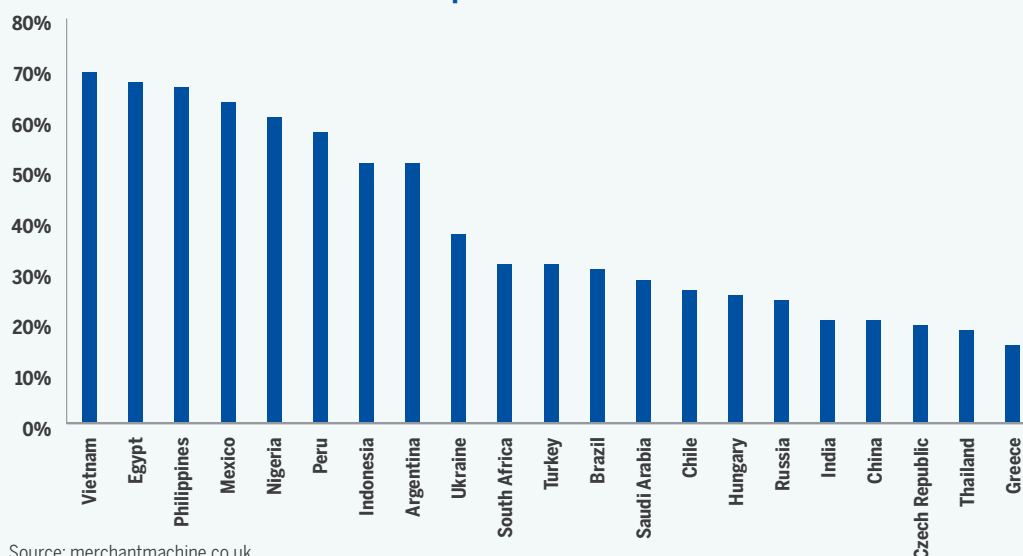


Banking the Unbanked

Many investors believe that globalization and the rise of China have defined the developing world over the last two decades. At Alger, we believe financial inclusion and the resulting rise of the middle class may define the next 20 years. Indeed, unbanked adults are concentrated in developing countries. Bringing these people into the financial system can potentially have a profound impact on poverty reduction, entrepreneurship and economic and government efficiency. How are unbanked individuals joining the ranks of the banked?

Share of Population that Is Unbanked



Source: merchantmachine.co.uk.

Note: This is a selection of countries that contain unbanked individuals.

- As the chart demonstrates, the percent of unbanked people in many developing countries is quite high. Many of these countries are working toward financial inclusion, which is the process of providing formal financial services to individuals and businesses in an affordable, sustainable and ethical way. The unbanked can be defined as those that lack checking, savings or mobile money accounts and have no access to financial products such as insurance, loans, mortgages or equity products
- What is driving financial inclusion in countries where the number of unbanked is on the decline? The main mechanisms to bank the unbanked are cell phone/smart phone penetration and mobile internet.
- China appears to have made the most progress among developing countries in increasing financial inclusion. Some of the reasons why China has been successful are large ecommerce providers introducing digital wallets to facilitate secure transactions and the introduction of QR codes enabling low cost and seamless adoption from merchants of any size, causing a significant leap in the penetration of digital transactions. In fact, mobile payment users in China increased more than sixfold to 852 million from 2013 to 2020, according to data from Statista.
- This combination of technology and banking is being replicated across many developing countries. We believe the trend toward financial inclusion will give rise to many investment opportunities.



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