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ABAC Asia-Pacific Forum on Financial Inclusion

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Summary of Outcomes

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The Asia-Pacific Forum on Financial Inclusion is a policy initiative under the APEC Finance Ministers Process that has been entrusted to the APEC Business Advisory Council (ABAC). While the Forum provided an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region; its primary purpose was to provide priority recommendations to policy makers and regulators to enable greater financial inclusion throughout the APEC region. The agenda for the 2017 ABAC Asia-Pacific Forum on Financial Inclusion provided a platform to facilitate discussions amongst nearly 200 key financial inclusion stakeholders to develop recommendations in a collaborative forum for policy reform and strengthening. These recommendations, which are outlined below, will be further detailed in the Forum report which will be disseminated to APEC stakeholders in October 2017.

The Asia-Pacific Forum on Financial Inclusion was hosted by the Asia-Pacific Economic Cooperation (APEC) and the State Bank of Vietnam and organized by the Foundation for Development Cooperation (FDC) and the APEC Business Advisory Committee (ABAC) in partnership with the Citi Foundation, the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), the Vietnam Bank for Agriculture and Rural Development (VBARD) and the World Saving and Retail Banking Institute (WSBI). Additional support for the Forum was provided by the International Finance Corporation (IFC), the Alliance for Financial Inclusion (AFI), Deutsche Bank and the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets.

Madam Nguyen Thi Hong, Deputy Governor of the State Bank of Vietnam, opened the Forum remarking that despite the achievements made for financial inclusion globally, many challenges remain. These challenges include a broad range of issues such as the lack of formal financial services, gender inequalities, income gaps, development disparities, low levels of financial literacy and education, the quality of regulatory frameworks for consumer protection and supervision, insufficient investment for financial infrastructures and the cyber security threats in the digital age. To overcome these challenges, Madam Hong encouraged stakeholders should seek opportunities to collaborate, develop effective financial inclusion strategies and learn from the lessons and experiences of other economies.

The Asia-Pacific Forum on Financial Inclusion has provided an important opportunity for stakeholders to gather and develop partnerships, programs and new ideas to support their financial inclusion efforts. The following sections of this report provide a brief overview of each of the topics discussed along with a summary of the specific recommendations for the consideration of APEC policy makers and regulators.

1. Defining Financial Inclusion

Financial inclusion is a multi-dimensional concept and as such it is not easy to define or to measure. While there is wide consensus that it is a key component of human wellbeing and has a positive effect on economic growth and development, there is no common definition of financial inclusion. Each economy is unique and determines its definition depending on the specific characteristics of its financial sector and national priorities. Even so, it is essential to have a definition of financial inclusion as it provides the parameters for strategy development, target setting, measurement of progress and impact assessment.

Key conclusions:

- As a multi-stakeholder development issue, regulators need to engage with multiple stakeholders, including practitioners and other government agencies, to develop a shared understanding or definition of financial inclusion. Achieving this will enhance strategy development, execution and measurement. However, the creation of a universal standard should not delay nor displace the focus each economy needs to give to the local ecosystem.

- Regulators should seek to adopt a framework for defining financial inclusion which includes all of its key dimensions including access, usage and quality.
- A framework for defining financial inclusion should include considerations for several relevant aspects including providers (formal and informal), delivery channels and products. The framework should also promote customer centricity and identify clear target groups.

2. Agrifinance

Agriculture remains a major source of livelihood for the majority of population living in rural areas in developing countries. Improving both public investments in agri or agri-aligned sectors and private investments are vital. Specific policy support is required from the government to enable solutions that will improve access to finance for farmers. With the impacts of climate change becoming more prevalent on the agriculture industry, policies which support climate resilience are also increasing in their importance.

Key conclusions:

- The focus on agri-technologies and finance supply chains needs to be urgently increased to meet food supply needs and to de-risk current threats – such as climate change – to agricultural production.
- Agriculture still remains a major source of livelihood for the majority of population in the Asia-Pacific region. Policies should be formed which support the resilience of clients in agriculture value chains against potential climate-related shocks.
- Technology platforms for agrifinance have the potential to provide significant benefits, including reducing costs and increasing yields. Regulatory frameworks need to be structured that support the implementation of such technologies.
- Much of the agriculture sector within APEC economies is almost entirely cash-based. Regulators need to prioritize methods which will enable the digitization of the economy as a way to significantly increase efficiency, cost-benefits and provide secure and traceable transactions.

3. Distributed Ledger Technology (DLT) Across Financial Services: Prospects and Emerging Policies

Advanced technologies like the Distributed Ledger Technology (DLT) can play a major role in re-shaping the future of financial services. However, these new technologies and the new business models that they create may not comfortably fit within existing regulatory categories, which could eventually cause an imbalance between inclusiveness, innovation and risks to inhibit the benefits that society could have received. To facilitate better outcomes, a better understanding is needed of the prospects and implications of DLT, related emergent financial services models and the legal and regulatory considerations.

Key conclusions:

- Regulators need to be open to distributed ledger technology and work with the relevant stakeholders to understand its potential for financial inclusion and associated risks. DLT should not, however, be considered a “one-size-fits-all” application and should be examined within the local context of the economy to determine how it can be most appropriately integrated.
- Proportionate regulation is important to balance innovation with trust and market integrity. Regulators also need to consider how to achieve fair and equitable competition; particularly as DLT solutions would likely co-exist with formal banking channels and leverage on each other.

- Attention is needed on cross-border harmonisation of similar regulatory approaches to DLT applications to support scalability of solutions and to minimise risks of fragmentation of regulatory approaches that can result in unintended barriers.
- Appropriate governance frameworks are needed that can promote technological interoperability with traditional payment systems, appropriate scalability and support transparency for data collection to facilitate monitoring and regulatory/policy calibrations.

4. Financial Education

Financial education is a major issue impacting many APEC economies. Financial literacy can help spur economic growth by improving management of savings and investment. Although many economies in have experienced strong economic growth, financial literacy in remains low. Financial literacy is increasingly important as technology brings financial services to people who have not previously had access to financial services; consumers and small- and medium-sized enterprises need financial education to understand how to securely and effectively utilize the new financial services. Financial education can also help strengthen retirement planning and mitigate the challenges faced by aging societies.

Key conclusions:

- Regulators need to consider ways to work effectively with the industry to develop and implement new methods of reaching target audiences for financial education. Some examples of such collaborations include incorporating financial education into school curriculums or introducing financial training programs within workplaces.
- Each economy should develop their own financial inclusion strategy. These strategies should include considerations for the many different models needed for different target groups (i.e. adults vs youth) as well as economy-specific elements based on the local context and needs.
- Financial education needs to focus as much on knowledge and awareness about finance and its products, as it does on building trust in fast-moving developments in areas such as digital and mobile finance if financial inclusion using these more dynamic technologies will be achieved.

5. Creating an Enabling Environment for Micro-financial Products and Services

Client-centric financial products and services which are designed to address the constraints and challenges faced by different types of clientele are essential to successful financial inclusion strategies. Agencies aiming to achieve financial inclusion through responsive product design are generally lacking in adequate information regarding customers' demand, knowledge and perception about the financial products and services on offer. They are also faced by the challenge of creating a regulatory environment that allows ease of access to services for a diverse set of clientele in an efficient and cost-effective manner. Policy makers and regulatory bodies are also challenged by the need to regulate and supervise a range of financial service providers. The goal of sustainable financial inclusion through the provision of client-focused financial products and services to micro finance clients requires responsive policy and an enabling regulatory environment that can support product design and innovation, regulate and supervise a range of service providers and delivery channels.

Key conclusions:

- The last three decades have seen a significant increase in the number of products and services becoming available; and the rise of fintech and digital has created even greater opportunities than ever before. In order for regulators to keep up with the fast-moving developments of new technologies, they need to ensure regular interaction with market players.

- Eligibility for access is a major barrier for inclusion which can largely be addressed through new technologies such as bio-metric card systems that can reach the mass of population. Regulators have an important role to play by ensuring that regulations enable the necessary investment and innovation takes place as the industry increasingly moves towards digital solutions
- Regulators should encourage the development of new products that address asset creation and risk-mitigation such as investment tools linked with savings and a wider range of affordable and effective insurance products.
- Enhanced monitoring and supervision will result in greater trust and confidence among consumers. This should include processes which will enable prompt action on unfair practices, improved consumer protection and grievance redress mechanisms.

6. Developing Microinsurance Roadmap for APEC Emerging Economies

The Microinsurance Roadmap (MIR) is being developed to provide the APEC Finance Ministers with practical guidance to assist policy makers and regulators expand access to microinsurance products and develop greater awareness among consumers about the benefits of insurance. As part of the MIR's development cycle, stakeholders are invited to provide inputs on several aspects of the roadmap such as specific elements which can contribute to increasing access to inclusive insurance, resources, both public and private, that can be drawn to support the MIRs implementation, methods to engage the government sector to secure their support for the MIR and approaches to implement the roadmap considering sub-regional grouping, economy contexts, and maturity levels of various financial inclusion environments.

Key conclusions:

- In order for the APEC Microinsurance Roadmap to be successful, governments need to champion it locally and ensure an enabling environment as well as specific incentives to support implementation through the private sector.
- Governments can also play a lead role in promoting awareness among consumers to help them understand the value of insurance and to better determine which products would be most suitable for their needs.

7. Online Supply Chain Finance: Key Challenges and Policy Requirements

Supply Chain Finance (SCF) is a way to organize and optimize financial services by leveraging the commercial and social relationship on a chain. In recent years, more and more SCF players are moving to the Internet-based platforms in the Asia Pacific Region. This has proved to be useful for scaling up credit and other financial services to MSMEs, rural and agricultural businesses, suppliers, distributors and traders, etc. There are several key challenges relating to SCF, including the need for specific legislative, policy or regulatory reforms to expand access; particularly to rural and agricultural clients.

Key conclusions:

- Governments need to establish the necessary legal foundations for the use of receivables and inventory as collateral, and to provide creditors with appropriate priority and enforcement rights. Achieving this may require reforms in secured transaction law, insolvency law, e-commerce law and laws relevant to the digital transfer of documents.
- Regulators should seek to develop a friendly business environment for both banks and non-deposit taking lenders to originate, underwrite and manage SCF services efficiently. In particular, regulators should not place undue constraints on SCF business models.
- Regulators should encourage the creation of electronic finance platforms by different players. Where necessary, business associations and government development agencies can also set up market level

platforms that operate on an open and commercial basis. Government support for MSME finance can be channeled through such platforms in a commercially sustainable way.

- Regulators should promote cross-border SCF which will in turn help to deepen regional trade and economic integration. Among others, regulators should develop practical KYC and other data transfer requirements. Credit reporting information also needs to be made available to the cross-border SCF players.

8. Digital Identity

As finance, payments and personal money-management increasingly become all-digital, one thing is clear: creating, managing and protecting digital identities for individuals has become a critical need. Discussions and collaborations between stakeholders is crucial to understand the diverse perspectives of the pioneering digital identity initiatives around the world, best practices and key areas of focus. Discussion and debate is also needed to identify who, in the increasingly complex digital world, is best placed to manage the new type of digital identities everyone will need and how regulatory and legal frameworks need to adapt.

Key conclusions:

- Regulators need to understand that the ability of individuals to be able to prove their unique identity in real time, on location as well as remotely, is fundamental to realising the full value that sits across the financial inclusion spectrum.
- Regulators should make it a national priority to design and universally roll out digital identity and authentication mechanisms, with due consideration to privacy and data security.
- Regulators need to seize the short-term opportunity to make national digital-identity frameworks interoperable, in support of:
    - lower cost to provide financial services
    - reduced friction in cross-border trade and remittances
    - enhanced AML, KYC and prevention of terrorism funding
    - better data flows