



THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Fourth Meeting 2015

13 November 2015

10:15 AM – 12:15 PM

Ballroom 2, Fairmont Makati
Makati City, Philippines

Meeting Paper 2-A

Report of the Meeting of the Advisory Group of 11 August, Melbourne, Australia

Office of the Advisory Group Chair

PURPOSE	For consideration.
ISSUE	N.A.
BACKGROUND	N.A.
PROPOSAL	N.A.
DECISION POINT	Endorse the meeting report

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Third Meeting 2015

11 August 2015

14:15 PM – 15:45 PM

Grand Ballroom, Sofitel Melbourne on Collins
Melbourne Australia

MEETING REPORT

Draft as of 8 November 2015

Welcome and Introduction

The meeting started at 2:15 pm. Participants included ABAC members and staffers, APFF work stream sherpas, APIP collaborators and other partners of the Advisory Group.

The Advisory Group Chair, Mr. Hiroyuki Suzuki, opened the meeting. He welcomed participants and advised them on key documents for endorsement during the meeting. These include the 2015 Advisory Group Report which includes infrastructure, financial inclusion and valuation practices as well as contents of the 2015 APFF Progress Report, which focuses on SME finance, capital markets and insurance and pensions.

The Chair observed that a lot of work has gone into these items over the past several months. He noted that this huge amount of work is reflected in the very high quality of the proposals, which will be discussed at the meeting for endorsement to ABAC for inclusion in ABAC's report to Ministers and Leaders.

Review of the Second 2015 Advisory Group Meeting in Mexico City

The Advisory Group Coordinator, Dr. J.C. Parreñas, presented the draft Report of the Advisory Group Meeting of 20 April held in Mexico City.

The Advisory Group approved the Meeting Report.

Promoting Long-Term Investment in Infrastructure

The Chair introduced the subject with a reference to the tAPIP dialogue in Tagaytay City on March 4, the APFF Roundtable hosted by ABAC Canada on May 15 in Toronto and the APEC Finance Ministers Process workshop on infrastructure and capital markets in Iloilo City on July 23-24. He also advised participants that the APFF insurance and retirement income work stream also held several meetings to develop new proposals on retirement income, and that ABAC Australia has been doing work on the Urban Infrastructure Network. He noted that these various discussions contributed a lot to the draft Advisory Group Report, and expressed his gratitude to all of those who collaborated in organizing these events.

APIP Chair Mark Johnson delivered his report on the work of the APIP. He observed that many infrastructure-related initiatives are now being undertaken through APIP and the APEC Finance Ministers' Process, and that these have demonstrated the depth and breadth of expertise from multilateral institutions and the public and private sectors that APEC economies can access. He noted that the structure of initiatives is important for success in helping economies effectively implement

infrastructure programs and cited the example of the dialogues with the Philippine Government as an effective way for the private sector to help governments advance their infrastructure agenda. He also mentioned the APIP dialogue with Mexico and Peru as an example of how economies can learn from dialogues, in this case on the financing of infrastructure as well as the development of PPPs in education and health care. Mr. Johnson proposed that case studies be commissioned to help in communicating successful structures to governments and the public.

Advisory Group Co-Chair Robert Milliner expressed his agreement with Mr. Johnson, as he noted the importance of ensuring the right strategy and structure in the work of the Global Infrastructure Hub, particularly as economies increasingly need to collaborate and integrate their infrastructure plans.

ABAC Canada Member Philip Leong reported on the convening and outcomes of the *APFF Roundtable on Expanding Opportunities for Long-Term Investment in Asian Infrastructure* hosted by ABAC Canada on May 15 in Toronto. He reported the main conclusion of the discussions that governments in Asia are seeing the need to more strongly engage the private sector in the development of infrastructure, while North America's huge pension funds and insurance companies are seeking more investment opportunities. He noted the importance of addressing policies and regulations that make it difficult for these institutions to invest in infrastructure, and expressed Canada's interest in hosting a follow-up discussion in 2016.

Ms. Vanessa Wang of Citi echoed Mr. Leong's observations about the Toronto Roundtable and noted that for APEC to succeed, it must address policies that impact retirement income in order to make more capital for long-term investment available, develop capital markets and address regulatory and accounting issues that pose disincentives to investment in long-term assets. Mr. Okubo of Nippon Life also discussed the critical importance of regulatory issues for insurance companies.

Mr. Kenneth Waller of the Australian APEC Study Centre at RMIT University reported on the progress of the work being done on the Urban Infrastructure Network (UIN). He reminded participants that ABAC had recommended the formation of the UIN in 2014 to develop a holistic policy framework and action plans for sustainable urban infrastructure development. Following are the highlights of Mr. Waller's report on the UIN:

- The work of the UIN has been categorized into three work streams: (a) policy and planning, (b) program and project development and (c) infrastructure financing.
- Achieving economic growth and development in the Asia Pacific will undoubtedly depend on the ability of the region's cities, which account for 80 per cent of national economic activity in some cases, to develop on a sustainable basis. Current institutional structures are failing to leverage the resources and innovation potential of both the private sector and the community to promote sustainable urban development.
- The key outcomes for sustainable urban infrastructure investment and development have been identified as: (a) delivering integrated transportation and land use development for lower-energy use; and (b) building energy efficiencies, especially through better use of natural capital, promoting infrastructure efficiency, and building a green economy.
- The first work stream (policy and planning for sustainable urban development) has focused on assessing the operations of national infrastructure delivery systems. Policy and planning issues affect the cost of 'doing business' and the financial sustainability of businesses in the long run. As such, the contribution of the private sector and the community at large in each of these areas is both important and symbiotic.
- A best practice planning and policy framework must include a 'nested' set of implementation strategies between different levels of government, and cross-sectoral reach with guidance on implementation of other strategies. In addition to exhibiting these characteristics, best practice frameworks for planning should also be cross-jurisdictional in reach, nominate appropriate institutions and budgets for implementation and be flexible and be responsive to changing circumstances to make them enforceable.

- Governments must have a comprehensive national infrastructure strategy that can be relied upon to influence the planning of investments promoting sustainability, as well as its inter-relationship with provincial, and in some cases, city strategies. This recommendation also follows through to the provincial and state levels.
- The second work stream (preparation of urban infrastructure projects) found that there are two main levels of project development. They are: small scale investments to extend or expand existing infrastructure networks in the context of an established urban area and plan; and large scale investments that will have a determining impact on the functioning of the infrastructure network and on the form of the urban area.
- The contribution of the private sector and the community should be intrinsic to the methodology adopted. The potential for the private sector to contribute cutting-edge approaches, and to develop more efficient systems must be tapped. These processes should also investigate the knowledge base, and elicit the support of the community in order to achieve a socially sustainable outcome.
- The third work stream (financing for sustainable urban development) focused on impediments to funding and financing of urban infrastructure delivery. Capital expenditure financing for urban infrastructure is generally derived from three broad sources - transfers from central, provincial and local taxes; user charges, and private funding sources (including institutional investors and sovereign wealth funds). The framework for financing urban infrastructure needs to define structures in which these sources of finance are combined most efficiently at the central, provincial and local levels.
- The framework would address the following: a) the need for local governments to develop tools to capture economies value arising from land development and infrastructure projects; b) improved relationships and coordination aimed at streamlining financing by MDBs of local infrastructure projects; c) eliminating information asymmetry that affects credit rating on local government infrastructure projects; d) alignment of policies to attract FDI into long-term infrastructure financing, and e) tools to aggregate small projects at sector and economy level so as to give confidence to potential investors about the intrinsic value of local municipal projects.
- Given the sizeable funding gap that exists between government capital expenditure and required investments in sustainable development, global private savings must be channeled into green infrastructure investment with a focus upon leveraging such investments.
- He reported the conclusion of the UIN that ABAC, on behalf of the private sector, recommend to APEC leaders that concrete action be taken by member economies to improve the enabling framework and to build institutions in the specific areas set out above in order to improve implementation of sustainable development policies.
- APEC should foster partnerships between central governments and cities – both within and among member economies – and private sector investors.

The Advisory Group welcomed and noted the reports of these activities.

SME and Supply Chain Finance

The Chair introduced the topic by observing that SMEs are a priority item in APEC this year, due to the Philippines' focus on inclusive growth. He noted that SME finance is the most important problem of SMEs, including SMEs in supply chains, and so both Finance Ministers and SME Ministers are waiting for inputs from the private sector.

The Chair mentioned that organizations within the Advisory Group have responded to this by doing a lot of work on SME Finance, such as through the APFF Roundtable on SME finance in Mexico, the Financial Inclusion Forum with Deputy Finance Ministers and Central Bank Governors in Tagaytay City, the Conference on Warehousing and Collateral Management on May 19 in Beijing, a Workshop on Innovative Financing Mechanisms hosted on May 21 by ABAC Malaysia. and an APFF Workshop on Supply Chain Finance on July 28 in Singapore.

Tan Sri Azman Shah Haron of ABAC Malaysia presented a report on the Workshop on Innovative Financing for SMMEs that was held at the InterContinental Kuala Lumpur, Malaysia on May 21. The workshop had four sessions, as follows: (a) Moving Into the Mainstream – Showcase of Alternative Funding Mechanisms for SMMEs; (b) Regulating Alternative Finance – Addressing Challenges and Identifying Opportunities; (c) Moving into the Era of Islamic Financing; and (d) Building a Conducive Environment for Equity-Based Financing & Innovative Financing Platforms.

The workshop attracted participants from across the region. The main conclusions were as follows. First, governments have an important role to play in promoting the growth of innovative financing mechanisms that can benefit small businesses. Second, there is significant potential in the development of internet finance platforms, such as crowdfunding. Third, it is important for governments to review and update regulatory frameworks in light of technological developments and innovations to enable the growth of innovative financing mechanisms.

The Coordinator drew attention of the participants to the report on the July 28 workshop on the topic *The Real Economy, Supply Chain and Finance: The Challenges in Working Together and the Way Forward*, which was organized by ABAC and APFF, hosted by the Singapore Business Federation in partnership with the APEC Policy Support Unit and Supported by the Association of Banks in Singapore. Key messages from the report are as follows:

- With the Asia-Pacific as the one of the most globally active supply chain regions after the EU, the workshop started with a strategic overview of structural changes that are gradually disrupting cross-border supply chains thru reduced exports. Trade flows that are anchored on China can be disrupted the most, if Chinese participants continue to “internalize” supply chain activities that are currently sourced externally into domestic sources. Free trade agreements, covering services as well, will be key to create new potential opportunities for businesses.
- The second part of the workshop discussed key regulatory issues related to accessing trade and supply chain finance; focused on Basel 3, KYC/AML/Transaction Monitoring information requirements and collaterals. These are important yet often non-visible matters to borrowers where if there is higher information symmetry, access to finance – identified by studies as being an important catalyst for business’ growth – can be better facilitated while aiding banks’ compliance with regulations.
- The third part of the workshop directly addressed access to finance options, and presenters raised awareness of supply chain financing choices, hurdles in accessing finance from a lender’s and borrower’s view, policy initiatives to globalize MSMEs including the promotion of innovative and diversified financing options, and the importance of more understanding across the links of SMEs, trade and finance. Such a holistic platform that brings together different but related views to this big ecosystem is needed to enable internationalization and supply chain participation.
- The fourth session focused on access to technology and financing accelerators that the real economy can offer to participants via e-commerce logistics, customs/cross-border procedures, information, digitalization of trade ecosystem including documentary flows, and digital cash. Access to technology complements access to finance. Information supply chain is needed for participants to better manage inventory and demand that will enable their better cash flow management. Financing accelerators are drawn from customs and logistics practices. For example, simplified customs and efficient logistics practices can reduce the barriers for resource-tight SMEs to participate in cross-border trade and internationalize (in particular take part in global value chains), leading to more diversified growth sources. This is amplified by digital cash and mobile solutions.
- Although the speakers and participants were from different industries, the workshop resonated on an emphasized note and called for closer cooperation among trade and finance ministries, between borrowers, lenders and credit enhancers, and between “access to finance”, “access to technology” and “financing accelerator” factors. A conducive regulatory environment, harmonized/standardized approaches and similar connectivity between at least two economies were the other main themes.

Advisory Group Co-Chair Haslina Taib of ABAC Brunei commented that there is a need to raise awareness of digital financial services. It is important to be aware of seamless cross-border transactions such as those platform to platform, machine to machine transactions in order to ensure enabling regulatory frameworks are put in place. Mr. Kobsak Duangdee of ABAC Thailand noted that bank accounting standards also play an important role in SME financing.

The Advisory Group welcomed and noted the outcomes of the workshops as reported.

Capital Markets

The Chair informed the Advisory Group that the Government of the Philippines hosted the APEC workshop on infrastructure and capital markets on July 23-24 in Iloilo City, where the APFF's and Advisory Group's recommendations for inclusion in the Cebu Action Plan were discussed with APEC senior finance officials.

The Coordinator reported on the workshop, highlighting the following:

- Asia-Pacific economies have achieved significant progress in raising their populations' living standards within the span of a few decades. The development of infrastructure, however, has not kept pace with this growth, and the resulting problems manifested in increasing congestion of roads, power shortages and inadequate public services now imperil hard-won economic gains for many economies in the region. Insufficient progress in expanding infrastructure to less-developed areas has resulted in uneven growth, contributing to regional and social inequalities and threatening to mire them in the middle-income trap.
- The lack of investment in the region's infrastructure cannot be attributed to the insufficiency of capital, since a large amount of capital worldwide is seeking profitable investment opportunities that can complement public sector resources. The OECD estimates institutional investors' assets among its members at US\$92.6 trillion as of 2013, most of which is conservatively invested. Almost two-thirds of these are in insurance firms and pension funds whose long-term liabilities could potentially be matched by long-term assets such as infrastructure. More importantly, the pension industry must seek such higher-yielding investments in order to finance the needs of the region's rapid urban development and aging population.
- Discussions held under the auspices of the APEC Finance Ministers' Process (FMP) in previous years have identified two major obstacles. The first is the lack of a pipeline of bankable infrastructure projects in developing economies that can attract capital from institutional investors. The second is the lack of appropriate financial instruments and enabling policy frameworks for pension funds and insurance firms to expand their investment in emerging market infrastructure. By addressing these two issues, the FMP can remove two major obstacles to the advancement of APEC's vision of sustained, balanced and inclusive growth.
- The workshop focused on identifying concrete and practical initiatives to address the following issues, which are part of the Cebu Action Plan:
 - Building capacity to expand the pipeline of infrastructure projects. Much work has been undertaken in previous years to address this challenge. There has been much focus on this aspect in the work of multilateral and public agencies, for example, in assisting economies with project preparation. The FMP established the Asia-Pacific Infrastructure Partnership (APIP) to serve as a platform for public-private sector dialogue, which also dealt with how bankability of projects can be enhanced. The FMP has begun to build a regional network of PPP Centers among interested developing economies to help improve cross-agency coordination and to serve as channels for technical assistance and private sector advice on how to develop bankable projects across sectors. To provide technical assistance and advice with a view to enhancing these Centers' capacities, the FMP established the APEC PPP Experts' Advisory Panel that brings together resources and knowledge in key international organizations and the private sector. Sessions looked at how initiatives can be further developed and innovative tools designed to accelerate the creation of a pipeline of bankable projects in the region. These included discussions on the following proposals for inclusion in the Cebu Action Plan to enhance capacity of the public sector, increase consistency and

quality of project preparation, build upon the 2014 Infrastructure PPP Case Studies of APEC member economies and help maximize PPPs' role in infrastructure development:

- ✧ PPP Knowledge Initiatives/Portal: Discussions focused on best ways to advocate for APEC-related issues and engage with key global PPP knowledge initiatives such as the G20 Global Infrastructure Hub (GIH); multilateral development banks' PPP Knowledge Lab (such as review of components in the Lab, including PPP Reference Guide, and identifying ways to include and increase APEC case studies); and the Sustainable Infrastructure Foundation's International Infrastructure Support System (IISS). Discussions also included the development of a PPP directory of private firms that could be integrated into other knowledge platforms at the right juncture.
- ✧ Standardization of PPP Terms and Practices: Participants took stock of the G20 IIWG/World Bank/OECD near identical deliverables and provided inputs for standard PPP terms and practices and the development of templates for PPP contracts.
- ✧ Promoting inclusive infrastructure for urban development and regional connectivity: The key objective of this proposed initiative is to support APEC developing economies in accelerating infrastructure development and financing by providing access to cases of improving levels of infrastructure development for urban development and regional connectivity. This follows on the establishment in 2014 of the Urban Development Network to undertake discussions on policy and planning for sustainable urban development; project development, procurement, and management and good practice; and financing for sustainable urban development. This also seeks to advance the APEC Connectivity Blueprint for 2015-2025 endorsed by Leaders in 2014, particularly in solving related financing bottlenecks.
- Development of capital markets. Capital markets provide the most important channels for investing long-term funds in infrastructure. Where these markets are relatively well-developed, infrastructure development has benefited from the active participation of pension funds and insurance firms. Many economies in the region have become especially aware of the importance of local currency bond markets both for financial stability and for economic growth, and a number of regional and domestic initiatives have been under way for several years now. One important result has been the rapid growth of Asian government bond markets, a key stage in the process of capital market development. The next stage, which is increasing market depth and liquidity, will be critical to the evolution of the region's capital markets as effective channels for investment in infrastructure. The FMP is best placed to help accelerate this development by mobilizing the resources and knowledge of participating international organizations and the private sector in the APFF, especially in enabling the effective use of hedging instruments and risk management tools and fostering a more diverse investor and issuer base, which are key elements for promoting market depth and liquidity.
- Initiatives to mobilize long-term investment. While efforts to develop capital markets will take time to bear fruit, the FMP can explore other ways through which long-term investments can already be mobilized, including through collaboration among institutional investors, financial institutions and multilateral development agencies and private equity funds. One example of a partnership among parties including a multilateral agency, a foreign and local pension fund and an infrastructure asset management firm is the Philippine Investment Alliance for Infrastructure (PINAI), which is now investing in energy projects. The seminar discussed initiatives that can be incorporated in the Cebu Action Plan to start mobilizing long-term funding for infrastructure.

Mr. Odd Per Brekk of the IMF informed the Advisory Group of the IMF's ongoing work on capacity building, training and technical assistance for emerging markets to develop their financial systems. He noted that technical assistance centers have been established in various regions and that the IMF is making significant contributions to initiatives focused on capacity building for the financial sector and public sector management.

Mr. Allan Wain of Harvard Law School pointed to the importance of mobilizing patient capital, in particular Islamic capital, to broaden the investor base. He noted that there has been limited participation of these institutions in infrastructure investment in the Asia-Pacific due to insufficient understanding of the Islamic finance concept of real assets, of the relationship between infrastructure as an asset class and real assets, and of the incompatibility of legal structures being used for infrastructure with this concept. He proposed that the Advisory Group look into how Islamic capital can be integrated into conventional capital for investment, especially in infrastructure.

Advisory Group Co-Chair Haslina Taib of ABAC Brunei and Mr. Okubo of Nippon Life expressed interest in this proposal as an issue that can be progressed in the work of APFF on insurance and retirement income.

The Advisory Group welcomed and noted the reports.

Financial Inclusion

The Chair introduced the topic by noting that the Asia-Pacific Forum on Financial Inclusion is one of the three Finance Ministers' policy initiatives that are being managed by ABAC through the Advisory Group and that this year's forum was held on 3-4 March in Tagaytay City, Philippines. He mentioned that every year, a report is published and disseminated to relevant stakeholders including leaders, finance ministries and central banks through a project funded by the Citi Foundation and managed by the Foundation for Development Cooperation. The Chair expressed the Advisory Group's thanks to Citi Foundation for this support and to FDC for the good work it has been doing in preparing the Forum and in drafting the report.

The Chair also observed that one of the topics discussed in the Forum was digital finance, which has become a key enabler of financial inclusion. While related issues in payment systems were also discussed in the APFF linkages and structural issues work stream, he opined that this is an emerging issue that is relevant across the financial sector not just for financial inclusion, and so there were initial discussions how this could be approached in a more integrated manner.

Mr. Shawn Hunter of FDC informed the Advisory Group that initial discussions have been held with the Asian Development Bank Institute (co-organizer), leading to the proposal to hold next year's Forum on 7-8 April in Tokyo. Among the issues he mentioned being considered for discussion in the Forum are microinsurance, remittances, savings and digital finance.

Ms. Amy Auster of FDC presented ideas for potential future work on digital finance.¹ Key points are as follows:

- At this year's Asia-Pacific Forum on Financial Inclusion, 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 the Advisory Group 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, 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

¹ In the report, "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.

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. Over May-June, FDC canvassed the views of those directly involved in the Advisory Group'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.
- 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 the Advisory Group'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 organization should investigate the emergence of digital finance, including the platforms, channels, products and services, within the APEC community in support of financial inclusion?" A large majority (87.5%) of respondents replied positively.
- 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 harmonization, collaboration on AML/KYC requirements and inter-operability 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 the Advisory Group to undertake work in this area, FDC asked the Financial Inclusion Caucus members to comment on: (a) regulatory frameworks and regional collaboration on digital finance; (b) consumer protection and education; and (c) data retention, warehousing and storage. These areas of work are consistent with key themes underlying the work of the Advisory Group'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 the Advisory Group included:
 - Cross border issues and harmonization 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;
 - Harmonization of regulation in the digital space (e.g., in Australia, P2P platforms are regulated as managed investment schemes, which is different from the US and also different from 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 monopolization 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 the Advisory Group and 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.

- The scope of the work within the area of digital finance that FDC believes is relevant to the Advisory Group is outlined as follows:
 - Regulatory frameworks and regional collaboration on digital finance, including: (a) harmonization 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; and (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.
 - 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 (e.g., financial institutions and other related businesses such as credit bureaus); and (d) regulatory approach to mis-selling or inappropriate sale of products, including pushing consumers into over-indebtedness where customers may not understand a debt product or charges incurred.
 - 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 harmonization on storage of data – infrastructure, rules, safety and security. How to approach cloud-based systems; and (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 the Advisory Group’s value added 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 Advisory Group and ABAC are relatively unique in their span across developed and developing economies and focus on harmonization across APEC.
- There is work to be done in harmonizing regulation and ensuring any cross-border financial products or services that emerge within APEC as this industry expands are worked through the Advisory Group/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.
- 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 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.
- It was suggested that the Advisory Group would be the most appropriate and authoritative body to lead on this wider consultation. Pending the outcome of this wider consultation, FDC proposed 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 was proposed that the Financial Inclusion work stream prioritize and lead on certain topics relating to digital finance. 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.
- Proposal and next steps. FDC proposed the following:
 - that the Advisory Group formally recommend that the topic of digital finance be managed and coordinated by the Finance and Economics Working Group;
 - that the Advisory Group 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;
 - that the Advisory Group note the interest of the Financial Inclusion work stream to pursue elements of specific interest to its agenda; and
 - 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 Financial Inclusion 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".

Mr. Peter Lovelock of the Technology Research Project Corporate (TRPC) shared the conclusions of the report *APEC E-payment Readiness Index: Ecosystem Assessment and Status Report* submitted to ABAC. The key messages of the report are as follows:

- E-payments hold a broad range of promises for individuals, communities and economies at large. Adaptation to digital transactions is already having a transformative impact on societies through a lowering of transaction costs, particularly for SMEs, and thereby adding to productivity, economic growth and social benefits. Constraining transaction flows, through restrictions on access to e-payments – whether intended or not – can be shown to dampen economic growth, social equity and equality, and innovation. However, this study finds that APEC economies' level of advancement and experience in the development of an e-payment ecosystem varies widely. Realizing the full potential of e-payments will require more flexible regulatory and business climates along with coordinated and sustained efforts from governments, the private sector and the international development community to foster adoption.
- This study set out to illustrate the linkages between e-payment penetration and economic growth, canvassing where barriers exists for each APEC economy. To estimate the macro-economic impact of open access to electronic payments on APEC economies, a proof-of-concept exercise was conducted at the outset of the study. Using sample data from five APEC economies, the study found that a 1% change in online retail sales is associated with *at least* a 0.1 % growth in GDP per capita among these five APEC economies. This is a substantive finding and calls for a follow up and more substantive and empirically based survey of e-payments access and opportunities across APEC economies.

- Next, an APEC E-payment Index, comprising four pillars and 39 indicators, was constructed to gauge the readiness and capacity of each of the 21 APEC economies to engage in e-payment (including both e-payment and m-payment services), and to further develop their overall e-payment ecosystem. Building from this Index the study also uses a series of case studies of selected economies – Australia, Indonesia, Hong Kong and the Philippines – to illustrate key contributing factors to the prospects for e-payment adoption and development.
- Key trends and insights that emerge from the Index and case studies are as follows:
 - While economies can generally be seen to rank in accordance with their income bracket (GDP per capita), the level of economic growth is not the sole determinant of e-payment readiness or adoption in a given economy. Indeed, some middle-income economies, such as Malaysia, with a favorable business climate and solid infrastructure, are punching above their weight, while some high-income economies, such as the Republic of Korea and Japan, fall below where they would otherwise be expected, due to a restrictive regulatory environment and a lack of certain consumer demand. This suggests that, by focusing on e-payments, an economy can boost economic growth and effectively ‘leapfrog’ in its development trajectory.
 - Further developing this issue, the E-payment Index shows that APEC economies are largely divided into three clusters according to readiness and capacity for e-payment usage and adoption. The clusters can be summarized as follows: (a) Cluster 1: Economies with advanced e-payment ecosystems (“Advanced”) – America, Singapore, New Zealand, Australia, Canada; (b) Cluster 2: Economies with transitioning e-payment ecosystems (“Transitioning”) – Hong Kong SAR, Republic of Korea, Japan, Taiwan, Malaysia, Brunei Darussalam; (c) Cluster 3: Economies with nascent e-payment ecosystems (“Nascent”) – Chile, China, Russian Federation, Thailand, Indonesia, Philippines, Mexico, Peru, Vietnam, Papua New Guinea
 - Notably, no single APEC economy trumps in all pillars of the Index. Of the four pillars that comprise the Index, Singapore comes first in Regulatory & Policy, Korea tops the list in Infrastructure, Canada scores highest in Demand, while the US excels in Innovative Products & Services. This means that every economy has aspects it can improve in order to reap the benefits that e-payments can bring. Even more significantly, no single economy trumps in more than one pillar. This also implies that while sequencing of structural shifts that takes place may be important, there is no single pathway or a roadmap for those in the lower clusters to climb up the ranking. Every economy will have a unique combination of focus areas to strategically and successfully shift to e-payments.
 - The results also show that while access to formal financial systems, such as banking including credit and debit card usage, is important today, future growth will come disproportionately from emerging economies using affordable smartphones and other mobile devices. Economies such as Indonesia and the Philippines, while still cash dependent, are showing not only a remarkably high propensity to go online, engage in social media and shop via their smartphones, but a large proportion are entering the formal financial market because of these devices, and potentially bypassing traditional platforms such as credit cards. Rapidly expanding e-commerce sectors in these economies will often lead and further drive the development and usage of e-payments in coming years.
 - No matter the stage of development of the e-payment ecosystem, facilitating an attractive market (including business) climate, and investments into innovative e-money solutions is important. Some economies from the emerging block, such as Indonesia and the Philippines, are forging ahead in innovations such as fintech and cryptocurrencies to capitalise on their growing middle class’ propensity to spend and transact via mobile devices.
 - Government, as a large provider and consumer of payments, has an important role to play in accelerating the digital transition, especially in economies across the lower clusters. Government efforts and initiatives to transition to electronic payments creates demand and new opportunities, including new needs for payment infrastructure and a change in

consumers' cash dependence. As governments cease to accumulate, and produce, cash and increasingly move to electronically disbursing citizen funds – to bank branches, ATMs, or other cash-out points – recipients will be incentivized to participate.

- In terms of specific areas of the APEC E-payment Index, the findings are as follows:
 - Regulatory and Policy Environment: Many economies need to focus on fostering a favorable regulatory and policy environment to enhance the confidence of businesses and consumers. Therefore, government's vision and efforts to make use of e-payments to improve transparency, efficiency and accountability in its own finances can kick-start a virtuous cycle of adoption.
 - Infrastructure: The gap or divide between high-income, upper-middle-income and lower-middle-income economies is most obvious in the infrastructure pillar and bridging the digital divide will be essential to fully leveraging the opportunities in e-payments. This includes increasing smartphone penetration, and broadband access and affordability. Focusing on availability and affordability of basic financial services is key in driving e-payments.
 - Demand: Demand for e-payment to date is more prominent in advanced economies where the majority of the population are likely to have bank accounts – but that trend is likely to change soon. Rapid uptake of mobile phones, social media and e-commerce in developing economies will facilitate market growth for e-payment and m-payment.
 - Innovation: Innovations especially in mobile and virtual currencies in overcoming infrastructure challenges are contributing to higher uptake of e-payment and m-payment services, and are acting as gateways into the financial system for unbanked – or under-banked – consumer segments. As the number of non-bank players in the e-payment system increases, particularly in developing m-payment solutions, there is a need for collaboration among banks and non-banks in order to accelerate innovation.

Mr. Cholvijarn of ABAC Thailand opined that ABAC and the Advisory Group should look into this issue as part of future work, noting the growing demand for e-payments, to find ways of putting the needed systems in place, promote market growth and address regulatory and related security issues.

The Advisory Group welcomed and noted the reports and agreed to develop a digital finance or FinTech agenda for further discussion at the next meeting.

Valuation practices

The Coordinator drew participants' attention to a brief written update submitted by Mr. Nicholas Brooke of the International Valuation Standards Council. The update mentions that there has been progress on efforts to strengthen valuation practices and to promote the role of the valuation profession across the 21 APEC economies and there is dialogue with regulators, practitioners and the many users of valuation services as to the way forward. The following is currently being undertaken:

- preparation of an Audit, which essentially maps the current Valuation Landscape of all 21 economies;
- creation of a Template of Best Practice which will outline how aspects such as regulation and compliance, access to information and disclosure and education and training are to be addressed when contemplating how best to establish a valuation infrastructure appropriate to the economy in question; and
- series of roundtables with the valuation community in several APEC economies to develop road maps to assist those economies to adopt appropriate standards as well as strengthening valuation practice and the valuation profession.

The Advisory noted the update.

2015 Advisory Group Report on Capacity Building Measures to Strengthen and Develop Financial Systems

The Coordinator presented the draft 2015 report of the Advisory Group recommending that APEC Finance Ministers:

- endorse the 2015 APFF Progress Report and its recommendations;
- explore a formal definition of financial inclusion; develop an APEC model framework for financial inclusion strategies; and establish a new working group to discuss digital finance issues;
- develop and promote the use by member economies of the International Infrastructure Support System (IISS);
- collaborate with the G20 Global Infrastructure Hub in developing initiatives to enhance public sector project preparation capacity, such as the development of a PPP Knowledge Portal;
- continue holding APIP dialogues among relevant officials, the private sector and relevant international organizations in 2016;
- develop a holistic policy framework on sustainable urban infrastructure development, including action plans that can be adopted, through the Asia-Pacific Urban Infrastructure Network (UIN); and
- support ongoing efforts to develop a roadmap to assist economies in strengthening valuation practices and the valuation profession.

The Advisory Group endorsed the report for attachment as annex to the ABAC Report to APEC Finance Ministers together with the 2015 APFF Progress Report.

Chair's Closing Remarks

The Chair delivered his closing remarks and thanked ABAC Australia for hosting the meeting. He also announced that the next meeting will take place in Manila during the ABAC meeting in November, and that participating institutions will be informed of the exact date and time as soon as this information becomes available.

Adjournment

There being no other matters to discuss, the Chair declared the meeting adjourned at 3:45 pm.