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ABAC FINANCIAL INCLUSION INITIATIVE

FDC'S PROPOSED RESTRUCTURE

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1. INTRODUCTION

The ABAC Financial Inclusion Initiative has been successful in facilitating dialogue between the public and private sectors, and in developing recommendations for policy makers/regulators to assist them in their Financial Inclusion (FI) efforts. The initiative has evolved since its inception, and it is clear the initiative now, with its greater maturity and momentum, can be used more effectively to expand the reach of financial services to the underserved, and in doing so fulfil the directive of the APEC Finance Ministers.

This paper provides an overview of ABAC's Financial Inclusion Initiative today, and outlines the basis for a restructured format that will enhance its ability to achieve its objectives. The new format as proposed will allow the FI initiative to achieve a deeper and richer focus on the issues relating to the region's circa 1.5 billion population who are financially excluded or underserved. Consequently, it will promote greater understanding of the pivotal role this population plays in shaping economic development throughout the APEC region.

2. CASE FOR CHANGE

The concerns and considerations for the most vulnerable within both the formal and informal economy are significant ones, particularly in terms of the risks to which they are subject as consumers in a fragmented, un- or poorly-regulated financial sub-industry; their exposure in terms of finance sector disruption; and the increasing number and pace of unconventional new entrants offering them financial products and services where little to no consumer protections exist.

We believe FDC's proposed restructure of the FI Initiative of ABAC will bring an elevated focus to the issues that are at the intersection of the development and commercial sectors, and provide insights on policy and regulation considerations that can be protective, whilst still providing opportunities for this population to access the benefits and advantages of fast-changing, competitive and dynamic advances within the financial services sector.

In order to form an integrated/cohesive view of finance sector policy and regulation considerations that are relevant to the ABAC portfolio and to the FI agenda, it is recognized that real representation and opportunity for effective financial sector regulation and protection (and reform) for this group must happen at levels of scrutiny more localised to specific issues of geography, demographics, environment, awareness/literacy, education and so forth. To inform deliberations and ultimately decisions on regulation and policy, ultimately this perspective must be brought to the table by the practitioners who understand both the limitations and the opportunities for pragmatic reform.

In defining a roadmap for FI and FI progress, and what this means for policy and regulation, across the multifarious institutions/stakeholders/practitioners (fintechs, mobile, large financial institutions, MFIs, etc), key themes/workstreams will need to be defined that involve the contemplations from the business sector on how the issues impacting FI can be addressed, such as issues of scale better, and cross-border sharing and data, in an environment that needs enhanced regulatory frameworks that represent and protect the 'last mile' consumers.

Accordingly, the proposed restructure of the FI Initiative addresses these issues and opportunities, and defines an optimised approach to the execution of the initiative going forward, and as a corollary the outcomes it will be better enabled to achieve.

3. PROPOSED RESTRUCTURE

The proposed restructure of ABAC's Financial Inclusion Initiative aims to accomplish three primary objectives:

- 1) Increased alignment with the stated objective from the APEC Finance Ministers;
- 2) Provide a more structured approach which will increase the quality of the output, and the effectiveness and efficiency of engaging the best experts and stakeholders; and
- 3) Development of more effective measurement strategies to monitor progress.

To meet these objectives, the proposed restructure involves three key elements; namely:

- the establishment of specific workstreams;
- the formalisation of the FI Caucus within ABAC; and
- the re-design of the annual Asia-Pacific Forum on Financial Inclusion.

8.1 Establishment of Specific Workstreams

It is proposed that specific workstreams be established to provide greater focus. These workstreams will align with contemporary financial inclusion issues, and will provide the basis of the overarching themes of the initiative. Four example workstreams could be, namely:

1. Cross border collaboration
2. Financial Inclusion Strategies
3. Enterprise Development
4. Product and Service Integration

The intention is to define the workstreams in consultation with the Advisory Group on APEC Financial System Capacity Building, and other financial inclusion experts where relevant, to agree upon the most representative workstream classifications.

It is recognised that all workstreams will have some consistent themes, such as technology and data.

Within each workstream, specific sub-topics will be identified that examine key elements of FI. Each sub-topic will be based on actual relevant initiatives (i.e. projects, forums, research, etc) or case studies being led by a prominent FI stakeholder. While the themes of the workstreams will likely remain the same over time, the sub-topics will change based on the life-span of the specific initiatives within them.

By seeking FI Initiative will provide a platform to bring the outcomes and learnings of these programs into the ABAC process and enhance ABAC's overall ability to produce

recommendations and facilitate actions based on them. Table 8.1.1 provides an example of how the workstream model might be structured.

Table 8.1.1: Potential Work Streams and Sub-Topics

Cross-border collaboration		
Sub-topics	Technology	Data
<ul style="list-style-type: none"> • Remittances • Financial access for migrant workers • Trade (i.e. imports/exports for smallholders or MSMEs) • Cross-border data sharing • Cross-border partnerships 	•	•
Fi Strategies		
Sub-topics	Technology	Data
<ul style="list-style-type: none"> • National FI Strategies • Frameworks for defining FI • Public-Private Partnerships (PPPs) • Balanced regulatory approaches (consumer protection vs. innovation) • Financial Education/consumer protection • Creating enabling environments for microfinance • Reaching the “last mile” • Wealth creation 	•	•
Enterprise Development		
Sub-topics	Technology	Data
<ul style="list-style-type: none"> • Secured lending • Credit reporting • Insolvency/legal frameworks 	•	•
Product & service innovation		
Sub-topics	Technology	Data
<ul style="list-style-type: none"> • Data analytics and customer centricity • Digital IDs • DLT/blockchain • Microinsurance • Micropensions • Savings 	•	•

A work stream leader (or ‘Sherpa’) would be appointed to coordinate their respective workstream. Working with FDC, each Sherpa would be responsible for setting an annual work plan for the work stream including objectives/KPAs. At the end of each year (in line with the ABAC schedule), each Sherpa would be required to produce a summary the activities undertaken within their respective work streams including an overview of the specific recommendations which have been derived from the outcomes of the various programs being implemented within the work stream as sub-topics.

8.2 Formalization of the Caucus

Where previously we have managed the FI caucus as an informal cohort, we need to, and propose to, formalise a dedicated FI caucus who will play an active role in the ABAC FI debate, and who will convene formally at the ABAC meetings on a dedicated FI platform. We propose that initially the Caucus should convene twice annually. We intend to retain a broader advisory group of companies involved in FI in various forms, who we'll continue to engage with in terms of accessing a broader range of skills, expertise, and insights.

Accordingly, as part of the proposed restructure, it is envisioned that the Caucus, which is currently a very informal group of stakeholders, be formalized and restricted to just a few organizations. Official Caucus members would be restricted to FDC, as the chair of the Initiative, and the few organizations formally appointed as Sherpas for the work streams. Additional Caucus members may be appointed from time to time, based on the needs of the Initiative. The remaining stakeholders who currently comprise the informal Caucus group would be invited to remain as part of a larger Advisory Group. The 'Financial Inclusion Advisory Group' would provide assistance in identifying projects (including potentially their own) which could be included as part of sub-topics within the work streams.

As part of the formalization process of the Caucus, FDC would work with the Advisory Group to establish a Caucus Charter. This Charter would outline the specific financial inclusion outcomes which each Caucus member would be expected to deliver as well as other commitments including participation at key meetings such as the annual ABAC meetings of the Financial Inclusion Forum.

Caucus members would be appointed by FDC in consultation with the Advisory Group. Each Caucus member would ideally represent an organization which operates at least on a regional level, and obviously needs to be able to represent the real issues confronting financial inclusion. Caucus members will also need to be able to operate on a neutral platform; particularly as projects included as part of the works streams (sub-topics) might include competitor private sector firms. In this way, ABAC's Financial Inclusion Initiative can serve its purpose of facilitating policy recommendations driven by the private sector while remaining inclusive.

8.3 Objective-Driven Financial Inclusion Forum

The annual Asia-Pacific Forum on Financial Inclusion has been the core of the Financial Inclusion Initiative to-date. While the Forum has been highly successful in bringing together numerous stakeholders to discuss financial inclusion issues and identify recommendations for policy makers/regulators, as highlighted, the main focus is often primarily focused on expansion of financial services to SMEs and/or relatively high net consumers. The proposed enhanced structure will enable the agenda of the Forum to include a much more balanced range of topics, including greater focus on reaching the underserved/unbanked, whilst recognising the SME sector plays an important role in overall economic stimulus across poor communities and as such, it should remain a focus on the FI Initiative.

The traditional format of the annual Financial Inclusion Forum has been to create a platform for discussing financial inclusion issues and proposing policy recommendations based on these

discussions. It is proposed that as part of this restructure, that the format of the annual Forum change to instead be an opportunity to discuss the outcomes of each of the work streams and the specific policy/regulatory implications of the projects undertaken as sub-topics within each work stream. In this way, the annual Forum would function more like a round table meeting with a smaller, select group of stakeholders rather than in a larger and less practical conference format.

Participants of the Forum would primarily be members of the Caucus and representatives of the various projects being implemented as sub-topics. Assuming the continued support of ADBI, the Forum would also bring together key government officials. The aim then, would be to present the outcomes of the various initiatives and discuss directly with the policy makers/regulators also attending the Forum, the relevant policy implications.

Following the Forum, FDC would continue to produce the post-Forum report to summarize the discussions and highlight the policy recommendations that were agreed upon/promoted at the Forum. This report would continue to be made publicly available and distributed to APEC stakeholders as a major output of the Financial Inclusion Initiative.

Further, a major issue with the current Financial Inclusion Forum format is that it is held in different locations with different partners each year. It is proposed that the Forum instead be held consistently in the same location and timeframe each year. By doing this, the overall efficiencies of the Forum will be significantly increased and the organizers will be able to put more focus on the event's content, and achieving objectives, and less concerned with non-value adding effort such as logistical issues.

Recognizing the importance of having the APEC host economy involved, FDC proposes to work closely with the host government to ensure that the annual work plan of the Financial Inclusion Initiative includes topics which are of particular interest to that economy. One possible solution could be to appoint a representative of the APEC host government to be part of the formal Caucus on an annual basis; thus, providing them with the opportunity to contribute to the agenda throughout the year.

4. NEXT STEPS

FDC intends to table this paper at the next Advisory Group on APEC Financial System Capacity Building meeting which is scheduled to take place in Toronto, Canada on 25 July 2017. Following the endorsement of the Advisory Group, FDC proposes to take the necessary actions to implement the recommendations of the restructured ABAC Financial Inclusion Initiative. These specific actions would include:

- 1 Confirming the specific work stream themes
- 2 Establishing specific objectives and evaluation process
- 3 Identifying Sherpas to lead each work stream
- 4 Formalizing the Caucus, including drafting of the Caucus Charter
- 5 Securing the necessary partners for necessary funding and logistical support (including permanent host of the annual Financial Inclusion Forum)
- 6 Hosting the first formal Caucus meeting during ABAC 1 in 2018

7 Working with ADBI and the Advisory Group on the best timing for the annual forum

5. APPENDIX

Background the Financial Inclusion Initiative of ABAC

ABAC was created by the APEC leaders in 1995 to advise APEC on the implementation of its agenda and to provide the business perspective on specific areas of cooperation. ABAC comprises up to three members from each of APEC's 21 member economies, representing a range of business sectors. ABAC holds an annual dialogue with APEC leaders and engages in regular discussions with APEC ministers in charge of trade, finance, and other economic matters.

In 2003 ABAC and the Pacific Economic Cooperation Council launched the Advisory Group on APEC Financial System Capacity Building. This informal grouping aims to support the work of APEC finance ministers by promoting synergy and collaboration among public and private sector institutions and organizations engaged in strengthening and developing the region's financial systems. In addition to ABAC and the Pacific Economic Cooperation Council, participants include international financial and multilateral development institutions and agencies, as well as private sector organizations representing the region's financial industry.

In November 2010, the APEC Finance Ministers launched the Financial Inclusion Initiative to **'identify concrete actions that financial policy makers can take to expand the reach of financial services to the underserved'**. ABAC's Advisory Group on APEC Financial Sector Capacity-Building is progressing the financial inclusion agenda by facilitating collaborative dialogue and action across the public, private, and academic sectors to ensure a holistic approach to the development of the region's financial industry and to achieve greater financial inclusion.

Due to its long history of supporting financial inclusion in the Asia-Pacific region, in September 2011 FDC was asked to coordinate ABAC's Financial Inclusion Initiative. Within this role, and with continued support from key partners including the Citi Foundation and the Asian Development Bank Institute (ADBI), FDC has been successfully providing assistance to the Advisory Group on APEC Financial System Capacity Building as part of the Financial Inclusion Initiative by coordinating meetings, setting an annual work plan, organizing the annual Forum on Financial Inclusion and preparing and publishing a post-forum report which highlights key policy issues and recommendations for regulators.

Today, ABAC's Financial Inclusion Initiative represents the core platform within ABAC to promote knowledge sharing and best practice on financial inclusion across the APEC member economies and expand new channels to serve the financial needs of the hundreds of millions of people across Asia who remain unbanked. It provides an opportunity for stakeholders to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region. This unique platform enables high-level dialogue amongst policy makers and regulators across the region, enhances their ability to respond to contemporary challenges and opportunities, and provides priority recommendations for policy related issues impacting financial inclusion to senior officials and finance ministers across APEC member economies.

The overall objective of the initiative is to provide APEC's Finance Minister and other Senior Officials with recommendations on matters concerning financial inclusion. These

recommendations are provided through ABAC’s official channels through formal reporting to the Finance Ministers and others.

The Financial Inclusion Caucus

To assist with the development of the annual ABAC Financial Inclusion Initiative work plan and selection of topics to be discussed at each annual ABAC Forum on Financial Inclusion, an informal working group known as the ‘Financial Inclusion Caucus’ was established. The Caucus is made up of a range of stakeholders including multilateral agencies, commercial banks, consulting firms and NGOs. Table 3.1 provides a list of the current Caucus members:

Table 3.1: Current ABAC Financial Inclusion Caucus Members:

<ul style="list-style-type: none"> • Japan International Cooperation Agency (JICA) • Consultative Group to Assist the Poor (CGAP) • RMIT APEC Study Centre • Policy and Economic Research Council (PERC) • International Finance Corporation (IFC) • GE Capital • World Savings and Retail Banking Institute • TRPC • GIZ • Citi 	<ul style="list-style-type: none"> • Alliance for Financial Inclusion (AFI) • The Asia Foundation • Deutsche Bank • HSBC • Standard Chartered • Industrial Bank of Taiwan • Nova Credit • Organisation for Economic Co-operation and Development (OECD) • Wells Fargo
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FDC regularly consults with members of the Caucus to drive the Financial Inclusion Initiative. However, participation of Caucus members has varied greatly depending on the specific topics which have been identified as priorities as part of the annual work plan. As such, the Caucus members only tend to actively participate in ABAC’s Financial Inclusion Initiative when the work plan directly relates to their core business interests.

Asia-Pacific Forum on Financial Inclusion

The Asia-Pacific Forum on Financial Inclusion has been the primary activity of the ABAC Financial Inclusion Initiative since its inception in 2010. The Forum provides the main platform for ABAC’s stakeholders to come together and discuss issues impacting the progress of financial inclusion in the region. Held annually since 2010, the primary objective of the Forum has been to discuss key challenges and opportunities and to discuss and develop specific recommendations for policy makers/regulators to consider as a way to support their financial inclusion efforts.

Each year the annual Forum has been held in a different location. In most cases the location has been determined by an agreement of the host economy of APEC to sponsor it. In other cases, the ADBI has offered to host the event at their HQ in Tokyo. Organization of the Forum has been a joint effort between the host, FDC and other key partners including members of the Caucus.

Each Forum, which is a by-invitation only event, generally attracts between 100-150 participants representing a range of sectors including commercial banks, NGOs, government entities, multi-laterals, academics or microfinance institutions.

Following each annual Forum, FDC has produced a report which summarizes the discussions and specifically highlights the policy recommendations which were developed as a result of the Forum. This report is then published through FDC and made widely available electronically. Printed copies of the report are also mailed to approximately 800 APEC stakeholders, including the APEC Finance Ministers and other Senior Officials.

The recommendations outlined within this report are also included in ABAC's annual letter to the Finance Minister as part of the Finance Ministers Process.

Funding

As a not-for-profit, FDC seeks funding support from other entities to perform its role as coordinator of ABAC's Financial Inclusion Initiative, including organization of the annual Forum and production of the post-Forum report. To-date, FDC has managed to secure the necessary funding through annual grants provided by the Citi Foundation.

The ADBI has also been a strong supporter of the initiative by not only providing the venue and logistical support for the Forum on some occasions, but also by regularly sponsoring the travel of multiple government officials to attend the event. This support is particularly valuable as it enables policy makers and regulators to be part of the deliberations when discussing the recommendations which ABAC intends to promote.

The Citi Foundation and ADBI have both been strong supporters of financial inclusion in the region and their partnerships with FDC have been very beneficial in achieving the results of this initiative.

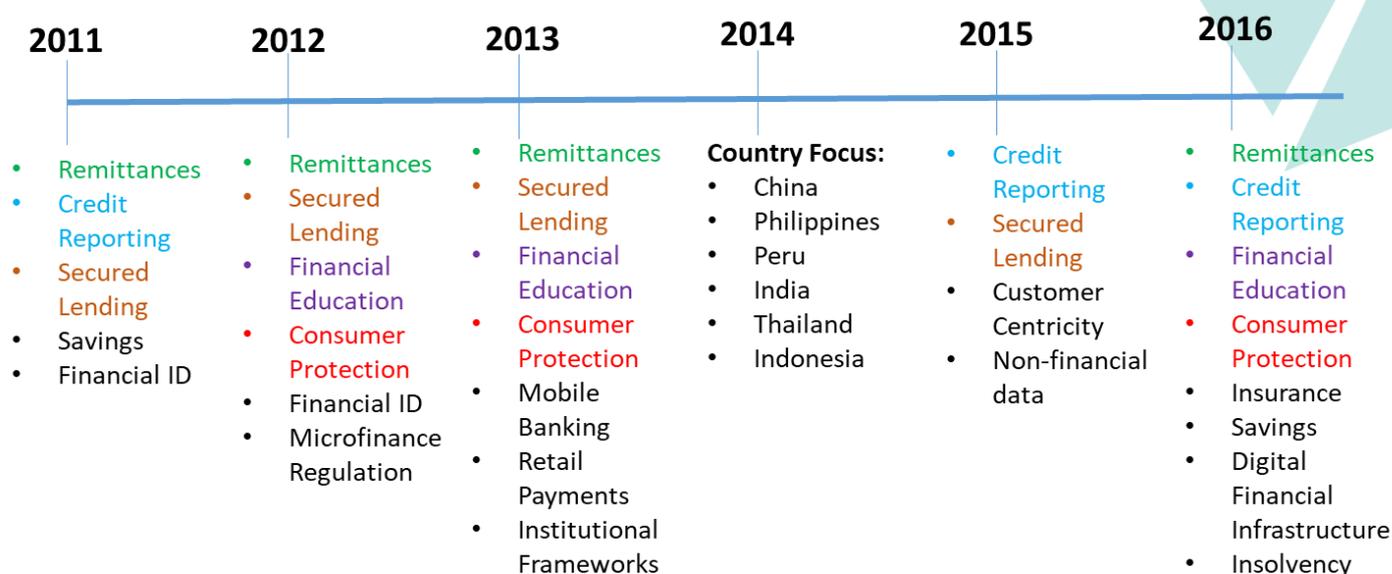
Policy Recommendations

Since the Financial Inclusion Initiative was established, a series of recommendations have been produced to support the formation of more enabling regulatory environments throughout the region in support of greater financial inclusion. From the specific issues which have been addressed, six main themes have emerged. These six themes, which are listed below, represent what has been the primary focus of ABAC's Financial Inclusion Initiative to-date:

1. National financial inclusion strategies
2. Financial education/Financial literacy
3. Remittances and cross-border products/services
4. Balanced regulatory approach (consumer protection vs. innovation)
5. Credit reporting
6. Secured lending

Each year, the Financial Inclusion Initiative has produced a number of specific recommendations on topics which fit in with the six themes noted above. Figure 6.1 provides an overview of the specific topics which have been the basis of these recommendations over the past five years:

Figure 6.1: Overview of Policy Recommendations by Topic



Within Figure 6.1 some of the topics are coloured to show how they have been repeated on multiple occasions. This reflects the specific interests and inputs of Caucus members who have been more involved in providing input to the Financial Inclusion Initiative; particularly when soliciting feedback on topics to be addressed at each annual Forum.

Results of the Financial Inclusion Initiative

In 2015, FDC, with funding support provided by the Citi Foundation, conducted an evaluation of the Financial Inclusion Initiative to better understand how well it was meeting its objectives.¹ The evaluation report looks back on the past five years of the Initiative to examine its progress and impact towards its objective to strengthen policy and regulation within APEC member economies in support of greater financial inclusion. The review also includes an assessment of the extent to which the recommendations produced by the Initiative have been adopted and implemented within APEC member economies.

Focusing on the six themes outlined in Section 6 of this report, the evaluation found that progress of across most of the themes has been relatively general (i.e. informing work plans, building/sharing knowledge, etc). However, specific and more significant outcomes can be attributed to the credit reporting and secured lending themes which have been heavily backed by Caucus members. Table 7.1 provides an overview of these results across the six themes.

¹<http://www2.abaonline.org/assets/2016/1%20San%20Francisco/The%20ABAC%20Financial%20Inclusion%20Initiative%20Progress%20and%20Impact%202011-15.pdf>

Table 7.1: Achievements of the Financial Inclusion Initiative (as of 2015)

Theme	Notable Impact
1) National financial inclusion strategies	General progress
2) Financial education/literacy	General progress
3) Remittances	Noted in the APEC 2015 Cebu Action Plan, which was also used to directly encourage the G20 Plan to Facilitate Remittance Flows to develop a plan to reduce the cost of remittances to 5%.
4) Balanced regulation	General progress
5) Credit reporting	<ul style="list-style-type: none"> • Developed the APFF Credit Information Sharing Action Plan to advance the recommendations within APEC economies (Formally endorsed by Finance Ministers). • Establishment of the Financial Infrastructure Development Network (FIDN) to develop legal frameworks for credit reporting. (Formally endorsed by Finance Ministers).
6) Secured lending	Several specific recommendations included in the Cebu Action Plan including: <ul style="list-style-type: none"> • Reforms to develop secured transactions systems and insolvency frameworks • Establishment of best practice principles on secured transaction • Establishment of modern collateral registries, etc

While the results of the Financial Inclusion Initiative, as outlined in Table 7.1, are encouraging, it does raise the question of whether or not the Initiative is effectively meeting its original objective set by the Finance Ministers; namely to: *'identify concrete actions that financial policy makers can take to expand the reach of financial services to the underserved.'* Upon closer examination of the results achieved so far, it is clear that much of the focus of the Financial Inclusion Initiative has been on the expansion of financial services to SMEs and/or high net consumers, but relatively less focus on the poor/unbanked. Being that the latter make up an estimated 1.3 billion of the population within APEC's region, there is a major opportunity for the Financial Inclusion Initiative to be restructured in a way to better align with the objective and produce far more significant results.