



**Asia-Pacific  
Economic Cooperation**



# **FINANCING ASIA-PACIFIC INTEGRATION IN THE DIGITAL AGE**

**2018 PROGRESS REPORT**  
ON THE WORK OF THE  
**ASIA-PACIFIC FINANCIAL FORUM (APFF)**  
**ASIA-PACIFIC FINANCIAL INCLUSION FORUM (APFIF)**  
**ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP)**

The Advisory Group on APEC Financial System Capacity Building

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### EXECUTIVE SUMMARY

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The Asia-Pacific region is entering an era of disruption and opportunities. The digital revolution has unleashed a host of innovations that are rapidly changing the landscape of industry and businesses. Meanwhile, the region continues to steadily move toward closer economic integration. Digital technology and the expanding reach of cross-border supply chains present tremendous opportunities for MSMEs in emerging markets to become new engines of growth and job creation for the region.

Finance is critical in enabling enterprises to seize these opportunities. Lack of access to finance is the most important challenge that MSMEs face. Expanding opportunities to participate in supply chains will require significant investments in infrastructure. This in turn requires the development of capital markets, the long-term investor base and bankable infrastructure projects. Financial resilience is also an issue that needs to be addressed, as economies grapple with frequent natural disasters and the growing costs of health care.

Concrete solutions to these challenges have been recommended by the APEC Business Advisory Council (ABAC) in previous years and APEC Finance Ministers have incorporated them in the Cebu Action Plan (CAP). The Asia-Pacific Financial Forum (APFF), the Asia-Pacific Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) are platforms established by Finance Ministers through which ABAC brings in private sector technical experts to collaborate with governments and multilateral agencies to advance their implementation. This year, the APFF, APFIF and APIP continue their contributions to the implementation of the CAP. Among these are the following:

- The APFF provides a platform for advice on the reform of legal, policy, regulatory and institutional ecosystems for secured transactions and credit information in several economies.
  - The Philippine legislature passed a new secured transactions law in May 2018 that APFF assisted in design, initiation and advocacy. A Warehouse Receipts law is now under legislative consideration. A conference is scheduled in November 2018 to accelerate utilization of the new law and passage of the Warehouse Receipts law.
  - Workshops are scheduled in Brunei and Thailand in late 2018 to help expand the use of Brunei's secured transactions law (enacted in 2016 with support from APFF) and collateral registry by banks and MSMEs, and to the redrafting of Thailand's secured transactions law.
  - Mobilizing various international experts, the APFF met with regulatory authorities in China to help develop a regulatory regime for its rapidly growing data and analytics industry.
  - The APFF is collaborating with Australian Treasury and Parliament officials to promote public support for the wider sharing of consumer credit information through legislation.
  - Workshops are scheduled in Brunei and the Philippines to assist Brunei in drafting its new credit information law, and the Philippines in advancing its credit information system.
  - The APFF is currently following the development of the Property Chapter of the Civil Code in China, to which APFF experts contributed through workshops last year. APFF is also

following the progress of improving Vietnam's secured transactions registration system, to which APFF contributed by convening and hosting workshops in 2017.

- The APFF also started work on a baseline survey of credit information systems across the region to help in measuring progress, making comparisons and setting concrete goals.
- The APFF is collaborating with the ASEAN Bankers' Association, World Bank and the Monetary Authority of Singapore in developing the ASEAN Financial Innovation Network (AFIN).
- The APFF convened this year's Financial Inclusion Forum with senior regulators and industry experts, including the Governor and Assistant Governor of the Bank of PNG, to define specific policies, practices and programs that can improve the lives of people in low-income brackets.
- The APFF continued to help design bankable infrastructure projects through a dialogue with Chinese Taipei in July 2018. Together with the APFF, APFF is also scheduling a dialogue with Indonesia on developing a pipeline of bankable waste-to-energy projects.
- The APFF and APFF are preparing a conference on the Islamic Infrastructure Investment Platform (I3P) on October 2, 2018 in Kuala Lumpur. This year's conference aims to identify concrete actions to progress the deliverables for the 6 I3P work streams identified last year.
- The APFF is holding informal dialogues with insurance regulators in Hong Kong, Indonesia, Chinese Taipei, Thailand and Singapore on solvency and accounting standards to remove disincentives to long-term investment. APFF convened a roundtable to discuss this with IASB, regulators and industry in October 2017.
- The APFF continued to promote expanded participation in the Asia Region Funds Passport (ARFP) with a visit to Chinese Taipei regulators in October 2017. The APFF also held sessions with the Pacific Alliance to encourage inter-operability of its future scheme with ARFP. APFF promoted wider industry participation in ARFP industry events.
- The APFF is contributing to the work of the APEC Disaster Risk Solutions (DRS) Working Group under the Finance Ministers' Process.
  - The APFF Microinsurance Work Stream held a workshop hosted by the Thai Ministry of Finance in Bangkok to assist Thai regulators enhance current policies and regulations.
  - The APFF Disaster Risk Finance and Insurance (DRFI) Work Stream held a session with the World Bank, Japan Ministry of Finance and Tohoku University on 27 November 2017 in Sendai, Japan to develop ideas to promote integration of science into DRFI.
  - The APFF also developed strategies for utilizing private sector expertise in the financial management of public assets against disaster risks.
- As part of ongoing cooperation between the FMP and the Life Science and Innovation Forum (LSIF), the APFF is developing a pilot project to help enable Thailand to deploy alternative financing mechanisms to expand health care coverage.

The APFF also developed roadmaps, strategies and guidelines to help implement CAP deliverables. In 2017, APFF completed two Roadmaps that are now finalized for consideration by Ministers:

- ***The Roadmap for the Development of APEC's Financial Market Infrastructure***  
[https://www2.abaonline.org/assets/2018/APFF/Roadmap\\_for\\_the\\_Development\\_for\\_APEC\\_s\\_Financial\\_Market\\_Infra\\_20180515.pdf](https://www2.abaonline.org/assets/2018/APFF/Roadmap_for_the_Development_for_APEC_s_Financial_Market_Infra_20180515.pdf)
- ***The Roadmap for Expanding the Coverage of Microinsurance***  
[https://www2.abaonline.org/assets/2018/APFF/Roadmap\\_Expanding\\_Coverage\\_of\\_Microinsurance\\_in\\_APEC\\_20180515.pdf](https://www2.abaonline.org/assets/2018/APFF/Roadmap_Expanding_Coverage_of_Microinsurance_in_APEC_20180515.pdf)

This year, APFF completed three major documents, which are as follows:

- ***An APEC Roadmap for a New Financial Services Data Ecosystem.*** This Roadmap provides a tool

for promoting consistency of laws and regulations with international principles and practices, and identifies areas where new minimum benchmarks need to be developed. It also points out key considerations and the way forward for individual jurisdictions to undertake reforms and for regional cooperation to be harnessed. The Roadmap covers general data regulation issues including consistency of domestic laws and regulations, expanding the collection and sharing of data, and creating sound frameworks for the collection, storage, sharing and use of data. It also covers issues related to cross-border data flows such as data localization, data privacy, data security, access to data for law enforcement purposes, competitiveness of domestic firms, and regional platforms for enabling use of new technologies in cross-border financial services.

- ***A Strategy for the Digitalization of Trade and Supply Chain Finance.*** Trade and supply chain finance continues to be largely a paper-based and manual process, and thus unnecessarily costly and time-consuming. 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. The Strategy proposes: (a) undertaking reform of legal and regulatory frameworks and market standards related to digital trade title documents, processes and more efficient trade-based AML; (b) establishing technical inter-operability standards that are cost-efficient, easily adopted and usable across borders; and (c) establishment of an industry cross-agency, cross-ecosystem, public-private sector Digital Lab to coordinate and facilitate communications between different constituencies, identify specific policy challenges and formulating solutions.
- ***Essential Elements of an Effective Personal Insolvency Regime.*** Studies confirm that roughly half of all business start-ups fail within five years after their establishment. Where personal insolvency regimes are inefficient, many entrepreneurs who fail are prevented from making a fresh start for many years. Where personal insolvency regimes are efficient, entrepreneurs that fail are able after a short time to start new businesses. The Essential Elements cover general considerations, role and powers of the Trustee in bankruptcy, standards for commencement of insolvency proceedings, discharge relief, dischargeable debt, exempt property, information infrastructure, enforcement mechanisms, cross-border personal insolvency and measures to help prevent personal insolvency.

With growing collaboration from public and private sector in their activities, APFF, APFIF and APIP hope to help the Finance Ministers translate the CAP into concrete laws, policies, regulations and measures across a wide range of areas in coming years. ***To facilitate these efforts, we recommend the following to the APEC Finance Ministers:***

- ***To acknowledge in their Joint Ministerial Statement these various efforts and achievements in implementing the CAP and encourage intensified public-private collaboration to advance them in coming years.***
- ***To endorse the final versions of the roadmaps for the development of APEC's financial market infrastructure and for expanding the coverage of microinsurance and encourage relevant public sector stakeholders to collaborate in their implementation.***
- ***To welcome the roadmap for a new financial services data ecosystem, the strategy for the digitalization of trade and supply chain finance and the essential elements of an effective personal insolvency regime and ask senior finance officials to work with ABAC and the APFF to finalize them in 2019.***

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## INTRODUCTION

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The Asia-Pacific region is entering an era of disruption and opportunities. The digital revolution has unleashed a host of innovations that are rapidly changing the landscape of industry and businesses. Supply chains are being reshaped by the expansion of e-commerce and new technologies such as 3D printing, drone technology, computerized chain management, radio frequency ID chips, transport management software and data and analytics, among many others.

Meanwhile, the region continues to steadily move toward closer economic integration. Various trade and cooperation agreements are under way, including the Trans-Pacific Partnership, the ASEAN Economic Community, the Pacific Alliance, the Regional Comprehensive Economic Partnership and APEC, in addition to bilateral arrangements and sub-regional cooperation initiatives. Together, these processes are progressively removing barriers to increased cross-border commerce, reducing costs and risks and introducing faster and more efficient ways to trade goods and services.

The resulting opportunities for the region are huge, especially in light of the global economy's emergence from a period of slow recovery after the Global Financial Crisis. Even as global trade slowed down over the past decade, intra-regional trade in the Asia-Pacific has continued to grow strongly, reflecting the progressive expansion of cross-border supply chains.<sup>1</sup> Digital technology and the expanding reach of cross-border supply chains present tremendous opportunities for MSMEs in emerging markets to become new engines of growth and job creation for the region.

Finance is critical in enabling enterprises to seize these opportunities. Lack of access to finance is the most important challenge that MSMEs face, including the lack of access to working capital for MSMEs participating in supply chains. Expanding opportunities to participate in these supply chains for entrepreneurs outside the region's urban centers and spreading the benefits of trade more evenly across economies will require significant investments in infrastructure. This in turn requires the development of capital markets, the long-term investor base and bankable infrastructure projects.

Financial resilience is also an issue that needs to be addressed. Rising costs of frequent natural disasters and the growth of non-communicable diseases have significant financial impact on enterprises, households and government budgets. Catastrophic events pose major challenges to global supply chains, especially to participating MSMEs.

Addressing these issues will require the achievement of four important goals:

- Bringing financial services to the digital age;
- Promoting legal, policy and institutional ecosystems to facilitate financing of MSMEs;
- Financing the expansion of the region's infrastructure; and
- Strengthening financial resilience.

Concrete solutions to achieve these four important goals have been recommended by the APEC Business Advisory Council (ABAC) in previous years and APEC Finance Ministers have incorporated them in the Cebu Action Plan (CAP). The Asia-Pacific Financial Forum (APFF), the Asia-Pacific

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<sup>1</sup> Asian Development Bank, *Asian Economic Integration Report 2017 - The Era of Financial Interconnectedness: How Can Asia Strengthen Financial Resilience?* [<https://aric.adb.org/aeir>].



Financial Inclusion Forum (APFIF) and the Asia-Pacific Infrastructure Partnership (APIP) are the platforms established by Finance Ministers through which ABAC brings in private sector technical experts to collaborate with governments and multilateral agencies to advance and accelerate their implementation. Their activities are geared toward the achievement of concrete deliverables. The Advisory Group on APEC Financial System, under the leadership of ABAC, coordinates these activities to ensure synergy, consistency and effectiveness. This Progress Report provides information on these activities, their results and plans for their further development.

## **1. BRINGING FINANCIAL SERVICES TO THE DIGITAL AGE**

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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 APFIF 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 and 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:*

- *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.*
- *Introducing regulatory sandboxes that are coordinated across jurisdictions wherever there is potential to facilitate the development of innovative 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 17 October 2017 in Bangkok, Thailand, 31 May in Hangzhou, China,<sup>2</sup> 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;
- 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

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<sup>2</sup> 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.

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.

- Fintech regulatory sandboxes and cross-border linkages: Work in this area seeks to promote the establishment of regulatory sandboxes that are coordinated across jurisdictions wherever there is potential to facilitate the development of innovative financial services. Sandboxes that both incumbents and new entrants can utilize are important to enable fintech solutions that might not otherwise fit into existing regulations to be explored and progressed with regulators. Establishing linkages between sandboxes in APEC and beyond is also important. Firms can benefit from streamlined approval processes and governments can learn from the experience of others. With such linkages, successful innovations in one economy can be utilized by others without long wait periods or an economy-by-economy approach having to be adopted. Memoranda of understanding (MOUs) between jurisdictions could provide a basis for looking at where gaps and roadblocks exist for fintech firms in each market to gain approvals and be able to enter the other after having met necessary requirements during sandbox experimentation. These arrangements and developing networks of MOUs could be further broadened.
- Open banking and application programming interfaces (APIs): By using APIs, consumers can authenticate their identity while ensuring their data remain private: they need not put themselves at unnecessary risk by handing their bank keys (user ID/password) to an unknown third party. However, while many governments are encouraging banks to open their APIs, banks should not be mandated to do so; they should be able to determine whether and how much to charge for data access and be able to retain control as to how they open APIs to enable global and regional banks to best leverage access across geographies where they operate.

- Digital authentication: Work in this area seeks to promote the development of a digital identity system to remove the need for in-person authentication of individuals or documents. Digital identities will increasingly become a core enabler of the digital economy, facilitating seamless cross-border transactions and trade. Use of digital IDs also stands to further financial inclusion, especially for those that live significant distances from physical bank branches or are required to endure long waiting times for access.
- Open and interoperable payment systems: Work in this area seeks to facilitate the use of a range of new payment systems that are emerging and providing a variety of options to consumers and businesses in domestic and cross border transactions. Some of these innovations include instant payments between banks, scanning of quick response (QR) codes and the provision of mobile wallets. Credit card firms are also innovating in point of sale (POS) terminals and stored value cards. It is important that payments systems are open and interoperable rather than closed to allow choice and encourage competition and best practice.

#### 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.*<sup>3</sup>
- 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

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<sup>3</sup> 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.

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.

*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 are aligned with the objectives of the Sustainable Development Goals and the CAP, and support progress on a number of their goals and aspirations.

## **2. PROMOTING LEGAL, POLICY AND INSTITUTIONAL ECOSYSTEMS TO FACILITATE FINANCING OF MSMEs**

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Building MSMEs' capacity to grow requires addressing the most important constraint – financing. The work of APFF in this area focuses on the implementation of the CAP deliverable to reform and develop secured transactions systems and insolvency frameworks.

- The work of APFF has already resulted in legislation and policy reforms that are enabling lenders to use a wider range of collateral to expand lending to MSMEs, and further work is ongoing to advance this further. Related work on valuation of assets is also being undertaken.
- This year, the APFF started its work on another area that has important implications for MSMEs and entrepreneurship – promoting the reform of personal insolvency frameworks.

### **2.1. MODERNIZING SECURED TRANSACTIONS ECOSYSTEMS**



APFF's FIDN has been actively collaborating with several economies since 2015 to assist in designing and advocating the reform of secured transactions and other related laws and the development of the other parts of the enabling ecosystem. These efforts have resulted in concrete legislative achievements, and continue to promote follow-up measures and further reforms. Following are the activities that have been and are being undertaken and the results that have been achieved.

- *The Philippines:* The FIDN collaborated with the IFC/World Bank Group and the Philippine Government to develop a ***new modern secured transactions law based on international best practices (Personal Property Security Act) that was passed in both houses of the legislature (in the Senate by a 21-0 vote in May 2018). A Warehouse Receipts law has been lodged in the House and is at initial legislative stages.*** FIDN continues to work collaboratively with key Philippine stakeholders to build the financial community's capacity to leverage the expected passage of the law. The Philippine Government hosted the Fifth FIDN Conference held in November 2017 in Manila, Philippines and has confirmed the hosting of the Sixth ***FIDN Conference in November 2018 in Manila, which will be focusing on practical models and approaches to access finance using moveable assets to facilitate utilization of the new law*** by connecting financial institutions, MSMEs, farmers and the warehouse industry.
- Brunei: The FIDN had collaborated with Brunei in developing its modern Secured Transactions Order, supplemented by Regulations, which was enacted in 2016, as well as in establishing its modern collateral registry. FIDN is working collaboratively with the central bank to schedule a further ***FIDN workshop in the second half of 2018 for the local economy focused on expanding the use of the law and registry by the banking community to expand access to finance for Brunei's MSMEs.***
- China: The FIDN is currently following the development of the Property Chapter of the Civil Code, for which preparation by relevant authorities started after the Civil Code General Rules was enacted in March 2017. During the previous year, FIDN experts had contributed to several discussions among the legal and business communities on the secured transactions section.<sup>4</sup> The FIDN will also undertake efforts to advance reforms to facilitate warehouse finance and collateral management, particularly through a conference in late September in Beijing with various industry stakeholders.
- Thailand: This year, the Thai Government undertook a review of its 2016 Secured Transactions Law and identified several changes that are needed to improve MSMEs' access to finance and ease of doing business. The World Bank has been engaged by the Thai Government to be an advisor in redrafting the secured transactions law, which is expected to be circulated for public review shortly and is expected to be announced this year. ***As part of this initiative, the Director General of the Department of Enforcement is arranging a seminar on Secured Transactions, expected to be attended by 400 participants, in which the FIDN will provide support. FIDN will continue to support Thailand by convening workshops and seminars in collaboration with the Department of Finance.***
- Vietnam: The FIDN is following efforts by the Vietnamese Government to expand usage of the secured transactions law that was issued in 2015. During the previous year, the FIDN contributed to these efforts through the mobilization of international and local experts and the

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<sup>4</sup> These included a focus group meeting in the Renmin University jointly sponsored by the China Society of Civil Law and IFC as well as a workshop on international best practice in secured translations law during the 3rd quarter of 2017 in Beijing. In addition, FIDN, IFC, the China Association of Warehousing and Delivery (CAWD) and the China Banking Association (CBA) organized the Fifth Warehouse Finance and Collateral Management Conference at the end of September 2017 in Beijing. A half-day was devoted to the discussions on the secured transactions part of the Civil Code, attended by UNCITRAL. Subsequently, FIDN experts also had dialogues with the authorities to advocate for the new secured transactions legislation to make further progress from the 2007 Property Law.

convening of conferences to assist in the review of existing decrees on secured transactions.<sup>5</sup> Subsequently, a new decree (Decree 102 on Secured Devices Registration) was enacted to provide more consistent regulation of secured transactions registrations. Vietnam is currently reviewing another decree to align it with new provisions of the 2015 Civil Code. At present, the Ministry of Justice is working on a project proposal for drafting a Law on Property Registration, which is expected to elevate the provisions on secured transactions registrations into law, a higher level of normative legal document.

The enactment of secured transactions legislation and creation of collateral registries in APEC jurisdictions have highlighted the challenge of valuing intangible assets, which are offered as security by MSMEs, and the need to develop capabilities in the valuation of intangible assets. The FIDN's Valuations Sub-stream *convened roundtables and workshops in Vietnam, Thailand and the Philippines* to demonstrate, through case studies and experience sharing, how the challenge might be addressed. The focus on intangible assets has also highlighted the need and the opportunity for professional training in the area of business valuation and the issuance of an appropriate internationally recognized business valuation (BV) qualification.

The FIDN's Valuations Sub-stream is involved in a special initiative to assist this year's APEC Chair, Papua New Guinea, to establish its valuation infrastructure, in view of the limited number of licensed valuers and the need to develop skills beyond valuing land and buildings. The FIDN supported the annual conference of the PNG Institute of Valuers in June 2018, and are looking to enhance the level of valuation training at Lae University of Technology. Moving ahead, the focus of work will be on the further development of capabilities in intangible asset valuation.

## 2.2. ESSENTIAL ELEMENTS OF AN EFFECTIVE PERSONAL INSOLVENCY REGIME

Studies confirm that roughly half of all business start-ups fail within five years after their establishment. Where personal insolvency regimes are inefficient, many entrepreneurs who fail are prevented from making a fresh start for many years. Where personal insolvency regimes are efficient, entrepreneurs that fail are able after a short time to start new businesses. More people are encouraged to start enterprises, and economies benefit from a large and dynamic entrepreneurial base and a continuous flow of innovation.

ABAC, through APFF, collaborated with the IFC/World Bank Group, the China Banking Law Society, the China Council for the Promotion of International Trade (CCPIT), and the Tiantong & Partners Law Firm to convene a conference of insolvency experts and practitioners from around the region on 15 June 2018 in Beijing. The conference identified the Essential Elements of an Effective Personal Insolvency Regime, which have been developed to assist jurisdictions in reforming or developing their legal frameworks. [See Attachment C.]

*Following is a summary of the Essential Elements:*

- *The personal insolvency regime (PIR) should strike a balance among the interests of the creditor, the debtor and the society. This balance should be reflected in the allocation of the costs of failure.*
- *Trustees should play a larger role in dealing with insolvent debtors to help avoid overloading the judges with bankruptcy proceedings..*
- *Standards for commencement of insolvency proceedings for natural persons should be clear, transparent and reasonable, and entry barriers that could be prohibitive under existing conditions in any particular jurisdiction avoided.*

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<sup>5</sup> These include the hosting in June 2017 of the Fourth FIDN Conference held in Hoi An and a session on “Leveraging Technologies to Scale up Supply Chain Finance” during the APEC SME Finance Forum in Ho Chi Minh City in September 2017.



- *Discharge relief should be expedited to enable a “fresh start” for the debtor within a short a period of time as practicable, unless the debtor is found guilty of inappropriate behavior, or if there is an objection from the trustee or creditors on reasonable grounds.*
- *Dischargeable and non-dischargeable debt should be defined in ways that balance the interests of the debtor, the creditor and society.*
- *The delineation between the property of the estate and exempt property that the individual debtor may keep should be made in a way that enables the insolvent debtor to move as quickly forward into productive work as possible.*
- *The Trustee in bankruptcy should be given sufficient powers to investigate the debtor’s financial affairs and personal behavior and to access information on the debtors’ assets, and invested with the responsibility to deal with all matters regarding the administration of the bankrupt’s estate.*
- *The necessary infrastructure for obtaining sufficient information about debtors’ assets and financial conditions should be put in place in order to ensure effective implementation of laws and bankruptcy administration and minimize and deter fraud.*
- *Well-developed enforcement mechanisms play an important role in building the trust of debtors, creditors and the public in a more open and accommodating PIR.*
- *The development and reform of personal insolvency regimes across member economies should be coordinated, so as to provide mechanisms for the orderly liquidation and resolution of cross-border debt.*
- *A personal insolvency regime is a last resort for debtors who fall into insolvency. It is incumbent on policy makers to create an economic, political and social environment that can help people avoid becoming insolvent.*

### **3. FINANCING THE EXPANSION OF THE REGION’S INFRASTRUCTURE**

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The expansion of opportunities for the region’s businesses to participate in global supply chains will require massive investments in infrastructure. This in turn requires the development of capital markets, the long-term investor base and bankable infrastructure projects. To this end, APIP and APFF are promoting cross-border financing of infrastructure through the development of a pipeline of bankable projects in key sectors, reforms to expand the investor base (including pension funds, insurance firms and Islamic financial institutions), and expanded cross-border portfolio investment and availability of risk management tools to improve depth and liquidity of bond markets.

#### **3.1. DEVELOPMENT OF BANKABLE INFRASTRUCTURE PPP PIPELINES**

Since its establishment in 2011 as a policy initiative of the APEC Finance Ministers, the APIP has brought together high-level officials, experts and private sector advisory panelists from a wide range of relevant fields to collaborate in identifying practical and concrete measures to facilitate private sector participation in infrastructure projects. Since then, the APIP has undertaken several high-level dialogues with a number of economies – with Mexico, Peru and the Philippines in 2011, Vietnam and Indonesia in 2012, the Philippines (second dialogue), Thailand, Indonesia (second dialogue) and Malaysia in 2013, Indonesia (third dialogue) in 2014, the Philippines (third dialogue) in 2015, Thailand (second dialogue) in 2016 and Indonesia (fourth dialogue) in 2017. *This year, the APIP held its first dialogue with Chinese Taipei on 31 July 2018 in Taipei.*

The APIP also continues its work on assisting economies develop pipelines of bankable infrastructure projects in waste management. Last year, the APIP jointly with the APFF held a dialogue on waste-to-energy PPP projects with the Government of Indonesia. A follow-up dialogue with Indonesia is currently being scheduled either in late 2018 or early 2019.

## **3.2. ADVANCING THE ISLAMIC INFRASTRUCTURE INVESTMENT PLATFORM (I3P)**

Since the idea for the Islamic Infrastructure Investment Platform (I3P) was first discussed at the 2015 APEC Finance Ministers' dialogue with the financial industry, it has steadily progressed through a series of conferences and discussions. In October 2017, ABAC Malaysia hosted a conference among key public and private sector stakeholders to discuss the I3P work program. This conference led to the identification of deliverables that can be advanced in six work streams. These are as follows:

### **Work Stream 1: Harmonizing Investment Requirements and Regulations**

- Minimum benchmarks for Islamic contracts (e.g., mudaraba, musharaka, ijara), sharia-compliant infrastructure projects and concession agreements
- Adoption of benchmarks by interested APEC member jurisdictions

### **Work Stream 2: Addressing Tax Policy Issues**

- Minimum benchmarks for promoting tax neutrality between Islamic and conventional finance, including the following: (a) tax treatment of profits (e.g., whether interest payments qualify for tax deductions); (b) tax treatment of multiple transactions between company and sukuk-issuing SPV, with respect to disposal issues, sale and leaseback); (c) stamp, withholding, value added/goods and services taxes, real property gains tax vs. capital gains tax; (d) establishment of tax neutrality committees that can grant specific approvals (while awaiting legislative reforms); (e) approaches (e.g., product-by-product, case-by-case or blanket legislation, formulating tax neutral policy framework, white list of transactions qualifying as tax neutral, coordination between legislators and supervisors)
- Tax incentives to facilitate transactions (e.g., for borrowers or issuers on a stand-alone basis or in conjunction with conventional products, whether tax incentives for infrastructure projects should be treated differently from other commercial transactions)
- Regional minimum benchmarks for sharia auditing and sharia advisers

### **Work Stream 3: Risk Mitigation Instruments**

- Legal reform to facilitate use of derivatives (e.g., those related to certainty and enforceability of derivatives transactions, clarity of insolvency and enforceability of netting provisions, clarity of treatment of collateral, role of courts and/or arbitration tribunals, treatment of foreign law-governed contracts and foreign-based counterparties, set-off rights, financial collateral arrangements, guarantees, letters of credit, insurance, credit derivatives)
- Adoption of standardized documentation (e.g., ISDA/IIFM TMA)
- Regional minimum benchmarks for legislation governing derivatives
- Best practices in enabling policies for new Islamic derivatives for equity risk management (e.g., hedging against market downturn)

### **Work Stream 4: Enabling Financial Innovation**

- Addressing key legal and regulatory barriers to hybrid/blended financial instruments combining different types of contracts that address different issues and mix/match parties' interests with cash flows and contract design (e.g., musharaka with other types of structures like ijara embedded, combining sukuks with different characteristics such as those for construction and those for leasing), which may include regulations on: (a) equity or corporate bond investment; (b) pension fund, insurance company and asset manager investments; (c) investment in unlisted infrastructure companies; (d) direct investments in projects; (e) infrastructure funds or investments; (f) alternative investments; (g) minimum ratings for bonds; (h) foreign exposure; (i) hedging of transactions involving multiple currencies

### **Work Stream 5: Developing Project Preparation Capacity and Pilot Projects**

- Best practices in embedding sharia-compliance into design of projects for wider investor base
- Improved capacity of relevant officials to use project preparation tools (GIH InfraCompass, GIH Risk Allocation Matrices, GIH Project Pipeline, SIF Source)
- Starting benchmark/pilot projects with support mechanisms (e.g., obtaining foreign investment

through MIFC, wraps to address cross-border and political risk, MDB guarantees and project enhancements) and embedded sharia-compliance in design

#### Work Stream 6: Establishing the I3P Secretariat

- Terms of reference for I3P Secretariat
- I3P Network Directory
- I3P Online Resource Center, including database of (a) sharia-compliant infrastructure projects, (b) sharia-compliant infrastructure funds, (c) case studies, (d) experts in Islamic finance in the areas of financial products, law, valuation, tax, audit, ratings, insurance, pension funds, asset management, (e) common definitions.

*This year, the APFF I3P Network plans to convene stakeholders to discuss concrete activities in 2019 and 2020 to begin working on the deliverables. The conference will be hosted by ABAC Malaysia on 2 October in conjunction with the 2018 Global Islamic Finance Forum at Sasana Kijang, Kuala Lumpur.*

### **3.3. EXPANDING THE REGION'S LONG-TERM INVESTOR BASE**

The 2017 Joint Finance Ministerial Statement described actions to be implemented by APEC economies over the next year to achieve strong, sustainable, balanced and inclusive growth. It included measures to address long-term infrastructure investment, financial inclusion, disaster risk financing and insurance. It also contains an annex on diversifying financing sources and fostering private sector involvement in infrastructure investment in APEC economies. Since 2013, APFF has been working on promoting the role of long-term investors, including insurers and pension funds, to support sustainable, resilient and inclusive growth and development of the Asia-Pacific region. The following describes the progress of work in this area:

#### ***3.3.1. Infrastructure Investment***

The APFF continued dialogue with policymakers and authorities to expand quality infrastructure investments by insurers and pension funds, including the development of financial vehicles and regulatory changes to treat infrastructure as an asset class. The APFF contributed to roundtables and workshop meetings throughout the year in collaboration with global and regional initiatives. The APFF examined possible improvements, including financial vehicles, sustainable investing, and specific areas where regulations can be amended to remove unnecessary burdens.

#### ***3.3.2. Regulation and Accounting***

The APFF engaged in continuous outreach with policymakers, regulatory authorities and accounting standards setters, focusing on the adoption of solvency and accounting regimes that do not discourage insurers from engaging in long-term business and making long-term investment in infrastructure and capital markets.

Among other activities, the APFF successfully organized the APFF Roundtable on Insurance and Regulations and Accounting in October 2017 in Hong Kong, inviting IASB, insurance supervisory authorities, accounting firms and industry experts in the Asia-Pacific region. Topics included implementation of IFRS17, solvency reform in the region. Issues identified during the roundtable were used as basis for further dialogue with standard setters and stakeholders. *The APFF plans to hold a follow-up Roundtable in November 2018 in Hong Kong.*

The APFF will continue dialogues with insurance regulators in specific APEC economies, including Thailand, Indonesia, Hong Kong, Chinese Taipei and Singapore regarding the implementation of IFRS17 ('Insurance Contracts') and IFRS9 ('Financial Instruments'), including its impact on solvency assessment. Although IFRS17 was issued on 18 May 2017, there are some technical and practical aspects yet to be addressed. The APFF continues to work on regulatory and accounting issues with global and regional bodies in reflecting economic reality and long-term nature of the business, avoiding disincentives for insurers in undertaking long-term investments and business

and in financing sustainable growth in the long-run.

### **3.4. DEVELOPING DEEP AND LIQUID CAPITAL MARKETS**

Deep and liquid capital markets play important roles in financing infrastructure. Since 2015, APFF has focused its work on implementing the CAP deliverable to support the improvement of capital market depth and liquidity, promoting the development of liquid repo markets, resolving issues related to OTC derivatives regulation, legal and documentation infrastructure facilitating risk mitigation, and the development of a roadmap to improve regional financial market infrastructure.

APFF supported the development of the Asia Region Funds Passport (ARFP). Among the activities and achievements are the following:

- In 2017, the APFF convened several discussions with representatives from the international asset management and financial industries, as well as experts from the legal and consulting professions and international organizations, to *engage regulators and officials as they worked to advance the ARFP*.
- In October 2017, The APFF *met with members of Chinese Taipei Financial Supervisory Commission (FSC)* to provide updates on ARFP developments and shared best practices from jurisdictions with similar fund passporting schemes such as UCITS.
- APFF shared insights with representatives of the Pacific Alliance as they look to develop a similar funds passporting arrangement, and participated in various ARFP regulator working group meetings and industry events to *provide updates on issues related to taxes, fund back office operations, redemption fees, and market trends*, among others.

Last year, APFF completed the draft of the Roadmap for the Development of APEC's Financial Market Infrastructure. The Roadmap was presented to the APEC Finance and Central Bank Deputies in March 2018 and incorporated suggestions that were received from officials. It is proposed that APEC Finance Ministers encourage public sector stakeholders to collaborate with the APFF in implementing the Roadmap.

## **4. STRENGTHENING FINANCIAL RESILIENCE**

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Rising costs of frequent natural disasters and the growth of non-communicable diseases have significant financial impact on households, enterprises and government budgets. Catastrophic events pose major challenges to global supply chains, especially to participating MSMEs. APFF is helping governments design innovative financing instruments to enable markets to play a greater role in more efficient and sustainable financing of these costs. APFF is also pursuing wider microinsurance coverage as part of comprehensive financial inclusion.

### **4.1. EXPANDING MICROINSURANCE COVERAGE IN APEC**

In 2017, the APFF Microinsurance Work Stream developed the Roadmap for Expanding the Coverage of Microinsurance in APEC. The Roadmap is in its final draft and is ready for presentation at the 2018 AFMM, after the successful presentations and approvals in the FCBDM and SFOM, in March and June this year, respectively. The Roadmap was a product of a long process of consultations (since March 2017) across various finance and insurance regulators, industry and development organizations in Asia Pacific. The roadmap had been debated in three roundtables (in Hanoi, Lima and Bangkok); and had been discussed in conference panel sessions in Hoi An and Bangkok.

The Roadmap aims to expand the coverage of microinsurance in APEC, building from the lessons and good practices in the Philippines, Peru, Mexico and other emerging economies. The Roadmap will pursue four strategies: (a) establishment of policies and proportionate regulations for inclusive insurance and microinsurance; (b) adoption of scalable business models using fintech for inclusive insurance; (c) establishment of inter-agency coordination, public-private sector coordination mechanism and relevant support infrastructure for inclusive insurance; and (d) adoption and implementation of financial literacy and consumer protection measures for insurance clients. To implement the strategies, the roadmap offers 22 action points. Twelve of the action points are related to disaster risk insurance.

After it is adopted by the FMP, the APFF intends to regularly monitor the implementation of the Roadmap and shall encourage public-private partnerships to support in communicating and implementing the action points in the respective APEC economies.

#### **4.2. DISASTER RISK FINANCING AND INSURANCE**

As part of its effort to raise public awareness on disaster risks and the importance of implementing ex-ante financial protection, the APFF teamed up with the World Bank, the Japan Ministry of Finance and Tohoku University to contribute to the World Bosai Forum 2017, held on 27 November, 2017 in Sendai, Japan, by organizing a panel discussion entitled “Building a disaster-resilient community in the Asia-Pacific -The power of science and insurance.” The session attracted more than fifty international experts from academia, industry, public sector and civil society groups. One of the key messages delivered was to encourage the flow of scientific and practical knowledge and experiences into designing creative and sustainable DRFI mechanisms. The message was fed into the “Chair’s Summary.”

APFF has been *contributing to APEC FMP’s Disaster Risk Solutions Working Group’s activities*. For instance, APFF participated in the “Workshop on Developing the Elements of a Disaster Risk Financing Strategy,” held on 8-9 May, 2018 in Bangkok. The workshop was jointly organized by the Asian Disaster Preparedness Center (ADPC), Asian Development Bank Institute (ADBI) and the OECD. More than fifty finance ministry officials in and out of APEC region attended the workshop, and shared their views and ongoing efforts in implementing DRFI schemes. APFF shared its experience in interacting with finance ministry officials across the APEC region and its ability to render support through its network of experts.

How to protect critical public infrastructure against natural disasters has gained greater attention among finance ministry officials and insurance experts alike. In this context, APFF is also supporting the APEC FMP’s work on promoting financial management of public assets against disaster risks. APFF contributed to the discussion by offering practical examples on how private sector expertise, such as quantifying expected loss using risk models and arranging optimal risk transfer schemes, can be utilized in designing effective DRFI program. Specifically, APFF participated in the 2-day workshop held on 21-22 June, 2018 in Tokyo, Japan, organized by the World Bank, where around forty people, mainly finance ministry officials from APEC economies, convened.

Going forward, APFF stays committed to assisting the work of the APEC FMP’s Disaster Risk Solutions Working Group. Towards 2019, APFF will continue its intervention in the Working Group’s activities including but not limited to the study courses on insurance schemes for earthquake and weather-related disaster risks.

#### **4.3. INNOVATIVE HEALTH FINANCING MECHANISMS**

In 2017 APEC Finance Ministers welcomed the exploratory dialogues between senior finance officials, the Life Science and Innovation Forum (LSIF) and the APEC Health Working Group (HWG) to address the fiscal and economic impacts of the steep rise in chronic disease and of ageing societies in APEC economies. Finance officials encouraged further dialogue with interested economies to share best practices and explore innovative, sustainable health financing solutions.



In 2018 the LSIF and APFF together with relevant stakeholders and subject matter experts are working with Thailand's Ministry of Finance as they seek to reform their healthcare system to increase efficiencies, increase access to medical care and mitigate demographic and health-related challenges.

*The pilot initiative is designed to help Thailand assess the policy and regulatory environment for enabling the adoption and deployment of alternative financing mechanisms to help maintain and expand healthcare coverage.* Indicators and enabling policies included in the APEC Checklist of Enablers for Alternative Health Financing are being used as the basis for policy recommendations.

The private sector has the potential to provide complementary financing tools and initiatives to improve health. An enabling policy, legal, and regulatory environment can help promote and facilitate the deployment of these mechanisms. The LSIF and APFF are working with government officials to recommend policies to expand the role of the private sector to reduce the fiscal burden, improve government coordination, and enable officials make more informed decisions based on the best available data.

The LSIF and APFF welcome APEC Finance Ministers' support for this work and encourage additional economies to consider participating in initiatives.

## 5. CONCLUSION

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Since the 2017 APEC Finance Ministers' Meeting, the APFF, APFIF and APIP have continued their contributions to the implementation of the CAP and the advancement of the Finance Ministers' agenda. The APFF has carried out various activities in collaboration with policy makers, officials and regulators to promote implementation of the CAP deliverables, several of which have led to concrete policy outcomes, and others currently being progressed. Among these are the following:

- Conferences, workshops and visits to provide technical advice to economies on the reform of legal, policy, regulatory and institutional ecosystems for credit information and secured transactions in Australia, Brunei Darussalam, China, Papua New Guinea, the Philippines and Vietnam.
- Conferences with regulators and industry representatives to advocate insurance capital and accounting standards that are conducive to the expansion of long-term investment in infrastructure.
- A workshop to assist Thai authorities in enhancing current policies and regulations to expand the coverage of microinsurance.
- Dialogues with individual economies to encourage wider participation in the Asia Region Funds Passport and promote inter-operability with other funds passport regimes in the region.
- Organization of and participation in regional discussions to expand private sector inputs and involvement in the development of policies and measures to promote disaster risk financing and insurance.
- Discussions with the ASEAN Bankers' Association, MAS and IFC/WBG to develop the ASEAN Financial Innovation Network (AFIN) as a pilot project that can serve as a model for public-private platforms for creating enabling ecosystems for financial innovation across the region.

The APFF convened conferences and discussions to gather together subject matter experts from industry, international organizations, regulatory authorities and academe to *develop roadmaps, strategies and guidelines that can facilitate work to implement various deliverables of the CAP.* These include:



- The Roadmap for the Development of APEC’s Financial Market Infrastructure (completed in 2017, presented to Finance and Central Bank Deputies and finalized in 2018 for consideration by Finance Ministers);
- The Roadmap for Expanding the Coverage of Microinsurance (completed in 2017, presented to Finance and Central Bank Deputies and finalized in 2018 for consideration by Finance Ministers);
- The APEC Roadmap for a New Financial Services Data Ecosystem (draft completed in 2018 for finalization in 2019);
- The Strategy for the Digitalization of Trade and Supply Chain Finance (draft completed in 2018); and
- The Essential Elements of an Effective Personal Insolvency Regime (draft completed in 2018).

The APFF also collaborated with the APIP to develop a work program for the Islamic Infrastructure Investment Platform (I3P), which forms a basis for further discussion with the I3P stakeholder network in October 2018 to identify concrete deliverables and actions in 2019 and 2020.

The APFIF convened this year’s Financial Inclusion Forum as a dialogue with senior regulators from the region to discuss and agree on concrete policies, practices and programs to address obstacles to greater inclusion of those earning less than USD20 per day across the region in economic activities.

The APIP continued its work to assist governments develop pipelines of bankable infrastructure projects through a dialogue with Chinese Taipei. The APIP and APFF are also in discussion with various officials to hold a second dialogue on PPPs in waste management with Indonesia.

With growing collaboration from industry, governments, regulatory agencies and international and academic institutions in their activities, APFF, APFIF and APIP hope to help the Finance Ministers translate the CAP into concrete laws, policies, regulations and measures across a wide range of areas in coming years. *To facilitate these efforts, we recommend the following to the APEC Finance Ministers:*

- *To acknowledge in their Joint Ministerial Statement these various efforts and achievements in implementing the CAP and encourage intensified public-private collaboration to advance them in coming years.*
- *To endorse the final versions of the roadmaps for the development of APEC’s financial market infrastructure and for expanding the coverage of microinsurance and encourage relevant public sector stakeholders to collaborate in their implementation.*
- *To welcome the roadmap for a new financial services data ecosystem, the strategy for the digitalization of trade and supply chain finance and the essential elements of an effective personal insolvency regime and ask senior finance officials to work with ABAC and the APFF to finalize them in 2019.*