

THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY-BUILDING

A Public-Private Sector Initiative

Document: AGFSCB 31-016
Draft: **FIRST**
Source: APEC SFOM
Date: 9 February 2011
Meeting: Guangzhou, China

First Meeting 2011

14 February 2011

Shangri-La Hotel, Guangzhou Ballroom
Guangzhou, People's Republic of China

Meeting Paper 6-C

APEC Financial Inclusion Initiative: Key Components

Office of the Chair, APEC Senior Finance Officials Meeting (SFOM)

PURPOSE	For information.
ISSUE	APEC Financial Inclusion Initiative
BACKGROUND	The APEC Financial Inclusion Initiative was launched by the APEC Finance Ministers in November 2010. The direction of the Initiative will be discussed at an inaugural workshop to be held in San Francisco, USA on 23-24 February 2011. This paper provides information on current ideas and on the San Francisco workshop.
PROPOSAL	N.A.
DECISION POINT	Note the paper.

APEC Financial Inclusion Initiative
Key Components – Working Summary
As of 31 December 2010

Goal: *Concrete/practical guidance on government leadership in expanding access and usage of financial services (transaction, savings, insurance, investment and credit) by households, individuals and self-employed entrepreneurs.*

- **Designing an Effective Strategy to Catalyze Action**
Objective: Identify key components of government actions/interventions in financially viable and ‘successful’ financial inclusion models
 - Questions that need to be asked
 - Issues that need to be addressed
 - Public sector’s leadership role – political will/support, convening power, etc
 - Role of government-to-person (G2P) payments

- **Assessing Consumer Needs**
Objective: Meeting Consumer Needs in Target Market
 - Market Research: Design challenges / successful approaches
 - Private sector collaboration
 - Collaboration with civic organizations

- **Fostering Collaborative Approaches to Reaching the Target Market**
Objective: Keys to financial viability for private sector service provider – pushing the discussion on viability with the private sector beyond the regulatory arena
 - Non-regulatory challenges to viability
 - Innovative and collaborative approaches to addressing financial challenges
 - Collaborative market research
 - Collaborative marketing
 - Public/NGO funded/conducted financial education for customers
 - Public/NGO subsidies for account opening
 - Credit for government social service/investment requirements, such as US community redevelopment act.

Build on specific G20 Principles for Innovative Financial Inclusion --

- Leadership –
The depth of their commitment can be manifested in a variety of way including:...fostering broad-based alliances; captivating private sector interest; offering supportive services such as financial education and payment system infrastructure; and providing data on the nature and depth of the unmet demand for financial services....

- Cooperation --
Actively promoting partnerships and direct consultation among stakeholders can contribute to increasing efficiencies and stimulating innovation.

ANNEXES:

- Financial Inclusion: Addressing Barriers to Balanced Growth & Prosperity: An APEC Finance Ministers’ Initiative
- APEC Financial Inclusion Workshop, San Francisco, 23-24 February 2011

Financial Inclusion: Addressing Barriers to Balanced Growth & Prosperity **An APEC Finance Ministers' Initiative**

Goal: Identify concrete actions drawn from financial inclusion models undertaken in APEC economies to expand the provision and usage of financial services to the underserved, including the working poor, in particular through effective public/private collaboration.

An APEC financial inclusion initiative will seek to identify how financial policy makers and regulators can best promote the provision of financial services to the underserved¹. Innovative financial services have opened the door to more inclusive financial systems.² Yet recent experience suggests that innovation in service delivery alone is not enough to reach some underserved households. For example, there are particular difficulties in extending appropriate financial services to those dependent on irregular incomes and/or those vulnerable to weather related disasters. Successful initiatives in APEC economies have relied on strategic leadership by financial policy makers and authorities to stimulate action by service providers to bridge the gap between the financial services typically offered and the services needed by the underserved.

This initiative will draw upon the experiences of financial policy makers across APEC – economies large and small, advanced and emerging, and on both sides of the Pacific. It will benefit from the participation of recognized financial inclusion leaders, including the Philippines, Indonesia, Thailand, and Mexico. The initiative will complement the work of the emerging economies' Alliance for Financial Inclusion (AFI) and provide concrete follow through on the G20's principles for financial inclusion, endorsed by G20 leaders in Toronto in June.

Glimmers of Success: Initiatives launched by APEC economies, all under the leadership of the financial authorities and/or finance ministries, offer significant promise of success. Indonesia's financial inclusion strategy includes the TabunganKu ('My Saving') program and the establishment of a Financial Identity Number (FIN). The Philippines' strategy brought efficient transaction services to its largely unbanked population. Mexico's financial inclusion strategy seeks to address the broader financial services needs of its 'underbanked' population, as well as reach the estimated 40% of its population that is totally 'unbanked'.¹ The United States is also working to better address the financial service needs of its underbanked (\$17% of US households), and its smaller population of unbanked (8%). In many of these initiatives, the focus is on the provision and use of financial services that meet the needs of the underserved, not just the extension of access to existing services. In Mexico, for example, the government recognizes that access is no longer the key challenge. Ninety percent of Mexico's adult population technically has access to financial services, but issues of pricing, the service offerings and financial capacity mean only an estimated 60% use the available services.

The exercise of public leadership in these cases, coupled with the identification of actions to address the challenges left unresolved, can help guide APEC economies and the broader global community to further tap the potential of technological innovations and effective consumer outreach to make progress in extending

¹ The 'underserved' refers to (1) those who do not have access to (or do not use) any formal financial services, i.e., the 'unbanked', and (2) those who use at least one formal financial service, such as a savings account or transaction service, but use alternative sources to meet some of their financial service needs, i.e., the 'underbanked'.

² Mobile and card-based electronic service delivery, coupled with greatly expanded networks of agents and points-of-service, including ATMs, have facilitated the provision of financial services to the previously underserved. Banks and non-financial institutions, whether private, public, or non-profit, recently have enjoyed significant success in reaching new customers. This, in turn, is contributing to greater economic efficiency and, where appropriate regulatory frameworks are in place, enhanced financial system integrity and stability.

financial services to areas and population segments whose demands for financial services have not yet been met.

Focus: Strategic Action

- Designing an Effective Strategy to Catalyze Action
- Assessing Consumer Needs
- Fostering Collaborative Approaches to Reaching the Target Market

This initiative will examine strategies behind these, and other, models for delivering financial services to the underserved. Experts will drill-down to the practical level to identify the common lessons that were deployed under different circumstances. These lessons will inform the identification of the key components of successful public sector action strategies, as well as provide guidance on how to shape those components. Discussions will identify where capacity is a constraint, and help to facilitate subsequent technical assistance as warranted.

The APEC initiative also will probe areas where little practical progress has been made. Government action in these areas might include, for example, fostering collaborative market research efforts, channeling government-to-person (G2P) payments through financial inclusion-friendly services, and collaborative efforts to develop innovative marketing techniques. Collaboration among APEC economies may also help address the problem faced by even the most successful models of financial inclusion -- the difficulty in providing those with low and uneven incomes the types of financial services they need.³

Outcomes: Concrete / practical guidance for government intervention / leadership

Our work will produce practical guidance for governments. Armed with this guidance, financial authorities and policy makers across APEC (and beyond) will be better equipped to tailor their financial inclusion action strategies to their specific local, provincial, and/or national needs.

Next Steps: Inaugural Meeting in San Francisco

On February 23-24, the San Francisco Federal Reserve Bank and the U.S. Treasury will host experts from APEC economies' finance ministries and financial authorities in San Francisco to launch this initiative, identify its specific deliverables, and commence work. Experts will explore the strategies that APEC economies have adopted, to identify what worked, and what challenges still remain. Experts will meet with industry representatives to explore how the public and private sectors can work together to address the remaining barriers to reaching underserved households, and how to better design services to meet customer demand.

Stakeholder Outreach: Coordination with relevant stakeholders will be critical to the success of this initiative. Key international organizations will participate in the discussions, including CGAP, the World Bank/IFC, IDB, ADB, and AFI. The input and collaboration of private sector groups, including ABAC, will be actively sought.

³ Typically, the services provided via innovative channels are scaled down versions of the services available at bank branches. These 'innovative' services address physical barriers to accessing financial services, not the financial management challenges faced by many working poor and those living on the fringe of substance.



APEC Financial Inclusion Workshop
San Francisco, CA ○ February 23-24, 2011

Draft as of 30 January 2011

February 23rd 2010

8:45 am Registration and coffee

9:30 am Welcome ----

Opening Remarks –

10:00 am **Session I: The Challenge --- Panel Discussion⁴**

Goal – refresh/update understanding / knowledge of financial inclusion challenges through a series of presentations.

Moderator – TBD

Panelists & topics

- Magnitude and Impact on growth, development, household well-being
- Challenges in reaching the underbanked (access and usage)
- Synergies with the G20's Global Partnership for Financial Inclusion

10:50 am **The Challenges – Workshop Dialogue⁵**

Facilitator

Participants -- Workshop attendees

11:15 am **Break**

11:45 am **Session II: Leadership in Practice -- Fireside Chat⁶**

Goal – identify components / attributes of government leadership and the process of developing financial inclusion strategies

Moderator – TBD

Panelists:

- Country experience
- Country experience
- Country experience
- Country experience

12:35 pm **Key attributes of government leadership – Workshop Dialogue⁵**

Facilitator

⁴ Moderator sets the stage, limits each presenter to xx minutes and leads Q&As.

⁵ APEC workshop participants create a list of key attributes. The identified attributes will provide the basis for the end of workshop discussion on the initiatives objectives and the work plan.

⁶ Moderator sets the stage. Each panelist highlights key attributes of their strategy in 5 minutes, no more than five slides. Moderator interviews the panelists to draw out with a focus on the process used to their develop strategy / program and leads Q&As.

Participants -- Workshop attendees

1:00 pm Lunch – Speaker

2:15 pm **Session III: Building Knowledge of Consumer Demand -- Fireside Chat⁶**
Goal – Explore potential government role(s), approaches to identifying consumer needs, and the process(es) used to decide the approach to take and questions to ask.
Moderator – TBD
Panelists:

- AFI / G20 Data Effort – AFI Data WG chair
- Focus Groups
- Surveys – consumer demand research:
- Asian Region Experience

3:05 pm **Consumer research strategy building -- Workshop Dialogue⁵**
Facilitator
Participants -- Workshop attendees

3:30 pm **Break**

4:00 pm **Session IV: Financial Viability for Service Providers – Fireside Chat**
Goal – Explore non-regulatory hurdles⁷ to reaching financial viability in the provision of one or more micro-financial services.⁸ Consider collaborative approaches to strengthen financial viability, including, for example, service provider capacity building.
Moderator – TBD
Panelists:

- Business organization
- Credit union/credit cooperative organization
- *Platform provider (possible)*
- *Bank (possible)*
- *MFI (possible)*

5:00 pm **Financial Viability in Service Provision - Workshop Dialogue⁵**
Facilitator
Participants -- Workshop attendees

5:30 pm **Depart for City Hall** (see logistics for transport options)

6:00 pm **San Francisco City Hall Reception**

Day 2: February 24th 2010

9:00 am **Opening Remarks & Recap of key Attributes identified on Day 1.**

⁷ Non-regulatory hurdles can include such challenges as: cost containment (including costs associated with account opening , agent networks, product development, market research, marketing, etc), financial infrastructure inadequacies (payment systems), institutional capacity building, reaching critical mass in customer usage (to take advantage of economies of scale), consumer financial capacity building, a lack of interoperability amongst service providers, and so on.

⁸ Financial service needs include domestic transactions, cross-border remittances, savings, insurance and loans.

- 9:10 am** **Session V: Inclusion Friendly government to person payments (G2P)**
– Panel Discussion⁴
Moderator – TBD
Presentations: speakers –
- Overview/background -- Role of G2P payments in APEC economies – supplemental income programs launched in the region, target populations
 - Transition to electronic G2P:
 - Financial inclusion friendly G2P payments
 - Country experience with transition to electronic inclusion friendly G2P
- 10:00 am** **Designing FI FriendlyG2P -- Workshop Dialogue⁵**
Facilitator
Participants -- Workshop attendees
- 10:15 am** **Session VI: Building Consumer Financial Capacity – Fireside Chat⁶**
Goal -- Explore approaches used and factors considered by APEC economies to incorporate consumer capacity in their FI strategies and initiatives.
- Moderator -- TBD**
- Panelists**
- Country experience
 - Country experience
 - Country experience
- 10:45 am** **Capacity Building Strategies -- Workshop Dialogue⁵**
Facilitator
Participants -- Workshop attendees
- 11:00 am** **Break**
- 11:25 am** **Session VII: Putting Ideas to Work -- Fireside Chat⁶**
Goal – Explore how to move from paper to action; What APEC FII output / deliverables would be the most useful; How to effectively coordinate with the G20, AFI, ABAC and others on financial inclusion efforts of relevance to the APEC FII.
- Moderator – TBD**
- Panelists:**
Donor country experience
AFI -- Peer learning
G20 fund / Pilot projects
Related APEC initiatives/forums
- 12:15 pm** **Putting Ideas to Action -- Workshop Dialogue⁵**
Facilitator
Participants -- Workshop attendees
- 12:30 pm** **Concluding Remarks**

1:00 pm

**Closed Working Lunch & Planning Session (2 ½ hours)
For APEC FII working group & potential strategic partners**