

Asia-Pacific Financial Inclusion Forum

Structural Reforms:

- Traditionally, financial inclusion stakeholders, including governments and practitioners, have maintained too strong of a focus on credit, which alone does not adequately meet the needs of the poor who require a greater diversification of products and services. The reasons for this excessive focus on credit largely stem from factors such as it is easier for governments to regulate and more profitable for service providers. However, the industry is increasingly recognising that creating channels to the unbanked to expand access to credit often does not lead to the desired outcomes in terms of development and poverty alleviation. Indeed, in many cases the oversaturation of credit can lead to unintended problems such as increased levels of over indebtedness.
 - **Recommendation 1: To address this, governments need to identify and prioritise reforms which support and promote the proliferation of a broader range of financial products and services for the poor including savings, insurance, remittance or pensions.**
 - **Recommendation 2: Such reforms need to target the ability for financial institutions to develop and test innovative solutions involving new technology or providing incentives for financial institutions to diversify their product offerings.**
- To achieve economic inclusion, components of the broader economic ecosystem need to be addressed. While significant gains have been achieved in expanding access to financial products and services in recent years, financial inclusion should be considered as a tool or enabler for poverty reduction rather than a standalone remedy. More work is needed to translate increased access to financial products and services into tangible impact. The key to achieving this likely rests with increased efforts to promote effective usage of financial products and services; particularly securitising products such as savings and insurance. A key challenge in this regard stems from the fact that the financial needs of the poor are diverse and cannot likely be provided by a single institution. Different products and services are needed, however, these also come with their own unique risks and delivery challenges. As such, an ecosystem approach whereby stakeholders actively collaborate with each other is necessary. Such collaborations should include a variety of relevant government agencies, private sector companies, civil society and international organisations to ensure that each aspect of the ecosystem can be represented. By facilitating these collaborations stakeholders will be enabled to more effectively address the broader range of issues necessary to promote economic inclusion such as financial literacy, infrastructure needs, technology solutions and policy and regulation.
- Governments need to consider how they recognise and engage with both the formal and informal sectors. The informal sector constitutes the vast majority of employment in developing economies and makes significant positive contributions to gross economic output and the general welfare of the poor.
 - **Recommendation 3: While attempts to regulate the informal economy would contradict its very nature, governments should consider ways by which prudential policies can be put into place with the aim of addressing the unique needs and risks associated with the informal sector and support its development. The core objectives of such policies should be to enable greater empowerment and opportunity for people in both the formal and informal sectors. However, when considering the local context for how such policies could lead to positive impacts, it is important for**

ADVISORY GROUP

MEETING PAPER 3-D

governments to recognise that replicating these policies in other economies may not be effective. Instead, a general framework to provide guidance for supporting the informal sector could be established and localised for each different economy to account for unique needs and circumstances.

Wealth creation:

- The use of new digital technologies, such as distributed ledger technology (DLT), to monetise non-traditional assets for the poor could prove to be a viable solution for enabling greater accumulation of wealth in rural or underserved communities. However, most of these potential solutions require significant testing to prove the business case and social impact.
 - **Recommendation 4: Regulatory sandboxes are an important method of achieving this by providing a mechanism which allows the private sector to test innovative solutions in the real market while also enabling regulators to more effectively keep up with technology advancements.**
 - **Recommendation 5: Regulators need to consider methods and policies which can be introduced to help encourage the creation and use of savings products that allow people to build assets and resilience. The lack of disposable incomes makes it difficult for the poor to absorb shocks which often makes them more reliant on credit and susceptible to over indebtedness. Products which mix long-term saving with the ability to access in the event of emergencies can be particularly effective in helping the poor develop assets.**
 - **Recommendation 6: There needs to be a greater focus on products and services consumers want and need, and products designed to meet these requirements, to ensure usage of such products it is important that they are designed based on demand and that they adequately account for the client perspectives. As such, investments and incentives, and development efforts, should focus on the demand side more than the supply side, and greater facilitation between private sector push and consumer pull encouraged to create better efficiency.**

Role of Women in Economic Inclusion:

- Women make up the majority of the world's poorest of the poor, illiterate, and workers in the informal sector. Achieving greater equality isn't just a moral imperative, but it is also an economic imperative. There is a significant business case for women's economic inclusion, and yet the issue is commonly not adequately factored into national development strategies.
 - **Recommendation 7: In the case of national financial inclusion strategies, a "gender lens" should be applied across all components of the strategy with plans included to effectively collect and analyse sex-disaggregated data.**
- Policy makers and markets have a role to play in the economic inclusion of women. Government policies for social transfers and indeed for its engagement with society, needs to 'include' women. This engagement has to happen at the design stage of scheme(s) and not as an add-on later during roll-out / as an after-thought.
 - **Recommendation 8: Rights and entitlements of women need to be reemphasised. This is especially important from the point of view of promoting a preeminent position for women in society. As a continuum to this, is financial inclusion and ownership of assets by women. It is for this leg that financial inclusion can play a crucial role.**
 - **Recommendation 9: Scheme and channel design has to factor the gender angle at the time of design and not as an after-thought. APEC can make efforts to engage and**

ADVISORY GROUP

MEETING PAPER 3-D

make a difference across the entire economic inclusion framework for women. For this very important issues, APEC is requested to go beyond the agenda of financial inclusion

Digital Revolution/DLT

- To keep up with new technology developments and rapidly changing markets a continuous dialogue between regulators and market players is necessary to understand and take advantage of the opportunities these advancements create for financial inclusion as well as manage new risks which they create.
 - **Recommendation 10:** To support these efforts, governments can examine ways to align their national financial inclusion strategies with their national digital strategies, seek to acquire relevant talent (i.e. technology experts within central banks or other government ministries to enhance internal capabilities) and adopt a coordinated multi-stakeholder approach which involves relevant government agencies, private sector and civil society representatives.
- APEC can play a key role in coordinating the sharing of knowledge and best practice between stakeholders to promote digital economies which are safe and effective.
 - **Recommendation 11:** To achieve this APEC should establish a platform to facilitate the exchange of information on the application of new technology and its potential to advance financial inclusion. By creating linkages with already established fintech or other relevant technology associations in APEC economies this platform could serve as a valuable resource for APEC officials to access reliable information and assist with their capacity to formulate effective policies and regulation.
- The digital revolution has thus far predominantly impacted payments systems enabling individuals and NMSEs to make digital transactions.
 - **Recommendation 12:** Greater efforts are needed to develop and test fintech solutions which enable greater access to a broader range of digitally enabled products/services (i.e. insurance, pensions, savings, etc). The creation of regulatory sandboxes are an important method of testing and developing these innovations with the involvement of a broad range of stakeholders.
 - **Recommendation 13:** Social transfers represent one of the most important opportunities for digital financial services, including payments and ID systems, to directly impact the lives of the poor. In many cases, social transfers are the only way to reach the poorest of the poor (lower 30%) and provide them with access to formal financial systems. By digitising social transfer accounts governments can effectively create an entry point for the poorest to gain access to other beneficial digital financial services.

NMSEs

- Nano and microenterprises are commonly misunderstood by governments as a social welfare issue rather than an economic opportunity. The informal economy employs significantly more people than the formal economy and by officially recognizing it governments can focus on developing policies which can support it in ways to drive greater economic results. To achieve this, it must be understood that enterprises operating within the informal economy face unique challenges that need to be addressed by a broad stakeholder ecosystem represented by the public, private and civil society sectors. Some of the critical challenges informal enterprises; particularly the nano and micro enterprises operated by the poorest population segments, include:

ADVISORY GROUP

MEETING PAPER 3-D

- **Recommendation 14: Lack of credit history or formal identification limits access to formal financial services: A potential solution may include the use of unstructured data to make credit decisions.**
- **Recommendation 15: Lack of customised financial products and services: Attempts to serve the bottom of the pyramid markets often incorrectly assume that products and services designed for formal enterprises will address the needs of informal enterprises. Products and services designed for the informal economy need to have a particular focus on women who make up the majority of nano and micro entrepreneurs.**
- **Recommendation 16: Need for access to non-financial services: Access to finance should be complimented with access to appropriate non-financial services to help translate financial inclusion into economic opportunity. Examples include micro-medical insurance, school fee savings products, financial literacy or vocational and business training.**