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Meeting Paper 6-A

Potential Digital Finance Work Stream – For Discussion

Foundation for Development Cooperation

- PURPOSE** For consideration.
- ISSUE** Discussion of potential work in 2016 on digital finance
- BACKGROUND** Digital finance – or “fintech” as it has also come to be known – may be offered by financial or non-financial institutions. Emerging participants in this market include mobile network operators and start-up technology firms, in addition to more established financial services firms.
- This paper reviews recent discussion in various ABAC fora as to the emergence of digital finance. It proposes that ABAC consider ways to more formally address this important, emerging and potentially disruptive technology and business model in its ongoing work on the financial system and financial system stability across APEC.
- PROPOSAL** Topic of digital finance be considered to be managed and coordinated by the Finance and Economics Working Group;
- Someone be appointed to conduct a more thorough review of the other ABAC working groups to determine how topics relating to digital finance are currently being addressed, identify potential areas of overlap, and recommend whether the topic of digital finance become a formal work stream or remain a topic that would be periodically reported to the Advisory Group
- Advisory Group to note the interest of the Financial Inclusion work stream to pursue elements of specific interest to its agenda;

Outcomes of this work be targeted for outcomes under the Finance Minister's Process in 2016.

***DECISION
POINT***

Agree on next steps

Potential Digital Finance Work Stream – For Discussion

Over the past year, the increasing use and take-up of digital finance across the APEC member economies has become a point of discussion within ABAC meetings.

In this paper, “digital finance” refers to financial services or products that are offered through a device that transmits transaction data and connects with either a bank or non-bank entity that makes payments, transfers or stores value. Products and services can include the “cashless” system (electronic payments, banking and wallets); credit or equity funding (peer-to-peer lending or crowdfunding); and wealth services (robo-advice or insurance). Digital currencies such as Bitcoin also operate in this space. The increasing use of “big data” is a notable trend in the digital finance space, including the use of both personal financial and non-financial data.

Digital finance – or “fintech” as it has also come to be known – may be offered by financial or non-financial institutions. Emerging participants in this market include mobile network operators and start-up technology firms, in addition to more established financial services firms.

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Background discussion

Recent discussion on the topic of digital finance have arisen as follows.

- At the ABAC Asia-Pacific Forum on Financial Inclusion in March 2015 held in Tagaytay, a panel discussion featuring digital finance providers in the Philippines, Bangladesh and Cambodia offered insight into the development of digital finance. Participants noted the emergence of non-bank financial institutions such as mobile network operators into this market, as well as increased use of alternative sources of information such as social networking sites to assess customer creditworthiness for online lending. The concluding session recommended an assessment be undertaken on potential areas where ABAC could support the sustainable development of digital finance amongst member economies.
- At the ABAC meeting in Mexico in April, FDC reported the outcomes of the Tagaytay Forum to the Advisory Group on APEC Financial System Capacity Building including the possibility that a new work stream under the Finance and Economics Working Group or focus point within current work streams be established specifically for digital finance. The idea was met with a positive response at the Mexico meeting and FDC was asked to further formulate it with the intention of continuing this discussion at the next Advisory Group meeting in August (Melbourne).

Since April, FDC has undertaken further engagement within the Financial Inclusion Caucus and sought feedback from a selection of external stakeholders on potential areas of interest in relation to this issue.

This paper outlines the outcomes of that engagement and proposes a way forward.

Consultation

Over May-June, FDC canvassed the views of those directly involved in ABAC's Financial Inclusion work stream, also known as the Financial Inclusion Caucus, including representatives from CGAP, PERC, the APEC Study Centre at RMIT, the IFC and GE Capital.

In addition, FDC also incorporated some questions on digital finance into a survey that was sent to a range of microfinance/financial inclusion experts across APEC economies. This survey was conducted to provide input into a report evaluating the impact of ABAC's work on financial inclusion over the past five years. About 40 individual experts responded to the survey, representing 13 APEC member economies.

- The Survey asked, "Do you believe APEC as an organisation should investigate the emergence of digital finance, including the platforms, channels, products and services, within the APEC community in support of financial inclusion?"
 - 87.5% of respondents replied "Yes"
- In written comments, most individual respondents highlighted the role that digital finance can play in helping reach the underserved and unbanked. There were comments around the need for regulatory harmonisation, collaboration on AML/KYC requirements and interoperability of platforms. Protection of personal data, transfer of technology across APEC, regional financial architecture and the usefulness of knowledge sharing in the APEC context were also mentioned.

To narrow down specific areas of interest or usefulness for ABAC to undertake work in this area, we asked the Financial Inclusion Caucus members to comment on:

1. Regulatory frameworks and regional collaboration on digital finance
2. Consumer protection and education
3. Data retention, warehousing and storage

These areas of work are consistent with key themes underlying the work of ABAC's Financial Inclusion Agenda over the past five years.

Caucus members noted that digital finance is an emerging, important area for further work and investigation. Specific areas nominated for potential further investigation within ABAC included:

- Cross border issues and harmonisation of regulation across economies;
- Best practice in regulatory approaches to digital finance, eg experience in some economies with some examples of "rogue" P2P lending platforms generating losses;
- Harmonisation of regulation in the digital space (eg, in Australia P2P platforms are regulated as managed investment schemes... this is different to the US, different to China);
- Ownership of customers' financial data, ensuring customers can access their own data and frameworks / rules for data portability;
- Regulatory frameworks that both protect and empower consumers (eg, ensuring competition, data access and integrity, literacy); and
- Risk of monopolisation by mobile network providers (MNOs) is emerging in some jurisdictions in Africa, leading to a high cost of digital finance for the poor and underserved.

Other groups in ABAC are working on broader digital economy issues, including interconnectivity across APEC member economies. The unanimous view of the Caucus members was that digital finance is an area of particular expertise and needs to be addressed within the Finance and

Economics Working Group because it requires the specialist knowledge of finance experts. However, the extent to which issues directly or indirectly related to digital finance are currently being addressed within other ABAC working groups is not fully known, so there is the potential risk of overlap.

It is also noted that other groups outside ABAC have been working in the area of digital finance and the potential for digital finance to advance financial inclusion for some time. The OECD, the G20 Global Partnership for Financial Inclusion, Consultative Group to Assist the Poor, the Better than Cash Alliance and the Alliance for Financial Inclusion have all undertaken work on aspects of these issues.

Potential areas of work for discussion

The scope of the work within the area of digital finance that FDC believe is relevant to ABAC is outlined below:

- 1. Regulatory frameworks and regional collaboration on digital finance, including:**
 - a. Harmonisation of cross-border digital financial products and services – where some aspects of digital finance such as digital currencies will transcend national borders
 - b. Attention to systemic issues that may arise within digital finance that can become disruptive across multiple economies
 - c. Cooperation on technical or hard infrastructure related issues (disaster recovery for network stability) and soft issues such as cross-border hacking leading to financial theft or fraud

- 2. Consumer protection and education, including:**
 - a. Best practice in consumer protection and cybersecurity
 - b. Best practice in migrating customers from a cash-based to a cashless economy
 - c. Best practice in migrating institutions from a paper-based to a digitally-enabled data system (eg, financial institutions and other related businesses such as credit bureaus)
 - d. Regulatory approach to mis-selling or inappropriate sale of products, eg pushing consumers into overdebtedness where customers may not understand a debt product or charges incurred

- 3. Data retention, warehousing and storage. Issues include**
 - a. Regulatory framework for personal financial data gathering, and use of this data for product sales. Particularly by non-bank financial services companies that are subject to lighter regulation
 - b. Regulatory harmonisation on storage of data – infrastructure, rules, safety and security. How to approach cloud-based systems
 - c. Use of “big data” within digital financial services.... Where big data is being used in new ways for customer identification (social networking profiles) or may be used for financial exclusion (insurance premiums)

The Financial Inclusion Caucus members collectively expressed a view that ABAC’s value add is around knowledge sharing and learning from the experiences of other economies in this emerging area. While wishing to avoid duplication of work being done by other multilateral and regional groups, as above, the ABAC forum is relatively unique in its span across developed and developing nations, and with its focus on harmonisation across APEC economies.

There is work to be done in harmonising regulation and ensuring any cross-border financial products or services that emerge within APEC as this industry expands are worked through ABAC / APEC at the appropriate level. This may include for example remittances (through digital currency e.g. Bitcoin), cross-border lending or investment and cross-border acquisition by an increasing number of players in the financial space, including telecom providers, mobile network operators and start-up companies.

Form and level of a work stream on digital finance

The digital economy is of interest to all ABAC working groups and APEC's Ministerial meetings, with digital finance an emerging theme of more specific interest to the Advisory Group on APEC Financial System Capacity Building and the Financial Inclusion work stream. In order to progress work in this area in the most efficient manner further consultation is needed with ABAC's other working groups (i.e. Regional Economic Integration, SMME and Entrepreneurship, Sustainable Development and Infrastructure and Connectivity) as well as with other work streams within the Finance and Economics Working Group's remit (APFF, Innovative Financing Mechanisms, etc.) to determine how issues related to digital finance are currently being addressed and to identify potential areas of overlap for better overall coordination within ABAC.

It is suggested that the Advisory Group on APEC Financial System Capacity Building is the most appropriate and authoritative group within ABAC to lead on this wider consultation.

Pending the outcome of this wider consultation, FDC proposes that the topic of digital finance be managed and coordinated by ABAC's Finance and Economics Working Group with specific topics/issues taken up by the various work streams operating under this working group. This would, for example, allow the Financial Inclusion work stream to focus on particular elements of digital finance which are most relevant to financial inclusion while other topics could be taken up by other work streams within the Finance and Economics Working Group or within other ABAC working groups as needed. Responsibility for leadership and coordination of a digital finance agenda would however, ultimately rest in the Finance and Economics Working Group, with work streams and other ABAC working groups engaged in digital finance-related activities nominating specific work and topics they wished to pursue and lead on as appropriate.

Based on the feedback FDC has received from consultations, it is proposed that the Financial Inclusion work stream prioritise and lead on certain topics relating to digital finance. The attached table outlines these topics and provides a draft overview of how other topics might be addressed through other work streams within the Finance and Economics Working Group or potentially addressed through other ABAC working groups. For any topics being addressed through any of the work streams within the finance and economics working group, progress on these issues would be regularly reported to the Advisory Group on APEC Financial System Capacity Building.

Proposal and next steps

FDC proposes the following:

- That the Advisory Group on APEC Financial System Capacity Building formally recommend that the topic of digital finance be managed and coordinated by the Finance and Economics Working Group;

- That the Advisory Group on APEC Financial System Capacity Building recommend that someone be appointed to conduct a more thorough review of the other ABAC working groups to determine how topics relating to digital finance are currently being addressed, identify potential areas of overlap, and recommend whether the topic of digital finance become a formal work stream or remain a topic that various ABAC groups would periodically report back on to the Advisory Group on APEC Financial System Capacity Building;
- That the Advisory Group on APEC Financial System Capacity Building note the interest of the Financial Inclusion work stream to pursue elements of specific interest to its agenda;
- That the outcomes of this work be targeted for outcomes under the Finance Minister's Process in 2016.

Potential topics in this area to be addressed at the 2016 Forum include:

- "Digital Financial Infrastructure for Digital Economy" with an emphasis is on "digital", not the traditional financial infrastructure
 - "Digital credit" which is increasingly spreading and raises both opportunities and issues
 - "Financial consumer protection in digital finance"
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ATTACHMENT 1: POSSIBLE DIGITAL FINANCE TOPIC LEADERSHIP

	Finance & Economics Working Group					Regional Economic Integration WG	SMME & Entrepreneurship WG	Sustainable Development WG	Infrastructure & Connectivity WG
	Advisory Group on Financial System Capacity Building								
	Financial Inclusion Caucus	APFF	AP Infrastructure Partnership	Innovative Financing Mechanisms	Valuation Practices				
Digital Finance Agenda									
Overall Leadership and Coordination	✓								
Consumer protection and education.									
a. Best practice in consumer protection and cybersecurity		✓							
b. Best practice in migrating customers from a cash-based to a cashless economy		✓							
c. Best practice in migrating institutions from a paper-based to a digitally-enabled data system (eg, financial institutions and other related businesses such as credit bureaus)		✓							
d. Regulatory approach to mis-selling or inappropriate sale of products, eg pushing consumers into overdebtedness where customers may not understand a debt product or charges incurred		✓							
Data retention, warehousing and storage.									
a. Regulatory framework for personal financial data gathering, and use of this data for product sales. Particularly by non-bank financial services companies that are subject to lighter regulation		✓							
b. Regulatory harmonisation on storage of data - infrastructure, rules, safety and security. How to approach cloud-based systems		✓							
c. Use of "big data" within digital financial services.... Where big data is being used in new ways for customer identification (social networking profiles) or may be used for financial exclusion (insurance premiums)		✓							
Regulatory frameworks and regional collaboration on digital finance.									
a. Harmonisation of cross-border digital financial products and services - where some aspects of digital finance such as digital currencies will transcend national borders					✓				
b. Attention to systemic issues that may arise within digital finance that can become disruptive across multiple economies			✓						
c. Cooperation on technical or hard infrastructure related issues (disaster recovery for network stability) and soft issues such as cross-border hacking leading to financial theft or fraud				✓					
Other Issues									
a.									
b.									
c.									

Note: for illustrative purposes only.