



# THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

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## **Meeting Paper 4-A**

# **Draft Report on the APEC Financial Inclusion Forum**

Office of the Advisory Group Chair

# **APEC Public-Private Sector Forum on the Development of Bond Markets and Financial Inclusion CONFERENCE REPORT**

*Draft as of 9 August 2010*

## **EXECUTIVE SUMMARY**

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In recent years, microfinance has grown to become a potentially powerful tool for promoting financial inclusion, with the growing profitability of microfinance institutions (MFIs) and the expanding scope of their operations. Microfinance is attracting increasing interest from financial institutions and investors all over the world. The key factor has been the introduction of technology and innovation, such as mobile banking, point-of-sale technology and biometrics, among others, and microfinance has taken off in economies where policies and regulations have been put in place to enable the use of these technologies.

With the growing commercial viability of microfinance, there is increasing interest among investors and great potential for channeling commercial investment into the sector. Public-private partnership with international financial institutions (IFIs) and bilateral institutions playing key roles could facilitate the expansion of such commercial investments. Nevertheless, while promoting and facilitating private sector investment is important, the major issue is not the lack of funds or investors, but rather the still limited number of top-tier MFIs.

To broaden investment opportunities, it is important to accelerate the process of upgrading existing MFIs, as well as to promote wider participation of financial institutions. The most difficult challenge, however, is how to broaden the base of the financial inclusion pyramid, by expanding the coverage and penetration of microfinance. In its 2009 report, ABAC recommended that policy makers and regulators consider undertaking measures in six areas identified in a recent ground-breaking study<sup>1</sup> where policies can have the most impact. These are mobile phone banking, agent banking, channel and product diversification, public bank reform, financial identity and consumer protection.

An area where APEC can play a constructive role in promoting financial inclusion is the development of properly structured credit sharing information systems. This could involve the promotion of reforms to enable full-file and comprehensive credit reporting in member economies to private credit bureaus, which should be accompanied by measures to develop appropriate legal and regulatory frameworks defining key procedures, including types of information that can be collected, rights of data subjects, acceptable uses of information, data security requirements and obligations of credit bureaus, data furnishers and data users.

There are already many existing best practices in providing an enabling environment for the introduction and use of new technologies and innovations. Many of these can be easily made available through various institutions. There is also a need to recognize the potential of the public sector, especially government banks, in promoting financial inclusion, especially given the magnitude of the challenges to expand coverage of microfinance. Capacity-building measures to assist developing economies in effectively harnessing public sector resources and in promoting public-private sector partnerships are needed.

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<sup>1</sup> Alfred Hannig and Stefan Jansen: *Inclusive Financial System Reforms: What works, what doesn't, and why?* Synthesis Report, GTZ 2008.

There is a lot of commonality between the G-20's approach and the approaches currently being discussed in APEC and there is great potential for APEC to undertake an initiative that complements the work of the G-20. Finally, there are ample resources, including expertise, funding and networks that private, international and bilateral institutions are willing to share in support of an APEC financial inclusion initiative.

# **APEC Public-Private Sector Forum on the Development of Bond Markets and Financial Inclusion**

## **CONFERENCE REPORT**

### **INTRODUCTION**

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*[See Meeting Paper 3-A for the introduction, which will be inserted here in the combined final report.]*

### **PART I: BOND MARKET DEVELOPMENT**

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*[See Meeting Paper 3-A for the report on the 4<sup>th</sup> APEC Public-Private Sector Forum on Bond Market Development, which will be inserted here in the combined final report.]*

### **PART II: FINANCIAL INCLUSION**

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#### **A. THE EMERGENCE OF MICROFINANCE AS AN EFFECTIVE TOOL FOR PROMOTING FINANCIAL INCLUSION**

##### **An Overview of New Developments in Financial Inclusion**

Microfinance has been around for quite some time, but it really has taken off during the previous decade. While there are no global comprehensive figures, available data all point to strong double-digit growth of microfinance. Profitability of microfinance institutions (MFIs) is growing. Compared to commercial banks in the same economy, MFIs tend to be more profitable, and this is particularly the case in East Asia and Latin America. A study by JP Morgan and CGAP comparing indices of major MFIs listed in stock exchanges with MSCI indices of financial institutions also indicate that MFIs are outperforming banks over the long run.<sup>2</sup>

A number of MFIs have grown in size and sophistication, and the scope of services being offered has expanded. Some MFIs have become full-fledged commercial banks offering a wide range of services including housing and consumer loans, savings, life and health insurance, utilities payments and remittances. For these reasons, it is not surprising that microfinance is now attracting much interest from financial institutions and investors all over the world. Traditional banks can now choose from a wide array of options to engage in microfinance, from providing front and back office functions to MFIs, up to directly providing microfinance services.

Foreign funding, which used to account for only about 15% of funding for microfinance a few years ago, is rapidly growing. In the beginning, it has been dominated by non-profits institutions, which were joined by socially-responsible investors in the mid-1990s and later by commercial investors. Commercial investments have been growing rapidly in recent years,

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<sup>2</sup> CGAP/J.P.Morgan: *Microfinance Global Valuation Survey 2010*.

with international financial institutions (IFIs) in the beginning playing a catalytic role by proving the feasibility of business models and attracting private capital, especially microfinance investment vehicles (MIVs). The rapid growth of MIVs owes in large part to the emergence of a top tier of MFIs and demonstrates the potential of microfinance as a commercially viable activity.

In the context of APEC's growth agenda, microfinance offers a potentially powerful tool to channel private capital to promote inclusive growth. But to effectively harness this tool, it is necessary to identify the factors that account for the rapid growth of microfinance. The key factor has been the introduction of technology and innovation, such as mobile banking, point-of-sale technology and biometrics, among others, which have brought down the costs of microfinance.

The biggest problem of MFIs in the past has been the high administrative costs of providing very small loans to a very large number of clients. Technology and innovation have provided solutions that have cut down these costs, and microfinance has taken off in economies where policies and regulations have been put in place to enable the use of these technologies. A good example is the Philippines, which has succeeded in putting in place an innovative regulatory framework for mobile phone banking. This underscores the importance of assisting developing economies in designing such policies and regulations, and this is where APEC could play an important role.

The Asia-Pacific region can derive significant benefits from promoting microfinance, as in many developing member economies, only a limited portion of the adult population have access to finance. Promoting and facilitating private sector investment is important, and IFIs can play a role by working together with private financial institutions. In this context, the major issue is not the lack of funds or investors, but rather the still limited number of top-tier MFIs that are the principal targets of these investments. To broaden investment opportunities, it is important to accelerate the process of upgrading existing MFIs, as well as to promote wider participation of financial institutions, including commercial banks.

Finally, it is important to broaden the base of the financial inclusion pyramid, by expanding the coverage and penetration of microfinance. In its 2009 report, ABAC recommended that policy makers and regulators consider undertaking measures in six areas identified in a recent ground-breaking study<sup>3</sup> where policies can have the most impact. These are mobile phone banking, agent banking, diversifying service providers, making use of state-owned banks, creating financial identities and consumer protection.

### **Opening a New Frontier: Microfinance's Growing Access to Capital Markets**

According to MIXMarket,<sup>4</sup> a World Bank initiative that has become the industry standard database, a survey conducted by self-reporting MFIs has shown that the number of MFIs has grown at a rapid rate in recent years, with overall number of clients rising from around 5 million in 2005 to over 8 million in 2007. The total gross loan portfolio of MFIs has more than tripled from slightly less than \$10 million to just under \$44 million. The potential for growth remains large, with an estimated 1.5 billion working poor still currently in need of financial services, of which less than 10% have been reached by MFIs to date.<sup>5</sup>

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<sup>3</sup> Alfred Hannig and Stefan Jansen: *Inclusive Financial System Reforms: What works, what doesn't, and why?* Synthesis Report. GTZ 2008.

<sup>4</sup> <http://www.themix.org/>

<sup>5</sup> <http://www.cgap.org/p/site/c/>

Sources of capital for MFIs now range from donations and grants to commercial capital. MIVs, usually managed by professional investment managers, have grown to supply a significant portion of MFIs' funding needs,<sup>6</sup> comprising US\$2 billion out of the total US\$3.9 billion of foreign capital invested in MFIs as of 2006.<sup>7</sup> By 2008, there were already 68 MIVs with total assets under management reaching US\$5 billion. MIVs provide structures through which investors can invest in MFIs that lend to low-income clients. MIVs provide capital to MFIs in a variety of forms, including debt, equity and guarantees, assisting their growth and sustainability.

Returning steady cumulative returns across the board, MIVs have performed consistently and attracted investors.<sup>8</sup> Credit quality is high due to the low credit risk of the underlying business, where credit officers know their customers well, who are typically low-income people (with women comprising the majority) who value the opportunity to access credit, resulting in high repayment rates (default rates for microloans are typically under 2%, although these differ across regions). MIVs also attract investors by offering strong diversification opportunities. Investing in professionally-managed MIVs give investors the opportunity to access a wide range of MFIs in a large number of regions and economies that are screened and monitored for financial and social performance, as well as a wider universe of borrowers.<sup>9</sup>

Their expertise enables MIVs to help expand investment in a sector characterized by a number of specific institutional-level risks. MFI-level risks include those associated with small size and organization; operating in a small emerging market; uncollateralized microloans; lack of experience of MFIs in borrowing or receiving equity investment from international markets; limited experience on the part of senior management; being unregulated financial institutions, potential political, economic and regulatory risks in the domestic economy; natural disasters; inconsistent accounting standards; potential fraud at the senior officer and at the branch office level; and large variety of credit quality of microloans.

As a result, MIVs have attracted increasing interest from institutional investors. Over 71% of investors in MIVs are institutions that include pension funds, banks, foundations, fund of funds,

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<sup>6</sup> Taking Developing World Markets (DWM) as an example, it structured and placed the first collateralized loan obligation (CLO) in microfinance in 2004; structured, placed and managed the first rated CLO in 2006; managed the first and second major institution-only microfinance fund in 2007 and 2008, and arranged the first cross-border bond issue by an MFI (Access Bank Bond I) in 2008. It created the DWM Microfinance Equity Fund in 2009, which is open to taking controlling stakes in MFIs, and the DWM Microfinance Fund in 2010 offering local currency. It plans to create the first Asia-wide structured MF fund offering local currency in the course of the year. Other financial institutions such as Citi, Morgan Stanley and Deutsche Bank have also been active in securitizing microloans and creating CLOs.

<sup>7</sup> CGAP Note, *Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns*, February 2008, <http://www.cgap.org/gmi/document-1.9.2584/FN44.pdf>

<sup>8</sup> Examples are the BlueOrchard Microfinance Securities I (US\$87 million CLO, 7-year notes, USD senior tranche) with 6.33% p.a.; Microfinance Securities XXEB (US\$60 million CLO, 5-year notes, USD senior tranche) with 6.12% p.a.; and Azerbaijan's Access Bank (US\$25 million bond, 5-year notes, USD) with 8.5% p.a.

<sup>9</sup> Using the example of DWM, its Benchmark Fund offers credit diversification by providing exposure to 82 MFIs in 32 economies. DWM offers geographic diversification by setting exposure limits on most of its MIVs spread across 38 economies, based on country risk analysis covering political stability, economic climate, regulatory environment and enforceability of contracts. These limits include 35% maximum regional exposure, 15-20% maximum exposure to an economy depending on credit ratings, 10% maximum single MFI exposure, 30% maximum exposure to eligible enterprises that are less than 3 years old, 50% maximum total local currency exposure and 10-15% maximum exposure in any one local currency depending on credit ratings. DWM also offers local currency diversification; foreign exchange exposure of its Flagship Fund outside the US dollar and the Euro (which make up 76% of the total) include exposure to 12 other emerging market currencies.

NGOs, development finance institutions (DFIs) and government agencies.<sup>10</sup> Of these institutions, DFIs and government agencies often play a significant role, working in tandem with MIVs to develop the microfinance landscape. DFIs and government agencies often take on catalytic roles in providing both funding directly or through MIVs and technical assistance to MFIs around the world. They often provide seed funding and management know-how in the establishment of new microfinance banks, microfinance holding companies and MIVs. Such public-private partnerships have enabled both investors and MFIs to achieve financial success and generate significant social impact.

Most MIVs are currently unregulated. MicroRate and the Consultative Group for Assisting the Poor (CGAP) conduct annual MIV surveys to increase transparency. Registered investment funds are open to retail investors, usually regulated by local market authorities and regularly publish information on net asset value (NAV). Unregistered investment funds, which are usually unregulated, include private investment funds (private companies open to qualified and accredited investors seeking a return but not to retail investors), structured investments such as collateralized obligations that offer investors two or more classes of investment, and not-for-profit investment funds (typically non-profit organizations like NGOs and cooperatives that reinvest most or all returns and are usually exempt from regulation).

As the MIV space has grown, the regulatory framework has also matured. Currently, the majority of MIVs are domiciled in Europe with 46% of the world's MIVs (based on assets) registered in Luxembourg, which as a leading investment fund center provides flexibility and choice of MIV structures and relevant technical expertise.<sup>11</sup> While MIVs have, in the past, focused on other regions, investor interest in emerging Asia has been growing, offering wider opportunities for the future of microfinance in the region's developing economies.<sup>12</sup>

## **B. THE ROLE OF THE PUBLIC SECTOR IN PROMOTING FINANCIAL INCLUSION**

### **Providing an Enabling Environment for Promoting Financial Inclusion**

#### *Six Key Policy Areas*

An important role of the public sector is providing an enabling environment for financial inclusion. A key issue is what policy makers should focus on to achieve the greatest impact. Six key policy areas are currently the focus of various international efforts, including those of the Alliance for Financial Inclusion (AFI) and efforts within APEC, to promote innovative policies. These areas are: (a) agent banking (enabling non-bank agents to provide financial services); (b) mobile phone banking (increasing access to financial services through mobile technologies); (c) financial identity (facilitating the development and use of financial identities for low-income clients); (d) consumer protection (promoting policies that provide adequate consumer protection in financial services); and (e) public bank reforms (enabling regulation for more effective commercial provision of financial services); and (f) channel and product diversification (facilitating the adoption of small savings accounts and micro-insurance).

#### **1. Agent banking**

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<sup>10</sup> CGAP Note, *Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns*, February 2008, <http://www.cgap.org/gmi/document-1.9.2584/FN44.pdf>

<sup>11</sup> CGAP Focus Note *Microfinance in Luxembourg*, February 2010 <http://www.microfinancegateway.org/gmi/document-1.9.43145/02.pdf>

<sup>12</sup> DWM plans to launch an Asia-Focused Debt MIV in the first half of 2011. Features include a structured approach comprising junior, mezzanine and senior tranches to attract a broad range of investors, public-partnership and technical assistance components, focused on Tier 2 and 3 MFIs, aim to reach Asian economies not yet served by MIVs and loans in local currencies. It has a target of US\$100 million to fund loans to between 30 and 50 MFIs in at least 10 Asian economies serving over 10 million clients.

The agent banking model involves retail outlets including retail shops and post offices acting as agents for banks where banks and other financial institutions have insufficient capacity or incentive to establish formal branches. New communications technologies (e.g., bank cards, point-of-sale devices, mobile phones) are used to manage cash-in, cash-out services, linking transactions to a bank.

The agent banking model is attractive due to a number of advantages. First, agent banks are less costly to establish than traditional bank branches, as they require smaller investment in staff and infrastructure. Second, the agent banking model is more flexible, since agents have lower security requirements than traditional branches. Third, agent banking has significant potential to help banks expand outreach in remote areas, because it involves low travel costs for customers and is supported by communities benefiting from additional revenues arising from retailers' commissions.

Initially, the agent banking model focused on traditional payments of utility bills and taxes. Recently, it has developed further to provide a growing range of financial products and services. While payments and transfers still dominate the menu of agent banking services, these services now typically include withdrawals, deposits, pre-approved credit lines, simplified current accounts, remittances, conditional cash transfers and employees' salaries.

Successful development of agent banking requires addressing a number of key policy issues. These include the setting of regulatory boundaries, consumer protection and ensuring commercial viability.

- Setting regulatory boundaries involves defining eligibility criteria for agents, determining the types of financial services that agents are allowed to offer, setting disclosure requirements and adapting rules related to anti-money laundering (AML) and combating the financing of terrorism (CFT), as well as know-your-customer (KYC) procedures. Authorities are finding a variety of ways to deal with these issues. In Mexico, for example, agents are permitted to perform KYC verification for low-value transactions, while Brazil has adopted a risk-based approach, where any institution supervised by the central bank can establish an agent relationship but banks are responsible for supervising, setting standards and tracking the operations of their agents.
- Consumer protection issues include building consumer trust to promote the use of agents, ensuring transparency with respect to commissions, guaranteeing privacy and data protection, supporting complaints resolution, real-time settlement and inter-operability challenges.
- Commercial viability cannot be ensured through laws and regulations alone; it requires sufficient business incentives for agents and financial institutions to use the agent banking model. For instance, governments can use cash transfers to kick-start the model, but agents must also be able to offer other services. Maximizing the number of transactions per customer is one way to ensure the financial viability of the system.

Three economies provide examples of how governments have succeeded in expanding access to finance through agent banking.

- In Brazil, which is one of the pioneers in agent banking, more than 100,000 retail outlets have been converted into agent banks since 1999, in the process reaching over 13 million unbanked people. All of the economy's 5,600 municipalities now have access to banking services, with many of these depending solely on agents.
- In Indonesia, the post office (PT Pos Indonesia) provides payment services through a network that is composed of 3,500 branches, 300 mobile service vehicles and 11,000 village agents. As an agent for its 38 bank partners, PT Pos carries out 20 million money transfers per month.



- In Peru, the network of agents has nearly tripled the proportion of districts with access to bank services from 5% to 14% of the total. Key to the success of agent banking is cost – the estimated cost of setting up an agent bank is only US\$5,000 as compared to the US\$200,000 cost of establishing a bank branch.

## **2. Mobile phone banking**

Mobile phone banking has benefited from the rapid growth of mobile phone penetration, with subscriptions, which now number over 4 billion globally, increasing more than four-fold since 2002. Over half of new mobile phone subscribers are living in developing economies. Given these developments, mobile phones offer a huge potential for expanding financial access at a much lower cost than through physical branches. They are able to help reach the unbanked by offering convenient and real-time transactions, dramatically reducing transaction costs, expanding points of access in remote areas, and enhancing security by reducing the need to carry cash.

Mobile phones can be used to deliver a wide range of financial services. These include money transfers, retail purchases, bills payments, welfare payments and other social services, savings, withdrawals and remittances. Mobile phone banking generates transaction data that can be used to develop customers' credit histories, which in turn can expand and deepen the scope of financial inclusion.

Policy-makers and regulators are currently grappling with a number of policy issues arising from the development of mobile banking.

- One set of issues revolves around AML-CFT rules, as well as KYC procedures. Traditional AML-CFT rules may need to be updated for virtual or outsourced relationships and transactions. Mobile phone transfers pose unique risks but also open new opportunities, as such transfers leave trails. The Financial Action Task Force (FATF) has advocated a risk-based approach that allows regulation to be tailored to perceived risk, although in practice, many economies face challenges in achieving compliance this way. The application of standard KYC procedures to low-income customers has been questioned, and some policymakers have opted for simplified procedures allowing the development of products with a low-risk profile.
- A second set of issues is related to inter-operability, which enables customers to gain access to a different operator's mobile banking platform. An important issue involves market structure and competition policy. While mandating inter-operability will serve to promote competition and benefit consumers, it will also inhibit early movers due to concerns about losing their competitive edge. The need of customers to convert e-money into cash, using bank branches, automatic teller machines or agents adds another layer to inter-operability, as sharing cash-in, cash-out infrastructure can lower the costs of expanding outreach.
- A third set of issues deals with consumer protection. Mobile phone banking presents new challenges. These include the large distances between providers and customers, lack of clear incentives or liability of agents for transparency, fraud arising from cash-in, cash-out transactions by agents, and the need for technology-tailored solutions to data security and privacy, redress mechanisms and pricing transparency. Policy considerations include the introduction of technology in financial education efforts to help reduce information asymmetry and the expansion of the scope of central bank supervision to cover operators to provide more comfort to unfamiliar customers.

There is a growing body of practice in the developing world on the regulation of mobile phone banking. Examples can be found in Kenya, the Philippines and Mexico.

- Kenya launched M-PESA (M stands for mobile, while pesa is the Swahili word for money) in 2007, when only 23% of the population possessed bank accounts but 80% had access

to mobile phones. This service has grown into one of the most successful in the world, reaching over 8.5 million customers through 12,000 agents by the end of 2009. In the M-PESA Mobile Network Operator (MNO)-based model, clients can cash-in and cash-out (e.g., transfer and receive funds, pay bills, withdraw or donate) with any of the thousands of M-PESA agents. M-PESA wallets are held by Safaricom (a major provider of converged communication solutions in Africa, including telephone, broadband internet and fax) and are not classified as deposits. M-PESA account funds are pooled and deposited by Safaricom into an account held in trust at a commercial bank; the pool is used to back e-money at a 1:1 ratio.

- In the Philippines, two mobile banking operators (Smart Communications and Globe Telecom/G-Cash) provide services to an estimated 71.2 million customers (almost 80% of the entire population). Mobile transactions have proven to be very popular, as they cost only around a fifth of those executed through bank branches.
- In Mexico, the mobile banking model limits the telecommunications company (Telco) to a banking agent role, as the banking law currently allows only banking institutions to accept deposits from customers. Basic banking services provided by Telco retailers to clients include deposits, withdrawals, bills payments and remittances, with deposits withheld and managed by the bank.

### **3. Financial identity**

Efforts in this area are aimed at facilitating the creation and use of financial identities for low-income clients. There are a number of difficult challenges, which include incomplete population registration and lack of an economy-wide identification system, as well as the inadequacy of data protection regimes and heightened risks of identity theft or misuse of information. One unintended consequence of the implementation of AML and CFT rules and regulations to promote financial integrity and prevent crimes and terrorist finance is that low-income people are further discouraged from accessing the financial system and are pushed instead to the informal sector.

Innovative policies focus on the use of personal identification information for purposes of creating financial identities. Such information is available from official documents (e.g., passports, ID cards, drivers' licenses) as well as non-official documents (e.g., employee IDs, utility records, letters from community leaders). Personal identification information consists of a wide range of information, including personal identifiers (name, address, date and place of birth, citizenship), bank information (account information, savings, credit, investment), insurance information (account information, payments, claims) and other financial information (post-paid telecommunications services and otherservices), as well as ID numbers and biometric identifiers.

A variety of approaches are used by different authorities in dealing with this issue. In India, simplified KYC measures are applied to low-risk customers in opening "no-frills" accounts. The Philippines allows the use of a greater variety of identity cards. In South Africa, authorities use a system for simplified address verification using informal networks.

### **4. Consumer protection**

Consumer protection is generally considered to be a regulatory response to a market failure. Consumer protection laws, which are designed to ensure fair competition and the free flow of truthful information in the marketplace, are a form of government regulation to protect the interest of consumers.

Consumer protection is central to financial inclusion for a number of reasons. Benefits of financial inclusion cannot be attained without adequate consumer protection. Consumers make better decisions if they are given the right information and they know what to do with it. Market discipline facilitates financial market expansion. Financial literacy forms an important

part of consumer protection. It is best promoted through collaboration among consumers, non-government organizations, financial institutions and governments.

The microfinance industry has been active in promoting consumer protection through the setting out of principles of pro-consumer microfinance, while allowing for the legitimate needs of MFIs to be met. An example is the code of conduct developed by the ACCION Network, a network of leading microfinance institutions, to aid in the industry's global self-regulation. The Network seeks to promote the application of these principles among MFIs, to collaborate with regulatory authorities in promoting effective and non-burdensome policies and rules and to raise awareness among MFIs about the importance of consumer protection.

ACCION's Microfinance Pro-Consumer Pledge consists of nine principles:<sup>13</sup>

- Quality of service (treating every customer with dignity and respect and providing convenient and timely services)
- Transparent pricing (giving clients complete and understandable information about the costs of loans and transaction services and how much they are receiving for savings)
- Fair pricing (ensuring that rates do not provide excessive profits, but are sufficient to ensure the continued survival and effectiveness of the business)
- Avoiding over-indebtedness (not lending to any customer more than he/she can afford to repay)
- Appropriate debt collection practices (effective practices that also treat customers with dignity and avoid depriving customers of basic survival capacity as a result of loan repayment)
- Privacy of customer information (protecting private information of customers from being disclosed to those not legally authorized to see it)
- Ethical staff behavior (holding employees to a high standard with respect to conflicts of interest and unethical behavior and adopting effective sanctions against such behavior)
- Feedback mechanisms (providing formal channels of communication with customers through which customers can give feedback on service quality, including mechanisms for responding to specific customers regarding their personal complaints)
- Integrating pro-consumer policies into operations (promoting pro-consumer orientation in the conduct of business through staff training and incentives, financial education for customers and customer satisfaction programs, among others)

Measures to promote consumer protection for low-income clients have been undertaken in a number of economies. Examples are as follows:

- In the Philippines, the central bank conducts financial literacy campaigns among Philippine overseas workers in various cities in the world through road shows that aim to educate workers on planning, saving and investing.
- Peru introduced a holistic system of consumer protection in 2004 that reduced complaints received by the financial regulator (Superintendencia de Banca, Seguros y AFP or SBS) by 32% since its introduction. While SBS supervises policies and procedures, financial institutions are responsible for implementing these. In 2008, financial institutions themselves were handling 99% of about 400,000 consumer complaints.

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<sup>13</sup> ACCION Microfinance Pro-Consumer Pledge (<http://www.accion.org//Page.aspx?pid=846&srcid=739>)

- Peru also introduced a “Regulation of Transparency,” by which cost information associated with financial services are published in the daily news. Interest rates dropped 15% within the first six months of the law.

### **5. Public bank reforms**

Reform of public banks can lead to more effective commercial provision of financial services by government-owned banks. A successful example of public bank reform is the case of Bank Rakyat Indonesia (BRI), which remodeled itself from a loss-making government bank to become the world’s largest and most profitable microfinance network. The process of restructuring started in 1983 in conjunction with the liberalization of interest rates and withdrawal of subsidies. BRI started to focus on achieving self-sustainability through savings mobilization and profitable operations. A key measure was the training provided by BRI to 16,000 employees, together with the provision of performance incentives and technology.

### **6. Channel and product diversification**

Low-income households need a range of financial products beyond credit, such as payments, savings, micro-insurance and remittances. To help meet these needs, policy makers need to consider effective ways of reviewing, popularizing and promoting the adoption of relevant microfinance products (including micro-insurance and micro-savings).

Uganda provides an example of policies promoting channel and product diversification, through the enactment of the Microfinance Deposit-Taking Institution Act of 2003, which created a new tier of microfinance deposit-taking institutions (MDIs) supervised by the central bank and allowed to take deposits. As a result of this new law, the number of savers at licensed MDIs increased from below 100,000 in 2002 to around 250,000 in 2006. In this case, the government took the lead in promoting financial deepening without directly participating in market transactions.

#### *A Closer Look at Financial Identity: Developing Properly Structured Credit Sharing Information Systems in APEC*

Financial identity is a policy area where there is substantial room for reforms and where APEC could play an important role in facilitating the creation and use of financial identities in the region. It is a key issue, as inability to establish a financial identity limits the reach of the financial system, by keeping many financial institutions from the market due to the high costs of assessing risks and by limiting access to financial services for large segments of the population.

A variety of factors accounts for the lack of financial identities in many economies. These include the absence of an economy-wide identification card system, unreliable or inconsistent birth registration system, haphazard or partial registrations for marriages, municipal services and other public services, and the lack of a reliable address system. Even in economies where systems are in place, there may be uneven coverage for lower-income and rural segments of the population.

The KYC recommendations of the FATF currently specify that institutions should undertake customer due diligence measures when establishing business relations and carrying out occasional transactions that are above applicable designated thresholds or wire transfers. Customer due diligence measures are defined as involving “identifying the customer and verifying that customer’s identity using reliable, independent source documents, data or information.” This latter requirement can be constraining if interpreted in a narrow sense as limited to official identification cards, passports and other government-issued identity documents.

Flexible approaches are needed to address the challenges to promoting financial identity. These would require allowing access to broader data sets in establishing an individual’s identity. These data sets could include, aside from traditional official documents (e.g.,

passports, drivers' licenses, voter identity cards), a wider range of identifiers such as utility accounts tied to an address as defined by the utility provider, biometric identifiers, digital photos, welfare basket allotment cards and account information from non-financial service providers such as mobile phone numbers. Credit bureaus and other information service firms can be harnessed to build solutions to establishing an identity based on the information topography of a society.

This approach would require two policy issues to be addressed. First, guidelines need to be developed to allow credit bureaus access to a wider set of information sources for establishing identities. Second, a data protection framework that guards individuals' data by limiting its uses and access, based on OECD Fair Information Practices guidelines, would need to be adopted. In addition, policymakers and practitioners can benefit from the development of a body of case studies on how different economies are dealing with technical and regulatory issues in establishing individual identities for credit reports, which will be helpful in designing expanded information sharing systems.

Developing properly structured credit sharing information systems is an issue that APEC economies could consider as one of the objectives of regional policy initiative for promoting financial inclusion. Credit information sharing systems are key elements of modern financial sector infrastructure. Credit bureaus have assumed a core role within such systems by helping lenders acquire a more precise knowledge of a borrower's likelihood of repaying. However, the extent to which this result is achieved depends on the structure of credit reporting, bureau ownership and the type of information reported. In this context, distinctions between the following need to be made:

- Negative-only reporting versus full-file reporting. Negative-only reporting is the reporting of only negative data (adverse payment data on a consumer, which consists of late payments of more than 60 days or more commonly 90 days past due, liens, collections and bankruptcies). Full-file reporting is the reporting of both negative and positive data. Positive data would encompass information on the timeliness of payments, including whether payment was on time or was moderately late. The payment information may contain the payment date relative to the due date. Positive information also includes data on account type, lender, date opened, inquiries, debt and can also include credit utilization rates, credit limits and account balances.
- Segmented versus comprehensive reporting. Segmented reporting is a system in which only data from one sector or a limited number of sectors, e.g., retail or banking, are contained in reports. Comprehensive reporting is a system in which payment and account information are not restricted by sector and contains information from multiple sectors, e.g., utilities payments.
- Public versus private credit bureaus. Although there is no theoretical reason why a public bureau cannot behave like a private one, there are practical reasons. Public bureaus have been set up largely and primarily for supervisory purposes, to monitor the safety and soundness of the financial sector and determine whether reserves are sufficient, rather than primarily to facilitate greater and sustainable lending. Private bureaus, by contrast, are set up to ease lending, and the reasoning behind the data collection by private bureaus lies primarily in reducing information asymmetries and to improve risk assessment in lending. By this account, private bureaus are complements rather than substitutes to public bureaus.

A number of studies citing evidence from the USA, Canada, Brazil, Colombia and Argentina, among others, summarized in surveys undertaken by the Political and Economic Research Council (PERC)<sup>14</sup> presents the following conclusions:

- To most accurately judge risk, lenders generally need to know more than the past credit failures of the applicant. Systems that only report serious delinquencies do not capture many moderately late payments that are often indicative of a borrower's risk. In addition, positive credit information provides a low-cost way of gathering data on applicants who have paid in a timely fashion, and it provides information on those who may often face discrimination, such as lower-income borrowers, women, racial minorities, and the young. Full-file reporting also allows creditors to measure a borrower's capacity to carry a loan by revealing the individual's existing lines of credit, associated balances, and credit limits.
- In many ways, the issue of comprehensive reporting versus segmented reporting is akin to that of full-file versus negative-only reporting. More information allows for better predictions. In addition, comprehensive reporting provides a low-cost way of gathering data on those who apply for loans in another sector.
- There is a sizable reduction in the ability of lending systems to identify the good risks from bad risks with shifts from a comprehensive full-file data to negatively only or segmented data. Evidence from US data indicates that for a 3% default target, a negative-only reporting system would accept 39.8% of the applicant pool, whereas a full-file system would accept 74.8% of the applicant pool. Similar simulations conducted in a number of countries with comparable results verify the robustness of such findings.
- With respect to the distribution of credit by demographic characteristics, studies strongly suggest that individuals in underserved social segments are the most likely to benefit from expanded information sharing. One study using US data concluded that ethnic minorities, the young, and low-income groups experience greater increases in acceptance rates with full-file information than the rest of the population. Another study using data from Colombia found an increase in the share of women among the pool of borrowers when switching to a full-file system (33% of the borrower pool under a negative-only system compared to 47% in a full-file system).
- There are potentially enormous benefits to adding non-financial payment data, such as utilities payments, to consumer credit files. These non-financial services are broadly utilized in many countries, across socioeconomic groups and among many individuals that may not have participated in the formal credit markets and, thus, have little or no traditional credit history on file. The use of such data has the potential to make available affordable credit from mainstream financial markets to historically underserved consumers and entrepreneurs. A study conducted by PERC concluded that when payments for energy utility and telecommunications are included in credit files, those without multiple credit accounts in the past and are least likely to be in the credit mainstream (ethnic minorities, lower income households, younger individuals, and older individuals) are the ones most likely to benefit.
- Using data from 129 economies, one study concluded that private bureaus increased lending by 21%. In lower-income economies, private bureaus increased lending by 14.5% compared with 10.3% for public bureaus. Another study found that private sector lending increased by more than 45% of GDP with a shift from 0% to 100% coverage of

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<sup>14</sup> Michael Turner, Robin Varghese and Patrick Walker, *Financial Inclusion through Credit Reporting: Hurdles and Solutions* (A PERC Briefing Paper for The Asia-Pacific Credit Coalition), April 2010. See also Michael Turner, Robin Varghese and Patrick Walker, *The Structure of Information Sharing and Credit Access: Lessons for APEC Policy* (A PERC Briefing Paper for The Asia-Pacific Credit Coalition), July 2008.

credit-eligible adults by a full-file private bureau. Using data from 170 banks across Latin America, an IDB study found that banks that loaned primarily to consumers and small businesses and that used private bureau data had nonperformance rates that were 7.75 percentage points lower than banks that did not, while no such effect of any magnitude for the impact of public bureaus were found.

- With reference to concerns arising from the recent credit crisis in the US, unlike a relaxation in lending rules, expansion of information in credit files can help prevent problems associated with consumer overextension, while allowing easier credit for consumers. This is because it also facilitates better credit decision by lenders, so that lenders' improved ability to identify good risks from bad is the factor leading to increased access to credit. It helps lenders identify good credit risks that otherwise would have been misidentified as bad risks and thus would have been denied credit. At the same time, bad risks that are previously given credit because they have been thought to be good risks will no longer be subsidized by lower-risk individuals.
- The implications of these effects on economic performance are significant. Broader-based lending and wider access to capital improves economic growth, growth in the capital stock and productivity and lower income inequality.

The legal and regulatory framework is important because a number of important procedures would need to be defined, including the type of information that can be collected, the rights of data subjects (access, notification, dispute resolution and redress), acceptable uses of information, data security requirements and obligations of credit bureaus, data furnishers and data users.

- An important element of an effective legal and regulatory framework is the specification of requirements regarding information contained in credit files. These requirements include (a) protection of consumer rights; (b) information privacy, referring to limitations and regulation of access to consumer information; (c) use of public record information; (d) the periodicity of reporting; (e) data expiration regulation; (f) provisions for the sharing of both positive and negative information; (g) noting disputed information or suspected fraudulent activity; and (h) equal treatment of reporting financial and non-financial industries. Given the wide diversity among APEC member economies, how each of these requirements is addressed will vary across the region.
- Another important element is the determination of data subject rights and protections and the obligations of data furnishers and credit bureaus. (a) Data subject rights and protections would involve such issues as control over third-party access to credit files, right to access the credit file, procedures for consumer disputes and re-verification, redress for harms and notification of adverse actions and dispute rights. (b) Data furnisher obligations would involve the regular reporting of accurate data, timely responses to consumer disputes, correcting and updating inaccurate information, reporting the status of accounts (whether open, closed or delinquent), and responding to suspected identity fraud. (c) Credit bureau obligations would involve maintaining data quality standards, disclosures to data subjects, dispute resolution procedures, data privacy and security (including in the case of third-party verification), and inclusion of financial, governance and security standards.
- The Organization for Economic Co-operation and Development (OECD) Fair Information Practice Principles provide a useful reference point in efforts to develop the legal and regulatory framework. The Principles cover a number of areas, including limitations related to data collection (what is collected, means of collection, source of data, knowledge and consent of data subject and scope of application of the principle); data quality; permissible purposes or use limitation (control against original purposes, exceptions and disclosure mechanisms); security safeguards; openness; individual

participation (the right of the subject to know about the existence of data, right to access data; right of challenge and provision of reasons for refusal; and subject challenge to data); and accountability.

- Dispute and grievance resolution mechanisms are important for safeguarding rights of data subjects, improving data quality and enhancing system legitimacy. An effective mechanism would address issues in each of the four basic phases of grievance resolution. (a) With respect to personal information, credit bureaus must be able to immediately release information to consumers and release all information in the consumer file. (b) With respect to the receipt of grievance (when a consumer contests the information), credit bureaus must provide consumers easy access to customer service and a clear framework for the resolution of each case should be in place. (c) Credit bureaus must have a system to verify data. (d) With respect to consumer rights in notice and follow up of grievance procedure, data subjects must be notified of the results of their case and a system of appeals should be in place in case the consumer refutes the resolution.

These considerations have led industry players to formulate six general principles that are being proposed to form the basis for improving credit reporting in the region:

- Positive and negative payment data should be reported to private credit bureaus.
- Bank, non-bank and non-financial payment data should be reported; data should not be segmented by sector.
- Consumer rights and protections are paramount, as spelt out in the OECD Fair Information Principles.
- Private credit bureaus and public credit registries are complementary; private bureaus focus on making lending efficient.
- Reporting of payment data should be voluntary.
- Data use should be limited to well-defined permissible purposes.

### **Demand- and Supply-Side Measures**

Beyond providing an enabling environment, there is a broader role that the public sector can play in promoting financial inclusion. The role of public banks referred to in an earlier section is a case in point. In addition, the number of credit-worthy and mature MFIs that can attract sustained private funding is still very limited, and effectively mobilizing savings of low-income households remains a challenge. While improvements in the policy and regulatory environment to promote commercially sustainable microfinance are still under way, supplementary measures can be undertaken by the public sector to accelerate the process of expanding financial inclusion.

Demand-side interventions focus on making low-income and rural clients more bankable. These could include efforts by governments and public banks in the following areas:

- Financial literacy and education
- Empowering clients and organizing clients' groups
- Providing social safety nets in conjunction with or in preparation for the delivery of microfinance services
- Technical support for livelihood projects and micro-business
- Identifying and providing key rural infrastructure services, including transport, water and sanitation, energy and agricultural services



- Programs to meet basic needs, particularly health and sanitation

Supply side interventions can be undertaken by government and public banks. To support promising private MFIs that have not yet attained sufficient creditworthiness, the following measures could be considered:

- Policy-based wholesale lending by public banks playing the role of apex institutions to MFIs
- Linkage programs among private banks, MFIs, savings and credit cooperatives and self-help groups
- Technical and managerial support and training for MFIs in areas such as risk management in preparation for transition to regulated status

Public banks can also undertake policy-based retail banking for clients not served by private MFIs. Examples of institutions undertaking such activities are BRI in Indonesia, BAAC in Thailand and LandBank of the Philippines.

The success of policy-based lending and retail banking activities by public banks and apex institutions is dependent on fulfillment of a number of important conditions. These include:

- Management of these government-owned entities on a commercial basis
- Accordance with the government's policy priorities
- Avoidance of direct government subsidy
- Independence of operations, including due diligence with respect to clients
- Use of affordable funds from the market or donors (with implicit government guarantee)
- Avoidance of competition with private MFIs and a clear exit strategy
- Avoidance of discouraging savings mobilization by the private sector
- Setting industry standards

In playing these roles, governments and public banks can help nurture markets and a level playing field, while promoting the development of new MFIs. These actions should be geared toward eventually increasing private investment opportunities and realizing financial inclusion in an efficient and equitable manner. As the positive role that governments and public banks could play in promoting financial inclusion has not yet been given adequate attention, experiences in developed member economies in APEC of providing market-friendly interventions and policy-based finance should be studied and opportunities for adapting best practices discussed to support the promotion of financial inclusion in the region. An appropriate role of multilateral and bilateral institutions, such as JICA, could be considered in the development of such initiatives in APEC.

### **C. KEY ISSUES FOR AN APEC FINANCIAL INCLUSION INITIATIVE**

#### **Achieving Synergy between APEC and G-20 Initiatives**

Recent developments, particularly in microfinance, have pushed financial inclusion to the forefront of the agenda for global development. The G-20 has included financial inclusion in its agenda. In their June 2010 Toronto Summit Declaration, the G-20 Leaders endorsed nine principles for innovative financial inclusion, which are intended to form the basis of an action plan (to be finalized in November 2010 at the Seoul G-20 Leaders' Summit) to help improve access to finance. These nine principles are as follows:<sup>15</sup>

- *Leadership*: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.

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<sup>15</sup> G-20 Toronto Summit, *Principles for Innovative Financial Inclusion* (<http://g20.gc.ca/toronto-summit/summit-documents/principles-for-innovative-financial-inclusion/>)

- *Diversity*: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
- *Innovation*: Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.
- *Protection*: Encourage a comprehensive approach to consumer protection that recognises the roles of government, providers and consumers.
- *Empowerment*: Develop financial literacy and financial capability.
- *Cooperation*: Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
- *Knowledge*: Utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider.
- *Proportionality*: Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
- *Framework*: Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

In view of the commonality between the G-20 principles and ABAC proposals to APEC Finance Ministers and Leaders on financial inclusion, there is tremendous potential for APEC to leverage a shared vision of financial inclusion between APEC and the G-20 to enable APEC to become a global leader in promoting expanded access to finance while ensuring the safety and soundness of financial services provision.

The Asia-Pacific region presents daunting challenges in this regard. Among the many challenges are promoting strong regulatory frameworks and supervisory capacity, financial institution building, attracting expanded commercial banks’ engagement in microfinance, identifying consumer needs, ensuring financial viability of MFIs, promoting access of non-banks to payment systems and strengthening agents’ liquidity management capabilities. A comprehensive approach is needed to effectively address these challenges, and APEC, particularly the Finance Ministers’ Process, is uniquely suited to bring together governments, the private sector and multilateral agencies to coalesce and provide the needed solutions.

### **APEC and Other Regional Capacity-Building Efforts**

Within the context of the current post-crisis global economic situation, an APEC initiative on financial inclusion can contribute significantly to ongoing efforts to put the global economy back on the path to growth. APEC has identified key aspects of a growth strategy that will form the basis for a comprehensive work program in the lead to the 2010 APEC Economic Leaders Meeting in Yokohama. Complementing the three pillars of trade and investment liberalization, facilitation and economic and technical cooperation enshrined in the Osaka Action Agenda when Japan chaired APEC in 1995, this strategy is aimed at achieving inclusive, balanced and sustainable economic growth.

Financial inclusion, using microfinance as a tool, has significant potential to contribute to successful outcomes within the framework of this growth strategy.

- Financial inclusion is a crucial element of any inclusive growth strategy. Microfinance is a potent tool for empowering enterprises at the bottom of the economic pyramid to more effectively participate in economic growth, as well as to expand opportunities for low-income households and individuals.
- Financial inclusion can support efforts to achieve more balanced growth by helping stimulate regional and domestic demand in developing economies. In the past few years, these economies, particularly in Asia, relied on exports to developed markets in America and Europe for growth. In the current post-crisis situation, they face the challenge of rebalancing growth away from exports toward greater reliance on domestic demand.
- Financial inclusion can contribute significantly to environmentally sustainable growth. For example, micro-insurance can play a role in mitigating the risks of environmental damage. Governments can also consider ways of partnering with MFIs to provide financing for projects such as local water supplies and introducing and expanding renewable energy and sustainable practices in agriculture and forestry.

There is much scope for achieving synergy between activities to promote financial inclusion under the APEC framework and those being undertaken by other international organizations and institutions in the region. Currently, a huge number of activities are being undertaken to promote financial inclusion. These activities, which aim to help develop market infrastructure, assist governments and market players, and promote funding, include the promotion of technology, credit information, financial identities, effective payment systems, transparency and innovative business models; establishment and dissemination of standards of good practice; training; policy advisory services; research, data analytics, publication and dissemination of information; funding and mobilizing capital and policy dialogues.

A wide variety of institutions are actively engaged in promoting financial inclusion. These include policy and research organizations supported by development agencies, privately-funded grant-making and knowledge-pooling bodies, international financial institutions, well-networked organizations serving as intermediaries to promote and maintain partnerships, networks and associations of market players and government agencies engaged in microfinance, and development agencies undertaking capacity-building and research activities. Although there are overlaps in their activities, there is very significant potential for complementation, given institutions' varying memberships, levels and nature of financial and technical resources and geographical reach.

#### **D. FINANCIAL INCLUSION: SUMMARY OF KEY ISSUES**

In recent years, microfinance has grown to become a potentially powerful tool for promoting financial inclusion, with the growing profitability of MFIs and the expanding scope of their operations. Microfinance is attracting increasing interest from financial institutions and investors all over the world. The key factor has been the introduction of technology and innovation, such as mobile banking, point-of-sale technology and biometrics, among others, and microfinance has taken off in economies where policies and regulations have been put in place to enable the use of these technologies.

With the growing commercial viability of microfinance, there is increasing interest among investors and great potential for channeling commercial investment into the sector. Public-private partnership with IFIs and bilateral institutions playing key roles could facilitate the expansion of such commercial investments. Nevertheless, while promoting and facilitating private sector investment is important, the major issue is not the lack of funds or investors, but rather the still limited number of top-tier MFIs.

To broaden investment opportunities, it is important to accelerate the process of upgrading existing MFIs, as well as to promote wider participation of financial institutions. The most difficult challenge, however, is how to broaden the base of the financial inclusion pyramid, by expanding the coverage and penetration of microfinance. In its 2009 report, ABAC recommended that policy makers and regulators consider undertaking measures in six areas identified in a recent ground-breaking study<sup>16</sup> where policies can have the most impact. These are mobile phone banking, agent banking, channel and product diversification, public bank reform, financial identity and consumer protection.

An area where APEC can play a constructive role in promoting financial inclusion is the development of properly structured credit sharing information systems. This could involve the promotion of reforms to enable full-file and comprehensive credit reporting in member economies to private credit bureaus, which should be accompanied by measures to develop appropriate legal and regulatory frameworks defining key procedures, including types of information that can be collected, rights of data subjects, acceptable uses of information, data security requirements and obligations of credit bureaus, data furnishers and data users.

There are already many existing best practices in providing an enabling environment for the introduction and use of new technologies and innovations. Many of these can be easily made available through various institutions. There is also a need to recognize the potential of the public sector, especially government banks, in promoting financial inclusion, especially given the magnitude of the challenges to expand coverage of microfinance. Capacity-building measures to assist developing economies in effectively harnessing public sector resources and in promoting public-private sector partnerships are needed.

There is a lot of commonality between the G-20's approach and the approaches currently being discussed in APEC and there is great potential for APEC to undertake an initiative that complements the work of the G-20. Finally, there are ample resources, including expertise, funding and networks that private, international and bilateral institutions are willing to share in support of an APEC financial inclusion initiative.

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<sup>16</sup> Alfred Hannig and Stefan Jansen: *Inclusive Financial System Reforms: What works, what doesn't, and why?* Synthesis Report, GTZ 2008.

## ANNEX

# APEC PUBLIC-PRIVATE SECTOR FORUM ON THE DEVELOPMENT OF BOND MARKETS AND FINANCIAL INCLUSION

ORGANIZED BY

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING

THE APEC BUSINESS ADVISORY COUNCIL

IN COOPERATION WITH THE *MINISTRY OF FINANCE, JAPAN*

31 May 2010

ANA Hotel Sapporo, Ohtori Room

Sapporo, Japan

## PROGRAM

08:30-09:00 **REGISTRATION**

09:00-09:15 **OPENING SESSION**

09:00-09:05 **Welcome and Opening Remarks**

Mr. Yoshihiro Watanabe, Chair, Finance and Economics Working Group, APEC Business Advisory Council (ABAC) and Managing Director, Institute for International Monetary Affairs

09:05-09:10 Mr. Mark Johnson AO, Chair, Advisory Group on APEC Financial System Capacity-Building and Chairman, AGL Energy

09:10-09:15 Mr. Takeshi Kurihara, Chair, APEC Senior Finance Officials' Meeting and Director, Research Division, International Bureau, Ministry of Finance of Japan

**PART I: The 4<sup>th</sup> APEC Public-Private Sector Forum on Bond Market Development**

**Chair:** Mr. Mark Johnson AO, Chair, Advisory Group on APEC Financial System Capacity-Building and Chairman, AGL Energy

09:15-09:45 **SESSION ONE**

**OVERVIEW OF CURRENT TRENDS IN THE REGION'S BOND MARKETS**

09:15-09:30 **Asian Bond Markets: Overview of Current Trends and Regional Initiatives**

Mr. Satoru Yamadera, Economist, Office of Regional Economic Integration, ADB

09:30-09:40 **Overview of Findings from Previous APEC Public-Private Sector Forums on Bond Market Development**

Dr. Julius Caesar Parreñas, Coordinator, Advisory Group on APEC Financial System Capacity-Building and Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

09:40-09:45 **Development of local currency bond markets in South and South East Asia and the role played by rating agencies in developing these markets)**

Mr. Vivek Goyal, Managing Director, Head of Business and Relationship Management Asia Pacific, Fitch Ratings

09:45-11:00 **SESSION TWO**

**THE DEVELOPMENT OF APEC ECONOMIES' BOND MARKETS: EXPERIENCES FROM CHINA, KOREA AND JAPAN**

09:45-10:00 **Presentation: The Chinese Bond Market: Current Developments and Prospects**

Madame Lili Wang, Co-Chair, ABAC Finance and Economics Working Group; and Executive Director and Senior Executive Vice President, Industrial & Commercial Bank of China (ICBC)

10:00-10:15 **Presentation: The Korean Bond Market: Current Developments and Prospects**

Dr. Young-Hwan Byeon, Financial Economist, Capital Market Supervision Office, Financial Supervisory Service, Republic of Korea

- 10:15-10:30 **Presentation: Expanding Foreign Issuance and Investment in the Japanese Bond Market**  
Mr. Yoshio Okubo, Senior Managing Director, Japan Securities Dealers' Association
- 10:30-10:35 **Comments**  
Mr. Moonsoo Kim, Head of the Rating Planning Team, Business Development Division, Korea Ratings
- 10:35-10:40 **Comments**  
Mr. Kunihiko Ogura, General Manager, Planning and Administration Department, Finance Division, Mitsui & Co., Ltd.
- 10:40-10:45 **Comments**  
Mr. Masayuki Tagai, Executive Director, Global Market Infrastructures, Treasury and Securities Services, JP Morgan Chase Bank, N.A.
- 10:45-11:00 **Open Discussion and Q&A**
- 11:00-11:20 **COFFEE BREAK**
- 11:20-12:45 **SESSION THREE (PANEL DISCUSSION)**
- CAPACITY-BUILDING FOR CAPITAL MARKET DEVELOPMENT AFTER THE FINANCIAL CRISIS**
- 11:20-11:25 **Introduction by the Session Chair**
- 11:25-11:35 **Comments by Panelist: Passport Schemes for Cross-Border Recognition of Fund Management Products as a Vehicle for Financial Integration**  
Mr. James R.F. Shipton, Managing Director, Executive Office, Head of Government Affairs, AEJ, Goldman Sachs
- 11:35-11:45 **Comments by Panelist: Toward a Regional Clearing and Settlement System – Addressing Barriers to Cross-Border Settlement**  
Mr. Hiroshi Ikegami, Director, Fixed Income and Investment Trust Department, Japan Securities Depository Center, Inc.
- 11:45-11:55 **Comments by Panelist: Promoting Cross-Border Securities Collateral Management to Improve Bond Market Liquidity**  
Mr. Hiroyoshi Nakamaru, Chief Manager, Risk Management Department, Global Operations Control Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (TBC)
- 11:55-12:00 **Comments by Panelist**  
Professor Shigehito Inukai, Executive President and Secretary General, Capital Markets Association for Asia; and Professor, Faculty of Law, Waseda University
- 12:00-12:05 **Comments by Panelist**  
Mr. Hon Cheung, Regional Director – Asia, State Street Global Advisors
- 12:05-12:10 **Comments by Panelist**  
Mr. Kazuo Imai, Chairman, Association of Credit Rating Agencies in Asia (ACRAA); and Advisor, International Business, Japan Credit Rating Agency, Ltd.
- 12:10-12:15 **Comments by Panelist**  
Mr. Romuald Semblat, Senior Economist, International Monetary Fund (IMF)
- 12:15-12:45 **Open Discussion and Q&A**
- 12:45-14:15 **LUNCH**
- PART II: Financial Inclusion Forum**
- Chair:** Dr. Julius Caesar Parreñas, Coordinator, Advisory Group on APEC Financial System Capacity-Building and Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- 14:15-15:45 **SESSION FOUR (PANEL DISCUSSION)**
- INNOVATIVE POLICIES TO PROMOTE FINANCIAL INCLUSION THROUGH MICROFINANCE**
- 14:15-14:30 **Introduction by the Session Chair: New developments and the emergence of microfinance as an effective tool for promoting financial inclusion**

- 14:30-14:35 **Promoting investment in microfinance**  
Mr. Hiroshi Amemiya, Advisor, Developing World Markets
- 14:35-14:50 **Key policy solutions for promoting financial inclusion**  
Mr. Eduardo Jimenez, Regional Associate, Alliance for Financial Inclusion
- 14:50-15:00 **Promoting financial identity through credit reporting systems**  
Dr. Robin Varghese, Asia-Pacific Credit Coalition (APCC) and Senior Fellow and Director of Research, PERC/Information Policy Institute
- 15:00-15:10 **The role of the public sector in promoting financial inclusion**  
Mr. Kazuto Tsuji, Executive Technical Advisor to the Director General, Public Policy Department, Japan International Cooperation Agency (JICA)
- 15:10-15:20 **Promoting synergy between APEC and the G-20 in promoting financial inclusion**  
Dr. Lois Quinn, Senior Economist & Financial Systems Advisor, Office of International Banking and Securities Markets, US Department of the Treasury
- 15:20-15:30 **Promoting synergy in regional cooperation for financial inclusion**  
Mr. John West, Senior Consultant for Capacity Building and Training, Asian Development Bank Institute
- 15:30-15:45 **Open Discussion and Q&A**
- 15:45 **End of Session**
- 15:45-16:00 **CLOSING SESSION**
- 15:45-16:00 **Closing Remarks**  
Madame Lili Wang, Co-Chair, ABAC Finance and Economics Working Group; and Executive Director and Senior Executive Vice President, Industrial & Commercial Bank of China (ICBC)