

**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

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Meeting: Manila, Philippines

Meeting Paper 8-A
Framing paper: Digital finance and fintech
Foundation for Development Cooperation / Australian Centre for Financial Studies

PURPOSE	For consideration.
ISSUE	Ideas for 2016 work on Digital Finance/FinTech
BACKGROUND	Digital finance and FinTech are important to APEC: (a) a borderless digital economy will seek borderless payments and capital; (b) digital finance and fintech offer opportunities and threats; (c) "leapfrog" within less development markets; (d) access to and usage of data is central to fintech; (e) significant potential damage from cyber breaches in the financial sphere.
PROPOSALS	<ul style="list-style-type: none"> ■ Advisory Group formally recommend that the topics of digital finance and fintech be managed and coordinated by the Finance and Economics Working Group. ■ Advisory Group commission an individual (or group) to scan across ABAC and report back on work underway in other parts of ABAC that may be relevant to this topic. This individual or group may then identify areas of particular interest to the FEWG and make a recommendation as to whether digital finance or fintech may become a formal work stream, and specific topics or areas of work to address within that stream. ■ Advisory Group to note the interest of the Financial Inclusion Forum to pursue areas or topics that are of interest to the Forum participants. The Financial Inclusion Forum caucus may be expanded to incorporate new skills and expertise in this area. ■ Advisory Group to note that outcomes of the above may lead to work targeted for outcomes under the Finance Minister's process in 2016.
DECISION POINT	Endorse the recommendations.



FDC
The Foundation for
Development Cooperation



**AUSTRALIAN CENTRE
FOR FINANCIAL STUDIES**

Framing paper: Digital finance and fintech

Advisory Group on APEC Financial System Capacity Building

13 November 2015

 fdc.org.au

What is digital finance?

Definition of **digital finance**

- Financial services or products that are offered through either an online or mobile platform
- Transactions are “cashless” but decision chain links back to human judgment and process

Examples:

- Online banking
- Electronic payments including via mobile phone
- Mobile savings account with embedded insurance product
- Online lending and microfinance

Providers:

- Financial institutions: banks, fund managers, insurance companies
- Microfinance institutions and NGOs
- Mobile network operators



¹ Financial Inclusion Caucus under the Advisory Group APEC Financial System Capacity Building



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What is fintech?

Definition of **fintech**

- Marriage of “finance” and “technology”
- Transactions are generated and completed by software
- May not be easily replicated by humans

Examples:

- Block chain technology (ledger) for international payments
- Algorithmic, high frequency trading
- “Big data” generated decisioning: peer-to-peer lending, robo-advice

Providers:

- Retailers: Googlewallet, Alipay, ApplePay
- Bitcoin startups: Coinbase, BitX, Bitspark, Xapo
- Peer to Peer lenders: Ratesetter, OnDeck, LendingClub
- Crowdfunders: Fundanything, Kickstarter, Tilt
- Robo-advice: Betterment, Wealthfront, FutureAdvisor



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Framing: What is the relevance for APEC?

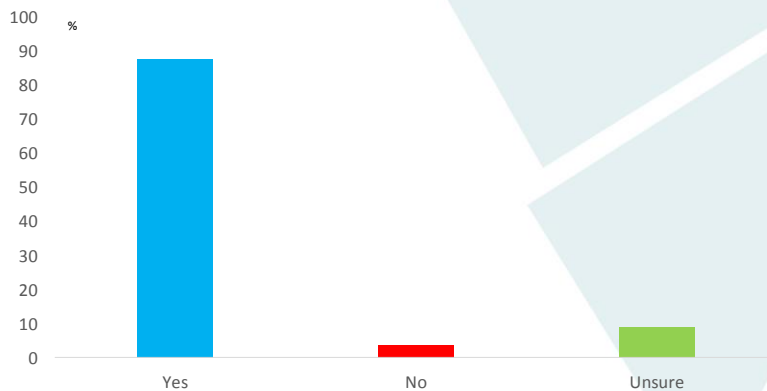
1. A borderless digital economy will seek borderless payments and capital
 - Cross border payments to facilitate trade
 - Cross border investment flows to facilitate growth
2. Digital finance and fintech offer opportunities and threats
 - New financing channels: crowdfunding, automated platforms
 - Many new start ups – how are regulatory frameworks evolving?
3. “Leapfrog” within less development markets
 - Lower cost, digital offering is attractive in developing economy settings
 - But consumers have lower financial literacy
4. Access to and usage of data is central to fintech
 - Big data often cloud-based where many APEC member economies do not host cloud services
 - Questions of usage, storage, transmission and protection of data
5. Significant potential damage from cyber breaches in the financial sphere
 - Deliberate hacking or other criminal activity
 - Network outages now represent a serious threat to economy



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Relevance for Financial Inclusion Forum

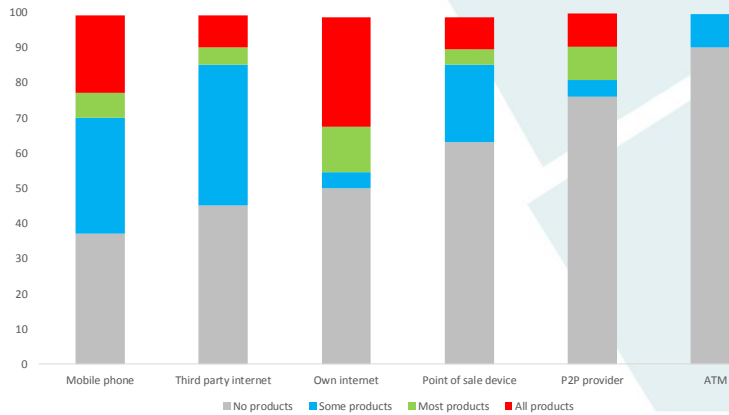
Do you believe there is increasing use or takeup of digital finance products or services in your country?



Source: Banking With The Poor network survey. 60 respondents representing 10 economies in the Asian region, of which just over 60% are affiliated with microfinance institutions. Survey completed May-June 2015.

Mobile phones are an important channel for financial inclusion

What proportion of digital transactions are delivered by the following channels and communication modes?



Source: Banking With The Poor network survey. 60 respondents representing 10 economies in the Asian region, of which just over 60% are affiliated with microfinance institutions. Survey completed May-June 2015.



Potential scope of work

1. **Regulatory frameworks on digital finance & fintech, including**
 - Harmonisation of regulation on cross-border digital financial products and services (eg, digital international payments such as bitcoin)
 - Systemic issues that may become disruptive across multiple economies
 - Cooperation on technical or hard infrastructure related issues (disaster recovery for network stability) and soft issues such as cross-border hacking
2. **Consumer protection and education, including:**
 - Best practice in consumer protection and cybersecurity
 - Best practice in migrating customers from a cash-based to a cashless economy
 - Best practice in migrating institutions from paper-based data systems
 - Regulatory approach to mis-selling or inappropriate sale of products
3. **Data retention, warehousing and storage. Issues include**
 - Regulatory framework for gathering, using and storing personal financial data by non-bank providers
 - Harmonisation on storage of data – infrastructure, rules, safety and security
 - Use of “big data” where big data is being for customer identification (social networking profiles) or may be used for financial exclusion (insurance premiums)



Next steps - proposed

1. Advisory Group formally recommend that the topics of digital finance and fintech be managed and coordinated by the Finance and Economics Working Group.
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