

1. BRINGING FINANCIAL SERVICES TO THE DIGITAL AGE

Enabling market players to leverage technology to provide more inclusive and efficient financial services requires modernization of the legal, regulatory, institutional and market ecosystems for the financial sector. To this end, the following work was undertaken:

- The APFF convened several meetings, informal discussions and conferences to develop the basis for coordinated action in two critical areas. These are: a proposed APEC Roadmap for a New Financial Services Data Ecosystem and a Strategy for the Digitalization of Trade and Supply Chain Finance.
- The APFF continued its work in developing ideas for the adoption of fintech in financial market infrastructures.
- The APFF continued to progress the work of its Financial Infrastructure Development Network (FIDN) in collaborating with several economies to provide an enabling ecosystem for the collection, sharing and use of digital credit information to facilitate risk-based lending to MSMEs.
- The APFF undertook regional discussions to develop advice to policy makers and regulators on how to advance the CAP's financial inclusion deliverables.

1.1. AN APEC ROADMAP FOR A NEW FINANCIAL SERVICES DATA ECOSYSTEM

Ensuring progress in harnessing the potential of technology and data to achieve greater financial inclusion and efficiency calls for efforts within APEC to develop a shared vision of a future data ecosystem and to collaborate in achieving this. It requires clearer awareness that laws and regulations taken in response to concerns, such as those about data privacy and security, have consequences on the costs of financial services. Toward this end, key stakeholders from the private and public sectors and multilateral and academic institutions, using the APFF as a platform, collaborated to draft an APEC Roadmap for a New Financial Services Data Ecosystem [*See Attachment A.*]

This Roadmap identifies critical building blocks of an enabling data ecosystem for the region and outlines concrete initiatives and actions to put these building blocks in place over a reasonable time frame. It provides a tool for promoting consistency of laws, policies and regulations in APEC economies with existing internationally agreed principles, frameworks and good practices, and identifies areas where new minimum benchmarks need to be developed in order to achieve regional consistency. It also points out key considerations and the way forward for individual jurisdictions to undertake reforms and for regional cooperation to be harnessed for the purpose of promoting expanded collection, sharing and use of data within and across jurisdictions leading to greater inclusiveness and efficiency of financial services in the region.

Proposed actions related to general data regulation include:

- *Ensuring consistency of policies with the APEC Privacy Framework and OECD guidelines;*
- *Reviewing consistency among domestic laws, policies and regulations around data within jurisdictions and undertake changes where needed;*
- *Fostering full-file and comprehensive credit information systems supported by efforts to expand the sharing of credit information and founded on sound legal and regulatory frameworks;*
- *Adopting a balanced regulatory approach toward the new data analytics industry and establishing a general personal data regulatory body supported by an ecosystem of stakeholders and government making public data available in a convenient manner for business purposes;*
- *Undertaking capacity building activities to help relevant policy makers and regulators deepen their understanding of the changing data technology and industry landscape;*
- *Establishing collaboration between regulators and industry in developing legal and regulatory frameworks supported by industry standards and financial education; and*
- *Reviewing the adequacy and appropriateness of domestic laws and regulations around data and reform them where needed, based on a set of sound principles related to regulatory approaches, flexibility and proportionality, and focused on preventing misuse and harm and promoting a level-playing field.*

Proposed actions related to cross-border data flows include:

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- *Identifying concerns behind data localization that must be addressed and evaluating alternative options that can allow wider cross-border sharing of data;*
- *Completing a gap analysis between the APEC Cross-Border Privacy Rules (CBPR)/APEC Privacy Framework and the EU General Data Protection Regulation (GDPR); and providing a platform for member economies to undertake gap analyses between their domestic privacy regimes and the CBPR/APEC Privacy Framework;*
- *Promoting broader industry participation in the CBPR by making it more affordable to MSMEs and creating a globally recognizable certification mark;*
- *Developing a long-term strategy for strengthening data security in the region by gathering experts to discuss, among others, adoption of common standards and guidelines, innovative programs, the use of regulatory sandboxes, incentives for company boards to prioritize cyber resilience, and leveraging existing resources and expertise for capacity building;*
- *Reviewing and reforming cyber resilience legislation and complementing with industry best practices;*
- *Reforming the Mutual Legal Assistance Treaty (MLAT) and expanding international agreements for law enforcement authorities to have access to relevant data in each other's jurisdictions;*
- *Developing domestic data-driven industries through a holistic set of enabling policies and measures based on APEC best practices; and*
- *Establishing regional platforms for enabling appropriate use of new technologies in cross-border financial services.*

The APFF's FIDN is pursuing the inclusion of a panel at the World Consumer Credit Reporting Conference later this year to explain the Data Ecosystem Roadmap to the participating consumer credit bureaus.

This draft Roadmap will be subjected to a series of discussions and consultations with regulators, policy makers, industry stakeholders and experts around the region in coming months. It is recommended that APEC Finance Ministers encourage public sector stakeholders and senior finance officials to collaborate with ABAC and APFF in preparing this Roadmap for finalization in 2019.

1.2. A STRATEGY FOR THE DIGITALIZATION OF TRADE AND SUPPLY CHAIN FINANCE

The work of APFF's Trade and Supply Chain Finance Work Stream focuses on implementing three deliverables under the Cebu Action Plan, which are: (a) to develop regionally consistent legal, institutional and operational structures to facilitate the financing and expansion of cross-border trade and supply chain finance; (b) to expand the use of electronic supply chain management platforms; and (c) to facilitate digital, mobile and innovative working capital management techniques.

Trade and supply chain finance continues to be largely a paper-based and manual process, and thus unnecessarily costly and time-consuming, as a consequence of having to comply with various regulations including stringent KYC/AML rules. Many technologies are now available to enable the digitalization and automation of the process, but they cannot be adopted until enabled by law and regulations. APFF undertook several discussions with industry players and associations, policy makers and regulators and various experts from multilateral organizations and academe during conferences that were held on 31 May in Hangzhou, China,¹ 18 June in Fukuoka, Japan, and 25 June in Singapore. Through these discussions, APFF's Trade and Supply Chain Finance Work Stream drafted a Strategy for the Digitalization of Trade and Supply Chain Finance [*See Attachment B*].

Key challenges identified are the following:

- Feasibility of coordinating a huge variety of trade constituencies that make up the ecosystem;
- Growing gap between legal frameworks and market practices;

¹ On May 31, APFF FIDN co-organized with CaiNiao, MyBank and IFC a forum on Logistics and Supply Chain Finance (SCF) in Hangzhou, China. This is part of the activities under the annual Global Smart Logistics Summit. Over 200 people attended the Forum, which discussed how to develop logistics-linked supply chain finance and, in particular, how to build a new ecosystem under the technology-driven SCF platforms. As modern economic activities are increasingly concentrated on hubs and clusters, logistics services have expanded to connect among businesses and with consumers including cross-border deliveries. Logistics are also being transformed by the Internet, mobile communication, cloud computing and IOT. The Forum found that logistics firms have become key repositories of supply chain data and information which can be leveraged to make more MSME finance available. Some of these firms have been set up digital SCF platforms. Participants emphasized the need for better enabling environment, collaboration among chain actors, greater linkages with credit institutions, etc. in order to scale up logistics-linked SCF.

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- Lack of standards and inter-operability;
- Urgent need to digitalize Trade-Based Anti-Money Laundering (TBML); and
- Impact of uncertain future of legal and regulatory frameworks on availability of skilled human resources in the industry.

The Strategy proposes the way forward as follows:

- *Undertaking reform of legal and regulatory frameworks and market standards related to digital trade title documents, processes and more efficient TBML;*
- *Establishing technical inter-operability standards that are cost-efficient, easily adopted and usable across borders; and*
- *Establishment of an industry cross-agency, cross-ecosystem, public-private sector Digital Lab to coordinate and facilitate communications between different constituencies, identify specific legal and regulatory challenges and formulating solutions. It is proposed that the Digital Lab be established in 2019 and can be a virtual entity hosted by APFF under the FMP as part of the implementation of the CAP.*

1.3. PROMOTING REGIONAL PUBLIC-PRIVATE PLATFORMS TO CREATE ENABLING ECOSYSTEMS FOR FINANCIAL INNOVATION

The emergence of fintech and new business models in the delivery of financial services has created new challenges and opportunities for policy makers and regulators. It poses challenges due to the need to ensure critical policy objectives such as consumer protection, data and privacy protection, financial stability and preventing access to the financial system by criminals and terrorists. It opens up opportunities due to the potential of technology and innovative business models to make financial services more inclusive and efficient. The benefits of using such technologies in expanding access to finance have already been demonstrated in many markets all over the world.

The key to meeting these challenges and benefiting from these opportunities is designing new regulatory frameworks that balance the achievement of policy objectives with enabling the use of innovation to promote inclusion and efficiency. Due to the rapid evolution of technology and the information asymmetry between regulators and fintech firms, it has been difficult to find this balance, especially in developing economies where ecosystems for financial services are not yet fully developed. To help achieve this goal in their domestic jurisdictions, many regulators are relying on or plan to establish regulatory sandboxes.

While regulatory sandboxes play useful roles in developing policies and regulations that can enable fintech firms to serve the domestic market, there is also a need for platforms that can help regulators identify obstacles to cross-border access to innovation and the use of innovation in cross-border transactions. These platforms can help them undertake policy and regulatory reform measures in their respective jurisdictions in a regionally coordinated way. They may take different forms, but it is important for these platforms to be based on collaboration between regulators and industry.

In the context of APEC emerging markets, where the bulk of financial resources and customer information is in the banking sector, it is important for regional platforms to involve both the banking and the fintech industry, particularly fintech firms that target banks as their customers and those that collaborate with banks in providing products and services to consumers. This will help jurisdictions that are currently undertaking financial integration initiatives that involve traditional financial services providers, such as the ASEAN Economic Community and the Pacific Alliance, integrate innovation into these efforts, especially the activities of fintech companies that are targeting wider regional banking and consumer markets.

To promote this concept, APFF is collaborating with the ASEAN Bankers' Association (ABA), the Monetary Authority of Singapore (MAS) and the IFC/World Bank in the development of the ASEAN Financial Innovation Network (AFIN). AFIN is a private sector platform established under the auspices of the ABA in cooperation with MAS and IFC/WBG, which will link together banks and fintech companies across the region. It is intended to serve as a regional regulatory sandbox, where regulators from participating economies can observe the operations of the market participants and identify obstacles that can be addressed through policy and regulatory reforms and adjustments. APFF hopes to actively participate in the operations of AFIN with a view toward using its experiences in promoting similar regional public-private platforms in other parts of APEC and expanding participation to more APEC member economies.

1.4. FACILITATING INNOVATIONS IN FINANCIAL MARKET INFRASTRUCTURE

The APFF's Financial Market Infrastructure (FMI) FinTech Work Stream focused its work on digital authentication and e-payments.

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- Digital authentication: Work in this area seeks to streamline authentication requirements to achieve greater access to broad financial services at a faster pace in developing and developed markets. To do this several key issues have been identified: use of digital identity; acceptance of digital signatures and documents; reduction of face-to-face requirements; use of AML/KYC utilities and adoption of common authentication requirements.
- E-payments: Work in this area seeks to establish open, interoperable and efficient electronic payment systems that leverage and enable utilization of technological developments. Its scope includes introduction of instant payments between banks; agreement on QR Code Standards by providers; utilization and adoption of global best practices in the development of national payment gateways; adoption of open banking/APIs; linkages between economies; and standardized use and aligned adoption of emerging technologies based on good global practice, international standards and jurisdiction-specific use cases.

1.5. FOSTERING AN ENABLING ECOSYSTEM FOR THE COLLECTION, SHARING AND USE OF DIGITAL CREDIT INFORMATION

The APFF's FIDN focused its work on continuing to advance the CAP deliverables to address regulatory barriers to digital, mobile and innovative financing, develop policy frameworks for alternative finance, and establish legal frameworks around credit information. Several activities were undertaken with the following outcomes:

- The FIDN collaborated with the People's Bank of China (PBOC) and the IFC/World Bank Group in holding a focus group meeting on February 6-7 in Beijing. This was convened to discuss emerging regulatory concepts and issues on the growing data and analytics industry, in view of the need to provide a sound regulatory framework for this new industry in China. *The participants shared their view with the regulator that this new industry needs a data regime different from the existing one governing the credit information industry and shared information on legal cases, practices and approaches in other jurisdictions.*
- The FIDN *started work on a baseline survey of credit information systems* across the region that can add more details to existing general survey data and establish an effective baseline for measuring progress in developing credit information systems, making cross-jurisdictional comparisons and setting concrete goals. Meetings were held to discuss the baseline survey with regulators and business stakeholders in China and Hong Kong. Visits to other jurisdictions are currently being planned for the rest of the year.
- The FIDN is collaborating with Australian Treasury and Parliament officials on holding a conference on optimal data ecosystem and credit data based on a paper developed by the Asia-Pacific Credit Coalition to *promote domestic support for the introduction of mandatory full file credit reporting.*²
- The FIDN is currently scheduling a workshop in Brunei later in the year to assist policy makers and regulators in developing their credit information systems. Brunei is *drafting its credit bureau law, which will take into account cross-border data flows.*
- The FIDN is also scheduling a workshop in the Philippines later in the year, to discuss the Data Ecosystem Roadmap and best practices. The Philippines' credit information system is in the early development stage with relatively recent data sharing mandates and officially licensed credit bureaus. The FIDN intends to *assist regulators and policymakers in working through important details of credit reporting*, including the relationship between the public credit registry and the private credit bureaus.

1.6. DEFINING REFORMS THAT CAN DELIVER THE INCLUSION IMPERATIVE

The APFIF this year sought to further advance the two financial inclusion deliverables of the CAP, which are to promote financial inclusion through the regular Financial Inclusion Forum and advise economies in adopting domestic strategies that promote financial inclusion and literacy. ABAC, the Foundation for Development Cooperation (FDC) and ADB Institute convened this year's Forum on 27-28 June in Tokyo, and discussed with senior officials and industry experts from 18 economies to define the reforms that can deliver the inclusion imperative in all its key dimensions – financial, economic and social. The Forum concluded that these reforms are those that focus on policies, practices and programs that can improve the lives of the poor (defined as those who live on USD20 or less a day), representing about 2 billion people across the Asia-Pacific region.

² Australia has a fairly well developed primarily negative-only credit information market. Several years ago governing privacy laws were updated to permit the sharing of full-file, positive credit data. In order to improve credit access and inclusion that would result from robust full-file credit sharing, Australian policymakers are currently discussing to speed up the reform process by mandating full-file credit reporting by large lenders.

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Participating regulators and public and private sector stakeholders agreed that policy makers should establish the following structural reforms and programs:

- Aiding the poor to participate in a spectrum of financial instruments beyond credit that build greater and inter-generational financial security;
- Designing entry points to economic inclusion that are relevant to the needs of the poor such as via social transfers and remittances;
- Enabling the poor to participate in formal economy opportunities as represented by employment, wage growth, superannuation, pension schemes and insolvency laws, among others;
- Development of gateway products and the removal or reduction of processes that are barriers to inclusion, and the design of processes that facilitate ease of access;
- Provision of pathways to investments, enabling the poor to accumulate productive assets, build wealth and build long term (and intergenerational) security;
- Addressing the needs of poor women by providing greater protections and targeted policies that assist their income opportunity and security;
- Promoting greater investment in the Nano-MSME sector including in products that provide trade transparency and optimize supply chains; and
- Leveraging technological innovation in digital services, distributed ledgers, artificial intelligence, machine learning, the Internet of Things and alternative currencies in responsible ways to create affordability, ease, and to sharpen the pace of inclusion efforts.

The poor represent on average more than 35 percent of GDP in emerging markets. Harnessing this latent economic value is critical to the sustainable growth of these vibrant economies. The findings align to the objectives of the Sustainable Development Goals and the CAP, and support progress on a number of their goals and aspirations.