



# Blockchain entrepreneurship opportunity in the practices of the unbanked

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**Abstract** Two billion people in developing economies have limited or no access to formal financial services, creating cause for substantial research interest in financial inclusion as a complex multidimensional phenomenon. Digital finance technologies, including blockchain, have empowered a type of creative entrepreneurship that seeks opportunities in relation to financially excluded individuals. This article hypothesizes that nonmonetary causal factors and informal financial practices play a major role in habits of the financially excluded, which would favor blockchain's disintermediation features over the incumbent approach. After applying fuzzy-set Qualitative Comparative Analysis (fsQCA) to determine the conditions related to financial practice and motivations that explain the absence of a formal bank account, I prescribe five sensitivities that blockchain entrepreneurs need to consider when targeting this segment. The value of this article's approach extends well beyond traditional unisystemic views for financial inclusion, as blockchain-based entrepreneurial opportunities emerge to reveal alternative forms of disintermediated financial services, which we exemplify in startups modeling informal practices. Blockchain entrepreneurship can generate semi-formal financial services that bring financial aspirations closer to people. My perspective is relevant to blockchain entrepreneurs who aim to understand the practices of the unbanked as source information for the development of innovative solutions.

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## 1. Why blockchain entrepreneurship is a suitable solution for financial inclusion

Blockchain, the distributed ledger system that supports cryptocurrencies, currently influences the

underlying structure of financial services, allowing for multiple applications such as value transfer, financing, asset acknowledgement, reduced settlement times, real-time tracking of transactions, ledger databases, information protection, and smart contracts. This variety of applications clearly indicates the existence of entrepreneurial opportunities. Over \$1.4 billion were invested just in the 2013–2015 period, and more than 2,500 patents

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were filed with respect to distributed ledger-related technology although no large-scale implementation exists as of the writing of this article ([World Economic Forum, 2016](#)). More recently, the blockchain Startup Tracker developed by [Outlier Ventures \(2017\)](#) reported up to 1,229 blockchain-related startups.

Paradoxically, Bitcoin, the largest implementation of blockchain technology in the world, is encountering important challenges in terms of exchange infrastructure, scalability, long latency, hidden centrality (few resourceful miners can dominate), inflexibility, resource unsustainability, and lack of acceptance ([Drescher, 2017](#); [Tapscott & Tapscott, 2016](#)), as well as being accused of vested interests in maintaining Bitcoin's high asset value ([Scott, 2016](#)).

Alternative cryptocurrencies (Altcoins) have re-engineered blockchain to improve some of these drawbacks in a variety of ways: implementing different consensus algorithms, fundamentally redesigning the protocol to achieve better scalability ([Back et al., 2014](#); [Eyal, Gencer, Sirer, & van Renesse, 2016](#)), or adopting permissioned ledger architectures wherein each network node is a trusted entity—significantly increasing transactional capacity ([Hayes, 2016](#)), but in turn sacrificing transparency and constraint capacity against powerful influencers ([Mattila, 2016](#)). Despite all these redesigns, blockchain-based protocol proposals are still far from mainstream payment systems, which can process thousands of transactions in seconds ([Croman et al., 2016](#)).

However, entrepreneurial opportunity does not lie only in cryptocurrencies and the related Bitcoin business model. Considering that financial services such as credit, insurance, or saving facilities are distinct in nature from payment services ([Donovan, 2012](#)), blockchain opportunities are derived from the technology's capacity to operate tokens that grant access to an alternative portfolio of financial services that the incumbent financial system may be unable to satisfy.

Hence, blockchain encourages a new type of inclusive entrepreneurship for the bottom of the pyramid (BoP), creating “opportunities that enhance social and economic wellbeing for disenfranchised members of society” ([George, McGahan, & Prabhu, 2012](#), p. 663). According to some estimates, financial inclusion represents a \$380 billion business ([Boyle, Whitehouse, James, & Kolnes, 2015](#)). Also, social networks and big data companies have already identified an opportunity in supporting financial transactions for underserved communities ([Packin & Lev-Aretz, 2015](#)).

Perhaps the opportunity that blockchain represents for financial inclusion resides in a particularity

usually disdained by financial-sector practitioners: Blockchain's distributed architecture resembles practices that most people have adopted informally. From this perspective, scalability and efficiency turn out to be secondary, as distributed ledgers do not compete but instead fill a gap currently overlooked by the formal financial system. An appropriate appreciation of blockchain capabilities would eliminate false expectations regarding the technology's potential usefulness.

However, views on the appropriate blockchain approach for financial inclusion are diverse because technology adoption, network effects, and governance challenges require attention. To help address this conflict, I analyzed the 2014 World Bank's Global Findex database (fsQCA results included in the [Appendix](#)) and collected case information that determines informal financial behavior. In doing so, I illustrate that there are at least five relevant sensitivities relevant to the reality of financially excluded individuals, which prove to be significant for targeting blockchain entrepreneurial opportunities in financial inclusion, especially in low-income countries. These sensitivities include—but are not limited to—cash preferences, lending practices, money transfer habits, identification issues in informality, and the recognition of the limitations of the incumbent system to satisfy the financially excluded effectively.

Entrepreneurs who engage in several of these five sensitivities have implemented a sort of semi-formal solution and reinterpret formalization beyond the monolithic banking system. The analysis and data collections presented offer support for a blockchain implementation approach that departs from existing informal practices—as opposed to institutional requirements—as a convincing option for the unbanked to seek this form of financial inclusion.

Section 2 of this article describes the five sensitivities for blockchain entrepreneurial opportunity, starting with the practice and habits of the unbanked for specific financial needs, such as cash management, loans, money transfer, and identification, followed by the incumbents' restrictions when it comes to satisfying the unbanked. Concerning these needs, this section reviews informal practices from my findings and exemplifies blockchain-based startups that take these sensitivities into consideration for their financial inclusion applications. I intend to show that aspirational goals from the BoP can be satisfied if blockchain entrepreneurs understand the rationale behind informal practices and local context.

In Section 3, I highlight the role of nonmonetary causes in financial inclusion, consistently with the

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