

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 33-006 Draft: SECOND Source: AGFSCB Chair Date: 17 January 2013 Meeting: Manila, Philippines
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First Meeting 2013

22 January 2013

2:15 PM – 4:15 PM

Manila Room, Makati Shangri-La Manila Hotel
Makati City, Philippines

Meeting Paper 5-A 2013 Asia-Pacific Financial Inclusion Forum

Office of the Advisory Group Chair

PURPOSE	For consideration
ISSUE	Concept paper for the 2013 Asia-Pacific Financial Inclusion Forum
BACKGROUND	Following the successful holding of the first Financial Inclusion Forum in 2010 in Sapporo under the auspices of the APEC Senior Finance Officials and the call by Finance Ministers in their Kyoto Joint Statement for ABAC to convene regular Forums, the Advisory Group has coordinated the preparation, holding and publication of the report of two forums. The second Forum was held in 2011 in Tokyo and the third Forum in 2012 in Shanghai. The Indonesian Ministry of Finance has offered to host the third forum in Indonesia, to be co-organized by ABAC, ADB Institute and FDC, in collaboration with Citi Foundation and other interested Advisory Group partner institutions.
PROPOSAL	N.A.
DECISION POINT	Endorse the concept paper.

DRAFT CONCEPT PAPER
As of 11 January 2013

2013 Asia-Pacific Financial Inclusion Forum
Financial Inclusion, Technology and Regulation:
Meeting the Challenges of Policy Reform and Capacity Building

11-12 June 2013
Batam Island, Indonesia

The past two decades have seen an expansion of financial inclusion driven by the adoption of innovations and new technologies that have significantly reduced the costs and increased the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals and micro-, small and medium enterprises (MSMEs). Mobile and branchless banking have made considerable progress in developing economies, enabling a growing number of such households and enterprises to gain access to finance, which in turn, is expanding the prospects of improving people's standard of living and increasing the opportunities for economic growth.

Improvements in credit information systems and risk analytics have allowed more credit to be safely channeled to traditionally underserved borrowers while stimulating competitive pricing. Improvements in electronic data security have allowed the development of innovative services while minimizing the risks of unauthorized data use. These developments demonstrate the great potential of innovation in addressing one of the major challenges of our time – empowering an estimated 2.5 billion adults¹ on the planet who have yet to gain access to the most basic financial services to effectively participate in, benefit from and contribute to the process of economic growth.

The successful adoption of innovations in delivering a complete range of financial services to the unbanked will entail not just adjustments in financial regulation and supervision, but also the development of new legal, policy and regulatory frameworks that these new delivery modes will require to effectively protect the interests of consumers, including their privacy. It will entail efforts to ensure the legal transparency and predictability required to attract financial service providers into the market, and to ensure the financial stability and efficiency of the overall economy. It will entail the development of new methods of financial education and financial capability building, especially for vulnerable low-income population groups. Innovations will also have an impact on the development of the market infrastructure supporting the delivery of financial services, particularly payment and settlement systems, remittances and credit reporting. These innovations are expected to eventually benefit all in the process of financial inclusion.

The rewards of advancing further the frontiers of financial inclusion through innovation will be enormous, but the challenges for policy makers, regulators, market players and consumers will be considerable. While there is much ongoing research, discussions and development of guidelines for governments and regulators,² it is also important to share and compare actual experiences with international good practices on dealing with innovations that are now being introduced in the delivery of financial services; to what extent current legal, policy and regulatory frameworks (including consumer protection) and supporting market infrastructure are conducive to

¹ Asli Demirguc-Kunt and Leora Klapper, *Measuring Financial Inclusion: The Global Findex Database* (World Bank Policy Research Working Paper 6025), April 2012.

² See for example CGAP's (www.cgap.org/) updated work, *A Guide to Regulation and Supervision of Microfinance*, the Alliance for Financial Inclusion's (<http://www.afi-global.org/>) guideline notes on technology risks and regulatory reporting in mobile phone banking; and the IFC's (www.ifc.org/) publication, *Toward Universal Access: Addressing the Global Challenge of Financial Inclusion*.

innovation in the provision of inclusive financial services by market players; their implications for the design and implementation of policy reforms and capacity building; and the development of effective regional public-private partnership platforms for policy dialogue and capacity building. To advance these promising discussions and recommendations to the stage of actual deployment and realization, it will be important to engage with key decision makers in relevant ministries, legislative bodies and other organs that hold the responsibility and authority for implementing needed reforms, as well as experts from the public and private sectors.

This is the proposed theme for the 2013 Asia-Pacific Financial Inclusion Forum, to be hosted by the Indonesian Government and co-organized by ABAC, ADB Institute and the Foundation for Development Cooperation, in collaboration with Citi Foundation and other interested partner institutions within the Advisory Group for APEC Financial System Capacity Building. The Forum will bring together participants from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations. Among possible topics for the Forum are the following:

- Experiences and perspectives of the public and private sector across the region with the legal, policy and regulatory environment for innovation in delivery of financial services (including mobile and branchless banking, enabling branchless banking through digital data, intersection of know-your-customer rules and new delivery technologies), including analysis of successful cases as well as those in which unintended consequences of policies and regulations have inhibited the development of these services
- Innovations in retail payment systems (including electronic payments; interconnectivity and inter-operability based on common standards; optimal environment for regulation, consumer protection, fraud prevention and risk management in payment systems)
- Innovations in the development of financial identity and data for more inclusive credit decisions and strengthening of credit information data bases for use as a tool for risk management and prevention of over-indebtedness, as well as their legal, policy and regulatory implications (including new models of information sharing, access and analytics of data and the promotion of full-file credit bureau systems around new technologies and new technology-enabled data such as digital pre-pay and top-ups, among others, ongoing initiatives to develop non-financial data centered on digital services, experiences in promoting consumer protection in the context of digital data)
- Ramifications for the regulation of data flows, including the need to facilitate as appropriate cross-border data flows as part of the promotion of regional economic integration and talent and capital mobility
- Improvements in legal frameworks for lending both to the consumer and MSME segments, including, on the consumer side, a regulatory approach that affords consumer protection while allowing the flexibility to bring innovative and inclusive products to market, and on the MSME side, the frameworks for secured and structured lending products that will be responsive to their needs for liquidity to promote economic growth and employment.
- New requirements for financial education and innovative approaches (including the incorporation in financial education of government-to-person payments, remittance collections and branchless and mobile banking; and the development of financial education models, including for use in elementary and secondary education, that not only align with credit, but also reflect other modes of access like correspondent banking, remittances, cash transfers, mobile money, basic savings, insurance, and bundles of these products)

- Facilitating the adoption of innovations to lower costs and increase efficiency of remittances and promote cross-border financial inclusion

The Forum will examine how regional platforms such as APEC and public-private partnership (including multilateral agencies and international organizations and foundations) can be harnessed to improve the capacity of governments and regulatory agencies to deal with the above issues with a view to advancing the frontiers of financial inclusion through innovation. Of particular interest would be a sharing of experiences between Asian and Latin American economies. The outcomes of the Forum will be captured in a conference report with a set of recommendations, including possible initiatives, which will be submitted to the APEC Finance Ministers and published and disseminated widely.

Logistical arrangements: It is proposed that the Indonesian Government (or Ministry of Finance) host and provide the venue for the Forum, including audio-visual and related conference equipment, meals during the conference, a conference secretariat and the reproduction of conference materials. Participation of high-level Indonesian officials and resource persons from the public and private sectors will be highly encouraged. ADBI will sponsor the participation of relevant regulators/officials from Asian developing economies. Various collaborating institutions participating in the Advisory Group on APEC Financial System Capacity-Building (including multilateral and domestic agencies, private international and domestic organizations, microfinance institutions, financial institutions, academic institutions and industry associations) will provide and sponsor speakers and other resource persons.

APEC finance ministry officials and regulators will be encouraged to attend. ABAC will take responsibility for overall coordination of the program. The Foundation for Development Cooperation, on behalf of ABAC with the support of Citi Foundation, will undertake the day-to-day management of the coordination of preparations with ADBI and the Indonesian Ministry of Finance, as well as with other cooperating Advisory Group partner institutions, and will report regularly to ABAC through the Advisory Group. FDC will also compile and publish the Forum Report (through a drafting process involving the co-organizers and forum resource persons), which will be submitted to the APEC Finance Ministers and disseminated widely.