

Digital financial literacy as a business model: The case study of a FinTech start-up

(Work-in-Progress)

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ABSTRACT

Despite the increasingly significant role of Financial Technology (FinTech) in achieving social inclusiveness and the rapid development of digital financial services, digital financial literacy remains a key obstacle realizing the full potential of FinTech and its associated services. Departing from the limited and generic extant research on individual users, this article focuses on the perspective of financial institutions by utilizing a case study method from the organizational perspective. It examines the manner in which digital financial literacy can be leveraged as the business model of a FinTech start-up to promote both business and societal development.

Keywords: Digital, Financial Literacy, Business Model, FinTech, Case Study.

INTRODUCTION

Financial Technology (FinTech) plays a pivotal role in enabling sustainable and inclusive financial capability development (Panos and Wilson, 2020). Digital financial services, including internet and mobile financial services, have become critical drivers of a vibrant economy, by generating employment, driving productivity, fostering entrepreneurship, and maintaining economic resilience (Toronto Centre, 2022). Such drivers are especially pertinent amidst the COVID-19 pandemic as such digital services and their business models become ubiquitous.

A significant obstacle in realizing societal gains from FinTech is the level of digital financial literacy. The OECD 2020 International Survey of Adult Financial Literacy finds that although vulnerable groups, such as young adults (18-29) have high digital literacy, this is not the case with their financial literacy (OECD, 2020). As digital financial services become more prevalent and easily accessible, it can only be assumed that digital financial literacy will become key to supporting financial inclusion and security (Grohmann et al., 2018). Despite the steady progression being obtained and the promising vision of the future, a number of hindrances are being identified, which together prevent the full potential of digital financial services from being promptly and properly unleashed (Philippas and Avdoulas, 2020). In particular, we aim to examine the case of a FinTech start-up whose strategic goal is to increase their customers' digital financial literacy. This leads to the key research question that will be explored in the research: *how can a financial provider leverage its business model to improve the digital financial literacy of its individual customers?*

RESEARCH BACKGROUND

Deriving from digital literacy and financial literacy scholarly literature, digital financial literacy is largely understood as "the application of digital literacy and financial literacy to enable the use of digital financial services" (Toronto Report, 2022). It is widely believed that digital financial literacy enables sound financial decisions (Balasubramnian and Sargent, 2020), informed financial plans (Artavanis and Karra, 2020), and robust financial well-being (Philippas and Avdoulas, 2020). Similar to studies on digital and financial literacy, digital financial literacy places emphasis on knowledge-based awareness and skills (Lyons and Kass-Hanna, 2021). Lyons and Kass-Hanna's (2021) synthesis, however, has also made digital financial literacy display its uniqueness due to the nature of its provisions and implications. Given the rapid proliferation of FinTech during the COVID-19 pandemic, consumers face increasingly complex financial provisions channeled through digital media (Fu and Mishra, 2022). This, therefore, suggests that digital financial literacy is a multi-dimensional concept – apart from encompassing digital literacy and financial literacy, it entails a holistic appreciation of the digitally enabled and financially laden services and decisions.

From a practical perspective, despite the widely-accepted importance of digital financial literacy, general financial literacy in EU countries is short of being substantial. According to the 2021/22 Young Persons Money Index (The London Institute of Banking and Finance, 2022), 72% of those surveyed would be keen to learn more about finance and 81% were learning about relevant knowledge at home. This echoes with the report from The UK Financial Capability (Financial Capability, 2022) that more than a third of adults in the UK do not feel confident in managing money, and around a fifth rarely or never save. While

FinTech is revolutionizing the financial landscape at an unparalleled pace (Frost et al., 2019) by de-centralizing the financial structure and streamlining the financial processes (Vučinić, 2020), it may also unwittingly impact users' financial behaviors and decisions. Panos and Wilson (2020) summarize that mobile users are more likely to engage in impulsive purchasing behavior and use payday loans, which are often overly accessible and allow fleeting preferences to be acted upon. Similarly, Panos and Karkkainen (2019) identify that cryptocurrencies attracted a multitude of investors who were less cognizant of the potential risks and possible trade-offs, likely resulting in its volatility. As a result, a more holistic perspective offers that customers increasingly face barriers. Such barriers range from the limited provisions for the development of financial knowledge and skills, the wide variety of FinTech products, to the complexity of digital offerings, and the existence of accessibility and feasibility gaps. All barriers that are inherently digital-borne and intrinsically finance-oriented.

Regardless of the increasing impact that digital financial literacy has on vulnerable groups, there is limited extant research. Most existing studies focus either on digital literacy (e.g., Park et al., 2021; Polizzi, 2020) or financial literacy (e.g., Hussain et al., 2018; Klapper and Lusardi, 2020) rather on specifically examining digital financial literacy and its unique factors. Of those, the available studies on digital financial literacy are examined from the individual perspective. For example, descriptive summaries of end-users (Azeez and Akhtar, 2021), documentation of the ongoing concerns of the general public (Morgan et al., 2019), and proposed remedial measures individuals may conduct (Setiawan et al., 2020).

However, we propose to turn our attention to the supply-side, the financial institutions. We argue that digital financial literacy can be better understood as a systems-level concept (Zott et al., 2011) – a unique business model. In particular, we focus on FinTech start-ups as key stakeholders of the digital financial services ecosystem (Lee and Shin, 2018). Such business models are surprisingly understudied and further examination can warrant understanding on their role in promoting digital financial literacy amongst its users.

In fact, financial providers have strategised digital financial literacy as a fundamental factor in their long-term business success (e.g., BBVA, ANZ, Discovery Bank) in response to customers' expectations. Following the initiatives of sustainable and inclusive finance, individuals envisage a structural shift of financial provisions from products that speak to specific needs to solutions that improve the overall financial well-being (Jain et al., 2022). In doing so, customers are five times more likely to purchase additional products and services from a financial provider whom they believe cares about their financial stability (Financial Health Network, 2020). To this end, it is imperative for financial institutions to align their business model to the overarching target of digital financial literacy.

Building on the market-based perspective (Morris et al., 2006) and resource-based perspective (Barney, 1986), a business model determines firm performance by achieving competitive advantages through a firm's strategic market position, the various resources available to the firm, and the firm's ability to use these resources effectively and efficiently (Spiegel et al., 2016). In short, it relates to "the design of organizational structures to enact a commercial opportunity" (George and Bock, 2011). This is particularly relevant for FinTech start-ups, where technological change and initial experience with targeted offerings may require substantial changes to the prevailing business model (Grover and Saeed, 2004).

RESEARCH METHOD AND EXPECTED OUTCOMES

Given the nascent nature of the research context, we have taken a qualitative case study approach to examine an award-winning FinTech start-up that operates across the UK and the EU. The qualitative approach enables us to undertake a deep and exploratory analysis that is essential to develop an understanding towards digital financial literacy in the context of business models. Considering the exploratory nature of the research and the fact that the focal topic being examined is relatively recent, the research calls for the utilization of primary data. As a rapidly growing FinTech start-up has agreed to partake in the project, we will be able to collect data from its co-founders, members of the management board, and employees working at different departments at various organizational levels. We have taken an inclusive approach for the interviewees because it is not uncommon for employees in small businesses, including start-ups, to be actively involved in strategic innovation decisions (Friis and Koch, 2015).

Data from multiple sources, such as semi-structured interviews and organizational documents, will be collected and coded thereafter to facilitate an organized and iterative analysis. We will follow a typical three-stage process of the coding procedure, which includes open coding, axial coding, and selective coding. This is to ensure the analysis of the collected data will be conducted in a systematic manner, which will be conducive to unearthing a number of illuminating academic findings. As a result, we seek to provide an in-depth understanding of digital financial literacy from an organizational perspective through the business model concept (Andrews and Zhu, 2021).

In pursuing this theoretical aim, the project endeavors to expand knowledge on the topic of digital financial literacy and business model for FinTech start-ups and will establish a viable linkage between those two in the context of a thriving digital economy. Practically, this research aims at providing advice to financial providers with regard to their viable strategies for aligning business models with digital financial literacy in a consistent and coherent way. It will also lay out recommendations to policymakers to promote overall digital financial literacy across the population for sustainable financial well-being and overall social development.

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