Asia-Pacific Economic Cooperation

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 33-045
Draft: **FIRST**
Source: Foundation for Development Cooperation
Date: 4 July 2013
Meeting: Kyoto, Japan

Third Meeting 2013
10 July 2013
7:30 AM – 9:30 AM
Gyoun Room, Kyoto Hotel Okura
Kyoto, Japan

Meeting Paper 6-A

2013 Asia-Pacific Forum on Financial Inclusion: Executive Summary

Foundation for Development Cooperation

PURPOSE	For consideration.
ISSUE	Executive Summary of the 2013 Asia-Pacific Forum on Financial Inclusion
BACKGROUND	Innovation promotes financial inclusion by significantly reducing the costs and increasing the efficiency of financial services being offered to low-income households and small enterprises. The 2013 Asia-Pacific Financial Inclusion Forum hosted by the Indonesian Government and convened through the Advisory Group by ABAC, ADB Institute and the Foundation for Development Cooperation in collaboration with various partner institutions identified various measures that can help governments harness innovation to promote financial inclusion.
PROPOSAL	Recommend that APEC economies commit to policy reforms to facilitate the delivery of mobile and branchless banking and remittances and to improve the market infrastructure, particularly payment and credit reporting systems and secured lending frameworks; and to undertake capacity building to promote innovative approaches and effective financial education and consumer protection regimes.
DECISION POINT	Endorse the recommendation.

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

EXECUTIVE SUMMARY

SESSION 1: Mobile and Branchless Banking
Key Points:

1. Branchless and mobile banking solve one of the key challenges for banks to drive financial inclusion by increasing their reach, lowering costs and extending the product mix to new consumers. Partnerships with third party distribution networks (agents) are critical to extend beyond the traditional branch based distribution model. Banks should explore innovative ways / alternative data to assess risk and extend lending products to the poor and the unbanked, beyond basic payments services. In order to succeed, banks must think of unique processes and systems to cater to this segment different from their traditional way of doing business.
2. Mobile and branchless banking is a key enabler to increase access to financial products and services and represents a significant opportunity to bank the unbanked. However, it is a multidimensional issue involving several elements such as: domestic policies for financial inclusion, financial products and services development, regulatory frameworks, cooperation amongst stakeholders and consumer perspectives. As such, the development of mobile and branchless banking services requires a holistic approach to address challenges from multiple angles and perspectives.
3. Mobile and branchless banking systems involve a greater number of stakeholders who are not traditionally involved with the financial sector or in providing access to the un-banked (e.g. Mobile Network Operators (MNOs), agent aggregators, payment companies, technology companies, etc). A greater effort needs to be made to include these stakeholders in the conversations and programs; and furthermore, a greater amount of coordination is required to facilitate the cooperation amongst each of the players.
4. Much has been done throughout the region to progress and develop mobile and branchless banking opportunities. There is a need for private actors and for policy makers to assess the environment and identify what has worked well and what hasn't with the aim of identifying what could "best-practice." A "one-size-fits-all" model is not realistic, however, as the needs of the poor in each economy varies significantly. Therefore each economy will have to adapt these best practices according to the local stakeholder needs.
5. While mobile and branchless banking represents significant opportunity to assist the poor, serious challenges remain. One crucial challenge to overcome is the number of inactive clients currently found within many cases of implementations. This is mainly due to a lack of in-depth understanding of the needs of different consumer segments within the unbanked and underserved population. By better analyzing the specific demand of these segments, banks, MNOs and other key actors would be able to customize their product value propositions and marketing approach. A greater emphasis is needed across all stakeholders on understanding the needs of the consumer in order to ensure that appropriate products are developed.
6. In certain scenarios, policy makers in the government can take steps to encourage interoperability between payment schemes to encourage further scaling of the programs. (E.g. Bank Negara in Malaysia spurred the establishment of "MyMobile", an interoperable mobile financial services program which has participation from three MNOs and three banks).

SESSION 2: Retail Payment Systems
Key Points:

1. Distribution channels, communication technology and e-money products and services will support product innovation and client and risk analysis; thus leading to new value propositions on financial services.
2. Retail payment systems have the potential to broaden financial inclusion, however, this potential is limited to how well the needs and demands of clients is understood. Stakeholders need to put more effort into understanding the needs of their clients in order to maximise the potential impact retail payment systems has for financial inclusion.
3. There are currently too many independent entities operating within the retail payment space which is resulting in inefficiencies and disruptive practices. Greater collaboration is needed and stakeholders should look to each other as potential partners rather than attempting to operate independently.

SESSION 3: Remittances
Key Points:

1. Innovation in remittances is continuing at a rapid pace, indicated by new sending mechanisms and enhanced services that are benefiting more customers. The market for mobile-based remittances is expanding with consumers becoming more accustomed to the services, a growing number of partnerships among stakeholders, and customer benefits being proven.
2. Financial viability of remittance related products and services is still an issue, but long-term prospects are attractive in view of the growth of the remittance market and its business potential. Flows from developed to developing economies currently predominate, but the case of Latin America shows that the share of remittance flows among developing economies are increasing. As such, significant growth of intra-regional flows should be expected for the future.
3. Regulatory environment, market infrastructure and customer education are major challenges for the growth and expansion of the remittances market. Innovations are providing significant benefits to migrant families through lower prices; however, the impact varies across regions with Asia, and to a lesser extent Latin America, relatively behind other parts of the world in bringing down the cost of remittances.
4. There is a great opportunity to harness remittances to achieve greater financial inclusion for the unbanked and more work needs to be done to promote and enhance its benefits including: facilitating access to services, providing financial education and supporting the expansion of services of banks and other financial institutions.
5. More dialogue is needed between the public and private sectors to develop an appropriate policy and regulatory environment that will support the development of the remittance market. These discussions should focus on developing an understanding of the remittance environment, constraints and development needs of the market infrastructure, identifying and understanding the roles of various stakeholders and effective business models.

SESSION 4: Financial Infrastructure I: Legal Frameworks for Secured Lending
Key Points:

1. Unlocking the value of movable assets ("movables") through financing will help to increase financial inclusion to the unserved and underserved clients, especially small-medium enterprises (SMEs). Increasing access to credit in turn achieves a greater purpose i.e. to create employment and alleviate poverty by developing a sustainable conduit for social and economic development. These will require a number of reforms to the legal system which enables secured transactions--the taking of movable assets as collateral for credit. In the unreformed economies, secured transactions reform (STR) typically entails the development or revision of secured transactions law, the

establishment or improvement of collateral registry, and the development of movables-based lending practice.

2. Secured transactions reforms, aiming to create a more inclusive financial eco-system, can produce significant benefits including increased transparency, enforceable laws, and providing incentives to both lenders and borrowers. Throughout the process of such reforms, it is crucial to capture the perspectives of the market to ensure that the proposed reform measures are meeting the needs of lenders and borrowers so that any frameworks for secured financing can, indeed, lead to greater access to financial services for the unserved and under-served segments of the economies, such as rural clients, micro businesses and SMEs. These priority clients often do not have real estate collaterals that are acceptable to the lenders; but, they all have some movable assets (accounts receivable, inventory, equipment, intangible property, etc.) which can be used as the basis for borrowing.
3. Based on the experience of a number of APEC economies (e.g., Vietnam, China, Mexico), legal reform and the development of collateral registry alone are not sufficient to create a viable movables lending market. Among others, the government authorities and regulators can be more active in creating an enabling environment; lenders need to build up capacities in movables businesses; collateral management companies and other service providers should be developed; and some movables financing electronic platforms linking up the lenders and borrowers (including suppliers, buyers and services providers along value chains) can be set up.

SESSION 5: Financial Infrastructure II: Financial Identity and Data Flows
Key Points:

1. Traditional data taken from bank loans or retail credit is limited in that it only applies to borrowers that are already in the system. Alternative or non-traditional data provides an additional assessment angle based on the client's reputation and makes it possible to provide identity profiling for the financially excluded through validation of consistent identity over time. By substituting reputation for collateral basic asymmetries of lending can be overcome and lending can be expanded to many currently excluded categories. Examples of alternative data include: post payments such as energy and water utility payments, landline and wireless phone bills; remittance payments and stored value cards; prepayments on cell phones, utilities or education expenses; and agricultural production and transaction.
2. Establishing a financial identity has many potential benefits which could lead to significant impact on poverty alleviation through increased access to financial services. Some of these potential benefits include: decline in accounts in arrears; improving cash flow; reducing costs; increasing credit access; enabling lenders to evaluate credit risk more accurately; enhancing borrower discipline; and facilitating equitable lending to undeserved communities.
3. When consideration the options for establishing financial identity policy makers must achieve a delicate balance that includes consumer rights and protection, creation of an environment that attracts and sustains investment and the choice between a gradual or rapid change approach. A "one-size fits all" approach is not possible and so frameworks used in other economies will need to be adapted appropriately. Policy makers should also be encouraged to be creative and take chances in addressing problems faced and ensure that they manage an appropriate balance between prudential risk and consumer protection.

SESSION 6: Innovative Institutional Frameworks
Key Points:

1. A "best-practice" institutional framework requires both technology-driven efficiency and solutions to leverage local knowledge. This local knowledge is the strength of traditional

microfinance institutions that keep close relationships with poor clients and understand their behaviour.

2. While applying new technologies to delivery channels for inclusive financial services, less attention has been given to the development of financial products which are suitable to the poor. To achieve greater financial inclusion product development needs to be based upon further learning from the poor and their behaviours as well as possible financial viability for providers.
3. A holistic approach to clients' livelihoods and linkage formulation are key elements for an innovative institutional framework. Financial services are one of the indispensable means to livelihood improvement and should be combined with other means, such as capacity building, market development and rural infrastructure, in a mutually enhancing manner. Linkage formulation refers to connectivity development among clients' organizations such as cooperative federations, financial services providers, government agencies, private businesses and others, and among stakeholders through a value chain in an industry. These linkages are important to empower the poor and enhance their creditworthiness, to achieve a business case by scaling-up and to create affordable and reliable financial services to both poor households and MSMEs.
4. Consumer protection is of paramount importance within institutional frameworks, especially with technology-driven financial services which are quite new to consumers both in emerging and developed economies.

SESSION 7: Financial Education and Consumer Protection
Key Points:

1. Financial sector complaints are on the rise. This highlights the need for common consumer protection principals, however, the current range of established principals fall short in regards to transparency and disclosures which are crucial for meeting the needs of adequate consumer protection and so any principals which aim to support this need to be clear and comprehensible. Furthermore, while global principals and standards for consumer protection are useful, economy specific principals are also needed to ensure that the local context is being appropriately met.
2. Financial education has a significant role in achieving greater financial inclusion as it enables behavioural changes of the targeted groups resulting in their capable use of financial products and services. Financial education is a life-long initiative, however, and it is interlocked with other important aspects such as consumer protection and access.
3. Financial innovations require consumer protection to be dynamic, especially in regards to security of payments. There is a direct correlation between consumer protection and uptake/usage of financial innovations, particularly among low-income clients, with stronger consumer protection measures, including better redress mechanisms, resulting in increased uptake.
4. Regulation should not limit financial innovation, but rather should be used to create incentives to support the development of new services. The strengthening of an appropriate policy and regulatory framework will promote greater financial education and consumer protection. In this regard, regulators, consumers, and protection agencies need to be dynamic and resilient in order to respond to the rapidly changing environment, including the challenges of financial innovation that are arising from new technological developments.