Asia-Pacific Economic Cooperation

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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Capacity Building Program – Report of a regional policy forum "Regulatory Environment to Promote Financial Inclusion in developing APEC and other regional economies", RMIT University, 17/18th October 2012

Australian APEC Study Centre at RMIT University

PURPOSE For consideration

ISSUE Summary of major outcomes of the regional policy forum

BACKGROUND The Advisory Group received and noted reports on work organized by AASC on measures to promote financial inclusion through a focus on proportionate regulation and the report of this work was incorporated in 2012 Report by the Advisory Group and which recommended that APEC Finance Ministers should develop a multi-year dialogue for financial inclusion, including, inter alia on a proportionate regulatory framework for financial inclusion. AASC subsequently convened a capacity building program in the form of the regional forum the subject of this report. 45 policy makers and regulators from APEC and non-APEC economies in the Asia Pacific region participated in the form and a report of outcomes is attached (Attachment A, together with a copy of the program at Attachment B). The Forum was funded by AusAID and the ADBI and supported by ADFIAP. The Forum was the first component of a two-part activity; the second will be a training program to be convened in Melbourne in 20/22nd March 2013 which will go into detailed case studies of how economies are implementing regulations to promote the use of technology in financial inclusion. (A copy of the draft training program is at Attachment C).

The forum included high level presenters drawn from regulatory agencies, the IFC, the private sector – telco and plastic card suppliers – banks and non-bank financial institutions and major consulting groups involved in advising on financial services. The focus of the forum was on proportionate regulation that supports financial inclusion and encourages the use of technology in the delivery of services to the poor. Particular attention was paid to the interface between regulation and the role of technology and major developments that are occurring, through the use of technology, in reducing financial inclusion in the region.

PROPOSAL	N.A.
DECISION POINTS	(1) Endorse the report of the forum (2) Incorporate into the work of the Asia-Pacific Financial Inclusion Forum and in the Advisory Group's Report to APEC Finance Ministers

ATTACHMENT A
REPORT OF A REGIONAL POLICY FORUM: "REGULATORY ENVIRONMENTS TO PROMOTE FINANCIAL INCLUSION IN DEVELOPING APEC AND OTHER REGIONAL ECONOMIES", RMIT UNIVERSITY, MELBOURNE, 17/18TH OCTOBER 2012

REPORT PREPARED BY KEN WALLER, DIRECTOR, AUSTRALIAN APEC STUDY CENTRE RMIT UNIVERSITY AND JACK GELVEZON, RESEARCH AND PROJECTS.

Executive Summary

Enhancing financial inclusion in the economies of the Asia Pacific is a priority of APEC leaders and identified as a major challenge in enhancing global financial stability by the G20 in the analysis of the post global financial crisis economic environment. There are many issues involved in improving access to formal financial services by the poor in the Asia Pacific region. They cover many aspects of financial services, including, the role and responsibilities of groups/institutions in the informal and formal sectors that provide services, regulatory arrangements, the role of credit bureaus, financial identity, financial literacy, consumer protection and technology application, to name just a few.

The Forum, designed to promote financial inclusion, was funded by AusAID under the Asia-Pacific Linkages program and the Asian Development Bank Institute and organised and delivered by the Australian APEC Study Centre, RMIT University in collaboration with the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP). Ken Waller, Director of the Centre and member of the ABAC Advisory Group on APEC financial system capacity building coordinated the two-day activity. (The Forum was the first of a two-part activity; the second will be a training program for regional policy makers and regulators to be convened in Melbourne in March 2013).

The Forum brought together 45 policy and regulatory officials from APEC and non-APEC regional economies, China, Vietnam, Indonesia, Philippines, Thailand PNG, Peru, Mexico, India, Pakistan, Sri Lanka, Bangladesh, East Timor, Cambodia and Laos. It involved presentations by senior officials from the Asia Pacific region, representatives of banks, e-money providers, professional advisory groups and international organisations and academics. (A copy of the program is shown in Annex 1 of this report).

The key focus of the forum was on proportionate regulation to support financial inclusion and regulatory approaches that encourage the use of technology in the delivery of services to the poor. The interface between regulation and the role of technology received particular attention. Each session involved expert presentations followed by interactive discussions between presenters and participants. Case studies examined issues relating to regulatory implementation in some economies and consumer protection.

Summary of Forum outcomes

Issues arising in the Forum were considered under four key headings, as follows:

Regulatory approaches to proportionate regulation

- Not surprisingly, regulatory approaches to proportionate regulation vary in the region's economies and policies and practices reflect regulatory capacities and resources;
- In pursuit of financial inclusion policies, regulators should balance a policy of financial inclusion with financial system stability;
- Financial inclusion requires a high degree of creativity on the part of regulators and resources to facilitate the role of technology in the provision of services; market-based interventions are most likely to be successful in broadening the availability of finance to the under-served;
- Less regulation may in fact mean more effective regulation and the aim should be to create a regulatory environment that is conducive to business innovation. There is often a mis-match between supervision and regulatory capacity. Fewer regulators would generally facilitate innovation in financial inclusion but regulatory coordination is particularly important;
- Regulation should promote innovation and facilitate new ideas and technology and regulators should seek to eliminate or reduce barriers that impede financial innovation and the amount of regulatory oversight should be proportionate to the risks involved. Regulation should also promote ways to share information;
- Where there are a number of agencies in an economy responsible for promoting financial inclusion policies, coordination between them is critical to success;
- Devoting sufficient regulatory resources and developing and meeting relevant targets should receive priority;
- The need for dialogue between governments, regulators, the private sector and consumers is of paramount importance;
- The oversight of Trusts created by e-money providers – particularly in Pacific island states – requires clarification and improved transparency by regulatory agencies.

Innovation

- Technology is changing the rate of change in financial services and in particular in provision of services to the under-banked; technology is facilitating service delivery and widening financial inclusion in the region and on a major and impressive scale;
- It will involve new risks as telcos, Mobile Network Operators and various technology applications challenge the role of banks in financial services delivery and in payments systems;
- Policy makers and regulators will need to be creative and flexible and adaptable in encouraging technology to deliver financial inclusion on a scale and speed that is needed to eradicate financial exclusion;
- Innovation in promoting financial inclusion should be rewarded. In this respect, the regulatory focus should not be around price controls but rather aimed at preventing monopolistic tendencies of innovators. Barriers to markets should be low and the aim of public policy should be to reduce the costs of transactions;
- Holistic solutions to the provision of services are required and there is no one solution. "Mobile money" is not the only solution to financial inclusion, there are other important factors relating to the infrastructure needed to promote inclusion and regulatory coherence;
- National intervention programs may involve state agencies to fill gaps that the private sector perceives as not profitable. These may also include subsidies through state owned banks or credit guarantees to commercial banks; in doing this, there is a need for governments to clearly articulate its purpose to the community, including the private sector.

Mobile Network Operators (MNOs)

- The sharing of information between economies in the region on regulatory policies for promoting financial inclusion and the role of MNOs/telcos in those processes would be an important regional initiative;
- Government agencies should signal to MNOs which agency/ies they need to deal with in developing operational strategies in an economy;

Consumer Protection

- An issue worthy of consideration is the promotion in the region of an e-payments voluntary code of conduct to provide consumers with protection;
- A key objective ought to be put information on financial literacy to more effective use and to minimise misleading or fraudulent behaviour by service providers; while enhanced literacy is important dispute resolution procedures need to be available both in the financial institutional provider itself and in the availability of an external ombudsman;
- There is a tendency to emphasise the low level of knowledge of the poor when in reality the poor are more often than not excellent judges of likely gains and losses in a financial transaction;

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Full report of the Forum

Introduction

This report outlines the major aspects of presentations made at the Forum under relevant session headings and the major issues raised in discussions after each session. A copy of the Forum program is attached to this report.

Welcoming the participants, the Forum coordinator noted that funding for the Forum had been provided by AusAID and the ADBI and that ADBI and ADFIAP had worked with the Australian APEC Study Centre (AASC) in developing the program. Contributions to thinking on financial inclusion by international agencies and by the private sector and by regional policy and regulatory agencies were acknowledged.

The coordinator noted that AASC had focused on proportionate regulation in supporting efforts to promote financial inclusion and had undertaken activities in Manila in June 2011 and in Melbourne in March 2012. Reports on the work completed in those activities had been presented to the ABAC Advisory Group on APEC financial system capacity building. Key points arising from that earlier work were presented to the Forum; they covered useful guiding principles to policy makers and regulators to promote financial inclusion; suggestions that may be pursued in developing prudential approaches to support financial inclusion; economy wide initiatives that support regulatory approaches, for example, the funding of regulatory agencies through budget appropriations; regional coordination and information sharing and the critical and growing role of new technologies like mobile banking, e-finance and communications systems that are impacting sharply on the delivery of financial services to the poor, as are the delivery of services through branchless banking, e-wallets, telecoms and utilities and which require innovative regulatory approaches.

Financial Inclusion - Contemporary Global and Regulatory Positioning

While major strides have been made in promoting financial inclusions globally, 2.5 billion adults do not have access to savings or credit; 75% of underserved individuals live in East Asia, South Asia and Africa, indicating a massive gap in the availability of finance to MSMEs. G20 has proposed important initiatives to alleviate this gap, including the creation of the Financial Inclusion Experts Group (FIEG) in 2009 and the Global Partnership for Financial Inclusion (GPFI) in 2010 which provides funding for projects under the Challenge Fund. The GPFI encourages an efficient and effective information sharing mechanism; coordination between various initiatives, systematic monitoring of progress over time; the mobilization of financial support for activities as needed; and it establishes task forces to address specific issues.

The obverse of financial inclusion is exclusion and this carries risks, including threats to international security through money-laundering and terrorist financing. Increasing financial inclusion will change the nature and level of risks; the application of SSB standards differs in different countries based on the capacities of regulators and supervisors. Risks will be diffused as financial inclusion raises growth, efficiency and welfare. A case study in rural Papua New Guinea, supported by IFC, noted that the overall goal is to double the number of people with financial services by year 2014, involving an innovative risk sharing facility where the PNG government provides 50% guarantee cover for loans granted by Bank South Pacific to the SME sector.

A major transition is occurring in financial systems and which is reshaping the role of banks and capital markets in the delivery of financial services. The journey that is occurring is highly relevant to the concept of financial inclusion and how services to the under-banked will be met. In part, the transition reflects the low growth environment arising from the global financial crisis. This is forcing banks to review revenue streams and areas of profitability. Weak confidence levels generally have created a strongly risk averse environment, subdued lending growth and higher operating costs for banks generally.

Banks are looking for new growth channels and importantly include mobile banking, the value proposition based in enhancing financial inclusion and reducing the costs of bank operations through outsourcing. These changes are taking people from being unbankable to bankable positions. The use of technology is accelerating the access to financial services by the poor. The practical effect is that disintermediation is occurring on a major scale, the traditional value chain is breaking down and banks are redefining their business models to deliver services to more individuals through different distribution systems, involving NGOs and other institutions (for example micro institutions) that have relationships with the poor. This is requiring banks to unbundle technology that has served them well for the last four or five decades in order to accommodate mobile banking, the increasing use of agents, telcos and utilities which are increasingly involved in delivering services to the presently "unbanked".

These are fast moving changes, they involve new aspects of risks for banks as non-traditional and innovative players come into markets and heightened regulatory oversight to ensure system stability. These forces create a critical need for coordination between regulators and between regulators and the private sector. Cross-border coordination is also vitally important.

The journey described above offers growth opportunities for banks and related institutions in the financial inclusion space, notwithstanding a long period ahead of slow global growth as the world adjusts to the global financial crisis and the European and US debt crises.

Three phases are involved in journey to financial inclusion:

(i) establishing contacts with the target sector (through for example NGOs);
(ii) creating viability (through understanding customer payment history and designing demand-driven financial products and services);
(iii) sustaining viability (through government livelihood support, use of technology in delivery of services and offering other financial products once customers reach bankability).

The growth of mobile money market has been quite remarkable.

- Asia-Pacific is projected to be the largest market for mobile banking by number of users between 2011 and 2016;
- Many of the most successful financial products/services worldwide have originated/ developed in Asia where mobile services are well established (along with money transfer services);
- Mobile devices can become Point of Sale (POS) devices where there are geographic, infrastructure and literacy constraints;
- Operator-led money transfer services have gained traction - high penetration of handsets vs. bank accounts, supported by regulators;
- Non-traditional providers are leveraging new technology to provide new services to customers;
- Mobile money is seen as a major opportunity for many telco operators in Asia to provide value-added services to the customer; and
- Contactless mobile payments are expected to facilitate customer convenience and drive the adoption of mobile payments

Mobile money case examples from China, India and Singapore and successful initiatives being implemented in the Philippines, India, Kenya and South Africa have shown growth in the availability of financial services, as well as an ease of access through technology.

As mobile money rapidly expands, it is imperative that regulators and Mobile Network Operators (MNOs) create new strategies and thinking to cope with the pace of change. There is a need for constant coordination between stakeholders because of global complexities. The challenges include: interoperability between systems; a lack of customer sophistication; costs of distribution; mandatory requirement of bank account opening (Know Your Customer), cyber-security threats; and regulatory barriers.

There are concerns for example, that outsourcing and off-shoring arrangements by some Australian financial institutions may not involve appropriate due diligence audit by regulators.

Discussions revealed concerns by regulatory agencies in regulating in many micro finance institutions in an economy; the pressure on central bank resources is considerable and creates the need for enhanced technology resources. In some economies, for example Peru, while the rules that apply to banks, guided by the SSBs and Financial Action Task Force, also apply to micro finance institutions (MFIs), some flexibility in application is permitted, for example in requirements relating to documentation. Proportionate regulation in relation to MFIs appears to be common practice, although regulators adopt various approaches. However, financial inclusion requires broader approaches than just easing regulatory arrangements for credit for personal needs; it involves policies aimed at improving access to a range of financial products to make a sustainable contribution to economic development.

Managing risks of financial inclusion

Where financial inclusion is limited in an economy, the lack of access limits economic activity, consumer spending and overall economic growth. Even so, attention to broaden financial inclusion may have limited appeal to governments when economic growth is strong and general indicators of progress are positive. However, these are circumstances when governments should focus on measures to minimise risk in the event of the occurrence of turbulence in financial markets. In pursuit of financial inclusion policies a critical objective of governments should be systemic stability, measures to avoid and the threat of instability arising from financial inclusion policies as well as the enhancement of financial services.

Practical financial stability strategies include extensive and consistent risk monitoring mechanisms to strengthen loan underwriting, measures to prevent excessive credit growth and the build-up of risk and requirements for effective institutional governance structures.

In developing economies where financial inclusion is a major aspect of public policy, inclusion and financial stability are mutually reinforcing and these objectives ought to be promoted simultaneously. It so doing, a fair degree of creativity and energy is required from policy makers and regulators. Financial access requires market-based solutions and there are inherent risks that come with these solutions. Complex as they are, risks can be managed with appropriate policies. One effective way of addressing risks is to include all financial service providers under the ambit of proper and proportionate regulation. This is relevant to ensure consumer protection and financial system integrity. Effective policy and regulatory approaches require:

- An understanding of the business models of regulated institutions
- A cautious yet flexible approach toward risk-based supervision that is anchored on proportionality
- An appreciation and knowledge of technology/innovation
- Internal capabilities through the creation of working groups and dedicated units

Critical to the success of financial inclusion initiatives is the firm commitment of an institutional champion to support proportionality principles and market-based regulatory approaches.

Case studies on financial inclusion

Case studies revealed quite different experiences within the region. Australian experiences points to around 17% of the population without access or seriously limited access to financial services. Schemes vary between banks and some link access to ways to improve financial literacy. Negative experiences by some individuals can create debt aversion by low income groups. The affordability of access is a concern to some groups and consumer trust in a particular product and the perceived needs of a product is an important factor to low income groups. Incentives to save as an aspect of the discipline required to undertake borrowing is also a factor. Government agencies and private sector institutions are engaged in promoting inclusion and literacy. The Australian Prudential Regulatory Agency (APRA) agreed to a suspension of the burden of loan repayments on outstanding loans to banks following heavy property and business losses which occurred after major flooding in Queensland – banks were not required to make immediate adjustments to meet capital adequacy requirements in cases on non-payments.

In the Philippines, experiences show that microfinance can be a profitable business if well structured. While many NGOs have focused on a bottom up approach (similar to Grameen bank), larger institutions have realised that the underserved comprise a sizeable market. To engage in this market, institutions need to have effective management information systems to track records, loans are generally of short duration – 30 to 90 days – and delinquencies are generally low. Sustained efforts are made to encourage at least 2 or 3 loans to clients with relatively high rates of interest but yielding returns higher than on normal bank lending and with low portfolio risk. While technology is useful it is not considered a substitute for face to face customer contact, particularly in the early stage of a loan relationship. Web-based technology facilitates credit evaluation and approval, fast turn-around time and once a loan is approved and underwriting is completed, resort to e-banking and mobile technology is routine.

For institutions considering making a shift from not for profit to profit based operations, there is a paradigm move in becoming a regulated body; capital adequacy, good corporate governance and a risk based approach to service provision are basic requirements.
The general sense in the Philippines is that direct government intervention to supply financial services has not worked well. People who were reliant on government intervention lost their credit ratings and so the focus is on promoting private sector interventions to support financial inclusion.

In Malaysia, Tekun Nasional, Malaysia, a company established by the government under limited guarantee was created with a strategic requirement to promote entrepreneurial development by loans to low income people. Sustainability requires capital infusion by the government on a regular basis and this is provided on the basis that the group meets key performance indicators. Loans have grown impressively and non-performing loans are very low. The intention is not to compete with other institutions but to complement available financial services. In circumstances where customers increase their asset base, they are expected to move into commercial bank borrowing.

Consumer protection

Mobile banking technology in its various forms impact on consumers and generate requirements for greater transparency in respect of fees, records and account balances. Product suitability for particular customers and the affordability of loans that customers may enter into with an institution require that products are designed in a way that customers can use and handle them with confidence. There are also concerns arising from system security and fraudulent behaviour. Literacy is important in educating customer usage but dispute resolution processes need to be available, both at an institutional level – say at MFI – or externally, through an ombudsman. Where telcos are involved in delivering e-banking services, these should be provided through a subsidiary. Where electronic disclosure is the mode of account opening and management, consumer protection should be supported by rights for written information so that a customer fully understands his/her obligations and responsibilities.

Consumer protection also requires security for customers in cases of system malfunctions, security breaches, and wrong payments and desirably rights to know should be established in a transparent set of rules. Australia has a voluntary e-payments code which attempts to allocate liability dependent on the degree of negligence and the code favours the customer. Similarly, the responsibility for the actions of agents should be clearly established in e-banking.

High level principles for consumer protection have been promoted by G20 and there is ongoing discussions on the value of global financial consumer protection body which could act as some kind of international standard setting body. The question of whether a voluntary regional self-regulatory body to promote an e-payments code of conduct to enhance consumer protection is worthy of consideration. As a response to the global financial crisis, the Central Bank of the Philippines established 3 working groups to monitor the impact of the crisis on the financial system. A fourth group has been formed to monitor consumer protection. At a high level of decision making, while consumer literacy is important, access to rights of address by a consumer who has been wronged has greater preference in a policy sense.

Gaps and barriers on Innovative Financing

SMEs often lack the resources to present a business case to a bank and it is unusual for them to use banks for funding purposes; they lack the collateral that banks require to support a loan, and SMEs resist having to pay bank fees. In reality, poor people are literate when it comes to understanding finance and evidence suggests that the poor can easily discern whether a potential financial transaction is or is not in their interest. Important is the role of financial infrastructure in services to the poor. Volume services have driven down costs to the poor and the poor do have some capacity to leverage services through the use of mobile phones and technology. However, utilisation of technology services is constrained by the fact that cost structures in the payments systems and card markets are relatively high, due in part to the fact that a number of parties involved require their cut, making the cost to the consumer too high. As yet there is no satisfactory model for cost sharing.

Positive credit reporting is extremely important to enhancing financial inclusion, as is the development of collateral registries for receivables. IFC has helped establish a registry system in China and which has contributed to a massive expansion of credit to SMEs in the country. While such changes can have profound effects, they often require changes to law and to regulatory approaches and can take time to implement. Capital markets can play an important role in mobilising capital but the need to build domestic bond markets in regional economies to mobilise local funds remains urgent.

For a commercial bank, building a model which expands financial inclusion has to be based on a sustainable and profitable business; there is a strategic need to make banking easier for the underserved and to deepen the customer base. A bank focuses on deepening customer understanding of products on offer and the services available; this may involve personal literacy programs and basic workshops for customers/SMEs to explain basic business practices. For banks working in the Pacific islands, there is a need to build solid relationships with central banks and to maintain a delicate balance between financial system viability and product and financial inclusion. Banks work with telcos and technology suppliers to ensure their own service staff are familiar with the products and that in-store merchants who deliver services on behalf of a bank also understand the service environment.

Reducing the cost of delivering financial products and services has allowed large Australian banking institutions to penetrate regional markets. For example, Westpac has found that partnering with local merchants in the Pacific islands to reach clients is a proven business strategy to enter the local market, it has broadened its geography coverage, increased the customer base and reduced cost in terms of capital investments.

Aside from partnership with local businesses, banking institutions have linked up with government agencies in the delivery of financial services (i.e., pension payments, cash transfers, remittances).

The Pacific Financial Inclusion Project reviewed the trust arrangements for 7 e-money groups in the Pacific Islands and worked with financial system regulators on the survey. In effect, this work has been instrumental in bringing e-money to the Pacific islands. The survey reviewed whether e-money created liquidity, the relevance of sound Trust Instruments and noted that oversight of Trusts by regulators is not sufficiently clear.

Regulatory approaches – economy case studies

Peru vigorously promotes e-money; advantages include efficient payment solutions for the government, especially in managing a large public sector payroll, reduction of barriers to access and lowering transaction costs. Service delivery is facilitated by the use of retail outlets as agents for banks, particularly for those in low income areas. There has been a rapid increase in outlets from 689 in 2006 to 12,846 in 2011; ATMs have increased from 2,619 to 6,024 and the number of bank branches from 1,709 to 3,439. However although there have been significant advances, there are high disparities among the population; some geographic areas still have limited access to financial services. The central bank maintains an effective regulatory framework to ensure security and transparency (prevention of fraud, abuses and money laundering and protection of consumer rights); reliability (very low incidence of failure/operational risk); the capacity of the services sector to grow to meet demand; and a competitive services environment. A proposal is before Congress to facilitate the use of electronic technology as delivery channels of financial services. The objective is to ensure that as a consequence of the financial inclusion strategy, services will become more accessible to low income groups, transactional costs will be lower and the time and risks involved in remote areas will be reduced, thereby widening demand for services. E-money is not a deposit yet e-money providers will be supervised by the regulatory authorities and telcos will be required to create an e-money subsidiary; money in trust will be defined in regulation. The supervisor will also ensure that prudential requirements to maintain confidence in the payment system will apply to e-money and that allowable transactions will be defined in regulation. Investment by trusts will be subject to regulatory oversight as will interoperability between service providers.

A leading telco in the ***Philippines***, Smart Communications, designs innovative and sophisticated financial services to attract a wider client base. Major products include Smart Money (with 10 million accounts on record) and Smart Mobile Banking (handling an average of 2.5 million transactions per year). With over 50 million subscribers, the company believes that Mobile Network Operators (MNOs) will be powerful entities that will accelerate financial inclusion. Success going forward will depend on the ability of MNOs to be creative, to be technically competitive, institutionally strong with sound internal risk controls and to continue to work harmoniously with regulatory agencies. An issue for consideration by regulators is that if there is a high hurdle for MNOs in being authorised to provide transaction services, why is there a need for additional regulatory hurdles?

Another prominent telco player in the ***Philippines,*** Globe Telecommunications noted compliance of its business model with regulatory requirements. Robust technology and a progressive regulatory environment are important growth factors to financial inclusion. Around $20 bn. overseas remittances occurred in 2011 and observing the growth of these flows in through the decade, the company developed a network model of agents based on a cash wallet concept. In 2009 an International Remittances Model with several platforms was created and in 2010 the central bank gave permission to the company to provide network based accreditation to agents. The model is robust and working well and is now used to make provide services to social security beneficiaries. Around 22 mn people in the country of the 29 mn. which do not have financial services do have mobile phones. The company is now moving to provide services to those 22 mn to bring them into mainstream banking services. The elements of the payments system to do this are in place as are the technical platforms.

Requirements for these developments include: robust technology, sound telco services, open platforms, partnerships with any major banks, an aggressive regulatory environment, high level technical skills fusing skills from banks, telcos, analysts and people with vision but grounded in practical application. And above all, a commitment by all stakeholders, including importantly the financial system regulator.

In ***PNG***, mobile banking is regulated under prudential standards. Technology innovation is an important initiative supported by the Central Bank to promote financial inclusion. Four different models for service delivery are bank led, MNO led, the postal service and SMART technology led. As a developing economy, ***PNG*** treats banks and telcos separately from a regulatory perspective and while at this juncture, telcos cannot replace banks, their capacity to provide services in remote areas is greatly beneficial. The approach to enhancing financial inclusion is made complex by a number of developmental factors, particularly in remote areas, and for these reasons the approach adopted by the authorities is a relatively cautious, step by step approach. It involves the Bank of PNG in promoting programs to encourage financial literacy, a Financial Competency Survey, a Financial Diaries Project, microfinance expansion and institutional development, electronic banking, and mobile banking & payment services.

Role of technology

There are a range of private companies providing advisory services on the transformational capabilities of mobile to banks, mobile operators, payment processors and development organisations. One such company, Mobile Accelerate, provides services on program management, product development, policy and regulatory development and strategy formulation. A broadly held view is that while a well-structured business model will be central to business success in delivering financial inclusion in emerging markets, technology will be the means by which broader financial inclusion is achieved. Regulators play a key role in the success of commercial programs.

Mobile financial service providers in emerging markets develop a customer base through commission based agents or merchants who do KYC checks on new customers; deposits and withdrawals of cash are effected through an agent network and a customer only needs to have access to a mobile phone to utilise the services. The metrics of mobile money show that major benefits to service providers come from cross-selling services and not direct from revenue and that a number of links in the distribution channels – MNOs, Technical Providers, Banks and Agents – do need to share in the revenues generated.

Risks associated with mobile money and banking, credit, liquidity, systemic and reputational risks require of regulators that providers do have risk management strategies in place, that providers comply with AML/CML requirements, that agents are authorised, minimal technical standards are in force and there is adequate reporting of activities. Among recent innovations is an international remittance product from New Zealand to the Pacific which is aimed at removing friction in sending and receiving funds through biometrics and contactless technology

The speed of change in internet usage is having a dramatic impact on the availability of financial services in India. The internet population has increased 200% in five years and by over 41% in the 12 months to July 2012. Various technologies are being utilised, including Smart Card, Portable ATMs, Mobile Phones, Multi-media Kiosks/E-learning web-sites, satellite branchless banking, electronic clearing systems, cheque truncation systems, internet banking, online reporting, credit information systems. Technology is helping banks meet social business objectives, contributing to cost efficiencies and risk management and the provision of value added services and improvements in KYC and identification authentication. Technology brings a range of benefits for the financially excluded – banking at the door step – last mile connectivity; financial literacy and information, outreach, credit information, choice in value added services, enhancing savings and through remittances helps in capital formation, efficiencies in payments for health and education and in receipts of social security benefits.

The spread of services does present regulatory challenges. Among them are the need to harmonise the role of (too) many regulators, smoothing out regulatory approaches between technology regulators and financial system regulators, the need for a common supervisor, balance between light touch regulation and risks in financial inclusion and between rewarding innovators and preventing monopolistic tendencies of innovators. Some critical solutions to supporting technology in delivering financial inclusion include:

- Common/uniform technology policy; standards and guidelines for ICT inter operability, Smart Cards, ATMs
- Unified structures for centralised hubs/switches and modalities
- A road map for investment in technology to realise economies of scale
- Incentives for viability gap funding for technology investments and operational risk
- Common KYC norms for banking, telecom and insurance

ATTACHMENT B

A REGIONAL POLICY FORUM:

'Regulatory environments to promote financial inclusion in developing APEC and other regional economies'

Melbourne, Australia
October 17-18, 2012

RMIT University, Emily McPherson Building

Organised by the Australian APEC Study Centre (AASC) and the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP) and sponsored by AusAID and the Asian Development Bank Institute (ADBI)

Introduction

The Australian APEC Study Centre at RMIT University has secured funding from the Australian Government's Aid Agency for International Development, AusAID, under its Asia-Pacific Public Sector Linkages Program and the Asian Development Bank Institute (ADBI) to deliver the above mentioned high level two-day regional policy forum. The Centre will administer and deliver this important activity in Melbourne in collaboration with the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP).

The forum will involve participants and high calibre presenters from regulatory and supervisory bodies, policy agencies from the region, international organisations, banks and non-bank financial institutions. It will increase awareness and knowledge of senior policy makers and financial system regulators with responsibilities to promote financial inclusion in regional economies.

The forum is the first part of a two part program and will build on best regulatory practices relating to proportionate regulation, identified in work undertaken by the Centre and regional economies to facilitate financial inclusion. Further information about this work is available on the AASC website: www.apec.org.au. The forum will address tensions between regulation and financial inclusion, the incentive structure of banks, capital markets and microfinance institutions and measures to encourage technology and innovation in the delivery of financial services to the under-served. Outputs from this forum will inform the formulation of the second part of this program which will be an intensive three-day workshop to be held in the first quarter of 2013.

The forum will involve structured discussions and case studies by high calibre presenters. It will be coordinated by Ken Waller, Director of the Centre and member of the ABAC Advisory Group on APEC financial system capacity building.

Objectives

The key objective is to promote financial inclusion and system stability. The Forum will promote thinking and the development of regulatory and policy initiatives drawing on best proportionate regulatory standards and practices that support the use of technology and IT systems in delivering financial services to underserved groups in the region's economies.

These matters will be considered in the context of banking and non-banking financial activities, for example through capital markets, and in the use of utility groups and agencies that provide financial services. Safeguarding consumers in the delivery of financial services to the underserved through technology innovation and new modes of delivery will be an important objective.

Another objective will be to identify existing tensions in regulations that promote inclusion and yet are also required to maintain and foster system stability. Incentive structures in formal financial institutions and in microfinance institutions and the maintenance of viable business models that satisfy prudential regulations will also be considered.

Intended outcomes/outputs

The main outcomes would be: (a) an appreciation of best practice proportionate regulatory standards and practices proposals to promote financial inclusion in the context of the objectives outlined above; (b) stronger and sustainable linkages between policy makers, regulators and institutions with major global and regional institutions and the finance and technology sectors with the objective of promoting financial inclusion; c) enhanced capacities of regional supervisors and regulators, d) a considered structure on which the second component of the program aimed at relating outcomes to economy-specific needs would be undertaken.

The Centre will prepare an analysis and report of outcomes and recommendations on regulatory reforms that will be made available to relevant fora in APEC and ASEAN.

DAY ONE ~ 17 October 2012	
Theme: Emerging Regulatory Practices and Standards	
8.30am-9am Registration	
9.00-9.30 Introduction and Welcome	**Ken Waller**
9.30-11am Session 1: **Contemporary Global and Regulatory Positioning** • Policy responses on G20, Financial Stability Board proposed proportionate regulation – are policy makers and regulators progressing on the concept? • The best and efficient ways to measure progress • New thinking and approaches by financial institutions to expand financial inclusion	**Moderator:** Ken Waller, AASC **Speakers:** Deva De Silva, IFC Tim Coyne, Ernst & Young
11.00-11.30am Morning Tea	
11.30am – 1pm **Session 2: Addressing tensions between regulation and financial inclusion** • Does financial inclusion necessarily conflict with financial system stability? • Regulators' approaches in handling/managing tensions • Reconciling political objectives with financial system stability • The need for specialist resources in central banking and regulatory agencies	**Moderator:** Ros Grady, CIFR **Speakers:** Pia Bernadette Roman Tayag, Bangko Sentral ng Pilipinas Rochelle Edge, Board of Governors, U.S. FRB
1.00-2.30pm Lunch	
2.30-3.30pm **Session 3A: Case studies on regulatory implementation** • Implementation perspectives from: regulatory agencies, microfinance institutions, commercial and development banks, and capital markets • Translating financial inclusion into viable business model and measuring success and failures • Transforming MFIs into regular banking institutions • Cost effectiveness of linkages between banks and MFIs – functioning regional models	**Moderator:** Octavio Peralta, ADFIAP **Speakers:** Tim Coyne, Ernst & Young Maria Lourdes S. Pineda, RCBC Datuk Abdul Rahim Hassan, Tekun Nasional, Malaysia
3.30pm – 4.00pm Afternoon Tea	
4.00-5.00pm **Session 3B cont.** • Consumer Protection: Regulatory approaches/measures to better protect consumers, depositors and investors amidst increasing use of technology	**Moderator:** Octavio Peralta, ADFIAP **Speaker:** Ros Grady, CIFR

Forum Dinner@ Trunk 6.30-9.30pm

DAY TWO ~ 18 October 2012	
Theme: Regulations to promote innovation, incentive structure and improving competition/consumer protection	
9.00-10.30am **Session 4: Gaps and barriers on Innovative Financing** • Skills needs to identify and develop relevant products for financial inclusion • Business models and incentives in commercial institutions that promote financial inclusion and meet stakeholders' expectations – branchless banking and regulatory considerations, credit bureaus, collateral registries, KYC/financial identity issues	**Moderator:** Ken Waller, AASC **Speakers:** Tony Lythgoe, IFC Alvin Wong, Westpac Bank Joep Roest, Pacific Financial Inclusion Project (PFIP)
10.30-11.00am Morning Tea	
11.00-12.30pm **Session 5: Regulatory approaches case studies - Banking Industry, Securities and Development/Rural/ Cooperative banks** • Linkage between regulating utility providers and financial institutions to facilitate agent relationship • Regulatory approaches to facilitate telcos/mobile providers' delivery of financial services • Regulatory resource and skills to manage risks in innovation	**Moderator:** Octavio Peralta, ADFIAP **Speakers:** Jimmy Izu, Superintendencia De Banca, Peru Maybelle M. Santos, Smart Communications Garima Tongia, Bank of Papua New Guinea Ricardo Alair, G-Xchange, Globe Telecom
Lunch 12.30-2.00pm	
2.00-3.30pm **Session 6: Role of Technology** • Approaches in maximising the use of technology • Defining constraints on technology innovation including accessibility, affordability/pricing	**Moderator:** Ken Waller, AASC **Speakers:** Brad Jones, Mobile Accelerate Sanjay Saxena, Total Synergy Consultancy David Tang, Streamline Solutions
3.30-4.00pm Afternoon Tea	
4.00-4.10pm Signing of Memorandum of Understanding between The Australian APEC Study Centre (AASC) and the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	
4.10-5.00pm **Session 7: Key messages and summary of outcomes/program review** • Addressing gaps in resource and infrastructure to upgrade regulatory and consumer skills • Mobilising links between utilities, regulators, financial institutions , MFIs, consumers and investors	**Moderator:** Ken Waller, AASC **Speakers:** Sanjay Saxena, Total Synergy Consultancy Tony Lythgoe, IFC Bobby Peralta, ADFIAP

Forum Close

ATTACHMENT C

'Regulatory environments to promote financial inclusion in developing APEC and other regional economies'

Regional capacity building training program

Melbourne, 20 – 22nd March 2013

Organised by the Australian APEC Study Centre (AASC) and the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP)

Sponsored by AusAID and the Asian Development Bank Institute (ADBI)

INTRODUCTION

The Australian APEC Study Centre at RMIT University has secured funding from the Australian Government's Aid Agency for International Development, AusAID, under its Asia-Pacific Public Sector Linkages Program to deliver the above mentioned three-day training program. The Centre will administer and deliver this important activity in Melbourne in collaboration with local and international organizations involving experts from ADBI, ADFIAP, and CGAP.

The training program is the second part of a two part program and aims to enhance the capacities of representatives from policy and regulatory agencies in the region to encourage financial inclusion in the region's economies. The purpose is to develop and promote best regulatory practices relating to proportionate regulation. The first component of the Program was a regional Policy Forum that was convened in Melbourne on the 17th/18th October 2012.

The training program is designed to help promote best practice proposals for policy, regulatory and supervisory agencies on policy and regulatory measures that will enhance institutional capacities in the public and private sectors to promote financial inclusion in the region's banking and securities systems. It will consider case studies of approaches in regional economies on regulatory approaches to:

i) support technology and innovation in financial service provision;
ii) comply with 'Know Your Customer' and FATF requirements;
iii) promote consumer protection in the delivery of financial inclusion, and
iv) maintain financial system stability.

It will also strengthen linkages and networking capacities between policy makers and regulators in regional economies and across the region.

WORKSHOP PROGRAM

(All speakers/presenters to be confirmed)

DAY ONE: Wednesday 20 March 2013 Issue 1: Technology to enhance financial inclusion
9.00am-9.30am, Session 1: Welcome and Introduction **Review of outcomes of the 2012 Financial Inclusion Forum that will expand the facilitation of financial inclusion in the region** - Mr Ken Waller, Director of the Australian APEC Study Centre
9.30am-10.30am, Session 2: How technology is being used in the region: e-money, mobile money, e-wallet. Are regulators coping and responding to this?
10.30am-11.00am: Morning Tea
11.00am-12.30pm, Session 3: Case Study presentations from regulators - Philippines - Sri Lanka - Cambodia
12.30pm-2.00pm: Lunch
2.00pm-3.00pm, Session 4: A technology providers perspective - Technology provider - Technology provider
3.00pm-3.30pm: Afternoon Tea
3.30pm-4.30pm, Session 5: Participant Panel Discussion **What are the best practice principles to support adaptation & the use of technology?** - Facilitated by Mr Ken Waller, Director of the Australian APEC Study Centre

DAY TWO: Thursday 21 March 2013 Issue 2: The relationship between regulation, know your customer (KYC), compliance of the Financial Action Task Force (FATF) and financial inclusion
9.00am-10.30am, Session 6: What are the regional practices to accommodate regulation requirements for KYC and FATF and how are they implemented? - Microfinance Institution (MFI) representative - Non-Government Organisations (NGOs) representative - Banking representative
10.30am-11.00am: Morning Tea
11.00am-12.30pm, Session 7: Case Study presentations from regulators - Pacific (Fiji) - India/Bangladesh - Mexico
12.30pm-2.00pm: Lunch
2.00pm-3.00pm, Session 8: Case Study – An industry perspective on how MFIs and banks accommodate regulation requirements on these matters - MFI representative - Banking representative
3.00pm-3.30pm: Afternoon Tea
Issue 3: Consumers in financial inclusion
3.30pm-4.30pm, Session 9: Measures to encourage consumer involvement in financial services, confidence in product design and delivery, protection and flexibility of services Presented by 2 representatives
6.30pm-8.00pm: Group Networking Function

DAY THREE: Friday 22 March 2013

Issue 4: Agent banking and other non-traditional providers of financial services

9.00am-10.00am, Session 10: What are the implications from regulators to ensure finance and payment system stability?

Presented by 2 representatives

10.00am-10.30am: Morning Tea

10.30am-12.30pm, Session 11: Case Study presentations from industry

- Peru
- Indonesia
- China
- MasterCard

12.30pm-2.00pm: Lunch

2.00pm-3.30pm, Session 12: Workshop

Break into 4 groups to analyse a major policy issue from a major issue in the program

3.30pm-4.00pm: Afternoon Tea

4.00pm-5.30pm, Session 13: Reporting from Working Groups

Analytical discussions by all participants

Training Program Close