



2016 Asia-Pacific Forum on Financial Inclusion

Financial Inclusion in a Digital Age

7-8 April 2016, Asian Development Bank Institute, Tokyo, Japan

Forum Overview

Introduction

The Asia-Pacific Forum on Financial Inclusion was attended by over 130 experts and stakeholders from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations. A detailed report will be published and circulated in the coming months summarizing the discussions and recommendations for policy makers and regulators. Provisional conclusions and recommendations arising from the Forum follow.

Credit Bureaus and Credit Information Systems

- The basic premise should be that Data is owned by the generator of that data i.e. the Data Subject.
 - a) The data subject must have access to all his/her data when needed.
 - b) Governments should collect data as a matter of policy at the data subject level.
 - c) However, should privacy issues be of a concern, at the very least, data generated by data subjects in their transactions with government franchises, utilities, and other services that have a public interest component that can have an impact on an individual's ability to have access to credit and other financial services, should be contributed to registries or bureaus (depending on govt policies covering these) as part of their franchise or authority to operate.
- Efforts should be made to allow these data (from point #1) to be paired with other forms of data that can serve to make it valuable to the MSMEs. Data Subject authorization for data use should be the prime determinant of how data is used as long as there is full disclosure of uses of the data and a time period to the use. Also revocation of right to use by third parties (which does not include govt agencies in the context of policy creation and statistical analysis) should be unilateral.
- Assuming alternative data has a lower cost of acquisition, use of alternative data in credit scoring should be considered for loans of smaller value, with government monitoring of success, failures, and difficulties, and from there policy developed in response. However, these loans based on alternative data should be carefully recorded and monitored to protect the borrowers from unscrupulous lenders who will push the borrower into over indebtedness specially for the purpose of acquiring the borrowers' assets.
- Micro borrowers are currently borrowing using hardly any data. In this lending process, Risk is measured by an actual knowing of the data subject by the lender (arms reach lending). However, lenders must be encouraged to convert this goodwill of lending without requiring data into engaging the borrower to submit additional documentation over several renewals of the loan specially with the focus of formalizing the financial footprint of the borrower. The goal being to being the process of identity and repayment file creation, then applying non-traditional data along with behaviors obtained

during the arm's length lending process as “transitional data” for micro and no file borrowers, with the end goal of applying traditional forms of data over time.

Insurance as the foundation of economic growth in the APEC region

- Proportional regulation is needed to allow the market to support a range of insurance products including disaster risk and products developed specifically for MSMEs. In addition, digital delivery of products may entail supervision by several different departments and regulations, highlighting the need for affected government ministries to align departmental policy and work together to provide appropriate and proportional regulation for the microinsurance industry.
- There is substantial value in public-private dialogue, where policymakers and regulators engage with insurers as partners in developing products and solutions for both responses to and mitigation of disaster risk.
- The mobile phone platform is an enabler, but not a complete solution to financial inclusion. Many financial services require a degree of human interaction to meet the needs of customers, including in the insurance market – especially in building trust and the capability of new clients. Policy makers need to understand that while mobile products are gaining traction, models providing human touch also require attention as insurance providers respond to the needs of different market segments.

Unlocking Cross-Border Opportunities for the Bottom-of-the-Pyramid and Beyond

- Effective financial inclusion entails providing access to and use of a combination of products, with an increasing focus by providers on the package of financial products and services clients are seeking, and less on the traditional discrete products offered by individual providers.
- Whilst the focus of policy has been on reducing the cost of remittances, convenience and trust are the other key factors migrant workers and their families consider in their remittance decisions. To increase transparency and foster competition, governments can facilitate the provision of independent and objective information to remitters on the range of options available, specific to their main corridors.

Promoting Savings via Formal Channels: Challenges and Opportunities

- Financial service providers employ a range of channels such as the use of agents to reach “last mile” clients. Regulation needs to respond to channel-specific situations, such as clear designation of responsibility between agents and financial services providers.
- Financial education is essential for financial products such as savings accounts to be used and provide meaningful benefits to customers. Financial inclusion and financial education should be seen as an ecosystem with government, financial services providers and other specialists working together to develop and implement effective programs.

Digital Financial Infrastructure for Digital Finance: Extending Reach to MSMEs

- Systems interoperability is one of the most important elements of financial infrastructure that government can foster or influence to achieve greater efficiency, innovation, lower costs and convenience for consumers.
- MSME credit cannot be given in a vacuum and requires supporting services such as financial infrastructure, some of which can be developed and provided by government agencies, some by the private sector, and some through the industry associations, such as Japan's Credit Risk Database.

Financial Literacy through Education

- Adopting a national program and strategy to financial education can better integrate the initiatives of financial service providers, governments and other stakeholders to improve the overall outcome.

- Financial education programs that integrate with national school curriculums have shown to be effective, especially where tailored for various age groups and appropriate training is provided to educators to ensure its success.
- E-learning platforms are gaining popularity across a range of educational fields and have proven successful in different markets in a providing greater variety of ways in which to reach more people.

Digital Finance and Consumer Protection

- Consumer protection in digital finance presents different challenges to those in conventional finance as the customer is different, agents are an additional dynamic, the interface is technology based, and it is often unclear as to who in the delivery channel is responsible to the client for what.
- At present, the challenges are manageable, as digital finance represents a relatively small proportion of transactions, with one of the main challenges being reliability of service. As digital finance becomes pervasive, suitability of products for clients, privacy and data protection will become more significant challenges for policy makers and regulators.
- The behavioral sciences and consumer centricity should be applied, not only to product marketing but also product design, development, consumer transparency, protection and regulation/supervision. Supply-side innovations and initiatives to increase access to finance should be influenced by a demand-side focus on how to best serve poor clients.
- In the same way that 'FinTech' is disrupting financial markets, 'SupTech' and 'RegTech' provide opportunities for technology to ease compliance burdens and enable rapid consumer feedback and early detection of problems, and communication of messages back to consumers.

Insolvency: Moving Beyond Stability to Growth

- Sound insolvency and secured transactions regimes are essential for the effective redeployment of capital and assessment of risk by investors and lenders.
- Effective management of insolvency of SMEs is a question of balance: of the rights of creditors and debtors/ investors; between liquidation and reorganization; and need for efficiency and need for legal fairness.