WORKING PAPER

Competition for Financial Inclusion: A Conceptual Framework

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CGAP

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Abbreviations

API	Application Programming Interface
CBK	Central Bank of Kenya
MSE	micro and small enterprises
SME	small- and medium-size enterprises
UPI	Unified Payments Interface

Executive Summary

FIFTEEN YEARS AGO, NEARLY HALF THE world's adult population had no access to formal finance. That number has nearly halved, largely due to the spread of digital financial services. Progress, however, has been uneven. Over 1.3 billion people remain unbanked, with women, low-income households, rural communities, and micro and small enterprises still left behind. Even where access has expanded, financial services often remain distant, costly, or poorly suited to customer needs, thus discouraging sustained use and undermining the promise of true inclusion. For many customers at the last mile, there are still no reliable alternatives, since financial markets around the world remain dominated by large incumbents shaped by legacy regulation and structural barriers. In such concentrated environments, incumbent providers have little or no incentive to innovate or serve excluded segments while new entrants face steep challenges to entry and scale. Ultimately, consumers pay the price—facing high costs, limited options, and poor value.

At the same time, digital finance is rapidly reshaping market structure and competition dynamics. Technology-enabled models are lowering entry barriers, expanding reach, and driving innovation, but their speed, scale, and blurred regulatory perimeters raise conduct and consumer protection risks. Bigtechs, with their vast troves of data, cross-sector integration, and powerful network effects, can entrench market power, reduce contestability, and introduce new forms of systemic risk.

In this context, competition deserves a more central place on the regulatory agendas of financial authorities. Yet, in most jurisdictions it remains an afterthought, either because financial regulators lack a formal mandate to promote competition or because that responsibility rests with a separate competition authority. Still, financial regulators already shape market structure and dynamics in powerful ways, from licensing regimes and infrastructure governance to interoperability rules and supervisory standards. Unlike competition authorities, whose interventions are typically ex post, and once market power issues have taken root, financial authorities have the tools and opportunity to act, ex ante, to ensure that financial markets remain competitive.

This Working Paper addresses two key knowledge gaps. First, it synthesizes global evidence linking competition to financial inclusion, distilling five distinct outcomes for consumers. Second, it introduces a conceptual framework to assist financial authorities to reflect more systematically on how enabling regulatory approaches—when aligned with existing market characteristics—should trigger the competition dynamics necessary to deliver inclusive outcomes.

The five outcomes reflect distinct pathways through which competition will benefit consumers. As new providers enter the market, choice expands. Access improves as firms invest in physical and digital distribution channels. Data sharing mechanisms reduce information barriers, enabling more personalized

services and greater control over personal data. Providers invest in innovation to differentiate themselves and operate more efficiently while yielding more relevant and user-friendly products. In addition, fierce price competition, in turn, makes financial services more affordable to consumers. Together, these dynamics enhance the breadth, depth, and utility of financial services as well as contribute to an inclusive and resilient financial ecosystem.

The conceptual framework, summarized below and set out in full at the end of this Executive Summary, unfolds in three stages:

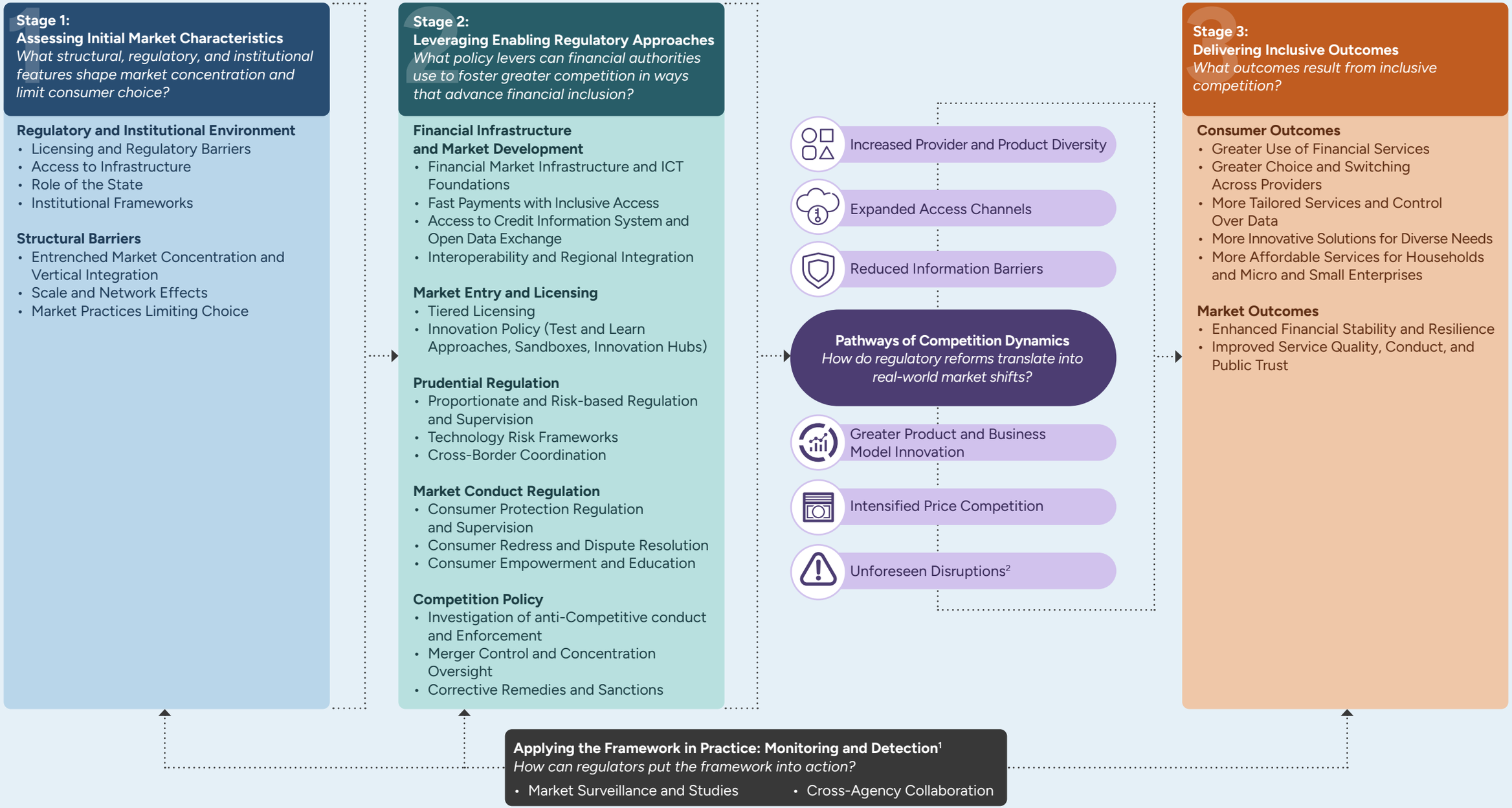
- **It first assesses the initial market characteristics** to understand the structural features that shape market concentration and limit consumer choice. This diagnostic step helps identify where competition is constrained and where policy action is most needed.
- **Within the second stage, financial authorities can leverage enabling regulatory approaches across five domains—financial infrastructure, market entry and licensing, prudential regulation, market conduct regulation, and competition policy**. These approaches form a flexible toolkit to foster healthy competition without undermining stability, integrity, and/or consumer protection. As regulatory reforms take hold, they activate five pathways of competition dynamics, including diversity in providers and products; expanded access channels; reduced information barriers; innovation; and price competition.
- **These pathways ultimately lead to the third stage: delivering inclusive outcomes.** They are manifested at the consumer level with greater use, choice, relevance, control of data, and affordability, as well as at the market level with stronger stability and resilience, alongside improved conduct and trust in the system.

Financial authorities now face a timely opportunity to steer competition toward inclusive and resilient financial systems. These outcomes are not automatic; they depend on deliberate policy choices, institutional coordination, and a willingness to navigate trade-offs.

This paper offers not only evidence but also a practical framework from which authorities will be able to recognize where competition is breaking down and how their existing toolkit of regulatory approaches can make markets more competitive and inclusive. While written primarily for financial authorities, it also will assist competition authorities and advocacy groups to engage financial regulators on market structure issues as well as guide development partners on where technical assistance and policy dialogue can advance inclusive competition.

Competition is not a panacea. In an era of digital transformation, however, it must no longer remain a peripheral concern. Applying an intentional competition lens is not only timely—it calls for urgency.

FIGURE ES1. **Competition—Financial Inclusion: A Conceptual Framework**



[1] Monitoring And Detection Equips Authorities To Diagnose Where The Competition Breaks Down, Identify The Necessary Policy Actions, Collect Feedback On How Reforms Are Taking Effect, And Monitor The Outcomes Over Time.

[2] Unforeseen Disruptions Include "Unknown Unknowns" That Reshape Competitive Dynamics In Unpredictable Ways, Such As Technology Cost Curves, Pace Of AI/MI Adoption, Platform Shifts, And Macroeconomic Shocks, Among Others.

Source: Authors

Introduction

FINANCIAL INCLUSION REMAINS A global development priority, recognized for its role in advancing broader goals such as poverty reduction, resilience, and economic opportunity (Memon et al. 2025). Over the past 15 years, global account ownership has risen from 51 percent in 2011 to 79 percent in 2024, propelled by digital finance innovations and supportive policy reforms (Klapper et al. 2025; Demirguc-Kunt et al. 2015). In low- and middle-income countries alone, financial access increased from 42 percent to 75 percent over the same period (Klapper et al. 2025), creating pathways to economic opportunity for millions of households and small firms. Still, more than 1.3 billion adults remain unbanked—more than half of them women—with rural populations, low-income households, and micro and small enterprises (MSE) disproportionately excluded. For these groups, the absence of financial access means fewer financial tools to save securely, limited options to access credit, and reduced ability to withstand shocks. Meanwhile, persistent digital divides and uneven digital infrastructure leave nearly one third of the global population offline, restricting access to digital financial services and reinforcing exclusion, particularly for those already at the margins (Vestberg 2024; UNCTAD 2024).

To address these gaps, this paper examines how competition can be a powerful catalyst for deeper and more impactful financial inclusion, with particular attention to payments and retail credit as common entry points into formal financial systems, drawing on country examples from Brazil, Kenya, South Africa, and beyond. By doing so, it indicates how competitive markets unlock innovation, reduce costs, broaden service offerings, and enhance quality, especially for the underserved and excluded segments.

The promise of competition, however, has yet to be fully realized in practice: worldwide, many financial markets remain highly concentrated, shaped by legacy regulations, infrastructure bottlenecks, and structural barriers such as entrenched concentration, market dominance, unequal access to infrastructure, and network effects (Neuhann and Sockin 2024; Calice and Leonida 2018). In such markets, incumbents have few incentives to serve low-income and last-mile customers, and new entrants face steep barriers to entry and scale (Claessens and Laeven 2005). The result is higher prices, fewer choices, and slower innovation, which ultimately constrain financial inclusion (Ornelas, de Souza, and Silva 2021; Couppey-Soubeyran and Nicolas 2021).

Against this backdrop, it should be asked: How does competition in financial services help advance financial inclusion? To answer this question, this paper provides two contributions. First, a global review is made of evidence on how competitive pressures in financial markets translate into tangible outcomes for consumers. Second, it introduces a conceptual framework that is able to map the pathways through which enabling policy can harness competition to deepen financial inclusion, thus laying the analytical foundation for future empirical work and policy guidance. The analysis focuses on how competitive dynamics should shape inclusion outcomes without attempting to measure them empirically or rank the effectiveness of regulatory tools.

To ground the analysis, the paper adopts specific perspectives on competition and financial inclusion, and while competition unfolds along multiple dimensions, this paper zooms in on two key aspects: rivalry among existing providers (actual competition) and market contestability (the potential for new entrants), since these dynamic forces compel providers to lower costs, improve quality, and expand access. Similarly, financial inclusion ensures individuals and enterprises are able to access and use affordable, responsible financial services that are reflected across three dimensions: breadth, depth, and utility (CGAP 2023). Breadth refers to account ownership and active use, capturing the reach of financial services across populations. Depth reflects the range of products available from payments, savings, and credit to insurance, which allow households and firms to meet diverse needs. Utility refers to the practical benefits and positive outcomes experienced from financial services, ranging from affordability, reliability, and suitability to higher-level development outcomes such as resilience, financial health, and gender equality. In this paper, the literature review and conceptual framework primarily address intermediate outcomes, emphasizing breadth and depth, with utility captured mainly through the pathway of innovation. These dynamics are further illustrated through examples from global experience, with country cases from Brazil, India, Kenya, Mexico, Pakistan, South Africa, and the United Kingdom highlighting how competition and policy interact in practice.

The rest of the paper is organized as follows:

- Section 1 explores how innovation in financial markets is reshaping market dynamics and why this shift creates a timely opportunity for financial authorities to make competition central to the financial inclusion agenda;
- Section 2 reviews the evidence on how competition has shaped financial inclusion and organizes it around five consumer outcomes;
- Section 3 bridges this evidence to policy, showing why regulators need a structured approach to steer competition toward inclusion;
- Section 4 introduces a three-stage conceptual framework that maps initial market characteristics with enabling regulatory approaches and competitive dynamics to inclusive outcomes; and
- Section 5 concludes with policy implications for financial authorities and identifies areas for future research.

SECTION 1

The Case for Competition as a Driver of Financial Inclusion

COMPETITION IS WIDELY RECOGNIZED in economics as being of benefit to consumers; however, its role in driving financial inclusion has received scant attention. Historically, policymakers and practitioners, rather, have focused more on expanding access, often at the exclusion of considering how regulatory choices are able to influence the competition dynamics or the broader structure of financial markets. Nevertheless, digital finance innovations are challenging this approach, with new entrants (e.g., mobile money and digital payment providers, digital lenders, marketplace platforms, and Bigtech) rapidly proliferating in markets once dominated by incumbent banks (Pazarbasioglu et al. 2020; Feyen, Natarajan, and Saal 2021). These new players have the potential to accelerate inclusion by lowering costs and broadening reach. They can also, however, introduce risks to financial stability (e.g., rapid scaling under relaxed entry requirements), integrity (e.g., new business models that challenge oversight) and consumer protection (e.g., through fraud or mis-selling). Over time, the risks—such as dominance, network effects, monopolistic behavior, and exclusion through the digital divide—may emerge, requiring sustained regulatory attention.[1]

Consequently, financial regulators are finding themselves at a critical inflection point: to strike the right balance, where the benefits of heightened competition outweigh its risks, and to ensure that competition grows in ways that actively advances financial inclusion. The United Kingdom (Box 1) illustrates how open banking, tiered licensing, and sandboxes can unlock innovation, diversity, and consumer choice. Similarly, Brazil (Box 2) shows how open finance, mandatory participation thresholds, and the instant payment platform Pix have lowered costs and broadened access at scale. These cases are examples of ex ante regulatory choices that shape market rivalry toward inclusion. They highlight that the goal is not to pursue competition for its own sake but, rather, to foster competitive pressures that deliver inclusive outcomes for consumers—not only economic gains for providers.

There is growing recognition that competition must be integral to the financial inclusion regulatory agenda rather than an afterthought (Claessens 2009; Soursourian and Plaitakis 2019). Yet, most financial sector regulators neither have explicit competition mandates nor do they routinely consider

1 "Dominance" refers to a situation where a single provider attains outsized market power, enabling it to act independent of competitors and consumers in ways that may limit choice and contestability. "Network effects" occur when the value of a service increases as more users participate, which can reinforce the position of incumbents and make it harder for customers to switch to alternatives, leading to lock-in. "Monopolistic behavior" describes conduct by a dominant provider that exploits or protects its market position, such as predatory pricing, exclusionary contracts, or collusion in ways that suppress competition and reduce consumer welfare.

how their policies will influence market dynamics. Traditionally, it has been the competition authorities who intervene, often ex post when anticompetitive conduct emerges (OECD 2020a; UNCTAD 2019). In contrast, financial authorities already shape market dynamics upstream through their licensing regimes, infrastructure design, supervisory expectations, and market development strategies (Feyen, Natarajan, and Saal 2021; Soursourian and Plaitakis 2019). What is more is that they are often better positioned to act ex ante—before issues relating to competition arise—by influencing how markets evolve. This makes it not only a necessity for them to apply an intentional competition lens within their existing mandates but also their institutional frameworks by using the tools they already have to steer financial markets toward more inclusive outcomes.

Nevertheless, knowledge gaps continue to persist around how competition concretely affects financial inclusion and which policy approaches most effectively harness it. This Working Paper aims to address those gaps by identifying the key pathways through which competition can drive inclusion and by examining the market conditions and policy levers that shape these outcomes. In particular, competitive dynamics can diversify providers and products, expand digital and physical access channels, reduce information barriers, spur product and service innovation, and lower prices, all of which outcomes will be examined in detail in Section 2.

Yet, the pathways through which competition drives financial inclusion are not without friction, and many of these tensions speak directly to the core mandates of financial regulators: safeguarding systemic stability (Goetz 2018), ensuring market integrity, and protecting vulnerable consumers.

Intensified competition can sometimes undermine systemic stability by encouraging riskier lending. In Spain, for example, heightened rivalry among banks led to a surge in nonperforming loans (Jiménez, López, and Saurina 2013), while in the United States, consumer credit lenders in more contested markets loosened underwriting standards, resulting in higher default rates (Gissler, Ramcharan, and Yu 2020). These dynamics raise concerns about procyclicality[2] and consumer protection, particularly where regulatory adaptation lags behind market pressures (Lupion and Froener 2023). Empirical evidence also points to a nonlinear relationship between banking concentration and financial stability: very low as well as very high levels of concentration can pose risks, while intermediate levels may offer more optimal outcomes (Calice and Leonida 2018).

In payments markets, price wars and rapid scaling by digital platforms can similarly challenge market integrity. They raise questions around long-term business sustainability, data governance, and third-party operational resilience (Verdier 2024). For consumers, especially the most vulnerable ones, digital channels can also increase exposure to fraud, mis-selling, and opaque practices, particularly where effective recourse mechanisms are absent.

Beyond these immediate concerns, new competition-related risks are emerging. As digital challengers succeed, some evolve into dominant players, heightening worries about monopolistic behavior and network effects that can entrench exclusion rather than dismantle it. At the same time, persistent structural barriers limit the reach of digital finance: nearly one third of the global population remains offline, restricting access to digital financial services and reinforcing exclusion, particularly for rural households, women, and informal or small businesses (Vestberg 2024; UNCTAD 2024).

2 "Procyclicality" refers to the tendency of financial markets and institutions to amplify rather than smooth economic upswings and downturns, for example by expanding credit rapidly during booms and tightening lending sharply during downturns, thereby reinforcing volatility. For consumers, this often means easy access to loans in good times, followed by sudden cutoffs or harsher terms when the economy slows.

These risks are well known to financial authorities and explain why competition has often been treated by them with caution. Recognizing these tensions, however, does not weaken the case for competition. Rather, it underscores the need for authorities to consider the implications of their regulatory actions (or inaction) on market dynamics, anticipate unintended consequences, balance competing objectives, and adapt as markets evolve, ensuring that competition grows in ways that actively advance financial inclusion. This paper focuses on how those opportunities can be harnessed.

Having laid out the rationale and risks, Section 2 turns to global evidence on how competition has shaped financial inclusion outcomes in practice. It highlights not only its potential but also its tradeoffs.

SECTION 2

How Competition Drives Inclusion: Five Key Outcomes

THEORETICAL WORK HIGHLIGHTS several mechanisms through which competition can shape financial inclusion. Although the academic literature is relatively limited, it points to several consistent channels. Concentrated markets allow banks to charge higher prices and face less pressure to control costs, resulting in higher overall costs for consumers (Berger 1995; Berger and Hannan 1998). By contrast, more competitive environments limit excess profits, lower the costs of providing financial services, and channel resources more effectively to households and firms (Hauswald and Marquez 2006; Maudos and Fernández de Guevara 2007). Competition also pushes banks to expand distribution channels such as branch networks, diversify their products, and innovate to retain customers, thereby supporting inclusion through greater access and relevance (Beck, Demirgüç-Kunt, and Martínez Peria 2007; Turk Ariss 2010; Ardic, Heimann, and Mylenko 2011). Finally, rivalry narrows interest rate spreads and lowers nonprice barriers such as onerous documentation or account requirements, further improving affordability and service quality (Gimet and Lagoarde-Segot 2012; Marín and Schwabe 2019). Together, these theories suggest that competition fosters inclusion by disciplining prices, expanding outreach, and reducing informational and nonprice frictions.

Building on these theoretical foundations, the next step relates to empirical evidence. Global evidence reveals how competition has shaped financial inclusion outcomes across diverse markets. Drawing on an evidence base of 47 studies published between 2002 and 2025 in English, French, Portuguese, and Spanish, the literature spans causal inference, comparative cross-country analyses, market diagnostics, and case studies. The findings are organized into five empirically supported outcomes including:

1. greater choice;
2. expanded access;
3. tailored services and greater control over data;
4. innovative services; and
5. lower prices.

Each outcome maps to the three dimensions of financial inclusion: breadth, depth, and utility (see Introduction). In the context of this paper, these are understood to be intermediate outcomes and early changes that then help lead (or contribute) to higher-level development outcomes such as resilience, improved livelihoods, and access to essential services. The literature reviewed speaks primarily to this intermediate level. While links to higher-level development outcomes can be hypothesized, they

remain outside the scope of the evidence base. The five outcomes identified here are best considered as contributing to the market conditions that enable higher-level development outcomes.

For clarity, each outcome is associated with one or more dimensions of inclusion. In practice, however, these dynamics often overlap; for instance, innovation contributes not only to utility but also to breadth and depth. The categories are therefore used heuristically to structure the evidence, not to imply rigid separations.

Moreover, while presented as distinct, the outcomes also reinforce each other. For example, entry of diverse providers and expansion of access channels, combined with reduced information barriers, often create the environment in which innovation and price competition thrive. In some contexts, these dynamics may unfold sequentially and, in others, they may emerge in parallel or be prioritized differently depending on policy goals and market conditions. The conceptual framework introduced later in the paper accommodates this flexibility, offering regulators a structured way to reflect on how competition dynamics shape inclusion.

Overall, the evidence base is encouraging. However, each outcome depends on context-specific enablers, and includes tradeoffs that are noted where relevant. The section concludes with a short discussion on additional plausible outcomes, such as increased trust, transparency, and other nonprice benefits supported by theory. However, where evidence remains thin, there are areas for future research.

2.1 Increased Provider and Product Diversity Leading to Greater Consumer Choice (BREADTH AND DEPTH)

Once competition lowers entry barriers, it reshapes the provider landscape which allows for a wider range of players and products to emerge and serve diverse consumer needs. This expands breadth by extending financial services to the segments previously left out while deepening inclusion through more diverse, tailored offerings that better match the needs of households and firms. Economic theory suggests that when startup costs fall and consumer needs vary, competition will lead firms to supply a wider array of differentiated products (Dixit and Stiglitz 1977). In competitive markets, lower entry barriers draw a range of new providers from nonbanks, telcos, fintechs, and digital platforms, each focusing on distinct client segments or value chain functions (Feyen et al. 2021). This fragmentation "unbundles" the financial services, enabling new and targeted offerings (e.g., e-money wallets, digital savings tools, digital nano credit, Pay as You Go asset finance, and gig worker insurance, among others), all of which are better aligned to diverse consumer needs (Bogaard et al. 2024). Peruvian fintechs, for example, have launched micro savings and on-demand microcredit modules tailored to smallholder farmers and street vendors, segments traditionally ignored by banks (Salas Quenta et al. 2022), a pattern echoed in the United Kingdom where open banking reforms intensified rivalry and spurred a surge of new providers and diversified offerings (Box 1).

Incumbents increasingly respond through "coopetition" or they partner with new entrants to distribute their products via existing branch, agent, and digital channels (Mitha, Biegon, and Zetterli 2022). For example, in the United States, banks facing intense local rivalry tailor niche mortgages (Dick 2008), offer targeted small business loans (Avery and Samolyk 2000), and enhance digital channels in underserved areas (FDIC 2022). In many emerging markets, banks also partner with fintechs, such as MicroEnsure, and integrate with platforms like GoJek to embed credit

and insurance modules into existing apps (Zetterli 2021). Similarly, in Ecuador, microfinance institutions used digital tools and fintech partnerships to extend tailored products into rural districts (Delgado-García and Loor-Colamarco 2021). The result is a richer menu of providers and products that raises the likelihood that every customer can find something that fits their needs, whether it is a climate responsive agriloan, offline capable digital wallet, or working capital tool for informal MSEs, thus drawing previously excluded groups into the financial system. South Africa illustrates a similar pattern: reforms increased contestability and enabled challenger banks (e.g., Capitec and TymeBank) to expand affordable transactional products so as to broaden consumer choice, especially for low-income users (Box 4).

Cross-country evidence shows these dynamics at scale: as markets have become more contestable, fintechs that were launched as payments providers now routinely offer credit, savings, and insurance services, thus evolving into multiservice providers (Bogaard et al. 2024). This shift contributes to a "barbell" market structure with a handful of large, full-service banks at one end and a multitude of technology-enabled specialists at the other. Each specializes in discrete modules such as payment rails, credit scoring engines, and microinsurance products, multiplying not only the provider types but also the tailored product bundles (Feyen et al. 2021).

In Indonesia, the introduction of a dedicated P2P lending framework catalyzed the emergence of over 60 licensed digital lenders in just a few years, fueling rapid growth in MSE-focused credit offerings, including innovative products such as invoice and supply chain finance (OJK 2025; Anand et al. 2024). Tiered licensing enabled Bangladesh's microfinance institutions, run by nongovernment organizations, to formalize and reach over 30 million low-income clients with small ticket loans and savings services, far beyond the reach of commercial banks (Bangladesh Bank 2011). Furthermore, in the United States, heightened competition from nonbank finance companies and fintech lenders in the small business credit market experienced a combined share rise from roughly 50 percent pre-2008 to nearly 60 percent by 2016 (Gopal and Schnabl 2022).

Still, diversity without appropriate oversight capacity can overburden supervision and fragment markets. For instance, in Kenya, the explosive rise of largely unregulated digital lenders quickly overwhelmed supervisory capacity, leading to abusive collection practices and prompting the 2021 Central Bank of Kenya (Amendment) Act to bring digital credit providers under formal oversight (Upadhyaya, Weitzberg, and Bonyo 2025). Likewise, in mature markets, the rapid proliferation of Buy-Now-Pay-Later products led to hidden fees, rising defaults, and consumer confusion, prompting regulatory scrutiny in the United States and other jurisdictions (CFPB 2025). A proliferation of small, specialized providers and various product stacks demands additional regulatory oversight and it heightens operational, systemic, and consumer protection risks (Feyen et al. 2021). Moreover, in smaller markets excessive fragmentation may erode economies of scale, increasing average costs for providers and users and threatening long-term viability (Claessens 2019). Effective integration of new entrants into financial markets demands clear regulatory frameworks, ones that will balance competition and innovation with financial stability and financial consumer protection.

2.2 Expanded Digital and Physical Access Channels Making Services Easier to Reach (BREADTH AND DEPTH)

As new providers enter and diversify the market, competitive pressures compel them to expand into underserved and excluded segments, including rural and peri-urban areas, in pursuit of new customers and greater market share. This often manifests as an expansion of provider distribution channels: opening of bank branches, deployment of agent networks, and roll out of digital access points. These efforts will lower access barriers, thus widening participation by reaching more people (breadth) and enabling households and firms to make fuller use of services (depth).

Cross-country evidence shows that stronger banking competition is robustly linked to broader financial inclusion. A study that analyzed panel data from 93 countries evidenced that the greater the banking competition, the more positive the effect on a composite inclusion index that coves account penetration, branch outreach, and credit access (Pham, Nguyen, and Nguyen 2019). A different study of 30 emerging markets found that even in banking markets dominated by few providers, greater contestability leads to wider household access to deposit and loan accounts (Owen and Pereira 2018). In Sub-Saharan Africa, enterprise surveys in 14 countries indicate that stronger bank competition is positively associated with the likelihood of informal firms obtaining bank credit (Moyo and Sibindi 2024). In Latin America and the Caribbean, markets with open access to payment systems and low entry barriers have a higher bank account penetration of about 15–20 percentage points while for small- and medium-size enterprises (SME), the loan penetration is about 10–15 percentage points higher than concentrated, restricted-access markets (World Bank 2020). Evidence from the Gulf Cooperation Council also shows that greater bank competition improves credit availability for firms reliant on external finance, thus reinforcing how contestable markets extend access to underserved sectors (Caggiano and Calice 2016). Additionally, firm-level evidence across 53 countries indicates that higher bank competition increases access to finance for MSE's (Love and Martínez Pería 2015).

Country-level studies help explain how competition leads providers to expand access in practice, reinforcing the cross-country patterns above. The widely cited launch of the M-PESA money transfer service in Kenya achieved agent coverage of over 92 percent of the adult population within four years, illustrating how a mobile money challenger can rapidly extend access and reshape competitive dynamics (Suri and Jack 2016) (Box 5). While such growth may not recur in mature mobile money markets, it underscores the competition's potential to extend service reach. In Mexico, municipalities transitioning from a banking monopoly to a duopoly have recorded a 42-percent increase in accounts per adult, even after controlling for branch density (Marín and Schwabe 2019). In Ethiopia, localities with more intense bank competition had higher probabilities that households there would use formal deposit and credit services (Fielding and Regasa 2024). Additional evidence from Ghana and Hungary reinforces these findings, showing that increased rivalry drives higher account ownership, transaction volumes, and greater branch expansion (Dako et al. 2021; Temesvary 2015). Pakistan provides a further illustration where licensing e-money institutions and rolling out an instant payments system has helped expand access at scale, tripling account ownership over the last decade (Box 6).

Despite these gains, caveats remain. Physical expansion incurs high fixed costs and may not pay off without sufficient transaction volumes or cross subsidization. In remote or costly regions, thin margins can deter providers without policy support. Moreover, simply adding branches or agents will not translate into sustained usage if services are not relevant and affordable. Supporting mechanisms (e.g., Digital Public Infrastructure, subsidies and cost-sharing mechanisms, and principle-based product design mandates) may cement the gains from competition-driven expansion; however, their effectiveness remains to be explored. Access gains are essential although, without relevance, affordability, and safety, sustained usage falters and inclusion will remain shallow (Neves 2021).

2.3 Reduced Information Barriers Enabling Tailored Services and Greater Consumer Control over Personal Data (BREADTH AND DEPTH)

Beyond physical access, information asymmetries remain a major barrier to inclusion. Competitive markets, when guided by proactive regulatory leadership, promote the development of information-sharing mechanisms such as credit registries, Open Finance frameworks, and data portability standards which reduce information asymmetries (Rangel 2021). By widening eligibility and improving the relevance of financial services, these systems expand breadth by bringing thin-file and excluded customers into formal finance as well as enhance depth by enabling more tailored, data-driven offerings.

Regulators typically design and enforce these systems, creating a level playing field through standardized customer data and wider eligibility. Brazil, whose Open Finance environment has 57 million active data-sharing agreements and around 3.4 billion Application Programming Interface (API) calls per week, exemplifies how data portability reduces information frictions and enables tailored services, with competition reinforcing these gains by broadening consumer choice and data-driven products (Banco Central do Brasil 2025a) (Box 2). Consequently, thin-file and previously excluded customers benefit from fairer and more accurate risk assessments, faster and more transparent credit decisions, and simpler provider switching, thereby broadening access and deepening the relevance of financial services.

Early multicounty work on public credit registries in over 40 emerging economies linked credit information sharing to higher lending volumes and lower rates of default (Jappelli and Pagano 2002). More recently, a review of 49 jurisdictions finds that Open Finance mandates have spurred fintech entry, broadened the uptake of digital financial advisory services; and heightened competition in credit markets, especially for SMEs (Babina et al. 2025).

Market experience echoes these patterns. In Kenya, the Central Bank's efforts to regulate and expand the Credit Reference Bureau system contributed to improved credit reporting infrastructure which, in turn, supported better credit risk assessment and enhanced access to finance for SMEs (World Bank 2019). In Brazil, the rollout of Pix enabled financial institutions to leverage digital transaction flows to assess creditworthiness, thus expanding access to credit for individuals and small businesses previously excluded from formal finance (Gomes and Silva 2024). India's Account Aggregator framework provides a parallel example, whereby consent-based data sharing gave consumers greater control and enabled more tailored services (Box 3).

Reducing information frictions can unlock access, although only if data systems are trusted and designed to serve all segments. Scaling these reforms often delivers early benefits in urban and well-connected areas, leaving rural or low connectivity regions behind. Moreover, theoretical work shows that if data access disproportionately strengthens challengers, competition can shrink as weaker lenders retreat and borrowers—including high quality ones—may be worse off (He, Huang, and Zhou 2023). Data coverage and quality can vary widely and customer trust can erode quickly without strong privacy and governance safeguards. Robust consumer protection and data protection regulations; investments in rural connectivity and common data quality standards; targeted digital literacy programs; and technical assistance for smaller providers are therefore all essential to preserve and extend the inclusion gains achieved through reduced information barriers.

2.4 Greater Product and Business Model Innovation Resulting in More Relevant Offerings (UTILITY AND BREADTH)

As providers gain access to richer data and broader markets, competition creates strong incentives for providers to innovate, not only to differentiate their offerings through new product features and distribution strategies to address unmet needs but also to capture efficiency gains under competitive pressure. These innovations enhance the utility of financial services by making them more relevant, affordable, and easier to use. In doing so, they also extend breadth by drawing new users into the system, ensuring inclusion translates into tangible benefits.

New entrants (e.g., fintechs) are harnessing technological advances such as machine learning on alternative data for real-time credit decisions. Cloud-based platforms, in turn, enable dynamic usage-based lending, and mobile-first apps deliver offline capabilities and localized interfaces integrated with agent networks. Together, they lower the barriers, unlock new use cases, and raise the utility of financial services. For instance, U.S. data reveal that fintech mortgage lenders process loans 20–30 percent faster than traditional banks without higher default, showing how fintech competition directly drives service-delivery innovation (Fuster et al 2019). The United Kingdom, with more than 180 third-party providers and the diffusion of innovations via incumbent–fintech partnerships, showcases concrete innovation pathways and product relevance gains (Box 1).

At the same time, incumbent banks and microfinance institutions have responded by modernizing legacy systems with cloud computing, modular API architectures and new third-party partnerships. They now cobrand mobile wallets with telecoms and retailers, deploy platform-based credit scoring engines, and embed microcredit and insurance at the point of sale, each designed to improve speed, personalization, and affordability for the end user. Collectively, these innovations unlock the expanded array of financial products and new types of providers detailed in Outcome 2.1 above.

In Kenya, MShwari's mobile savings and loan service reached over 9 million people—around a third of the adult population—within two years, offering nano loans and interest-bearing savings accounts tailored to irregular incomes (Cook and McKay 2015). In China, Ant Group's MYbank used ecommerce transaction data and AI underwriting to extend credit to over 53 million MSEs by 2023, most of them previously underserved (Hau et al. 2024). India provides a parallel illustration, where Unified Payments Interface (UPI) and new licensing have spurred product and business model innovation and have expanded affordable digital access (Box 3).

Studies at the firm level show incumbents racing to innovate under competitive pressure. In Canada, France, Germany, and the United Kingdom, banks operating in regions with higher fintech startup density were significantly more likely to adopt digital strategies and appoint Chief Digital Officers; they also formed up to three/four times more partnerships with fintechs compared to peers in less contested areas (Hornuf et al. 2021). Global patent record analyses indicate that a 10-percent increase in local fintech startup density corresponds to a 12-percent rise in incumbent bank patents for digital finance solutions, demonstrating how rivalry can fuel incumbent adaptation (Caragea et al. 2024).

Comparative regulatory data suggest that greater contestability accelerates innovation. Jurisdictions with lower banking concentration and formal Open Finance mandates introduce 20–30 percent more new digital financial products annually (Frost 2020). Mandating data portability (a proxy for competition) across 49 countries spurs fintech investment and a proliferation of data-driven services, from automated advisory tools to real-time

risk scoring, thus underscoring the catalytic role of competition (Babina et al. 2025).

While this wave of competition-driven innovation expands the utility of financial inclusion, it also can inadvertently leave behind consumers without access to smartphones or digital skills as well as raise data privacy and fairness challenges in new underwriting models (OECD 2020a). Ensuring that innovation delivers equitable and sustainable financial inclusion gains requires proportionate risk-based regulations that balance the risks and rewards of innovation; and consumer protection frameworks that are fit for purpose in the digital age; as well as the embedding of customer-centric design standards, among other things.

BOX 1. **UNITED KINGDOM: Open-Banking-Driven Competition Fuels Innovation, Diversity and Choice**

In 2016 the Competition and Markets Authority discovered that the United Kingdom's nine largest banks were hoarding customer data, imposing switching costs, constraining choice, and stifling innovation. Policymakers responded in 2017 by introducing an open banking framework that required banks to share customer data via standardized Application Programming Interfaces (API); they also implemented a tiered licensing system for nonbank payment and account service firms (e.g., account information and payment service providers; e-money institutions) in parallel to an innovation hub and regulatory sandbox established by the Financial Conduct Authority to support the live testing of innovative products.

These reforms catalyzed rapid market entry as licensed third-party providers rose from fewer than 30 in 2018 to over 180 by mid-2024, ranging from neobanks and digital wealth managers to insurtechs, invoice-financing platforms, and embedded finance providers. They pioneered a wave of innovations, from multibank dashboards that aggregate accounts in real time, to pay-by-bank checkout tools that bypass card networks, to microsavings round-up apps, and to AI-driven credit engines for thin-file individuals and small and medium enterprises (SME). Incumbent banks also are adopting these innovations through more than 25 fintech partnerships, integrating budgeting tools, instant small loan offers, and microinsurance modules into their own mobile apps.

These developments have translated into measurable outcomes, especially for first-time borrowers and younger firms. Challenger banks account for roughly 55 percent of new SME lending (about £12.5 billion in 2023), with over half a million gig-economy and frontline workers using earned-wage advances and automated savings tools, and more than 200,000 previously unbanked individuals securing their first digital loans. By early 2024, 14 percent of digitally active consumers and 18 percent of SMEs maintained an active open banking connection, with monthly API calls nearing 2 billion.

The UK experience spotlights how legally enforced data portability, paired with proportionate licensing, can intensify competition by fueling innovation as well as expand product diversity and consumer choice, thereby extending finance to underserved segments.

Sources: CMA 2016 ; CCAF 2024 ; OBIE 2024 ; and UK Finance n.d.

2.5 Intensified Price Competition Delivering Lower Costs for Consumers (BREADTH AND UTILITY)

Innovation and rivalry among providers also lead to price competition. As providers seek to differentiate and scale, they reduce fees, interest rates, and commissions, making financial services more affordable for low-income households and small businesses. New entrants undercutting market pricing force incumbents to compress margins or pursue efficiency gains (i.e., streamlined processes, cost saving technologies, enhanced risk management), thereby sustaining lower prices and broadening access. Greater affordability improves the utility of financial services while also removing a key barrier to entry, thus expanding the breadth of inclusion by bringing excluded consumers into the financial system. Lower prices also can encourage the uptake of additional products, thereby contributing to depth.

Global studies confirm these pricing effects. In Brazil, instant payment competition cuts acceptance costs, whereby merchants pay 0.33 percent for receiving through Pix versus 2.34 percent from credit cards (IMF 2023) (Box 2). Analysis of data from over 1,400 banks across 72 countries indicates that more competitive markets operate on thinner margins and charge significantly lower borrowing costs (Demirgüç-Kunt et al. 2003). In Latin America and the Caribbean, a fintech entry into a market is associated with a 5–8 percent reduction in net interest margins, since traditional banks respond with fee cuts and expanded product lines (Bejar et al. 2022); furthermore, increased retail banking competition lowers interest margins and fees (World Bank 2020).

In Peru's microfinance sector, the arrival of new competitors, including fintech lenders, pushed average microloan rates down by 37 percent between 2002 and 2016 without eroding portfolio quality (Huayta, García, and Sotomayor 2018). Meanwhile, a study in China at the provincial level indicates that increased banking competition significantly reduces household loan interest rate spreads, particularly benefiting higher income and urban households by lowering their reliance on informal credit (Lei, Bai, and Kong 2024). In Bolivia, firms that switch banks tend to secure loan rates roughly 81 basis points lower than they would have paid to their previous lenders (Ioannidou and Ongena 2010).

Following a reduction in entry requirements in Europe, net interest margins of banks declined substantially, while borrower screening standards improved, demonstrating that price competition need not compromise credit quality (Chen 2007). Similarly, in the United States, heightened rivalry spurred the adoption of advanced credit scoring models, expanding affordable credit to households previously deemed too risky (Dick and Lehnert 2010). In South Africa, competition from new entrants cut account fees and improved value without eroding stability (Box 4).

By contrast, waning competition drives up costs. In Mexico, banks with greater market power charge interest rates that are approximately 11 percent higher (Cañón, Cortés, and Guerrero 2022). In Brazil, more concentrated markets raise loan spreads by about 7 percent (or 1.5 percentage points) higher (Ornelas, da Silva, and Van Doornik 2022) and reduce credit volumes with consolidation, further dampening economic activity (Joaquim, Van Doornik, and Ornelas 2019).

All the same, price competition must be carefully managed to avoid any unintended consequences for provider viability and consumer protection. Excessive pressure on margins can prompt a race to the bottom, eroding capital buffers and threatening financial stability, as well as trigger hidden charges or misconduct (Berger, Klapper, and Turk-Ariss2017). On the other hand, efficiency improvements may take time and investment to accrue meaningfully. Policy tools, such as transparent pricing disclosures, targeted fee caps, and proactive market monitoring, can help sustain lower prices for consumers without undermining service quality, stability, or causing consumer harm.

BOX 2. **BRAZIL: Instant Payments and Open Finance as Catalysts for Competition and Inclusion**

Brazil's open finance and instant payments initiatives illustrate how data portability and integrated digital rails can increase competition by lowering information barriers and prices. The Central Bank of Brazil launched its open finance strategy in 2019 as part of its BC+ agenda to modernize financial infrastructure, reduce information asymmetries, and promote financial citizenship, all of which are anchored on principles of consumer consent, reciprocity, and interoperability. Mandatory participation for institutions serving over 5 million clients ensured critical mass, while coordination with Brazil's data protection law fostered trust in the framework's secure data-sharing mechanisms.

Pix, introduced in 2020 as Brazil's instant payment system, rapidly became the on-ramp for digital finance. By early 2025, over 160 million users were active on Pix, processing more than three billion transactions each month at zero cost for individuals. Its seamless integration into mobile apps lowered switching costs and boosted digital engagement, paving the way for richer data flow. The phased rollout from 2021—beginning with Open Banking, followed by customer data sharing, credit-proposal exchanges and, finally, full API-based[1] interoperability that extended services beyond traditional banking—saw rapid uptake. By mid-2025, over 57 million consumers had active data-sharing agreements, generating 3.3 billion API calls per week. This scale makes Brazil's system the largest consumer-facing Open Finance initiative globally, covering banking, insurance, investments, pensions, and more, thus enabling comprehensive financial profiling and the customization of financial services.

Consequently, the fintech sector also has expanded significantly, with 800 regulated Pix participants and a surge in payment providers, digital banks, and an entry of new types of credit providers. Transaction costs have dropped, with Pix payments costing merchants only 0.33 percent of transaction value compared to 2.34 percent for credit cards, as well as narrowing loan spreads, especially for personal credit and lending to small- and medium enterprises. Consumers also have benefited from unified account dashboards, faster credit approvals, and reduced reliance on overdrafts and high-cost loans.

Brazil's approach demonstrates how combining enforceable data sharing with inclusive digital rails can unlock the competitive dynamics that lower barriers, reduce costs, and broaden financial access.

Sources: Banco Central do Brasil 2025b; Banco Central do Brasil 2025c; Campos and Moreira 2025; IMF 2018.

[1] Application Programming Interface.

2.6 Other Outcomes

Finally, competition also may deliver a host of nonprice benefits where rigorous evidence continues to emerge. Theory suggests that rivalry erodes the gains incumbents can derive from opacity and increases the returns to clear, fair, and responsible conduct. In practice, this can manifest in greater transparency in the disclosure of terms; faster and more reliable customer service and redress mechanisms; voluntary adoption of codes of conduct; and stronger privacy and data protection safeguards, each reinforcing consumer trust in formal finance over time.

Furthermore, competition may also incentivize firms to invest in customers' financial and digital literacy, helping users compare options, make informed decisions, and manage their finances with confidence, thereby reducing the risk of misuse or overindebtedness. Also, by inspiring confidence in good times, a more contestable and diverse market is also better placed to preserve access and trust during downturns, strengthening systemic resilience and stability. These channels remain priorities for future research.

Technological change also challenges traditional theoretical paradigms of competition, as data-driven business models, platform-based distribution, and powerful network effects reshape how scale, contestability, and consumer choice operate in financial markets. Understanding these shifts and their implications for inclusive finance represents another important area for future research.

Notably, while gender disparities in financial inclusion are well-documented, this review did not find robust evidence that competition alone delivers gender-responsive outcomes. Theoretical work suggests that greater competition can incentivize providers to target heterogeneous consumer preferences through product differentiation and outreach (Dixit and Stiglitz 1977; Beck and de la Torre 2007). While such mechanisms could plausibly extend to women, there is no robust theoretical basis to assume that competition on its own will close gender gaps in financial inclusion. This highlights a key area for future research, particularly in understanding how competitive dynamics might interact with targeted policy measures to close gender gaps.

These findings underscore the potential of competition to deliver expanded breadth, depth, and utility of financial inclusion. Translating evidence into policy, however, requires a deliberate and structured approach, which Section 3 outlines.

SECTION 3

Bridging Evidence and Policy

AS SHOWN IN SECTION 2 ABOVE, competitive pressures can expand access, reduce information barriers, lower prices, foster diversity in products and types of providers, and spur innovation in ways that benefit consumers and advance financial inclusion. Yet too many financial markets worldwide remain highly concentrated, reflecting historical legacies, regulatory choices, and structural barriers.

In several countries, financial markets have evolved under a regulatory ethos that has prioritized the safety and soundness of the system. Regulatory measures (e.g., licensing regimes that have favored incumbents, branching restrictions, interest rate caps, heavy capital requirements, and exclusive infrastructure monopolies) have fostered stability and systemic resilience but also have entrenched market power and raised barriers for new entrants. Across advanced economies as well as emerging markets, successive waves of consolidation, privatization, foreign entry, and postcrisis prudential tightening have deepened market concentration and raised entry barriers for challengers. While these core mandates of authorities are rightfully essential, they have sometimes come at the expense of competition—stifling innovation, limiting consumer choice, and ultimately impeding financial inclusion.

That consensus has shifted. Regulators increasingly agree that fostering healthy competition—one that drives innovation as well as inclusion—is possible and advisable without undermining stability or consumer protection (IMF and World Bank 2018; Carstens 2024; Bogaard et al.). Digital finance has added urgency to this shift. On the one hand, agile fintech challengers are driving innovation, lowering entry barriers, and expanding access to finance. On the other hand, large-scale bigtech platforms, with their vast data troves, powerful network effects, and cross-sector reach, can quickly entrench dominance, erode contestability, and introduce new systemic risks. Reflecting these concerns, competition authorities in several countries have heightened their scrutiny of digital platforms, recognizing that market concentration in the digital era may take new forms—from data dominance to algorithmic discrimination (Crémer, de Montjoye, and Schweitzer 2019; OECD 2023).

These developments have shifted the debate from whether competition matters to how financial authorities, under their existing mandates, can steer markets toward greater contestability and harness competitive pressures to deliver tangible benefits for underserved populations. In fact, they are uniquely positioned to harness competition: they already shape market structure and dynamics through licensing

requirements, infrastructure rules, supervisory expectations, and market development strategies. By intervening ex ante and upstream, they can address competition issues before they crystallize without relying solely on ex post enforcement, as seen in the United Kingdom's sequencing of open banking and infrastructure reforms (Box 1).

Translating these insights into actionable policy choices demands a clear and structured framework to consider how market characteristics can shape provider behavior, identify which regulatory levers can incentivize greater competitive dynamics, and ultimately establish how those translate into positive outcomes for consumers.

SECTION 4

Conceptual Framework

RESPONDING TO THIS NEED, THE following framework offers a practical tool to assist financial authorities to steer competitive dynamics toward deeper financial inclusion, grounded in real-world policy approaches and adaptable to diverse country contexts. It supports them in identifying where and how their existing mandates and policy levers can be used to foster more competitive and inclusive financial markets. It also shows that stronger competition—when thoughtfully steered by financial and competition authorities—can expand access and affordability, diversify products and providers, accelerate innovation, and prompt incumbent adaptation, ultimately contributing to a more resilient and inclusive financial ecosystem.

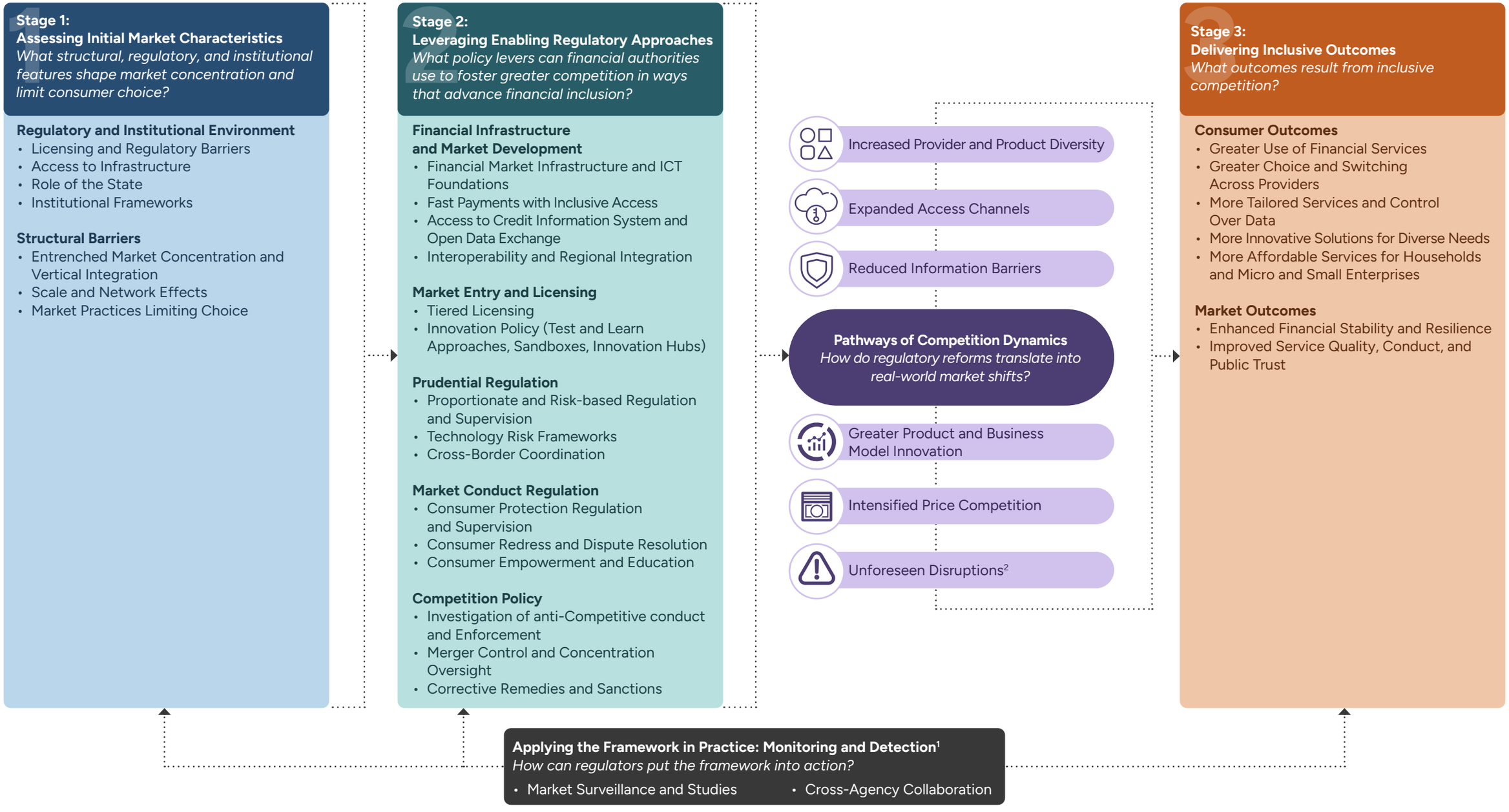
Conceptually, the framework draws inspiration from the World Bank Group's Markets and Competition Policy Assessment Toolkit (World Bank 2023), adapting its structured approach to the specific challenges and opportunities of financial inclusion. It is not a prescriptive checklist; rather, it is an analytical tool to help authorities think systematically about how regulatory choices shape market behavior and inclusion outcomes.

The framework unfolds in three stages as follows:

1. Assessment of initial market characteristics
2. Leverage of enabling regulatory approaches
3. Delivery of inclusive outcomes.

Each stage reflects a key link in the pathway from competition to financial inclusion. The sections that follow explain the rationale for each stage and outline its core components.

FIGURE ES1. **Competition—Financial Inclusion: A Conceptual Framework**



[1] Monitoring And Detection Equips Authorities To Diagnose Where The Competition Breaks Down, Identify The Necessary Policy Actions, Collect Feedback On How Reforms Are Taking Effect, And Monitor The Outcomes Over Time.

[2] Unforeseen Disruptions Include "Unknown Unknowns" That Reshape Competitive Dynamics In Unpredictable Ways, Such As Technology Cost Curves, Pace Of AI/MI Adoption, Platform Shifts, And Macroeconomic Shocks, Among Others.

Source: Authors

Stage 1: Assessing Initial Market Characteristics

What structural features shape market concentration and limit consumer choice? Advancing financial inclusion by promoting competition begins with a clear-eyed assessment of the market's starting conditions. This includes identifying regulatory, institutional, and structural features that explain why certain providers dominate and why others struggle to enter or grow.

REGULATORY AND INSTITUTIONAL ENVIRONMENT

Licensing and regulatory barriers, access to core infrastructure, the role of the state, and institutional frameworks all shape market contestability. Restrictive licensing can limit entry, while subsidies, state ownership, or preferential policies tilt the playing field toward incumbents. Weak competition policy or supervisory frameworks may fail to curb anti-competitive conduct, and industry associations or interest groups can influence rules or coordinate practices in ways that entrench incumbents.

STRUCTURAL BARRIERS

Financial service markets naturally exhibit features that favor scale and incumbency. These include economies of scale and scope, as well as network effects that require challengers to reach critical mass before becoming viable. Market practices, such as exclusivity clauses or long-term contracts, can further limit consumer choice, while entrenched concentration and vertical integration allow large firms to control infrastructure and distribution channels. Collectively, these features can create high switching costs, raise barriers to entry, and entrench incumbent dominance, making it harder for challengers to compete and for consumers to benefit from greater choice.

Understanding these conditions is the first step toward identifying where competition is constrained. It also highlights where targeted policy action can unlock more inclusive outcomes.

Stage 2: Leveraging Enabling Regulatory Approaches

What policy levers can financial authorities use to foster greater competition in ways that advance financial inclusion? Once competition constraints are identified, the next step is to consider how regulatory interventions can reshape market dynamics. This includes revisiting legacy licensing regimes, exclusivity provisions, and infrastructure access rules that may have created artificial monopolies or reinforced incumbent dominance. Financial and competition authorities have a range of tools at their disposal to improve competition while still safeguarding core objectives such as systemic stability, market integrity, and consumer protection.

Since no single intervention can correct every market distortion, regulators must navigate trade-offs: too little competition entrenches monopolies and limits innovation while too much can fragment services and introduce systemic risk. The goal, therefore, is not to maximize competition in all scenarios, but to cultivate a sustainable and healthy level of contestability, one that will encourage innovation, expand access, and manage emerging vulnerabilities in line with each market's unique circumstances.

To support this, the framework organizes regulatory levers into five domains. Each domain reflects a distinct

theme influencing competition, and the regulatory approaches are refined through ongoing policy dialogue and feedback. These are not sequential steps; rather, they are a flexible toolbox that authorities can adapt to their context and priorities.

A. FINANCIAL INFRASTRUCTURE AND MARKET DEVELOPMENT

Inclusive competition depends on robust financial infrastructure. Regulatory approaches in this domain focus on establishing the foundational systems and shared digital rails that enable diverse providers to enter, compete, and serve excluded segments. This begins with modernizing core financial market infrastructure such as payment switches, automated clearinghouses, and credit information systems that reduce transactional costs, support stability, and broaden access. Building on this, Digital Public Infrastructure offers open and interoperable systems including digital ID, e-KYC, fast payment platforms, and secure data-exchange frameworks such as Open Finance. These tools help streamline onboarding, lower switching costs, and build trust across providers and users. Some authorities also are experimenting with central bank digital currencies as potential public settlement rails that could complement existing payment systems and advance financial inclusion. Together, regulations enabling these infrastructure investments will reduce cost and information barriers, expand market access, and lay the groundwork for a more diverse, innovative, and inclusive financial ecosystem.

B. MARKET ENTRY AND LICENSING

Building upon foundational infrastructures, effective competition also depends on clear and proportionate pathways for new entrants. Regulatory approaches in this domain define who can participate in financial markets and on what terms.

Simplified, risk-based licensing frameworks help lower barriers by scaling capital, governance, and reporting requirements to the size and risk profile of the applicant. Phased licensing allows firms to progress in stages, while new categories, such as for e-money issuers, payment banks, embedded-finance platforms, and digital-asset service providers, ensure regulatory recognition of emerging business models. In parallel, activity-based licensing enables specialist providers to operate within clearly defined functions, such as payment processing or lending, while maintaining supervisory visibility.

Complementing these, innovation-friendly tools (e.g., regulatory sandboxes and test-and-learn pilots) offer controlled environments for experimentation under real-time oversight, with built-in feedback loops to refine rules. These are often supported by innovation hubs and challenge funds that provide mentorship, technical assistance, and targeted financing, particularly for ventures serving excluded or underserved segments.

By combining flexibility with oversight, these approaches help reduce compliance burdens, foster responsible innovation, and channel support to the firms best positioned to expand access and diversify the market.

C. PRUDENTIAL REGULATION

Nevertheless, while encouraging competitive openness is essential, regulators must simultaneously safeguard financial stability. Recent theoretical work shows these objectives can be balanced over time through a coordinated policy mix that sequences pro-competition measures with risk-sensitive, technology-aware, prudential safeguards as markets evolve (Calice 2025).

Traditional regulatory approaches (e.g., proportional and risk-based prudential standards, capital, and liquidity rules) accommodate smaller and nonbank providers that pose less systemic risk, while “too big to fail” policies impose enhanced buffers and resolution planning on systemically important institutions. In parallel, technology-specific risk frameworks and outsourcing standards establish clear operational requirements for crypto, DeFi, and

BOX 3. **INDIA: Digital Public Infrastructure and Licensing Reforms Enable Inclusive Competition**

In less than two decades, India has transformed from one of the most underbanked countries in the world to building the largest real-time Unified Payments Interface (UPI) network, with nearly 90 percent of adults now owning a financial account. This transformation, however, was far from inevitable.

Fifteen years ago, India's retail finance market was bank-led and analog. Branch-centric delivery, rigid products, thin card acceptance beyond cities, paper-based KYC ("know your customer"), and data silos raised costs for new entrants, limited choice, and discouraged adoption. To shift this, the government built shared and open digital rails and widened market access, laying the digital foundations for financial inclusion. Biometric digital ID (Aadhaar) made e-KYC quicker and cheaper, while UPI enabled real-time and interoperable payments and the Account Aggregator framework introduced secure, consent-based data sharing. In parallel, the Reserve Bank of India introduced licensing categories for payment banks, small finance banks, and nonbanks to allow new market entrants under clear, proportionate rules.

Policy choices focused on digital public infrastructure, democratized for access to core infrastructure, allowing banks, microfinance institutions, fintechs, and platforms to plug into the same rails and compete on speed, price, and user experience. Aadhaar-enabled e-KYC reduced onboarding costs by over 80 percent, helping open more than 450 million basic accounts—over half held by women. Micro and small enterprises adopted UPI QR codes to accept digital payments without Point-of-Sale hardware and began sharing financial data through the Account Aggregator framework for cash-flow-based credit and personal finance tools.

Licensing and market entry reforms ushered in new types of specialized players, intensifying competition and catalyzing innovation in product design and delivery, rapidly expanding financial inclusion. The effects are visible at scale. UPI processes close to 20 billion transactions a month with nearly 700 participating institutions. Fintech-driven digital lending has grown at an average annual rate of 35 percent over the past 11 years, reaching volumes of US$12 billion in 2024, much of it to first-time borrowers. In addition, more than 750 institutions share and use data through the Account Aggregator ecosystem, processing 250 million consent checks and facilitating nearly US$20 billion in lending.

Together, India's policy reforms have expanded financial inclusion by enabling broader access to digital infrastructure and the licensing of new types of providers to compete.

Sources: NPCI 2025; Sahamati 2025; FACE 2024; Ardiç et al. 2023, and Klapper et al. 2025

AI-driven models, ensuring operational resilience without deterring innovation.

To support safe experimentation, many jurisdictions also are deploying regulatory sandboxes focused on prudential risk management, allowing new models to be stress-tested under real-world conditions before full launch. Finally, cross-border supervisory harmonization and coordination further strengthen this foundation by harmonizing rules across jurisdictions and reducing fragmentation that could otherwise raise entry barriers.

These approaches strengthen the resilience of financial systems. They ensure that competition and innovation expand within a stable, well-regulated environment that protects consumers and sustains trust.

D. MARKET CONDUCT REGULATION

Translating competition into meaningful consumer benefits requires robust market conduct regulation. These protections prevent harm, build trust, and empower consumers to engage confidently in financial markets.

Fit-for-purpose consumer protection frameworks, designed for the digital age, foster responsibility across the financial ecosystem. Key elements include transparent disclosures of fees and terms, product suitability, and affordability assessments, thus enforcing fair marketing and sales practices as well as maintaining accessible redress mechanisms such as ombudsman schemes and mediation services. Ongoing conduct supervision, coupled with strong fraud prevention and cybersecurity standards, ensures that consumer risks are continuously monitored and addressed.

Complementing these safeguards are consumer empowerment initiatives, including financial and digital literacy programs and awareness campaigns. These equip individuals to compare offerings, switch providers, and engage actively in the market, driving firms to compete on quality, value, and service integrity.

By embedding clear conduct standards and empowering users, market conduct regulations strengthen trust. They also ensure that competition drives financial inclusion.

BOX 4. **SOUTH AFRICA: Coordinated Oversight to Restore Contestability in Retail Banking**

Amidst concerns over rising market concentration, South Africa's Competition Commission undertook its first market inquiry into retail banking in 2008, identifying the structural barriers that constrained competition. The inquiry found that high switching costs; opaque and uncompetitive fee structures; product bundling that tied customers to incumbents; discriminatory access to the national payment system; and the entrenched dominance of the "Big Four" banks—Standard Bank, FirstRand, Absa, and Nedbank—were limiting consumer choice and stifling innovation. It also noted the continued absence of affordable basic accounts and barriers facing smaller and nonbank providers, which had adverse effects for financial inclusion.

The inquiry's 28 recommendations ranged from account number portability and fee transparency to fair infrastructure access for nonbank providers. These were progressively taken up by the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA), with implementation overseen by joint task forces through memoranda of understanding between the SARB, FSCA and the Competition Commission of South Africa. Structural reforms included opening the clearing and settlement systems to nonbank participants and revising the Code of Banking Practice[1] to incorporate switching codes and enhanced disclosure standards, as well as a review of interchange fees across payment streams (i.e., cards, electronic funds transfers, ATMs) and aligning them with cost-recovery principles, thus further lowering barriers for challengers.

This coordinated regulatory response helped stimulate market entry and innovation. The rise of Capitec and TymeBank as low-cost challenger banks reshaped transactional banking, while digital uptake surged across incumbents, with financial access rising from 54 percent of adults in 2011 to 81 percent in 2024. Banks began leveraging AI and data analytics to extend credit to underserved communities, including informal workers and small- and medium-size enterprises, and introduced budgeting tools and microloan modules into their apps.

While challenges remain, particularly around cybersecurity and equitable access, South Africa's case illustrates how coordinated regulatory action between competition authorities (antitrust remedies) and financial authorities (structural and conduct reforms) can restore contestability in a concentrated market as well as broaden product diversity and deepen financial inclusion.

Sources: CCSA 2008; IMF 2022; Jeník 2022; Vermeulen 2018; AfricaNenda Foundation 2024; Klapper et al. 2025

[1] For further information on the Banking Association of South Africa's Code of Banking Practice, see the following website: https://www.treasury.gov.za/twinpeaks/Conduct%20of%20Financial%20Institutions%20Bill.pdf.

E. COMPETITION POLICY

Safeguarding a competitive financial landscape requires vigilance against anticompetitive conduct. While competition agencies typically lead antitrust enforcement, effective oversight in financial markets depends on close coordination with financial regulators.

Competition authorities conduct market surveillance through investigations, thematic studies, and merger reviews to detect and deter cartels, collusion, and exclusionary practices. When violations are confirmed, they may impose structural remedies such as divestitures or ring-fencing, as well as behavioral obligations such as nondiscrimination clauses to restore contestability.

Financial authorities complement these efforts by not only contributing specialized insights and by acting upstream to shape the conditions under which competition intensifies, but also by identifying risks before they escalate. Formal coordination mechanisms, such as joint task forces, memoranda of understanding, and shared intelligence platforms, help align priorities and enable a more integrated approach to market oversight. Collectively, these efforts reinforce fair play and compel firms to compete on efficiency and innovation rather than entrenched market power.

Pathways of Competition Dynamics

How do regulatory reforms translate into real-world market shifts? When regulatory barriers are lowered, competitive dynamics begin to take hold. Five mutually reinforcing pathways emerge: provider and product diversity, expanded channels of access, reduced information barriers, product and business model innovation, and intensified price competition. These have been discussed earlier in Section 2. In addition, the framework recognizes a sixth mechanism, that of unforeseen disruptions which refer to unpredictable forces such as sudden shifts in technology adoption and cost curves, paradigm changes, geopolitical crises, or macroeconomic shocks, all of which can upend and reshape competitive dynamics in abrupt and transformative ways. Unlike the other pathways, these are not dynamics that regulators can directly influence, although they can be harnessed.

These dynamics are mutually reinforcing. Diversity in providers and products expands the range of services available while broader access channels bring these services closer to underserved populations. Reduced information barriers help consumers navigate choices more confidently; innovation introduces new models and offerings; and price competition drives affordability. As these forces interact, they expand market reach and catalyze further competitive entry.

Together, these pathways serve as the bridge between enabling regulatory approaches and the outcomes they generate. While these shifts can be powerful, they also require vigilance. Solving one market distortion can surface new risks, and rivalry in one area may create fresh friction elsewhere.

BOX 5. **KENYA: Balancing Innovation and Market Power in Mobile Money Markets**

Kenya's mobile money story is a textbook example of how innovation, when enabled by thoughtful regulation, can drive financial inclusion at scale. M-Pesa, launched by Safaricom in 2007 as a payment service for the unbanked, grew to serve over 70 percent of the population, bringing nearly 20 million people into the formal financial system and lifting 200,000 (approximately 2 percent) of Kenyan households out of poverty.

Its success is widely attributed to a test-and-learn regulatory approach, in which the Central Bank of Kenya (CBK) approved its launch under a Letter of No Objection, maintained supervisory oversight, and introduced risk-based rules (e.g., transaction limits and agent guidelines) as the market matured. Consumers, many of whom had never used formal finance, could now send money instantly and at low cost, avoiding long lines and paperwork at bank branches or informal money changers. Adoption soared, with 9 million users in only three years, setting the stage for broader market shifts, including partnerships between banks and telcos.

Over time, however, M-PESA's success morphed into market dominance; it began to exhibit anticompetitive practices that limited the ability of rivals to compete as structural barriers began to weaken competitive pressures, even as the service continued to scale. At its peak, Safaricom controlled nearly 97 percent of the mobile money market and over 90 percent of agents. Many of these agents operated under exclusive contracts, which meant rival providers had little or no access to the same distribution networks. To address this barrier, the Competition Authority of Kenya banned agent exclusivity and later codified this under national regulations. Pricing practices further reinforced user lock-in: sending money across networks (off-net) cost up to 2.5 times more than within the M-PESA network (on-net), discouraging customers—especially those making low-value transactions—from using competitor services. In response, CBK eventually mandated interoperability, helping narrow these price gaps. Finally, rivals that relied on Safaricom's telecom infrastructure to offer mobile money via Unstructured Supplementary Service Data faced prohibitively high charges of up to K Sh 10 per session, raising their operating costs. The Communications Authority of Kenya, working with CBK, capped these fees at K Sh 1, thereby easing this cost barrier and making it more feasible for competitors to operate.

Despite these corrective actions, M-PESA's structural advantages, including its dominant agent network, strong brand, and integration into everyday transactions, proved difficult to overcome for competitors. Several challengers, including Airtel and Equitel, struggled to scale under these conditions, with some stagnating or exiting the market altogether. This reinforced Safaricom's dominance, even as overall access and usage expanded. At the same time, concerns around pricing transparency, consumer protection, and limited contestability persist.

Kenya's journey reveals how solving financial exclusion at one point in time can inadvertently entrench market power at a later stage. It can reinforce the importance of adaptive regulation through feedback loops and coordination to monitor shifting market dynamics and sustain inclusive competition.

Sources: Suri and Jack 2016; Central Bank of Kenya (2024); Paelo and Roberts 2022; and Paelo 2025.

Stage 3: Delivering Inclusive Outcomes

What outcomes result from inclusive competition? Ultimately, when competition dynamics take root, they yield tangible outcomes for consumers as well as the financial system as a whole. As competition intensifies, markets deliver the following:

- **Consumer Outcomes:** Inclusive competition broadens the use of financial services by increasing the physical and digital channels of access for consumers and lowering barriers to entry for new providers serving underserved and excluded segments. It gives consumers greater choice and the ability to switch across providers, breaking down lock-in effects. It also enables more tailored services supported by data sharing frameworks that offer consumers greater control over their personal data, while spurring innovative solutions that respond to the diverse needs of households and MSEs. Competition also drives providers to compete on prices, making financial services more affordable and valuable for consumers.
- **Market Outcomes:** Greater contestability and reduced entry barriers increase the diversity of financial products and service providers. As providers pursue innovation and operational efficiency to remain competitive, service quality improves, and market conduct strengthens. These shifts build public confidence and contribute to a more resilient, inclusive, and responsible financial system.

Taken together, these stages offer a practical roadmap for financial authorities to steer competitive dynamics toward inclusive outcomes. Such progress, however, is not self-executing. Each stage requires vigilance and a policy feedback loop of monitoring and detection to ensure that competition continues to evolve in ways that serve financial inclusion.

At the same time, competition cannot be pursued in isolation. As discussed in Section 1, unchecked competition without oversight can have unintended consequences. Financial authorities must weigh competition alongside their core objectives of stability, integrity, and consumer protection, recognizing that trade-offs will inevitably arise. Therefore, competition is framed as an important lever—one which, if steered carefully, is able to support these broader mandates while minimizing trade-offs and advancing financial inclusion.

Applying the Framework in Practice: Monitoring & Detection

How can regulators put the framework into action? Competition does not steer itself toward inclusion. Monitoring and detection equip authorities to diagnose where competition breaks down; identify the policy actions needed; collect feedback on how reforms are taking effect; and monitor progress toward outcomes over time.

Monitoring and detection, as a whole, is not a stage within the conceptual framework; rather, it is a cross-cutting process that assists authorities in putting the framework into action by connecting diagnostics to regulatory choices. In practice, this involves two types of action as follows:

- **Market Surveillance and Studies**: Authorities monitor market shares, pricing trends, product offerings, and infrastructure access to track how competition is evolving. These efforts often are complemented by targeted sectoral or thematic market studies and user experience surveys that reveal conduct issues such as hidden barriers, service gaps, or unfair practices.

- **Cross-Agency Coordination:** Because competition issues span mandates, coordination between financial regulators, competition authorities, and consumer protection agencies is essential. Mechanisms (e.g., memoranda of understanding, joint investigations, shared intelligence platforms) help align perspectives and ensure emerging risks are identified and addressed effectively.

Taken together, these actions provide authorities the tools to detect when competition is faltering, calibrate policy responses, and ensure markets evolve in ways that advance financial inclusion.

This section described a conceptual framework that sets out a workable map: start from the market one has, use proportionate regulatory levers to open contestability, observe how the pathways unfold, and track whether outcomes improve, all of which supported by ongoing monitoring and detection. The conclusion distills what this means for policy and practice.

BOX 6. **PAKISTAN: Market Diagnostics Lay the Groundwork for Pro-Competition Reforms**

In 2011, only 10 percent of adults in Pakistan owned a formal financial account—the lowest in South Asia—reflecting a concentrated market dominated by a few urban-focused banks and regulations that limit digital or agent-based alternatives. Branchless banking, introduced in the late 2000s, remained dominated by a few telco-led models with limited product diversity and weak competition. Underlying were structural and regulatory barriers (e.g., restrictive licensing rules, limited access to agent networks, national ID infrastructure) and closed loop agent network and payment systems that locked out potential challengers.

Recognizing these constraints, the State Bank of Pakistan led a series of coordinated diagnostic efforts with partners, including Karandaaz, the World Bank, and more recently, the Asian Development Bank. Agent network mapping revealed dense urban clustering and weak rural penetration; pricing studies showed steep fees for low-value transactions; and policy notes flagged barriers to accessing payment systems, ID verification, and interoperability.

These insights led the State Bank of Pakistan to introduce a risk-based licensing regime for electronic money institutions; launch the instant payment platform Raast; and push agent-level interoperability, all of which are reforms that ultimately opened the market to over a dozen nonbank electronic money institutions and expanded agent networks to 650,000 agents nationwide. The rollout of Raast enabled free, instant account-to-account transfers, with nearly 30 million registered users. These changes translated into tangible consumer benefits: account ownership nearly tripled from 10 percent in 2011 to 27 percent in 2024.

However, gains have been uneven and pronounced among men as well as among more educated and richer households. Financial inclusion remains limited by global standards, with only 12 percent of women and 14 percent of the poorest households having an account. This underscores the need for sustained efforts to guide the next wave of regulatory interventions.

Sources: Khan et al. 2017; SBP 2019; World Bank 2022 and SBP 2024.

Conclusion

THIS PAPER HAS ARGUED THAT well-managed competition can be a powerful enabler of financial inclusion. When markets are more contestable and rivalry is healthy, providers are more likely to expand access, lower prices, diversify offerings, and innovate—particularly in ways that benefit excluded and underserved populations. These outcomes are not automatic, however. They depend on deliberate policy choices, institutional coordination, and a willingness to navigate trade-offs. To support regulatory authorities in engaging more systematically with this agenda, a conceptual framework (Figure 1) was introduced to map how market characteristics, regulatory levers, and competitive dynamics interact to shape inclusive outcomes.

For financial authorities, the framework offers a way to identify where existing regulatory levers (e.g., licensing requirements, infrastructure design and governance rules, data sharing frameworks) can be used to shape more competitive and inclusive markets. For competition authorities and advocacy groups, it provides a shared language to engage with financial sector peers on market structure issues that affect inclusion. For funders and development partners, it highlights areas where technical assistance and policy dialogue can support more inclusive competition strategies.

While this paper maps the empirical pathways through which competition can drive inclusion, several areas, such as gender-responsive impacts, trust-building mechanisms, and long-term consumer outcomes, remain underexplored and merit deeper empirical investigation.

Ultimately, competition is not a panacea, and an excess of it poses its own risks; however, neither should it be treated as a peripheral concern. It should be an integral part of the financial inclusion toolkit. As digital finance reshapes market dynamics, the need for financial authorities to apply an intentional competition lens has never been more urgent.

Important questions remain about how financial authorities can harness their regulatory toolkit to apply a competition lens, manage trade-offs between competing objectives, and adapt as digital financial markets evolve. Addressing these open issues will be a focus of CGAP's forthcoming work, drawing on country experiences to unpack what works as well as provide practical guidance on the regulatory and policy interventions that most effectively promote inclusion-friendly competition.

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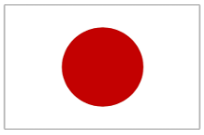
CGAP Members



CGAP members and strategic partners as of June 2025.

CGAP Members (continued)

CGAP Strategic Partners

CGAP members and strategic partners as of June 2025.

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