



FINANCIAL INCLUSION IN THE DIGITAL ECONOMY

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Introduction

The digital economy is rapidly developing worldwide as the largest driver of innovation, competition, and growth. Even though many people have been excluded, tremendous opportunities are available for the digital economy to support financial inclusion for sustainable economic development.

Participants in a recent conference organized by the Asian Development Bank in collaboration with the Consultative Group to Assist the Poor (CGAP) and the Asian Development Bank Institute, with the support of the government of Luxembourg, shared their insights about what works and does not work to promote the digital economy in the service of financial inclusion. They also examined how the Asian Development Bank's (ADB) developing member countries can be helped to fast-track innovative digital financial solutions to meet their development objectives.

The 2-day meeting on 24–25 May 2016—The Conference on Financial Inclusion in the Digital Economy—welcomed more than 250 delegates and experts from 45 member countries to ADB headquarters in Manila. Participants included policy makers, finance sector supervisors and regulators, along with telecommunication regulators, representatives from financial-technology (fintech) companies, academia, and the financial and technology sector, as well as global private sector experts and ADB staff and management.

South–South peer learning events like this conference are important to spread news of the many achievements made so far in promoting financial inclusion.

In discussing opportunities and challenges, the conference helped to identify how multilateral development banks such as ADB can support the development of digital finance through policy advice and providing financing for projects that use digital financial technologies.

The conference focused on the following themes:

- Trends in digital financial inclusion—key opportunities and challenges for reaching the unbanked and underbanked
- A customer-centric approach to financial inclusion
- Digital business models for accessing financial services
- Supervision and regulation of digital financial services
- Cost and value of digital finance

The conference was organized with the support of Transactives.

DAY 1

Welcome Address



Bambang Susantono

Vice-President

Knowledge Management and Sustainable Development Group

Asian Development Bank

Knowledge Management and the Sharing Economy

It is fascinating to learn the importance of knowledge management, given the speed of technological change in a new digital economy that is often being referred to as the “sharing economy”. A sharing economy generally brings together the

full range of individuals, companies, governments, and policy makers to share information and resources, creating a network effect and impact that increases access and value for all involved. To many of us, “sharing resources” is emerging, will expand and flourish in the coming years as a new norm and a “new normal”.

This conference and the peer-to-peer learning it provides, is a perfect example of the new sharing economy. Participants will build on collective awareness and exchange ideas about innovative and sustainable solutions to become part of a catalytic instrument that promotes broad-based economic growth. The conference is reaching out to the broader international community through social media. By doing so, we hope that we can nurture more ideas that can further enrich the discussion.

Living in the Digital Economy

- 90% of the world’s data has been generated in the last 2 years
- By end 2020, 212 billion things will be connected
- In 2015, 51% of workloads were processed in the cloud
- By 2020, 6.1 billion smartphone users in the world

Source: Transactives.

Rapid change, digital finance trends, and why they matter

The digital economy is rapidly developing worldwide. It is one of the most important drivers of innovation, competitiveness and growth. The advancement and adoption of digital technologies and business models will enable companies to achieve greater scale, penetrate new markets more swiftly, and understand their customers better. Your collective participation underscores the potential business and new job opportunities that this sector is expected to create in Asia and the Pacific. This is in addition to maximizing development impact by bringing more improvements in living standards.

We are honored to have experts who I am confident will spark an interesting discussion about new technology, players, and partnerships. We have about 220 participants from across many regions.

About 100 are policy makers, government representatives and regulators, and the rest represent a range of fintech providers, banks, microfinance operators and networks, remittance companies and from the universities. This creates a great opportunity for all of us to share experiences in the subjects we will discuss throughout the days.

Customer centricity and new business models

The digital footprints we make in every transaction or interaction can help financial service providers to interact more easily and adapt to the financial needs of a diverse set of customers. Digital technologies and big data now allow financial service providers to more effectively serve the financially excluded, with a “customer-centric” approach. New technologies from groups like Fino in India are also helping to provide access to affordable financial services to more than 50 million people who live at the bottom of the economic pyramid, that is, on low incomes. New fintech players like bKash in Bangladesh are reaching out to more than 22 million people in Bangladesh, and grow even more rapidly than the trail-blazing M-Pesa in Kenya.

The role of ADB

The role of responsible and inclusive digital financial services is an important aspect of ADB’s Strategy 2020. Our overarching strategy identifies supporting finance sector development through the role of innovation and the enabling environment as important drivers for inclusive economic growth.

“ADB is committed to assist its developing member countries in the development of digital financial services to assist the wider population and small businesses to benefit from its multiplier effect.”

– **Bambang Susantono**,
Vice-President,
Asian Development Bank

ADB is committed to assist its developing member countries in the development of digital financial services, and to assist the wider population and small business to benefit from its multiplier effects.”



Keynote Opening



Carol Realini

Author-Financial Inclusion at the Bottom of the Pyramid

Digital Money and Innovations that Change the Landscape

A lot of the early technology innovations in digital financial inclusion between 2000 to 2005 happened in the Philippines. Smart Communications followed by Globe Telecom in the Philippines pioneered mobile financial services years before M-Pesa in Kenya. Carol Realini said the conference is perfectly timed to talk about “how to benefit from what is already happening and how to use technology to help the world.” She said conference participants could see a window into the future about what is happening to create a world of universal banking.

Focusing on the use of mobile phones and the internet, which continue to change the world, Realini stressed that:

- In the next 5 years, the planet will see the biggest change ever: 3 billion people will be coming to the internet primarily through their mobile phones.
- This will also provide the opportunity for global access to banking and digital financial services.

“The future is already here—it’s just not very evenly distributed.”

– **William Gibson**,
National Public Radio

Although the Philippines started the concept of mobile money, it was Kenya that showed the way for massive adoption by providing a simple use case. After focusing on the challenge of domestic remittances, Safaricom’s M-Pesa “send money home” campaign resulted in more than half of Kenya’s 40 million people have mobile money accounts. As Realini shared, this demonstrated to the world that “global financial access and universal banking is possible.” She shared that this one major effort helped in changing perceptions about reaching the poor via a mobile money services.

According to Realini the “one question that everyone asks is why this has not happened everywhere. And the answer is quite simple: We need to create the right kinds of conditions and context to support access and usage of digital financial services.”

To create the right conditions and context, we should look at what India is doing. This includes:

- Good national identification system
- Efficient and fast settlement systems between financial service providers

- Supportive and open regulatory environment to support a range of different financial providers—banks and nonbanks
- Government support for digital financial service adoption

Realini, in wrapping up her address, underscored some key reminders for conference participants:

- Remember the world not so long ago when we only had landlines and mobile phones just started? The United States assumed, as did many other countries, that mobile phones would probably only be used by the rich.
- However, something changed when the simple feature phones came on the scene around the early 2000s, helping put mobile phones within everyone's reach. And later, thanks to Steve Jobs and Apple, the smart phone was created and this is now leading to a second evolution in universal access to telecommunications.

In a call to action, she stressed the need to:

- Look at the lessons in universal access to mobile telecommunications as we look at the opportunities toward universal banking around the world. The first step will most likely be digital payments but this will evolve to access to universal banking.
- Have an attitude like Apple's Steve Jobs, and encourage innovation, especially in the digital financial services industry.

Customer-centric design

The importance of customer-centric design is key for us to think about as we look at the adoption and use of digital financial services. Juntos Finanzas, which started in the US and now operates in several markets and countries around the world,¹ is a good example of using technology and customer-centric design to meet the needs of users to promote actual use, primarily savings by simple automated relevant messages to customers.

New players and partnerships are key

What we are now seeing is that no one player can do this alone. We need a range of different financial service providers, both banks and nonbanks. We see innovation to the transportation and hotel industries changing due to new players like Uber and Airbnb. This same openness to new players that drive innovation must also happen in the financial services industry. More importantly, all of these players, new and old, bank and nonbank financial service providers, need learn to work together and collaborate. We are seeing this now in Kenya and Tanzania as the mobile money providers work with banks, Telenor and Tameer Microfinance bank, its bank partner in Pakistan, and even e-money operators—Wing in Cambodia and BKash in Bangladesh. Banks need to see themselves more as a platform for innovation. We need to see all players working together to support more inclusive digital financial services.

“Our job is to create a financial system that leverages technology and ingenuity to provide access for those who need it.”

– **Carol Realini**, Author-Financial Inclusion at the Bottom of the Pyramid

¹ Juntos Finanzas. <http://juntosglobal.com>

Keynote Debate Overview

Digital financial services are changing rapidly with new technologies, new players, and new partnerships. While these developments and new financial players bring tremendous opportunities, policy makers and regulators also need to understand and balance challenges and risks against the potential benefits these developments offer. Building on the keynote address, the panel discussed and debated the opportunities and risks. The discussion helped set the framework for the 2 days of the conference.



Lotte Schou-Zibell
Technical Advisor (Finance)
Asian Development Bank
(Moderator)



Carol Realini
Author-Financial Inclusion
at the Bottom of the Pyramid
(Panelist)



Rochelle Tomas
Bank Officer, Inclusive
Finance Advocacy Staff
Bangko Sentral ng Pilipinas
(Panelist)



Duncan Woods
Financial Services and Retail
and Business Banking
Oliver Wyman
(Panelist)

Key Developments to Increasing Financial Inclusion

Identification and biometrics:² Developments in the use of national identification cards, especially those in India and Pakistan that support biometrics, not only facilitate know-your-customer compliance, but also those that reduce risks and support transactional verification at much lower costs.

² Biometric identification utilizes fingerprint, iris scan, face photo to identify an individual to support both the opening of financial accounts as well as authenticating financial transactions.

Faster payment infrastructure: Technology now provides the opportunity to improve payment infrastructure. The importance and benefits of a faster payment infrastructure in lowering barriers and reducing costs for financial inclusion is key. The Unified Payments Interface System in India and the Faster Payments System in the United Kingdom (UK) are good examples to learn from.

Digitizing government-to-person (G2P) payments: The Indian government's initiative to link direct transfers and other subsidies to the national identification system made substantial progress in including the poor in the digital space.

New models of collaboration and partnership: On the supply side, Duncan Woods of Oliver Wyman pointed out that players entering the digital economy are creating new models and the kind of collaboration that leverages each other's strengths and expertise. Successful examples include Telenor in Pakistan and its partnership with Tameer Bank on mobile e-money accounts that brought together the infrastructure and outreach of a mobile network operator and the financial expertise of a bank to reach millions of customers.

Customer-centric models: Examples of customer-centric models that work with people formerly excluded from financial access have been showing the way to address some of the barriers to inclusion. Realini referred back to the example of Juntos Finanzas, which developed solutions to the problem of account dormancy by sending reminders to mobile phones. She stressed how understanding and focusing on a problem and developing solutions that are based on "trickle-up approach" to learn the needs and demands of customers can get them on board and keep them engaged in making use of digital financial services. This included the innovative use of automated short message service (SMS) messaging that provides customers with reminders and encourages them to save or pay a loan on time.

Crowd funding: As noted by Rochelle Tomas of the Bangko Sentral ng Pilipinas, crowd funding is a new development that can provide access to small and medium-size enterprises having difficulty obtaining financing from banks. These players offer more flexibility and use alternative data to provide access to financing for entrepreneurs.

Big data analytics: Technology has allowed analysis of the mass of information now available through digital sources, generally referred to as "big data" analytics. This creates opportunities to reduce the costs of dealing with clients. Several private sector players have started using big data for credit and insurance, since this brings down the costs of providing these services, especially for low-income customers. This is where the economics come into play to support greater access to a full range of financial services. Prime examples include the more than 9 million customers of M-PESA who now have access to savings and credit from the Commercial Bank of Africa in Kenya and millions of small and medium-size enterprises that now have access to almost instant credit from Ant Financial in the People's Republic of China (PRC) using the analysis of e-commerce sales histories on Alibaba, a Chinese e-commerce company.

Digital currency: The use of digital money through licensed e-money issuers is able to broaden the access and ability for people to send and receive funds as well as become financially included. While there are several examples such as M-PESA and Tigo Pesa in Kenya and Tanzania, there are also examples such as GCASH and Smart Money in the Philippines, Easy Paisa in Pakistan and WING in Cambodia.

Blockchain technology: The use of Blockchain technologies³ also demonstrates the potential to support financial inclusion, especially in universal identity ownership,⁴ support for interoperable mobile payments infrastructure, trade finance, land titling, and ownership of moveable assets.

E-commerce: Electronic commerce players in partnership with banks are also driving financial inclusion in new ways. Alibaba in the PRC and Lazada in Southeast Asia are helping to drive both access to finance as well as broader digital inclusive economic opportunities to millions of customers.

Regtech (regulatory technology): As Tomas pointed out, technological solutions are providing both the opportunity to better ensure regulatory compliance and allowing regulators to have better tools to supervise financial institutions. Regtech⁵ solutions can also give regulators more real-time access to data and information.

Trickle-up banking: As Realini noted, an evident “trickle-up” approach is helping to advance banking services. The digital finance solutions new fintech players are using to serve low-income customers will make breakthroughs that will be adopted by mainstream banking and will benefit everyone.

The biggest challenge in digital financial services

Entrenched interests: Realini pointed to entrenched interests and traditional actors that profit from the status quo and a lack of interest on their part as inhibiting the development and implementation of infrastructure that would facilitate new and more efficient digital financial services such as faster payments.

Know-your-customer verification: As Woods pointed out, one of the biggest challenges still facing the digital financial services industry is how to deal with regulatory compliance around know-your-customer regulations. Countries that adopt proportionate, risk-based tiered know-your-customer regulations, that allow the opening of small accounts without the requirements imposed on larger accounts, broaden access to financial services and financial inclusion in general.

Last-mile access: Woods pointed out that cash-in/cash-out and financial access points are still one of the biggest challenges in several markets, including in large countries like the Philippines and Indonesia.

Partnerships: As Realini mentioned, while partnerships between traditional players like banks and new players, such as mobile network operators and fintech companies, offer tremendous potential to reach large numbers of customers, getting partnerships right is a big challenge. It also creates challenges for regulators as new players develop partnerships within the financial services

³ Blockchain technologies are distributed databases that maintain a continuously-growing list of records secured from tampering and revision. These online shared database systems are now addressing multiple financial inclusion issues including tracking supply or trade finance items. Identity, land titling and supporting online asset registries.

⁴ Identity 2020 Systems (ID2020). <http://id2020.org/>

⁵ Regulatory Technology also known as RegTech uses technology as a means of developing solutions for improving the regulatory data exchange and compliance in the financial services industry.

ecosystem.⁶ As more players connect to financial institutions, they are all only as strong as the weakest link in the value chain.

Balancing regulation and innovation: Tomas discussed the challenge of keeping up with fast-paced changes in digital finance. She cited the principles that the Bangko Sentral ng Pilipinas uses in supporting new technological developments. These include openness to change, providing space for innovations in a test-and-learn approach, and adopting proportional regulations. Regulators have to be mindful, too, of protecting consumers, and complying with the requirements for anti-money laundering and terrorist financing. Realini emphasized the major barrier of regulatory burdens that players have had to contend with, and underlined the need for continuous review of regulations and innovation to support financial inclusion. New players should also be allowed, under controlled approaches, to offer more services.

Improving customer adoption: On the demand side, technology is only good when people use it because it solves a specific problem for them. Woods underlined the challenge of improving customer adoption and said that deepening this is important to drive scale and encourage use. Simple design of products and services that address customers' problems can drive adoption. Good examples of this are the M-Pesa "Send Money Home" product and India's digitization of government transfers and benefits to millions of citizens, which was done to lower costs, plug leaks, and simplify administration. In addition, we need to see more financial deepening which would help to further broaden access to additional financial services such as savings and insurance.

Advice to regulators, policy makers, and donors

Simplicity and open regulatory environments: In countries that simplify regulation and compliance, we will see more innovation and faster growth. Nonbank financial providers will continue to be the most important players in this market and regulators and policy makers must be open to these new players. Policymakers' roles are crucial to encourage market innovation, while at the same time have an important role to play in maintaining a stable and secure financial system while ensuring equal treatment. However, as Realini mentioned, regulators should also allow space for nonbank actors to have a role in the financial space under regulations that do not stifle innovations.

Regulators need to provide an appropriate enabling environment: Regulators need help to keep pace with the new technologies, new players, and partnerships. Even where amounts may not be systemically significant, issues are still apparent around money laundering and consumer protection. Proportionate risk-based regulation and supervision is key. Technology should also be viewed as a way to improve regulatory compliance and bring down its cost. Examples of regulatory trials that provide a test-and-learn approach in a safe environment are important. At the same time, this needs to be done carefully. Regulators should cautiously oversee developments in this field. According to Tomas, the Philippines is a good example of the test-and-learn approach, especially regarding mobile e-money. Woods also shared other examples, including the approach

⁶ A financial service ecosystem is a network of interlinked financial service providers including banks and new fintech providers who interact with each other, primarily complementing or supplying new technologies that support better financial products and services for customers.

that is allowing regulatory “space” in Singapore for the piloting and testing of innovative financial technology developments, referred to as the “sandbox” approach.

Do not reinvent the wheel: A lot of lessons have already been learned from around the world. However, the learning curve in the digital world is steep, and to deal with it, regulators and policy makers can learn from those who have achieved impressive success in digital financial inclusion; this is where south–south peer learning events like this workshop are important.

Telco-led or bank-led financial inclusion: does it make a difference and, if so, which is the best approach?

According to Realini, large mobile network operators and large retailers and distributors will be the ones most likely provide the greatest impact on financial inclusion. She emphasized that the big foot-print and client base that mobile network operators, distributors, and retailers already have with the base of the pyramid will provide the best opportunity to offer more financial services more quickly and hence expand financial inclusion.

Woods took the opposite side and argued that banks are in the better position to expand financial services for the base of the economic pyramid. New technologies will allow banks to more efficiently open up their large balance sheets to bring large resources to support financial inclusion. For Tomas, it does not really matter how one starts, the more the better, as long as more people are actually using financial services and benefiting from doing so. In the end, the panel agreed that there is room for all players, but convergence and partnerships between the different players will be important.

National identification helps, but when will this happen in the Philippines? Without a national identity system in place, countries struggle with financial inclusion since this is a major hurdle



to comply with know-your-customer requirements and account opening. The Philippines can learn a lot from India and other countries here. In 2007, India did not have any standard national identification system. But now, with the *Aadhar* system, the number of people in India with a national identification has reached over 1 billion. This system is high-tech, with an architecture that has powerful, very secure cloud-based infrastructure. The system allows a citizen to be a full digital participant since the identity has multiple functions that include banking, health, and payments of government transfers and other subsidies. This also supports interoperability.

Wrapping Up

Lotte Schou-Zibell of ADB, the moderator, noted that this session covered a range of important building blocks needed to enable digital financial solutions, including the following:

- Balancing the regulatory framework to support innovation and competition while ensuring the safety and soundness of the financial system as well as the role regtech can play to support this
- Openness to new players and models such as nonbank players, including fintechs, telecom-supported financial players, crowd funding, and big data analytics
- Role of regulatory sandboxes to test new digital ideas and initiatives
- Importance of sufficient digital infrastructure
- National identification systems and the role of biometrics and tiered know-your-customer digital solutions that reach beyond the current banking system

The following sections summarize discussions and issues in each of the seven sessions of the conference, which included:

- Session 1: Customer-Centricity for Financial Inclusion
- Session 2: Digital Business Models for Financial Inclusion
- Session 3: (a) Focus on Microfinance, (b) Focus on Remittances, (c) Focus on Government-to-Person (G2P)
- Session 4: Supervision and Regulation of Digital Financial Services: Keeping up with Market Development
- Session 5: Perspectives on Consumer Protection and Emerging Risks in Digital Finance
- Session 6: The Cost and Value of Digital Finance
- Session 7: The Way Forward

Session 1: Customer-Centricity for Financial Inclusion

Access to digital financial services is on the rise in Asia and the Pacific, but usage remains low in many cases. To reach the un-banked and underbanked, financial service providers may have to rethink their operations and mindsets. Solutions centered on serving customers well are based on understanding their needs, preferences, and behaviors.



Carol Realini
Author—Financial Inclusion
at the Bottom of Pyramid,
United States
(Moderator)



Christine Duhaime
Founder, Digital Finance
Institute, Canada
(Panelist)



Geric Laude
President and CEO, CARD
Pioneer Microinsurance,
Philippines
(Panelist)



Deepak Mohanty
Executive Director, Reserve
Bank of India
(Panelist)



Myra Valenzuela
Consultant, CGAP,
Philippines
(Panelist)



Ying Qian
Director, East Asia
Department, ADB
(Panelist)

The five pillars of “customer-centricity”: To improve usage, the CGAP has advocated this five-point approach focused on: leadership; operations; people, tools, and insights; the customer experience; and the value proposition. In other words, the focal point needs to be the customer not the product.

This is because usage remains low, even though much of the new interest in digital financial inclusion has focused on the use of mobile technology, especially mobile-enabled electronic money, often referred to as mobile money. Expansion of mobile money deployments across regions since 2001 has indeed been rapid, with 271 service providers at the end of 2015 and more than 411 million registered mobile money accounts. Yet only 1 of 3 of those registered accounts was considered active at the end of 2015.



Source: CGAP.

Consistently deliver positive customer experience: CGAP's Myra Valenzuela stressed that using customer-centric solutions is vital in designing products and services that attract more customers and sustain that growth and encourage use. While transitioning to this model is not easy, step-by-step approaches can guide it.

Focus on customer data and the value proposition: Working in microinsurance to reach the unserved, Geric Laude's goal for CARD Pioneer Microinsurance is to gradually move toward a customer-centric model that normalizes dialogue with customers to better inform product design, processes, and rules.

In addition, partnerships and collaboration and the use of new technologies are important in helping financial service providers to increase their focus on customers. Partnerships with organizations that serve base-of-the-pyramid customers and that effectively reach out to their customers can help financial providers focus on customer-centricity.

Pioneer itself learned from advice provided by international organizations like CGAP. The firm expanded its customer base dramatically over the past year from 1.5 million to 8.5 million customers. It has seen the importance of closely understanding the customer, particularly the insights gained from customer data and the customer's perception of product value.

Focus on cultural and language issues: Development-focused efforts often forget these issues, yet it is important to ensure that documents and financial services are explained using the customer's language and recognizing cultural and religious practices.

Transitioning from a supply-led to demand-led process:

Deepak Mohanty, executive director of the Reserve Bank of India, affirmed that customer-centricity—understanding demand and transforming access to usage—is critical to real financial inclusion. He also stressed that digitization is crucial for better access, greater choices, and lower costs.

Gender and religious issues:

It is also important in designing customer-centric business models that gender and religious issues are accounted for, according to Christine Duhaime from the Digital Finance Institute. Indeed, Mohanty noted that India is working on factors that can help include women in the financial system, as well as Muslim clientele. One issue that needs to be taken into account, for example, is that women, especially in countries in regions such as the Middle East, may not feel comfortable giving their mobile numbers to agents.

Focus on trust: Building trust in the system is one of the most important elements of a customer-centric approach in financial service products, especially to new clients. Firms need to ensure reliability and security and that they have an effective mechanism in place for dealing with consumer complaints. Also essential for trust are a focus on consumer protection, especially for less literate consumers, and clear guidance on how to use products.

Look at the broader ecosystem of players: Ying Qian, ADB director, stressed that consumer-centric principles also apply to regulators, who should aim to balance risks for innovations, new players and new financial products and services. Regulators also need to ensure that there is fair market competition, transparency, safety of the information networks, and address issues concerning anti-money laundering.

Develop products with your customers: Carol Realini noted that Silicon Valley companies such as Stripe, Amazon, and Google develop and launch new products and services after getting feedback from their customer bases and carefully analyzing the data. This is because products that work in one market may not work in another.

Universal Banking Initiative in India

In focusing on simplifying the customer experience, India used a three-pronged approach:

- (i) JAM Jan Dhan Yojana (government payments transferred into one account digitally)
- (ii) Aadhaar (national biometric identification system to simplify account opening)
- (iii) mobile (use of a mobile number to allow clients to link accounts for easy recollection).

Some 280 million accounts have been opened since August 2014.

What are the key lessons of focusing on the customer?

Leadership buy-in and championship: This is crucial in transitioning to an effective customer-centric approach.

Challenge inappropriate rules and processes and advocate changes based on what customers want: Laude explained that “breaking” traditional rules that do not work means questioning the way things are handled from the customers’ perspective. This is quite relevant for the microinsurance market. Card Bank, a partner to Pioneer Microinsurance, challenged the firm to reduce its claims process from a month or longer to less than five days. Internally, the rules and procedures were just not in place to process insurance claims this quickly. The chief executive officer of Pioneer asked them to question why the firm could not achieve this goal. It had to break the standard rules and reinvent its entire process to achieve the goal, focusing on what would work from a client’s perspective. “We actually re-engineered our process to focus not on selling insurance but in paying claims, and that made all the difference,” said Laude.

Convenience and access are key: Likewise, this varies from customer to customer and standardized methods do not always work. So in looking at convenience and access, providers need to look at their client base and allow flexibility. Mohanty cited financial firms’ customizing their work hours to suit the needs of farmers as an example.

How do you ensure the customer base is really inclusive?

Follow a risk-based approach in Anti-Money Laundering (AML) compliance: this is important particularly when designing financial products that meet of low income households without access to standard identification documents.

Analyze those who are excluded and why: this is the best way to ensure that products are built to serve different target markets.

Preestablish performance indicators: This will ensure products are meeting the needs of client groups, and is important for monitoring the results. Regulators can also use an open, public monitoring tool to ensure that people are not only being reached to open an account, but also that accounts are active monthly.

How do we ensure active use among account holders?

Government-to-person payments: These can help ensure that accounts are active, especially among people new to the financial system. In India, the government’s cash transfer and subsidy programs (which are paid directly into digital accounts on a monthly basis) initially teach clients how to use these accounts while ensuring they are used on a monthly basis.

Access points are critical: Partnerships with strategic companies and outlets that can act as third-party financial agents especially in rural or difficult to reach areas are important.

Develop improved financial service ecosystems: Interconnected and interoperable financial service ecosystems can help both provide better access to financial services as well as a range of new products that can help to encourage customers to not only open accounts but also actively

use them. On the supply side, the importance of partnerships to drive growth and the use of financial services is clear. Ensuring that open business architecture is in place to make it easier for more players to accept, offer, and use digital financial services to expand the market is also key. The UK's Open Banking Working Group and support for open access to application programming interfaces between banks and fintechs as well as India's Unified Payments Interface (UPI) are examples of interconnected and interoperable financial ecosystems that are allowing faster and better access to financial services.

How can policy makers address the dual challenge of reaching technology-excluded as well as financially excluded customers?

Digital government-to-person payments: These offer one of the best ways to get people into the financial system and to start transacting using their accounts. Government should focus on ensuring that infrastructure is in place to enhance such connectivity and to close any “digital divide”.

Mobile is key: Get telecommunication companies involved in the financial system. Partnerships are crucial, but telecommunication companies can also invest in new (properly regulated) financial subsidiaries in ways similar to how, in the Philippines, GCASH set up GXI and Smart set up PayMaya. These new financial subsidiaries can then build on the existing infrastructure and client bases of their telecommunications partners. Partnerships between banks and telecommunication companies, such as Pakistan's Telenor and Tameer Bank, are also important.

Is simplicity important? Why? How do you achieve this in practice?

Simplicity is important: Again, this comes down to ensuring that the customer is at the center of the service. This includes looking at informal financial services and ensuring that some of the practices that these offer are incorporated into the digital financial services that formal companies offer, especially at the base of the pyramid.

Build trust and work on small, incremental products and services: This will slowly bring in customers. M-PESA focused on airtime top-up as initial added value to get people to make use of mobile e-money at the beginning.

Tiered and simplified know-your-customer approaches are also important: In India, opening a bank account is a right, not a privilege, so the regulator had to ensure that account opening was simple as well. This included biometric know-your-customer procedures that do not require clients to remember PIN numbers or to sign anything.

Do customers care more about convenience or control?

It depends on the product, but to start with convenience is more important. For more established and older customers, it is more about control. The younger generation, on the other hand, are more focused on convenience. They are used to instant messaging and are more apt to use their phones for instant purchases or to use mobile banking rather than going to a bank branch.

Which is more important, quality of service or outreach?

Most providers often start with outreach and then focus on the quality of service. But to ensure customer trust, quality of service is really the key.

Wrapping up

As Realini concluded, moving from traditional business models to customer-centric ones is a complicated and long, with a steep learning curve. The good news is that much can be learned from those who have succeeded. Digital technology innovators in financial services are driving growth and the market is changing rapidly. We need to ensure that we are providing services that actually meet the financial needs of different segments of the population. Game changing players have shown how they have improved their product design and processes by getting feedback from the consumers and community of developers to build scale and quality of service. Partnership models involving government and the private players, bankers, and innovators have worked well to reach scale.



Session 2: Digital Business Models for Financial Inclusion

Financial inclusion requires that we address the challenges of delivering appropriate and affordable financial services. Through innovations in information and communication technology, there are now new partnerships as well as business models to deliver financial services that help reach more remote and low-income clients. These new digital financial service models provide opportunities and challenges.



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(Moderator)



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Cofounder and CEO,
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Anju Patwardhan
Visiting Fellow, Singapore
Management University
(Panelist)



Kalin Radev
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Christine Engstrom
Director, Private Sector
Operations Department,
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Rainer Hartel
Director, Central and
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ADB
(Panelist)

What are the most promising innovations in technology for enabling inclusive digital financial services?

Three panelists made brief presentations focused on financial technologies that have been used to enhance business models and their capacity to expand outreach to those who have been financially excluded. The main lessons learned in developing business models that focus on financial inclusion include:

“FinTechs hold the potential to resolve the barriers stopping financial inclusion.”

– **David M. Brear**, Cofounder and CEO 11:FS

Technologies as market drivers: Kalin Radev from Software Group mentioned technologies and collaborations that have helped drive the market. In particular, governments and regulators are providing space for “regulatory sandbox” testing of new digital financial services. A regulatory sandbox is established by financial regulatory authorities in some countries to create a ‘safe space’ in which financial service players can test innovative new products, services, delivery mechanisms and business models without immediately incurring all the normal regulatory costs and lengthy approval procedures. This speeds up financial innovation and allows a greater range of financial service products to be tested and introduced than would normally be possible under more traditional and lengthy approval processes. We see the use of cloud-based services driving the market, along with delivery channels, especially the use of biometrics for attracting customers as well as verifying customers to facilitate financial transactions. The various new applications around the use of mobile money technology to support financial services for the poor are also helping to drive adoption. New models and new channels are also improving efficiency and bringing down costs including in small countries such as Vanuatu in the Pacific.

Freemium models⁷ and cross-selling other financial services: these are offering ways to quickly attract new customers and offering transactions for free while they make money cross-selling other services. This has been quite popular for mobile e-money operators who offer cash-in services for customers for free while charging later for transfers and cash-out services.

Alternative data for small and medium-sized enterprise (SME) lending: This is showing promise as more clients transact online, through mobile phones, and social networks. These new digital footprints are providing new ways to develop innovative credit scores based on alternative data.

Role of social media network payment options: In the PRC, this is a whole new business model that is helping to drive mobile payments using applications that customers already use daily and offering new revenue streams to social media companies. WeChatPay already has over 300 million users and is growing rapidly.

Thin SIM card overlay technology: This now allows banks to provide financial services using a mobile phone. As Jenny Chang from Shanghai F-Road Commercial Service noted, this technology is now well known in the PRC, and is also being offered by Equity Bank’s new Equitel venture in

⁷ Freemium is a pricing strategy by which a financial product or service such as checking a balance or making small value funds transfer via a mobile device is offered free of charge but money (premium) is charged for larger value or additional linked financial services.

Kenya. This allows the bank to ensure security and providing a mobile application that rides on the mobile phone and does not require customers to download a new application.

E-commerce: This is allowing customers to sell and transact anywhere and the model will increasingly drive financial inclusion and, more importantly, inclusive economic growth. Examples include Alibaba in the People's Republic of China, which is reaching even small clients who want to buy and sell products online.

Crypto-currency and blockchain technologies: These are demonstrating promise for financial inclusion. As David Brear of 11:FS highlighted, crypto-currency especially community currencies, if harnessed properly, can provide financial services to a wider range of people. Brear also mentioned the importance of Blockchain technologies and how this can build trust in payments to provide more remote and instant access to more people than current banking models allow.

What factors made digital financial service partnerships and models successful? What should someone investing in inclusive digital financial service providers focus on?

Partnerships that encourage appropriate financial product design and processes: Partnerships between mobile network operators and banks and between platform providers and financial institutions demonstrate the role of building on the core competencies of each partner to provide services that can meet the needs of customers that have largely been unbanked before. Some examples are Tigo Sugira savings product in Rwanda, a product between a telco and a bank. Three investors partnered to support Fullerton Myanmar, which opened in 2014, to reach micro, small, and medium enterprises. Fullerton Myanmar's operations are fully cloud based and employ biometrics to make access and processes simple for its clients.

Creative application of digital technology for some ADB-supported projects include efforts to use technology to address the financing needs of small farmers as pointed out by Christine Engstrom, ADB director. In India, in partnership with YES Bank, digital financial technology tools are helping improve the gathering of information in order to enable big data analysis to expand access to credit. Rainer Hartel, ADB director, shared how ADB provided support to YES bank to address the needs of dairy industry to allow for the use of e-money accounts to facilitate digital payments.



In Georgia, he shared how ADB support for digital technology is helping to reduce the costs of assessing loan applications using mobile technology to bring down the speed of loan approvals from two days to less than two hours. Electronic debit cards also are helping to facilitate loan disbursements. In this case, ADB support and technical assistance can help build on an existing ecosystem and to manage the costs of low-value loans disbursed digitally.

What challenges and barriers do you see for the digital financial services industry from the perspectives of policy and regulation, infrastructure or cultural conditions? Do you have examples of how these have been addressed? What is your advice to policy makers, the regulators, and development banks like ADB?

Test-and-Learn Approach: Regulators need to work with innovators in the private sector to promote test-and-learn approaches. Examples include developments that have occurred in the Philippines and Kenya, where new e-money operators were allowed to provide mobile enabled e-money under controlled circumstances with regulations that followed these developments.⁸ Similar approaches also include regulatory sandboxes being developed in Singapore and the UK.

Level the playing field: Ensure there is equal treatment between established banks and the new nonbank financial service providers. In the People, for example, banks complain of a heavy regulatory burden, which does not allow them to offer the same types of services new fintech players are offering, which operate under lighter regulation and oversight. This dilemma is especially encountered in jurisdictions where regulatory authorities might allow new players to provide financial services under a test-and-learn approach while the existing players do not have the same opportunity to do so. The challenge for regulators is how to balance regulation and oversight for both the new players and the existing financial players and there is no easy answer. In addition, collaboration between different regulatory agencies especially telecommunications, competition, and financial regulators, is necessary to avoid regulatory arbitrage.⁹

Sharing credit data: While there has been much innovation around the role of alternative data and analytics to enable credit, many of these developments are not open and these new fintech players as well as crowd funding platforms are often not sharing with credit bureaus due to challenges, compliance costs, and proprietary models so ensuring that credit data and history is shared openly is important for regulators to look at.

Ensure access to technology: Anju Patwardhan pointed out that without full access to technology, all of the work in digital financial services will not reach those at the base of the pyramid so the digital divide must be addressed. Challenges in this area include slow and unreliable internet services and lack of coverage, particularly in more rural areas where the challenges to provide financial access are most difficult. To properly address this issue, countries need to focus on ensuring access to the internet for all.

⁸ For more information, see the Alliance of Financial Inclusion Policy Note http://www.afi-global.org/sites/default/files/publications/afi_policynote_mobile_financial_service_en.pdf

⁹ Regulatory arbitrage is a practice whereby firms capitalize on loopholes in regulatory systems in order to circumvent unfavorable regulation. This is particularly a concern when new players from other industries such as telecommunication companies or e-commerce providers offer financial products and services that may be treated as 'value added' services by a telecommunications or industry/commerce regulator and not comply fully with financial regulator in a particular country.

Support digital identities: One of the key challenges to including people in the digital economy is the importance of ensuring that appropriate digital identities¹⁰ are provided to everyone. India has done an excellent job here, but this is still a major challenge in countries like the Philippines and elsewhere. So one of the most important things that governments and policy makers can work on is supporting digital identification systems for everyone.

Allow and promote partnerships: While banks cannot always directly use big data coming from social media or other forms of alternative data, whether due to regulations or their own internal legacy systems, they can partner with FinTechs. Regulators and policy makers should allow and promote these partnerships as a way to expand access and encourage innovation.

Allow cloud-based solutions: Many countries still restrict financial institutions from taking advantage of cloud-based solutions. Radev pointed out this is especially important for smaller players and in smaller economies where shared, cloud-based solutions can better enable financial players to offer expanded access to financial services.

Challenges of consumer protection and education: When digital solutions to financial services, such as through mobile, are offered to common people, bridging the gap in the use of technology can be a serious problem. Lacking familiarity with digital technology, customers often experience difficulties as they adopt and learn to trust it. Effective, consumer-centric financial education can address this challenge and protect those consumers against digitization's risks.

Digitization of processes can make it easier to access bank services, particularly in getting loans. However, having easy access to credit is a double-edged sword as consumers can be caught in a debt trap and over indebtedness. A credit bureau and consumer financial education can help guard against this. Investing in consumer protection and education should be an integral part of the business plan for digital financial service providers.¹¹

What are the top business models that will support financial inclusion most in the next few years? Is there a suitable business model for smaller economies to support financial inclusion?

Breare predicted that banks will not bring about financial inclusion alone, with the biggest promise coming instead from partnerships and new FinTechs that operate through banks.

Chang emphasized how big data is enabling pre-approved credit access, especially for consumers. Blockchain technology is also showing promise in the area of supporting trade and supply chain finance.

“FinTechs are enabling incumbents and disruptive new entrants to build sustainable, profitable, and cost-effective bridges between those that hold purse strings and those who most need what’s in the purse.”

– David M. Brear, 11:FS

¹⁰ Digital identity is the collection of information generated by a person's online activity. Especially where that information is publicly available, and can be used by others to discover that person's civil identity. In this wider sense, a digital identity is a version, or facet, of a person's social identity. This may also be referred to as an online identity. See Digital Identity on Wikipedia https://en.wikipedia.org/wiki/Digital_identity

¹¹ See Alliance for Financial Inclusion (AFI). 2015. Digitally Delivered Credit Policy Guidance Note and Results from Regulators Survey. http://www.afi-global.org/sites/default/files/publications/guidelinenote-17_cemc_digitally_delivered.pdf

Patwardhan noted that tiered know-your-customer and shared know-your-customer data will expand access to financial services. As governments move toward cash-less economies, we should see more people using digital financial services. Mobile wallets and digital currencies will continue to offer tremendous promise in supporting financial inclusion. Artificial intelligence and big data analytics will provide ease of access, especially to credit services through banks.

Radev pointed to interoperability, shared solutions, and partnerships between FinTechs and banks for increasing efficiency.

Wrapping up

As moderator for the session, John Owens, ADB's Independent Senior Digital Financial Consultant, highlighted the key conclusions:

- The importance of adopting a *test-and-learn approach*, which can be applied by both regulators and financial technology developers.
- Recognizing the role of innovative fintech players and incorporating them into the digital financial ecosystem.
- Bank and nonbank institutions have a role in the ecosystem and their strengths and competencies can be combined through partnerships to drive digital financial inclusion;
- Proportionate regulations, such as tiered know-your-customer, can lift some of the barriers for registering new customers and ease transaction processing for low-income households and support digital financial service business models.





- Credit bureaus are crucial and can help mitigate over indebtedness, especially with easier access to the almost instant credit of digital finance.
- Use of agents to increase access points, especially in more rural areas, and cloud technology is important.
- Consumer education and financial literacy are key to protect consumers from risks and should be viewed as part of the business model.
- Competition rules and regulations are crucial to guard against monopolistic business models and to level the playing field among players.

Session 3a: Focus on Microfinance

Microfinance institutions are starting to see the benefits of new digital technologies, which can raise efficiency, reduce costs, lower transaction costs for institution and client, and expand outreach to new markets. At the same time, digital financial services and new technologies are complex and put demands on overall operations as well as new processes that clients need to learn. Partnerships provide opportunities to leverage the experiences of established microfinance institutions and digital financial service providers.



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Lito Villanueva
Vice-President and Head,
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(Panelist)

What are the options for microfinance institutions that wish to harness digital technologies and what are the sequencing and timing steps? What are some of the prerequisites that should be in place?

According to Tanya Hotchkiss, from Cantilan Bank's experience, there was a lot to learn from the experiences of offering mobile money cash-in and cash-out services as well as mobile money-

enabled banking services, especially with regard to adoption and usage challenges. According to Hotchkiss, some of the key thoughts on this question include the importance of:

Customer centricity: Players need to really understand what the customer wants. This is not a one-time exercise, but one that requires institutions to constantly assess. As Hotchkiss pointed out, “One thing we learned in speaking with our customers is that many of them did not value the convenience of banking from their homes or remotely as much as we initially estimated. Market segmentation is important.”

Costs of the last mile provider: There are hidden costs, including customer support and additional compliance issues.

Walk the talk: You can’t sell what you don’t use, so staff needed to buy into the service first before offering it to customers. The bank decided that the best way for the staff to understand mobile money and the mobile banking features of the bank was to pay the staff using the same system so they could “walk the talk”.

Government-to-Person (G2P) payments: These can help but they are limited if they are not linked to enabling access to a transactional account.

Reliable infrastructure: This is crucial for digital financial services. Before launching in new areas, you need to assess the reliability of the service you are offering. For us, it was difficult to work with clients who lived in remote areas where mobile connectivity is an issue.

Financial literacy: This is important, but the challenge is who bears the costs.

Prerequisites institutions need before using digital financial services: understanding your market and client base; know the costs, both operational and procedural, before deploying; ensure infrastructure is in place to support what you plan to offer; ensure the microfinance institutions’ own staff “walk the talk”, sufficient understanding, and buy in.

According to B.L. Parthasarathy of Basix (in India), from a large microfinance player, Basix has offered to customers a range of agent banking to support account opening, bill payments, savings, credit, insurance, remittances, and pensions.

In addition, he highlighted other prerequisites including connectivity and information technology infrastructure and an appropriate regulatory-enabling environment.

Partnerships: these help, especially where microfinance institutions can use their outlets to partner with other financial service providers such as banks, the government, and insurance companies.

Convenience and access: This is quite important for customers who do not have the ability to travel great distances to have access to financial services, such as in rural areas of India. Basix supports access in over 50,000 villages using mobile technology and micro-ATMs using business correspondence (agent) outlets to serve customers.

Business model: By using technology and the existing footprint, microfinance institutions can benefit financially by partnering to extend banking services.

According to Lito Villanueva from FINTQ, a Philippine fintech subsidiary of Voyager Innovations, which is in turn a subsidiary of a large telecommunications company—the focus on fintech for financial inclusion must be demand driven and solve real problems for customers.

Mobile first: Villanueva noted that mobile devices are probably going to be the first and most important touch point for reaching customers. FINTQ and Voyager developed the Mobile Loan Saver program in partnership with Landbank in the Philippines for a mobile-based lending platform with insurance and autosavings features. The service enabled expansion to the Philippines provinces and lower-income municipalities. This allowed customers to even apply for loans outside of banking hours.

Digitization save costs: Looking at the Mobile Loan Saver, Landbank was able to save costs and reduce interest rates to customers.

Regulation is key: Support for fintech players, partnerships and improved infrastructure requires an appropriate regulatory enabling environment.

Digital partnerships are essential: Fintechs should be viewed as financial enablers rather than competitors. This includes the role of partnerships with banks and microfinance institutions to reach and provide better services to their customers.

Financial symbiosis (fin-biosis) is looking at combining the strengths of fintechs and financial institutions.

– Lito Villanueva,
FINTQ

Building trust is important in successful Microfinance Institution (MFI) deployments of digital financial services. How do you go about building trust?

Establish open communication channels and complaint resolution mechanisms: Open communication with your customers, looking at all channels, is important. Beyond traditional channels, something as simple as SMS messaging or the use of social media can communicate with customers more effectively. A consumer complaint hotline can help ensure efficient complaint resolution.

Address risk perceptions of customers: People may fear new technologies, from ATMs to mobile phones. Customers often prefer face-to-face transactions and value trust over convenience. The answer lies in engaging the local community and identifying trusted people with influence in that community.

Assisted digital finance: Initially, a step-by-step demonstration of the entire transaction process helps clients.

Financial education: This implies costs to the microfinance institution and may be more difficult when working in remote areas. Note that building trust takes time.

What is the role of the regulator?

Regulators as partners: In the Philippines, regulators are progressive. They are not considered a barrier, but more of a strategic partner.

Regulators should be flexible: It took a while for the Reserve Bank of India to discover some of the issues that had restricted financial inclusion in the past. To address remote access, the regulator came up with a new regulation called the Unified Payment Interface, in which authentication happens outside the banking platform and is enabled through technology. In the Philippines, the regulator is permitting student identification cards to fulfill know-your-customer compliance requirements for students wishing to open small value financial accounts and to apply for Microinsurance services.

Need to look at a broad definition of financial inclusion: Regulators are broadening the range of financial services that can define financial inclusion. No longer does a client need to be “banked” to be financially included. The Philippines National Strategy for Financial Inclusion defines financial inclusion as a state wherein all have effective access to a wide range of financial products and services. Financial inclusion is important for every household and business, as access to basic financial services such as savings, payments, remittances, credit, insurance and investments makes a substantial, positive difference in people’s lives.¹²

Provide equal treatment and ensure competition: In the Philippines, for example, the regulator stepped in to ensure that the telecommunications provider that worked with a government bank to develop the Mobile Loan Saver program had an open platform that any bank could use.

What is your advice to the ADB to support innovation to catalyze digital financial inclusion?

Ensure that the information and communications technology (ICT) infrastructure is optimal: One of the most important things ADB can assist with is helping to handle connectivity issues and support an enabling regulatory environment in ICT.

Support incubation and scaling up of digital financial service players

Develop a MIX market¹³ type model for digital financial inclusion players: A comparative matrix and platform that provides financial institutions, especially microfinance players, with access to comparable information about the digital financial players and options would be important. Objective information can both help new players to be better known by the financial services industry as well as assist with investment opportunities much the same way that the MIX Market did in the past for the microfinance sector.

Ensure a broad range of financial services for financial inclusion: These should include microsavings and Microinsurance and remittances.

¹² See the Philippines national Strategy for Financial Inclusion Booklet for more information <http://www.bsp.gov.ph/downloads/publications/2015/PhilippinesNSFIBooklet.pdf>

¹³ MIX market. <http://www.themix.org/mixmarket>



Wrapping up

In concluding, the moderator, Kelly Hattel from ADB, identified the importance of:

- Appropriate ICT infrastructure to support digital financial services
- Potential to support a MIX market model for digital finance that could help to share data and information on outreach
- Expanded digital microfinance services, including microinsurance and digitally-enabled savings,
- Market segmentation to better target different populations and microbusinesses
- Listening to clients and ensuring a customer-centric approach
- Willingness to pilot and fail and to step back and ensure new digital products are in fact meeting customers' needs
- An enabling regulatory environment and the role of dialogue between the microfinance industry, new digital enablers, and regulators
- Why partnerships between microfinance institutions and digital financial enablers are key
- Understanding that developing new digital financial products and services will take time

Session 3b: Focus on Remittances

The World Bank expects people to send \$610 billion in remittances in 2016 and \$635 billion in 2017. Remittances continue to play an important part in financial inclusion and inclusive economic growth in many markets. Nine of the ten largest receiving countries in the world are in Asia. While remittance costs vary significantly by region, the global average cost of sending \$200 remains at about 7.53 percent. Increased anti-money laundering regulations in sending countries has resulted in the closure of accounts of money transfer operators by correspondent banks, due to concerns related to regulatory compliance. In particular, cash-based transactions offered by many money transfer operators are a growing concern of banks. Agent liquidity is an issue as well. While the level of technology used by money transfer operators varies, it is clear that new developments in digital technology cannot only substantially reduce costs, but can also foster greater transparency and reduce the risks associated with more manual and cash-based services.



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Robert Bell
President and Chairman,
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(Panelist)

What are the innovations in digital finance that support remittances?

Mobile technologies are driving down the costs of sending remittances in many markets around the world. In fact, the first cross-border remittance services to link two mobile money providers were in Malaysia and the Philippines.

Comparative pricing websites empower senders and receivers of remittances to instantly check prices on their phones and compare prices. Some of the noteworthy sites include the World Bank's Remittance Prices, Send Money Pacific, and CompareAsia.¹⁴ In the Philippines, the Bangko Sentral ng Pilipinas launched a website that promotes transparency and encourages competition.

Real-time payments using technology can drive down the costs of sending money using digital platforms. Providers like KlickEx have been able to bring down costs from sending money from Australia and New Zealand to various countries in the Pacific from 22%–29% to under 3%.¹⁵

Digital financial educational models: These can be shared through mobile applications and social media to educate remittance senders and receivers. A good example of the kinds of initiatives that policy makers can look at is the Philippine Commission on Overseas Filipinos online financial literacy campaign called PESO Sense.¹⁶ This initiative uses mobile application as well as social media <https://www.facebook.com/pesosenseph/> to share financial education and literacy campaigns for remittance senders and receivers.

What are the perceived risks in the remittance market and how can digital innovations reduce them?

Compliance requirements: These have increased, raising the costs of remittances significantly, especially for smaller money transfer operators. The requirements of knowing your customer and reporting to financial regulators are being solved more easily through digital platforms. Using hedge fund technologies, companies like KlickEx have applied these systems to money transfer services.

De-risking by banks: This has seen accounts being closed among smaller money transfer operators and is raising the costs of remittances.

Digital platforms: These are allowing new players, such as third-party agents, to provide access to remittances.

How can digital remittances lower costs and increase options for senders and receivers?

Mobile applications: These also promote new options and features for remittance money transfers, such as payment options to pay school fees, medical expenses, utilities and other bills. They also allow contributions to government such as the Peso Sense mobile application in the Philippines¹⁷ so that customers do not have to pay to convert their funds to cash.

¹⁴ World Bank's Remittance Prices. <https://remittanceprices.worldbank.org>; Send Money Pacific. <http://sendmoneypacific.org>; Compare Asia. <http://www.compareasiagroup.com>

¹⁵ KlickEx. (link). <https://www.klickex.com>

¹⁶ PESO Sense. <http://pesosense.com/>

¹⁷ K. Go. 2015. PESO Sense launches new app for OFWs. *Rappler*. 29 August. <http://www.rappler.com/move-ph/balikbayan/104130-peso-sense-launch-ofws>

Sending to mobile e-money wallets: This is a great starting point but, ultimately, it will be important to enable direct transfers to savings accounts in banks or to allow easy transfer of funds from e-money accounts to deposit accounts, such as M-Shwari account in Kenya, which allow customers to transfer funds from MPESA to their savings account with the Commercial Bank of Africa.

Digital technologies can also reduce costs by improving regulatory compliance by providing better information on know your customer and even to track trends in remittance transactions that can better identify activities that might be tagged as violations of anti-money laundering or terrorist financing.

De-risking is a major issue for banks, regulators and policy makers. Doesn't technology actually make money transfers riskier? What can be done to deal with de-risking?

Manual transactions are actually riskier than those that use technology: The latter can help make transactions more transparent.

Central know-your-customer databases: These can actually help reduce de-risking, but many banks are still worried about sharing information and data so central banks will need to step in to offer these types of services.

The receiving side of remittances: This presents the greatest challenge, since the most significant barriers are regulations on the sending side. Regulators in receiving countries are actively engaging with regulators and policy makers on the sending side, but more needs to be done.

Regulators and policy makers need to document and share issues of de-risking are being addressed. This will require collective action from regulators in developing countries. Examples have included the Alliance for Financial Inclusion and the ongoing dialogue with the G-20 and G-24 that is taking place in Washington DC and elsewhere.¹⁸ This is an area where the ADB and World Bank can assist regulators and policy makers to develop a more comprehensive plan to address the perceived risks associated with small value remittances (such as money laundering and terrorist financing), and which continue to lead to de-risking practices among banks, resulting in the closure of accounts used by vital small value money transfer operators in several markets.

Can Blockchain bring down remittance costs?

Several players are experimenting with Blockchain, especially Bitcoin, but it is too early to see whether these will be scaled up. Notably, hidden costs and time lags in Blockchain may mean that it is not possible to bring down the costs of remittances, so more information and study is required to better understand the opportunities and real costs.

¹⁸ AFI. 2016. Challenge of de-risking and digital financial services (DFS) opportunities in the spotlight for the 8th Annual G24-AFI Policymakers' Roundtable on financial inclusion. 19 April. <http://www.afi-global.org/news/2016/4/20/challenge-de-risking-and-digital-financial-services-dfs-opportunities-spotlight-8th>



Other than digital solutions, what are some of the prerequisites that should be in place?

Formalizing nonformal channels: Regulators need to ensure that nonformal remittance channels are properly licensed and supervised

Governments and the role of financial education: Governments can also play a role by supporting standardized information about all of remittance channels, improving transparency, increasing competition and educating consumers. The Commission of Overseas Filipinos provides a good example of these practices, one which other countries can emulate.

More flexible regulations and the use of tiered know-your-customer can support greater access to remittances.

Wrapping up

Among the key messages of the session, the moderator, ADB's Sabine Spohn, highlighted the importance of:

Collective action to support the discussion about de-risking: ADB can support policy lower costs.

Digital technology: This will continue to reduce remittance costs and may also provide ways to improve compliance by allowing money transfer operators to more carefully track remittance transactions.

Communication and building trust: this is crucial, and so the mobile channel is important.

Session 3c: Focus on Government-to-Person (G2P)

Government-to-person (G2P) payments are increasingly being offered digitally, and the trend is expected to grow to over \$194 billion in transactions globally by 2017. Digital G2P payments offer several advantages over traditional cash payments, including greater efficiency, lower leakage, and more secure payment for both government and recipient. When linked to a financial transactional account, whether a bank or nonbank e-money wallet, it could increase financial inclusion for many poor households. But challenges exist, especially in implementing this nationally and dealing with consumer education.



Pamela Bracey
Principal Investment
Specialist, Private Sector
Operations Department,
Asian Development Bank
(Moderator)



Rishi Gupta
Managing Director and CEO,
FINO Pay Tech, India
(Panelist)



Simoun Ung
President and CEO,
OmniPay, Philippines
(Panelist)

Business case for using digital Government-to-Person (G2P) payments for the poor

India. India operates the largest-scale digital G2P payments in the world. Rishi Gupta, CEO of FINO Pay Tech, pointed out that, previously, the government of India struggled with leakage in its transfer programs for the poor as well as ensuring the right people are targeted, illiteracy, lack of sufficient infrastructure, and financial access points for the unbanked.

“Of every rupee spent by the government, only 17 paise reached the intended beneficiary”

– **Rajiv Gandhi**, Indian prime minister, in 1985

India’s unique national biometric identification system for every citizen helped to lay the foundation for supporting large-scale digital G2P payments. This has been especially useful in addressing illiteracy, since people only need to use their finger instead of having to sign anything or input their PIN numbers. Where infrastructure and sufficient access points are lacking, the government has benefitted from the expansion of mobile solutions as well as agent banking

(business correspondent) regulations that allowed third parties to provide access to financial services.

A strong mission and political will to provide banking services to every citizen without them, helped develop a system that now boasts 1 billion people with unique identification and over 200 million additional bank accounts opened in just a few years. The unique identification system and the development of an extensive agent network benefited the government by shifting to full-scale digital G2P payments including:

- Better access to a full range of financial services including pensions, insurance, savings, credit, transfers, and payments
- Improved targeting of clients and reduction of leakage
- Cost savings for both the government and the citizens
- Dramatic improvements in financial inclusion

Governments interested in digital G2P payment should focus on:

- Proper planning
- Building the infrastructure, including leveraging technologies and the use of third party agents
- Coordination and a shared vision among all relevant government agencies and private sector players
- Follow through, even with changes in government
- Communication must be widespread and should use all channels
- Financial literacy

Pantawid Pamilyang Pilipino Program (the Philippine's conditional cash transfer program):

Simoun Ung shared details of the Philippine government's conditional cash transfer program and the shift to digital G2P payments. The latter is largely driven by the same rationale as India's initiative, including reducing leakage and costs, increasing speed and efficiency, and expanding financial access points. The Philippine government is addressing these issues through a new partnership between the state-owned Land Bank of the Philippines, the Department of Social Welfare and Development, and nonbank e-money issuer Omnipay.

The conditional cash transfer program is now reaching over 4.5 million households, has experimented multiple times with digital payments over the past 5 years, and is now focused on this new approach to supporting the use of e-money accounts with linked debit cards. Lacking a national identification system, OmniPay started with issuing debit cards with embedded identification photos. Similar challenges to literacy may ultimately be addressed through some kind of biometric system but, for now, a lot of education and support is needed to gain clients and open up accounts.

What influenced the choice of the different business models we see in India and the Philippines?

The level of existing financial infrastructure that exists and the adoption of new technologies all play a role in different approaches to offering financial services. In India, the decision about what model to focus on evolved as technology developed and internet connectivity improved.

Initially smart cards were introduced in India but with the increasing adoption of smartphones and the challenges with extending card-based solutions, the role of mobile applications to greatly facilitate access and use of financial services is now actively being explored.

However in the Philippine G2P transfers, the decision to offer a card-based e-money solution reflected existing financial infrastructure, especially ATMs and point-of-sale devices, which are currently much more prominent than mobile-based solutions. In addition, clients had an ‘aspirational’ view associated with carrying a physical debit card that also doubled as a form of personal identification. This both supported the interests of clients who lacked a physical identification card as well as those who were unsure of using a mobile phone to manage money. According to Ung, the important point was to offer a back-end solution that was flexible and not reliant on one channel and that could be used through any device, whether using a card, a mobile phone, or a wearable technology in the future.

In India, the government started with a smart card technology and then shifted to biometric-based electronic cards. Gupta noted, however, that amid expectations that the majority of people will have smartphones in the next three to five years, the government will likely shift away from physical cards in the near future to virtual accounts accessible through the mobile channel. Providing access to an e-money account using a mobile device dramatically reduces costs, especially the production and distribution of cards. Applications on smartphones can also help improve financial literacy and broaden access to a full range of financial services.

What factors contribute to dormancy and how can these be addressed?

To address this issue in India, the government looked at both supply and demand. The important thing is to ensure that all stages of digital financial transactions can be supported, starting with identification of individuals and ability to open accounts remotely. This is where the biometric national identification system and the use of business correspondents (agents) is key. Banks cannot reach most clients in rural areas through physical branches and this is why links with third-party agents already present in these areas is necessary. After getting accounts opened, the government plays a key role in India in ensuring that these accounts are active. However, Gupta noted that, while G2P payments are crucial, the private sector still has an important role in ensuring the development of a digital financial ecosystem.

“The barrier to adoption of a national identification system is not about cost; the important thing is the willingness of the government to move into that direction...and, therefore, political will is key.”

– **Rishi Gupta**, managing director and CEO of FINO Pay Tech.

In the Philippines, the adoption of digital G2P payments as well as regular disbursements are a good start to raising financial inclusion and helping clients learn to use their financial accounts. However, as pointed out in the India example, the challenge will be to ensure that a sufficient third-party agent network is in place to provide sufficient access points. In addition, the regulator is working with the sector to support greater interoperability of operators and providers to facilitate access and use of digital payment.

Ung mentioned that Philippines could benefit from the Indian approach to dealing with conditional cash transfers. Rather than view these accounts as means to disburse funds to the poor, they can

also ensure the poor are getting accounts. Rather than being encouraged to immediately cash-out of their accounts, clients need to be encouraged to participate in the digital economy and to benefit from the ability to budget and save as well. It was also noted that the Philippines could hasten financial inclusion if it adopted a national identification system, especially a biometric one like in India.

What is the role of the bank account, should this be the ultimate goal of financial inclusion or can a nonbank or specialized financial account be a solution?

It is important for there to be regulated financial institutions to support financial transactional accounts. This is the first step to get people into the finance sector but, as they progress, people should ultimately have the option to graduate to savings accounts within a bank. This is why India established Payment Banks and why the Philippines limited E-Money Issuers to only providing noninterest bearing e-money accounts. Partnerships are crucial to transitioning from basic e-money transactional accounts to savings accounts within a bank.

How did India overcome the technology barrier?

According to Gupta, the key steps included:

- Biometric enabled unique identification
- Support for remote account opening
- Access points through business correspondent (agents)
- Channeling all G2P subsidies and benefits through digital payments
- Ensuring adequate interoperability and faster payment system
- Joint government and private sector support for the development of a digital payment



How do you educate customers about the fees they pay on e-money transactions in the Philippines?

In the Philippines, it was easier to support a flat, transparent and fully-disclosed fee structure. When dealing with first-time G2P recipients, government should provide financial education and literacy programs.

Wrapping up

Moderator Pamela Bracey summed the session's important points as follows:

- The role that G2P payments can play in financial inclusion. This is demonstrated in the successful example in India and is beginning to demonstrate potential in the Philippines. To support digital financial inclusion through G2P payments, access to digital infrastructure and connectivity is key.
- Access points through third-party agents are also seen as an important prerequisite, as are addressing national identification systems to better enable authentication of customers, remote access to account opening and faster payment systems.
- Ultimately, interoperability and a broader adoption of digital payment by government and the private sector are essential.

DAY 2

Welcome Address



Ma. Carmela Locsin

Director General, Sustainable Development and Climate Change Department, Asian Development Bank

Digital Financial Services: The Customer and the Economy

Distinguished guests, ladies and gentlemen, a very good morning to all and welcome to day two of this conference which I would characterize as aspiring to leverage both technology and ingenuity for universal access to financial services.

The sheer magnitude of our regions' financial inclusion challenge calls on us to create thriving ecosystems as well as network of factors, banking and nonbanking alike, across the entire financial service value chain. We look forward to continuing our dialogue with you, our network of policy makers, financial regulators and financial institutions, fintech companies, academia and financial experts as we consider how to harness the full potential of digital financial services to advance financial inclusion across our region today.

I hope you are as energized as I am by the challenges and opportunities in front of us today as we consider how to drive further changes in mindsets and to explore new ways of doing business to expand access to affordable financial services for all in our region powered by digital finance.

Allow me to share some of my thoughts on what digital financial services mean for the customer and for the economy. When we look at the customer, we see how digital financial services can provide people even those in very hard to reach areas with access to services that can be customized to meet their needs. When we look at the overall economy, we see that financial inclusion is directly correlated with economic growth, job creation, and increase in household assets. New technologies in the financial services industry are creating an opportunity to fast-track financial inclusion in ways, until recently, which were not possible. We have all seen how digital financial services make possible a broad spectrum of opportunities for the customer is ranged from opening up an e-money account and using a person's digital footprint to extend credit to the case where a farmer in the PRC buys microinsurance through mobile phone or where migrant workers work online to bring down the cost of remittances. In rural India, at least 350 million subscribers now have access to mobile phones making mobile money the most widespread platform for financial inclusion in India.

Whatever the need, technology is changing the way people pay, save and access financial services. Asian consumers are now at the forefront of the digital services revolution with Asia's

mobile payment users exceeding 600 million people surpassing mobile payment users from other regions. What this means for a customer in Asia is better and more rapid access to a full range of financial services that can be customized to meet their needs.

Yesterday, we discussed the speed of change in digital financial services and why it matters. The importance of taking a customer-centered approach in designing and offering digital financial products and services, how digital financial services are providing new cost-effective business models to help financial providers offer services to people at the very base of the economic pyramid. And last but not least, we discussed how digital financial services are changing the way microfinance services, remittances, and even government-to-person payments are being made.

Today, we will put a spotlight on the issues which arise from the emerging opportunities and challenges that we discussed yesterday. For regulators and policy makers, we will discuss how do we strike a balance between allowing new digitally-enabled financial services and products into the market as well as new players while managing for risk and ensuring the safety and soundness of the financial system. We will also discuss how do we ensure customers are protected and how do providers balance the cost and value of their investments in digital financial services.

What is the best way forward? And how can we at ADB empower our regions' policy makers, regulators, and other stakeholders to offer inclusive digital financial services responsively to its clients?

While we have been discussing thus far, the role of digital financial services in accelerating financial inclusion in our region today, we've also seen the evidence directly linking financial inclusion to broad-based economic growth. In Mexico, we have seen how a ten-percent increase in financial access has led to a seven-percent increase in employment and a five-percent increase in new business growth as all leading to a three-percent increase in GDP. In Nepal, we have seen a direct correlation between access to formal household savings and assets and productive investment creation. In a study on the impact of formal savings in Nepal, 80 percent of households were offered formal savings accounts opened one. Those who saved went on to increase their household monetary assets by over 50 percent and their total assets by 16 percent. Households who saved also increased their investments in healthcare and education. In India, one estimate shows the potential of technology-enabled applications to bring banking services to more than 300 million unbanked Indians raising their incomes by an estimate of 5–30 percent for better access to credit and the ability to save as well as make remittances. These applications also make their transfer of government payments in a more efficient and secure way as well as create the potential for up to 1.5 million jobs.

I am thus excited about the conversations that will take place here and continue over the day. I think that we all see the remarkable transformative potential digital technologies hold for empowering the lives and wellbeing of our clients and spurring robust-based economic growth, increase social inclusion, and improve governance.

We look forward to hearing your views and your insights to jolt our own thinking as we sharpen our approach and perhaps nurture the next generation of business models and supportive regulatory regimes that will truly leverage the delivery of digital financial services to the bottom of the pyramid at unprecedented scale. Perhaps we could help to even hasten another tipping point in development by accelerating progress together toward a more inclusive and sustainable future

for us all in line with the new sustainable development goals.

Carol Realini, who delivered our opening remarks yesterday, invited us to rethink banking and to create platforms for piloting innovations and tipping points that empower lives. And she referred to Steve Jobs as well so I felt that perhaps I would close by recalling a few words of Steve Jobs who was once referred to as Apple's Minister of Magic. He was very proud about pushing for innovation. We all know that and we feel its effects in our environment today. So here goes:

"Here's to the crazy ones, those who see things differently: while we may disagree with you, the one thing we can't do is ignore you. Because you change things, you push us forward. While some may see you as the crazy ones, we see genius. Because the ones who are crazy enough to think that they can change the world, are the ones who do."

– **Steve Jobs**, Apple (1997)

Thank you very much and I wish you all very productive and very exciting discussions today, a lot of bold and perhaps imaginative thinking.



Keynote Opening



David Brear
Cofounder and CEO, 11:FS

Financial Inclusion in the Digital Economy: What are the Technology Inhibitors, in Large Banking Organizations that are Holding Back Financial Inclusion?

While we can all talk about the role of mobile technology, the cloud, digital identities, big data, digital money and the Blockchain, none of these are panaceas of change will alone address financial inclusion. There is a much bigger issue to discuss. Apart from the 2 billion adults globally that are not banked, I think there are another 2 billion plus adults that are near banked. My question is about the missing category. How many that are banked, are actually badly banked globally?

Most of the advice that is available from banks is focused on a very small percentage of the wealthy and we see this in the difference between savings rates among the wealthy and everyone else. Banks are just not doing a great job for the majority of their customers.

Banks should be excited about the 2 billion potential unbanked customers but it is a very different story. Looking back at the history of banking and where we are today and where we were in 1990. We see a lot of investments in technology to supposedly improve the banking experience but it just is not apparent from a customer experience perspective.

“Study the past if you want to define the future...”

– **Confucius, 479 BC**

We have this generally public “rump” within banking where most investment is made but at the base of the pyramid, banks just are not able to do this based on their standard operating costs due to legacy technology and systems. The physical makeup of the back-end systems of banks just make it nearly impossible. While everyone wants to make it happen, the way banks are set up today, it does not seem possible for traditional banks to cost-effectively serve clients at the base of the economic pyramid.

Could fintech offer the answer?

We have a new wave of change with FinTechs coming to the market and more than \$50 billion in investments and a fairly competitive market. These new players coming into the marketplace are bringing very different ideas to resolve the barriers that are prohibiting financial inclusion. In the

end, these new fintech players are challenging the banks and the new mantra that everyone has to have is that digital banking is only 1% finished and we have a long way to go. To achieve this, we need to also ensure that even CEOs are better educated about the art of what is possible. This is also critical for regulators as well in order to avoid unnecessary barriers.

While banks will not go away anytime soon, we will see the unbundling of banking services. The future may entail banks becoming more of a platform where funds are stored and sourced and Fintech players riding on top of banks to provide enhanced services.

Session 4: Supervision and Regulation of Digital Financial Services—Keeping Up with Market Development

Regulators around the world have realized the tremendous role digital financial services can play in supporting financial inclusion. They also understand that to harness the potential of responsible and inclusive digital financial services, they need to create appropriate enabling environments that allow innovations and new players. In addition, financial regulation needs to ensure the safety and soundness of the finance sector and to protect consumers. The challenge for regulators is to strike a balance that is responsive to financial system structure, manages risks, and supports inclusive digital financial services as thousands of new financial technology (fintech) players emerge.



Janos Barberis
FinTech HK Founder and
Senior Research Fellow
Hong Kong University Law
School, Hong Kong, China
(Moderator)



Peter Morgan
Senior Consultant,
Asian Development Bank
Institute, Japan
(Panelist)



Farida Peranginangin
Director, Payment Systems
Policy, Bank Indonesia
(Panelist)



Patrick Joseph Sadornas
Head Core IT Specialist
Group, BSP Philippines
(Panelist)



Noritaka Akamatsu
Advisor, Sustainable
Development and Climate
Change Department, ADB
(Panelist)

Given that new Fintech and digital financial services are multi-faceted, what are the most pressing regulatory challenges around inclusive digital financial services? How do you balance allowing an appropriate enabling environment against the risks?

As Farida Peranginangin from Bank Indonesia noted, fintech and broader digital financial services are changing the market in her country. In exploring the potential, a lot of work is focused on payments that are covered under the retail payment system. In the past, almost all payment services were provided by banks, she said, but now many nonbank financial providers offer digital payment services. While Bank Indonesia has decided to lightly regulate these new nonbank financial institutions, they still need to ensure that safety and soundness is maintained, especially in consumer protection.

Patrick Joseph Sadornas of said to better enable fintech solutions and manage the risks, regulatory coordination and proportionate risk-based regulation are essential. In particular, international standard setting bodies are highlighting proportionate risk regulation. Sadornas noted that the Philippines has been proactive in addressing these issues, especially tiered know your customer in 2011.¹⁹ With this new policy in place, Bangko Sentral ng Pilipinas was able to provide a flexible approach to allowing regulated financial institutions to open low value basic financial accounts to low risk clients. He also noted how the central bank implemented its test-and-learn approach to allow controlled pilots, especially around e-money so that innovation could proceed as regulations closely followed.

What are your thoughts on the greatest challenges you face in regulating and supervising new as well as existing digital financial service providers?

Sadornas shared how the Philippine central bank encourages new fintech players to come in and meet with the regulator to discuss new products and services. As panelists noted, some of the most important challenges in regulating and supervising fintech involve:

- Limitations around national identification systems
- Bringing regulators and policy makers together to coordinate and ensure policy consistency
- How to best implement proportionate regulation, especially for know-your-customer
- How regulators are able to keep themselves informed of new financial technologies fast enough to avoid the creation of potential barriers to fintech
- Determining when a payment provider crosses the line in managing payments and deposit taking to understand at what point the regulator needs to oversee these players
- How to deal with new data privacy issues as fintech players access more information and share data with others
- Oversight of third-party agents, especially principal-agent regulations

How do we deal with the emergence of nonfinancial technology players such as telecom operators, e-commerce players, and data platform providers offering financial services, especially in regulatory coordination to avoid regulatory arbitrage?

As more players begin to offer and transact services directly between the clients and the banks, the big question and challenge is which financial services should be regulated and who should

¹⁹ Bangko Sentral ng Pilipinas. 2011. Updated Anti-Money Laundering Rules and Regulations. <http://www.bsp.gov.ph/downloads/regulations/attachments/2011/c706.pdf>

be responsible when something goes wrong. Noritaka Akamatsu of the ADB shared a particular example of Lending Club, which although primarily a peer-to-peer lender in the United States, was also raising funding from market-based financing from institutional investors—this creates its own risks. This is especially important as the institution becomes large enough to be a potential systemic risk.

What do you think about regulatory technology (regtech)?²⁰

Peter Morgan from the Asian Development Bank Institute shared that regtech is still “a very new concept for regulators, this still needs to be understood and regulators need to be adaptive.” Regulators also need to understand its uses, particularly from the perspective of monitoring and supervision.

With multiple regulators in some markets including coordination between financial and telecom operators over mobile platforms, how do multiple regulators coordinate to prevent regulatory arbitrage?

A number of regulatory bodies need to be involved, so regulatory coordination is important to ensure that regulatory arbitrage does not take place. In Indonesia, there are many different regulators so there was the need to establish a public–private sector dialogue that brought all the different regulators together. They also ensured that there was a good dialogue with the private sector. Coordination is time consuming, so this does create a challenge in terms of the speed of creating new regulations. Internally, the Bank of Indonesia is trying to ensure that it closely follows the industry and is providing it a more supportive environment.

What are the most important preconditions for licensing of new players, as well as rules around outsourcing and new third party payment service providers?

How to adapt to all the changes in the environment and new players is a challenge for regulators. As Akamatsu raised earlier, when does something like e-money cross the lines to becoming a deposit taking institution? Sadornas noted that regulators need to ensure equal treatment. He quoted John Williams, president and CEO of the Federal Reserve Bank of San Francisco: “if it walks like a duck and quacks like a duck, it should be regulated like a duck.” This

“If it walks like a duck and quacks like a duck, it should be regulated like a duck.”

– **John Williams,**
Federal Reserve Bank
of San Francisco

is what we often refer to as “functional regulation.” This is why regulators need to create clear distinctions and guidelines, especially around what is considered deposit taking as well as looking at whether new players are intermediating those funds. In many markets, new nonbank financial institutions or specialized niche banks are allowed to provide basic e-money accounts that are limited in size and need to be maintained in the banking system under trust and in 100% liquid instruments to protect the public. As long as these preconditions are in place, these “near banks” should be allowed to operate under the supervision of the financial regulator without the heavy capital requirements of a bank.

²⁰ This is defined as a real-time proportionate system that allows for better compliance and regulatory and supervisory solutions.

As Morgan pointed out, there are basically three tiers of financial players: the licensed, the registered, and the nonregistered. The cut-off point between licensed institutions and registered institutions is deposit taking. While registered entities are often more lightly supervised, rules still need to be in place for consumer protection and data security. However, even for new fintech players that do not need to be registered, regulators need to monitor their growth and be willing to step in when needed. An example of this recently happened in the PRC, where there were reports of fraud and mismanagement in a number of peer-to-peer (P2P) lenders, and regulations needed to be issued to protect the public and to support the safe expansion of these new players providing important access to credit.

Sadornas pointed out that, in the Philippines, the central bank is very open to new players and has an open-door policy, but it requires that these new players adhere to principles such as addressing risks associated with information technology risk management.²¹ It was further pointed out that data privacy and fraud risks are increasingly becoming more challenging to regulate and supervise as more digital financial players connect to each other.



²¹ Bangko Sentral ng Pilipinas (BSP). 2013. BSP Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions. Circular No. 808. <http://www.bsp.gov.ph/downloads/regulations/attachments/2013/c808.pdf>

If there is one key area that you would stress for fintech providers to be most aware of, what would it be?

Participants answered as follows:

- Sadornas: protect your consumers first and foremost. All players should follow formal consumer protection principles. In addition, there should be a strategy for providing financial education.
- Akamatsu: Educate the public and ensure greater transparency.
- Morgan: Information security is also key.
- Peranginangin: Remain innovative, but follow the rules.

To sum up the discussion today, Janos Barberis mentioned four big mandates for regulators to consider when it comes to fintech and financial inclusion. These include (i) consumer protection, (ii) market stability, (iii) market competition, (iv) prudential regulation (deposit insurance to allow new banks to enter the market as well as the ability to fail).

He added that all financial providers should have a contingency plan and we ask of other financial providers “What are your plans if you fail.”

Session 5: Perspectives on Consumer Protection and Emerging Risks in Digital Finance

Digital financial services continue to demonstrate the significant potential to advance financial inclusion. However, consumer demand and adoption of these new services are driven largely by public attitudes and knowledge about technology and these new platforms. The reputation of digital financial service providers and levels of consumer trust all directly affect the use of the services. Having effective consumer protection regulations for such services in place, as well as appropriate mechanisms and the capacity of regulators to implement them, is important for protecting customers and to build trust and confidence, which in turn can improve uptake and usage.



John V. Owens
Senior Advisor on Digital
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ADB Consultant
(Moderator)



Clarence Hui
Senior Manager, Financial
Infrastructure Development,
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(Panelist)



Manoj Sharma
Director, Microsave, India
(Panelist)



Simoun Ung
President and CEO,
OmniPay, Philippines
(Panelist)



Janette Toral
e-Commerce Specialist,
Philippines
(Panelist)



Duncan Woods
Partner, Financial Services,
Oliver Wyman, Singapore
(Panelist)

Consumer protection practices need to empower consumers to make informed financial decisions; exercise their rights and meet their obligations; have access to adequate, timely, and efficient redress for their complaints; and prevent unfair practices by service providers. These objectives should be balanced without placing onerous restrictions on the provision of the financial products and services and the channels used to deliver them. This is particularly important when the target population is from a low-income or disadvantaged group, which are usually more vulnerable, since they may just be starting to use formal financial services and have limited ability or power to protect themselves from unfair practices. However, regulators face a dilemma regarding protecting consumers without imposing high compliance costs on service providers.

As highlighted by John Owens, senior digital financial services consultant and moderator for the session, there are five emerging issues associated with digital financial services:

- Risks for digital financial services consumers
- Outsourcing and third party service providers
- Responsibilities of the digital financial services providers
- Responsibilities of the financial regulator
- Responsibilities of the digital financial services consumers

Looking specifically at the digital financial service issues for consumers, five subcategories emerge:

- The importance of adequate and complete information
- New technology as a source of risk
- Risks associated with agents providing digital financial services
- Challenges with new services and service providers
- Consumer privacy concerns with digital financial services

What risks do digital financial service customers face? With more partnerships and traditional financial players connecting to third-party service providers, what are the particular risks that should be taken into account from a consumer protection standpoint?

According to Manoj Sharma from MicroSave, an international financial inclusion consulting firm, recent studies had documented the six primary risk concerns that digital financial services customers raised:

Service downtime and denial of service: The guaranteed online availability for mobile financial services (often referred to as uptime) negotiated by the players with the central bank in Kenya was 90%, while the same telecom operators had been required to have a 99% uptime requirement by the telecommunications regulator for mobile lines. What this meant was that one in ten mobile money transactions were allowed to fail, and this is actually worse in several markets. This is one of the top concerns of most customers when it comes to using and relying on digital financial services, especially mobile financial services.

Lack of adequate information: This is especially relevant for mobile financial services given the small screen size. In addition, the user interface of many digital financial services is often

not appropriate for low-income clients, resulting in errors or low uptake of services. It is also a challenge, for those who transact on e-commerce platforms, to ensure that people are protected.

Poor customer service and redress mechanisms: Customer support and redress is often inadequate or unavailable. One big issue in the mobile money space has been transaction errors, where funds are deducted from the client's account to a wrong number, often one that does not exist. When mistakes are made with mobile money transfers, these funds can be transferred to a suspense account, from which it usually takes a long time for clients to get their money back.

Risks associated with agents: Lack of adequate liquidity, especially due to poor agent management systems, has its own risks. Fraudulent agent practices, including overcharging for services and misinforming customers about products and services, are also an issue. Clients are also relying on over-the-counter transactions or agent-assisted transactions, increasing the potential for fraud.

Basic financial literacy: Providers need to acknowledge this challenge. India, as noted, is addressing it using biometrics to support people who lack the ability to sign their names or to enter a PIN number.

Clarity of agent-principal rules: As more players connect along the financial value chain, who is responsible when things go wrong is getting more complicated. Contractually, banks and all participants in the value chain need to spell out who is responsible for customers' transactions, an area that regulators need to monitor.

Data privacy: This is becoming more of a risk, both from the standpoint of the large numbers of players and even from clients trying to understand what their data and information is being used for. As Simoun Ung from OmniPay noted, in the Philippines, the government's Commission on Audit system was hacked, and details on customers including addresses, dates of birth, and even their mother's maiden names stolen. This is then a challenge for banks and other financial service providers who rely on the same personal information to identify their customers.

When it comes to consumer protection, what should be the responsibility of the financial regulator, the digital financial services providers, and, ultimately, those of the consumer?

Financial regulators should ask two important questions:

- Are customers really aware of the risks and costs of using digital financial services?
- What can be done to ensure trust, safety, and soundness, especially given the low educational levels of customers being targeted?

Apart from regular consumer protection principles, regulators should also implement tighter cybersecurity measures to protect customers and build trust.

As Clarence Hui from the Hong Kong Monetary Authority noted, as more new players enter the market, a proportionate regulatory framework is needed. In Hong Kong, China, he said, all players offering stored-value facilities must be licensed and are directly supervised by the financial regulator. For retail payment providers, including those offering e-commerce, Hui added that

Hong Kong, China has a proportionate risk framework that only requires the large players be subject to direct oversight.

Regulatory coordination: As noted, different regulators in a country need to coordinate and collaborate to ensure clarity and that regulatory ambiguity for the same types of services by two or more different agencies does not create regulatory arbitrage.

Digital financial services providers should:

Walk through transactions with the customers: It is important to ensure clients are properly informed about the transaction process through a step-by-step walk through of each part of registering and using digital financial services.

Follow consumer protection principles: In Hong Kong, China regulators worked with banks and other regulated financial service providers to implement the five high-level principles of the Treat Customers Fairly Charter.²² A later annex to the charter even provided specific examples to assist implementation.²³

Support consumer education: Full disclosure of adequate information about digital financial services and the risks of these services and platforms is needed. Players also need to **take into account the risk profile of customers** before providing them services. This is especially relevant for those taking credit. In addition, a **customer complaint redress and resolution system** must be in place.

Payment platforms should work both online and offline to ensure that you can still transact even when systems are down or in rural areas, such as when a customer's cell phone battery is dead or there is no mobile coverage.

Ensure that **product design takes into account the actual capability level** of the clients. Sharma shared the fact that some companies which are purporting to offer customers Microinsurance connected to their mobile phone accounts actually had extremely low claims ratios due to a lack of information and lack of understanding at the client level. The whole approach to these products needs to be revised.

Self-Regulation by the industry participants: Duncan Woods of Oliver Wyman, a global consultancy, noted that the UK's crowdfunding industry is a good example of fintech industry players coming together even before they are regulated to agree on principles of "good conduct."

Responsibilities of digital financial services consumers:

Consumers should understand and take responsibility for risks when using unlicensed or unregistered digital payment providers: These include international payment providers such as Paypal that may not fall under the rules of the financial regulator in the country or unlicensed

²² HKMA. 2013. Treat Customers Fairly Charter. http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/consumer-corner/TCF_Charter.pdf

²³ HKMA. 2014. Examples of Measures to Implement the Principles of Treat Customers Fairly Charter. <http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140328e1.pdf>

crypto-currencies like Bitcoin.²⁴ In these cases, regulators can warn customers, who must then decide on the risks on their own.

What should be the role of ICT regulators in digital financial services consumer protection issues?

Digital financial services are about payment services and these fall under financial regulators. As Hui and Ung both mentioned, the important thing to focus on is the underlying product or service and not the channel, whether it be the internet or a mobile phone or some other device. However, the financial regulator does have to coordinate with other regulators, including ICT and telecommunication regulators. When ICT or telecommunication regulators begin to see those they supervise expand into offering financial services, they should coordinate with the financial regulator to avoid regulatory arbitrage.



²⁴ Bangko Sentral ng Pilipinas. 2014. Warning Advisory on Virtual Currencies. <http://www.bsp.gov.ph/publications/media.asp?id=3377>

Wrapping up

As Owens mentioned in the summary of the session, the key takeaways of consumer protection for digital financial services include:

- The risks that exist around third-party financial service providers
- Challenges and risks around agent-assisted transactions
- The importance of rules for adequate customer recourse
- The need for rules for regulated financial institutions that outsource financial services utilizing the technology/services of third parties
- Ensure that regulators and providers understand the unique risks associated with providing digital financial services to first-time customers and low-income people
- Understanding customer protection rules and the need for a customer-centric approach to take these rules into account during the product design phase
- Reviewing the entire transaction process from gaining customers, to identification, to the potential role of biometrics to reduce risks

Session 6: The Cost and Value of Digital Finance

The investment costs for developing and implementing responsible and inclusive digital financial services are substantial. When a financial provider invests in new technology, it expects value in return. Sometimes the expected value is not additional revenue immediately, but rather cost savings or the potential to expand to new customers. Estimating cost savings and reaching new customers are difficult and challenging from a business plan perspective. Evaluating the potential value of technology is nuanced and multifaceted. What drives value for one entity may be completely different for another, based on size, internal resources, seasonality, growth trajectory, and other factors. Much is at stake when investing in a new technology platform, including the investment of time, money, and effort. All of these factors need to be understood and weighed when developing a business plan and tracking the return on investment.



Kalin Radev
CEO, Software Group,
Bulgaria
(Moderator)



Jaclyn Berfond
Specialist, Research,
Monitoring and Evaluation,
Women's World Banking,
United States
(Panelist)



Moinuddin Rahgir
Chief Financial Officer,
bKash Limited, Bangladesh
(Panelist)



Anthony Thomas
Chief Operating Officer,
Mynt, Philippines
(Panelist)



Prasanna Varadharajan
Director of M-commerce
Business, Asia Pacific,
Ericsson, Singapore
(Panelist)

Three-quarters of all payments globally are still in cash, but this is changing rapidly. Interoperability and interconnectivity of different financial institutions from banks to nonbanks are keys to shifting from cash to digital payments and developing an open payment system. This makes digital payments more affordable for all players along the value chain.

As Prasanna Varadharajan of Ericsson noted, digital and mobile payments have been a key driver of financial inclusion, especially in Africa. Other drivers enabling this development include rapid growth of mobile phone use, open application program interfaces, interoperable payments, real-time settlements, and e-commerce. What are the benefits for financial players to integrate? New direct revenues as well as creating new uses to facilitate digital payments. Promising developments include the Asociación de Bancos del Perú, and their interoperable approach and use of mobile technology.²⁵

As Jaclyn Berfond from Women's World Banking noted, you need to start with the value digital payment brings to clients. As noted, a customer-centric approach is important. Digital technology can actually bring financial services to people much more conveniently and faster than in the past. Digital technology also allows clients to transact more privately, which is especially important for women. The BETA Savings account offered by Diamond Bank in Nigeria, for example, was developed in partnership with Women's World Banking.²⁶ Over 300,000 accounts were opened and this new investment is expected to cover its costs. Importantly, the actual software cost less than 25% of total investment, but the bank is on track to recoup this investment by the end of 2016.

Moinuddin Rahgir from bKash Limited offered bKash as an example of an innovative model of a new, independent financial service provider in Bangladesh that invested significantly to launch a mobile financial service platform that included an extensive agent network to transact with customers. Since launching the service in 2011, over 23 million clients have joined, processing 1.7 million transactions a day, and transacting more than \$1.7 billion a month through over 130,000 agents.

Meanwhile, Mynt is a nonbank financial service provider that is wholly owned by Globe in the Philippines. Anthony Thomas from Mynt noted that Globe has a client base of over 50 million subscribers and, through their e-money subsidiary G-Xchange, operates an e-money platform with 7,000 cash-in and cash-out agents. However, achieving scale as a mobile e-money operator has been a challenge. Mynt is now trying to change this by aiming to address the financial needs of its customers more fully.

What are some of the costs of setting up digital technology platforms and what are the various business models that digital financial services providers use?

A lot of the focus on the costs of technology is about developing the platform. Berfond noted that many players are not reinventing the wheel and instead looking at leveraging technology developed by others. The largest cost is not the actual platform, but other costs, such as establishing the distribution (agent) network and the cost of acquiring an active customer such as registering, educating, and incentivizing clients. This was also reiterated by the Varadharajan

²⁵ M. Gall. ASBANC's mobile wallet shines at mobile money Americas. Ericsson. <https://www.ericsson.com/m-commerce/blog/asbancs-mobile-wallet-shines-mobile-money-americas>

²⁶ Women's World Banking. 2014. Diamond Bank Storms the Market: A BETA Way to Save. <http://www.womensworldbanking.org/wp-content/uploads/2014/03/Womens-World-Banking-A-BETA-Way-To-Save.pdf>

and Rahgir. Thomas also highlighted the costs associated with customer support as well as compliance-related costs that need to be taken into account in terms of offering a digital financial services product. Partnerships with the financial services, government and private sector are key in order to support active usage and to reach economies of scale that drive down costs.

*“One important question that financial service providers need to ask today is
“What is the actual cost of not investing in technology to address financial inclusion?”*

– **Prasanna Varadharajan**,
Director of M-commerce
Business, Ericsson

Developing a digital financial payment ecosystem is important. From your perspective, what are the important conditions that need to be put in place? What is the role of digital financial services players, the regulator, and the government? How can donors support this?

Rahgir outlined three important preconditions:

- Scalability: Can the platform handle the full load of transactions?
- Flexibility: Can new products easily be added later on?
- Overall costs: Technology is just part of the cost so you need to look at the whole costs.

From the perspective of Mynt in the Philippines, Thomas noted that the key preconditions that need to be considered in advance include:

- Multi-stakeholder partnerships are key as they bring down costs
- Interoperability between players
- Government can help by setting an appropriate framework and bringing people together and then leaving execution to the private sector
- Government is also a key user and driver for digital payment ecosystems including G2P and P2G payments
- Regulators need to provide clarity and an appropriate enabling environment, while test-and-learn regulatory approaches can encourage innovation
- Donors can help to support efforts to scale solutions that address development issues that can help the digital payment ecosystem to develop

Among experiences around the world, Berfond highlighted two additional preconditions that are key including:

- Regulations in identification and tiered know-your-customer processes
- Network connectivity and sufficient infrastructure

What are the important factors to consider in evaluating business case and weighing the cost-benefit of inclusive digital financial services and products?

Berfond said that institutions need to look at:

- Customer-centric services that clients need and will use
- The time factor: there is a time cost in the process of market research, testing, and rolling out products and training consumers
- Look at the data and monitoring for results

Rahgir mentioned that for those using agents, institutions need to focus on cash management and making sure agents have liquidity.

From Mynt's perspective, Thomas noted that there needs to be an understanding of break-even costs and end-result profitability of the customers you bring into the system. In the long term, companies need to understand the business-case proposition and the importance of achieving economies of scale. He also highlighted that partnerships can be essential to reducing costs and achieving scale, but companies still need to determine what their core competency is in the value chain process and where they uniquely fit.

What should be considered in terms of the costs of acquiring a customer? What about the costs for remittances?

For bKash, Rahgir noted that the cost of acquiring a new customer is about \$1, which primarily includes the cost of incentivizing the agent. On the remittance side, exchange rate is another cost. The real key to bringing down remittance costs is scale.

For the Philippines, Thomas noted that the cost of acquiring an active customer is much higher than a \$1. Interoperability and use cases can help to attract more customers and bring down costs. However, according to Thomas, having a national identification system is probably one of the most important things a government can do to help reduce the cost of acquiring a new customer.

How can digital financial services empower marginal groups? How does an institution manage the cost of digital financial services and make it affordable for those at the base of the economic pyramid?

From Women's World Banking's perspective, Berfond sees that the additional benefits that digital financial services bring are sometimes not viewed in totality when looking at the costs. The confidentiality and privacy that digital financial services provide to customers, as well as the way they can help to tailor financial services relevant to individual customers, can empower marginalized groups and be more cost-effective than traditional financial products and services. Digital financial services are the best way to empower and reach these customers.

Players need to continue to look at ways to drive down costs. On behalf of a telecom owned e-money provider, Thomas pointed out that base-of-the-pyramid customers are the primary clients for most mobile network operators in developing markets. There is a clear understanding that the average return per customer is much higher for those who use mobile e-money services. Several telecom providers have seized on this important market opportunity and are focused on ensuring that transaction costs are low enough to encourage adoption and use.

What about the role of regulation as a precondition for digital financial services focused on financial inclusion?

The following issues are important:

- Tiered know-your-customer, making identification digital, and the potential to use biometrics are crucial.

- Taking a test-and-learn approach to innovations in the marketplace can effectively support the development of new financial products and services.
- Ensuring equal regulatory treatment for banks and nonbank financial service providers is an important balancing act that regulators should address.
- Regulators play a central role in providing financial security, safety, and soundness.
- Clarity of regulation is also essential to ensure long-term investment.
- Regulators at times have progressive ideas at senior management levels, but there is a bit of a gap at the middle and line-staffing levels within the various agencies. To address this gap, more training and capacity building at the supervisory level needs more investment and support.

Wrapping up

There are many different business models, noted Kalin Radev from Software Group. And providers can come together to share certain costs, including cloud technology, agent costs, or ICT infrastructure, to bring them down. As stressed throughout this conference, it is providers do not have to reinvent the wheel.



Session 7: The Way Forward

Digital financial services offer incredible potential new opportunities, but also new challenges and threats. From industry disruption in online payments for goods and services to peer-to-peer lending, new technologies and new digital financial services providers are transforming every level of the financial services industry. This digital revolution is fundamentally reshaping finance, but a lot still needs to be done to ensure scaling up of services while delivering both convenience and security, fighting fraud, and guaranteeing sufficient consumer protection.



Arup Chatterjee
Principal Financial Sector
Specialist, Sustainable
Development and Climate
Change Department,
Asian Development Bank
(Moderator)



Deepak Mohanty
Executive Director,
Reserve Bank of India
(Panelist)



Farida Peranginangin
Director, Payment Systems
Policy, Bank Indonesia
(Panelist)



Bruno Carrasco
Director, South Asia
Department, Asian
Development Bank
(Panelist)



Shubhendru Khoche
MasterCard,
Singapore
(Panelist)

What are the keys to success in rolling out digital financial services across the region?

Several of factors supporting the adoption of digital financial services across Asia include:

- Innovation and the adoption of mobile and digital technologies
- The importance of digital ecosystems
- Growing trust and transparency in the sharing economy
- The role of government, the private sector, and the regulators
- The importance of an appropriate policy and regulatory enabling environment
- Making government-to-person and person-to-government digital
- Innovation is not only about financial inclusion for lower-income groups, but also about greater participation of women

“What digital financial services can provide is a simple, seamless, accessible, affordable (way to offer) finance for all.”

– **Arup Chatterjee,**
Principal Financial
Sector Specialist, ADB

What do you see as the role for governments, policy makers, and regulators in addressing the risks and opportunities of responsible and inclusive digital financial services? What is being done or could be done better by digital financial services providers? What is the role of public interest groups?

Governments play several roles: **regulator**, **facilitator** (by providing a conducive environment and to push for interoperability), and **adopter and user of digital financial services**, especially in , G2P and P2G payments. Since government payments are some of the largest transactions in many developing countries, this is one of the best ways to support adoption and usage of digital financial services.

Regulators need to provide an **appropriate regulatory enabling environment** that allows for longer-term planning of digital financial services providers to encourage appropriate investment by the private sector.

Identification and know-your-customer challenges are the biggest cost issues digital financial service providers face, and this is an area governments and policymakers need to address. A digital identity is essential, and it should be interoperable, centralized, and accessible by all players. Tiered know-your-customer is also important from a financial inclusion standpoint, especially for countries that do not yet have a national identity system. As Shubhendru Khoche from MasterCard noted, several countries, including Egypt and Nigeria, are offering national identification linked to e-money accounts and double as payment instruments. While the impact of these developments are still to be seen, it is a development that should be watched.

How has ADB supported digital financial services in developing member countries and how can it fine tune interventions?

First, digital financial services are a combination of technology and behavior toward empowerment for a sustainable development mechanism to provide payments and services. Big data is allowing us to compile information to offer new products and services as well as to shape behavior and empower individuals.

According to Bruno Carrasco, ADB also looks at how it can build an enabling environment to support digital financial services and financial inclusion, such as secure transaction legislation, support for development of more “inclusive” credit information bureaus, as well as , financial literacy.

ADB has looked at the roles it plays in various ways:

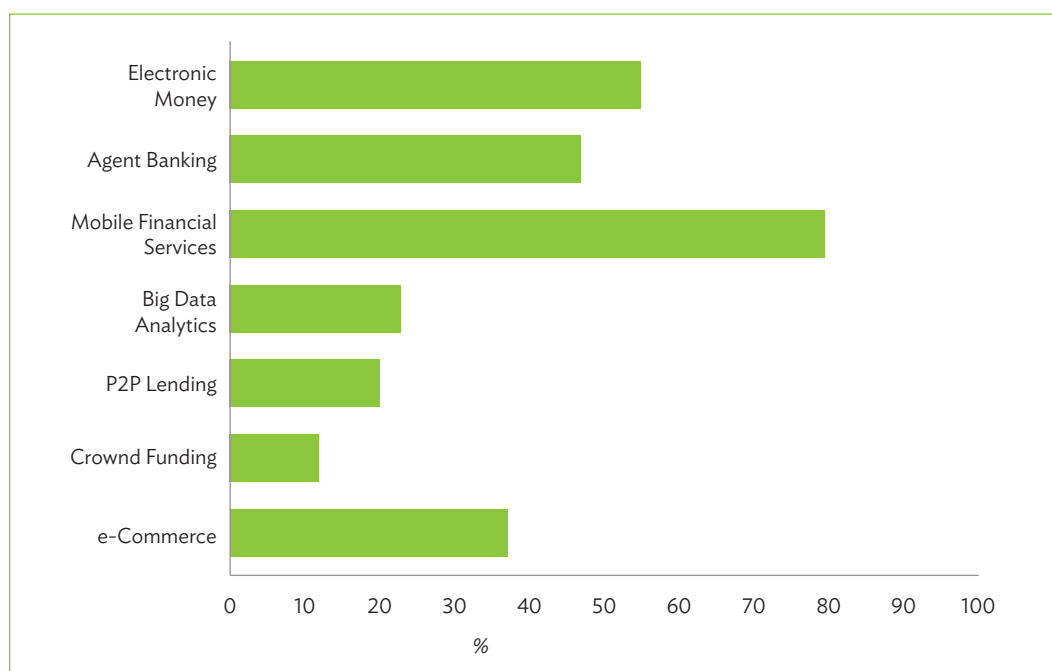
- Convening governments, people, experts, institutions
- Providing grants
- On operational side, investments and support for enabling policies, technical assistance
- Capacity building

In interregulatory coordination, ADB works closely with standard-setting bodies and collaborates with groups like AFI and CGAP. ADB values partnerships with various public policy groups and centers of excellence, such as universities. ADB is also interested in supporting new initiatives and is a big advocate for change management. It understands that trust in the finance sector is also important. ADB’s interest in supporting pilots to drive scale could include support for areas that encourage innovation, such as regulatory sandboxes.

As Carrasco pointed out, financial inclusion is a key priority of ADB and is an integral part of the organization and is one that can now be addressed through technology.

Participant survey questions

Based on the presentation over the past 2 days, what are the top-3 potential opportunities for inclusive digital financial services in your country?



Based on the survey of the audience, mobile financial services are clearly the most important followed by the power of agent banking and e-money. Looking at Indonesia, the government sees the significance of mobile financial services. However, there are challenges, especially with regard to infrastructure and financial literacy. There are also risks that people need to be educated about. Indonesia also sees the role of e-money and agents in enabling financial inclusion.

“In the future, financial transactions will eventually be digital, universal, and almost free.”

– **Bill Gates** at Sibos 2014 in Boston, Microsoft cofounder, business magnate, investor, author, and philanthropist

What policies and regulations do you think need to be improved to accelerate the development of responsible, inclusive digital financial services in your country?

Answered Choices	Responses (%)
Tiered KYC	51.02
E Money Regulations	53.06
Agent Money Regulations	32.65
Regulatory Sand Box/Test and Learn Approach	34.69
National Retail Payment Systems	42.86
Interregulatory Coordinations (ICT-Telco-Financial Regulatory Coordination)	48.98
Regulation on Payment Service Providers	42.86

What are the preconditions to support digital financial services and financial inclusion?

Getting the retail payment system and the appropriate rules and regulations in place are key for leapfrogging the opportunities of e-money including mobile money. The importance of setting up and laying the framework for interoperability that also enables and allows nonbank financial operators access to the payment system is essential over the long run, according to Deepak Mohanty. The role of agents (business correspondent agents) is also essential to not only support transactions, but also to provide assistance to those at the base of the economic pyramid. They can also play a role in supporting financial education. For SMEs, a moveable asset registry can add value and this is an area where ADB can provide support.

What challenges do you face in implementing your road map to support inclusive digital financial services?

In Indonesia, according to Farida Peranginangin from Bank Indonesia, the primary challenge has been with know-your-customer. To address this, regulators have adopted a tiered and simplified know-your-customer process for small-value accounts, in particular to focus on supporting the adoption of e-money. Adoption and usage are still a challenge but Indonesia is trying to ensure that agent networks can be established to support uptake.

Khoche sees that there is a challenge, especially in Asia, in that regulations and policies vary quite a bit. Better regulatory and policy coordination around digital financial service standards would help to support their expansion. The biggest challenge is still changing the habits of consumers and encouraging adoption and usage.

Mohanty shared that from the Indian perspective, the biggest challenge is connectivity and access points. This is why there is the need to invest in agent networks (business correspondence agents). It is important that investment and certification of third-party agents take place, as this is needed to support trust and confidence as well as sufficient access points.

We now see the death of transaction fees, especially in places like the PRC. What other products and services should we look to sustain digital services?

Digital financial services players need to see where they add value. MasterCard believes that as we see transaction fees coming down, new business models around areas such as data analytics will develop.

Looking at the history of telecom operators, we see a natural progression in income revenue, which used to rely on voice and SMS, but as the costs for these services came down, there was a shift to earn from data and selling additional value added services. So we see the same thing is also happening in the financial services industry.

What are the three most important steps or measures needed to bridge the last mile?

From the Indonesian experience, the development of reliable infrastructure to support digital payments is the most important first step. An integrated and harmonized approach is also needed among different regulators and policy makers in a country. Financial education and support for financial literacy is the third most important measure that should be in place to support financial access among lower income groups.

What are the most important actions and policy recommendations that you think ADB, governments, regulators, and policymakers should implement to support responsible and inclusive digital financial services?

From the perspective and experiences of India, Mohanty sees three important issues:

- Cybersecurity is a priority. This is especially important to protect against fraud, as it would be difficult to develop and restore trust in digital payments.
- Customer redress mechanisms are also important.
- Regulators need to build their own internal capacity to understand various aspects of digital financial services, so it is important to upgrade the information technology skills of regulators and supervisory teams.

From ADB's perspective, Carrasco raised the challenge of the digital divide, so it is important that everyone look at breaking down the barriers to entry. Effort should be placed on supporting platforms that allow for interoperability to go beyond the realm of the impossible and focus on the possible. In the short to medium term, we have to be careful about the digital divide and policymakers will need to be aware of this.

From MasterCard's perspective, interoperability is key as well as the importance of the openness to new developments similar to the way Singapore has approached this with its regulatory sandbox approach. Regulators and the private sector need to collaborate so we need to see support for public-private sector dialogues.

From the Indonesian perspective, there is support for collaborative and open regulatory/policy environment. Regulators need to balance risk along with ensuring that innovation is still supported.

Wrapping up

As Arup Chatterjee from the ADB aptly summed up:

- Infrastructure to support digital financial services is key.
- An appropriate regulatory enabling environment is essential.
- Dialogue with industry and a consultative process can support “smarter” regulation.
- Collaboration to standardize regulations across the region can open up more opportunities.
- There is a need to be aware of the digital divide and how to address this.
- Interoperability should be in place to support seamlessness.
- Trickle-up approach of working from a customer-centric approach is essential.
- Fraud and cybersecurity are important—regulators need to play a key role in addressing these challenges to instill trust in the system.



Closing Remarks



Diwakar Gupta

Vice-President Private Sector and Cofinancing Operations
Asian Development Bank

Preconditions of Responsible Inclusive Digital Financial Services and the Role of Partnerships

On behalf of the Asian Development Bank, the Asian Development Bank Institute, and CGAP, I would like to thank distinguished guests and panelists for participating in this first and very productive conference on “Financial Inclusion in the Digital Economy.”

1. Preconditions and Sequencing of Responsible Inclusive Digital Financial Services

For inclusive digital financial services to have a real impact, one of the most important things we learned was the importance of proper preconditions and sequencing. For digitally enabled payment ecosystems to really take off, this includes an appropriate policy and regulatory enabling environment and investments in infrastructure such as broadband connectivity and support from governments.

2. Partnerships and Public Private Dialogues

In addition, partnerships among multiple players with different core competencies are essential: no player can make a big impact alone. Public private partnerships are vital for the adoption and usage of digital financial services and can dramatically reduce costs to government.

More importantly, dialogue between policy makers and regulators with the private sector are crucial to better understanding and supporting “inclusive” and “responsible” digital financial services.

3. The Role of ADB

Last, but not least, we discussed the way forward and how ADB can support expansion of responsible inclusive digital financial services that promote broad-based economic growth. ADB understands that developments in digital financial services can help significantly expand the access of the poor to formal financial services, accelerate their rise from poverty, and build financial security.

ADB's strategy commits to develop financial infrastructure, including alternative delivery channel ecosystems using digital platforms and to encourage and expand access to banking, insurance, and financial services, including remittances. We also see that digital financial services can promote the access of low-income households to financial services such as microfinance, microsavings, and microinsurance. Financial services can also increase financial literacy and SME access to financial services, including affordable credit, to facilitate their integration into global value chains and markets.

ADB assists its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development. As an agent for change able to catalyze private sector involvement, we advise governments on the investment environment and support public-private partnerships. ADB refers to the trio of finance, partnerships (third party finance), and knowledge (through technical assistance) as Finance++. The organization is seeking to make this "an integral part of its long-term mission".

We encourage our member countries to work with our finance sector teams in our regional departments, which can work under current or future program loans with government clients to ensure that financial technology is a vital consideration of any ADB project. This opportunity provides enormous potential for projects focused on government-to-person conditional cash transfers, microfinance, insurance, retail saving and credit products, and more. All target the key socioeconomic demographics of developing Asia.

However, to be successful, such projects require coordination across various bank and nonbank players and with government stakeholders. Coordination is also needed with our private sector operations division, whose job it is to represent the interests of financial institutions and emerging fintech players.

"ADB is uniquely placed to advise on this balancing act between private sector innovation and proportional risk management of our regulator clients."

– **Diwakar Gupta**, vice-president, Private Sector and Cofinancing Operations, ADB

Competition for good fintech investment and rich valuations is high. ADB must therefore find its niche as an enabler, targeting the more developmental players that leverage technology for financial inclusion. ADB is uniquely placed to advise on this balancing act between private sector innovation and proportional risk management of our regulator clients.

4. Conclusion

To conclude, let me again thank the moderators, panelists, members and other guests for sharing with all of us over these past two days.

ADB supports introducing improved and innovative approaches for addressing persistent development challenges and will remain at the forefront of transforming approaches to development and achieving greater financial inclusion.

Let's keep the dialogue going!

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Financial Inclusion in the Digital Economy

This report summarizes The Conference on Financial Inclusion in the Digital Economy held 24–25 May 2016 at the ADB headquarters in Manila. The conference focused on the following themes: (i) trends in digital financial inclusion—key opportunities and challenges for reaching the unbanked and underbanked, (ii) a customer-centric approach to financial inclusion, (iii) digital business models for accessing financial services, (iv) supervision and regulation of digital financial services, and (v) cost and value of digital finance. Experts shared insights with participants about what works and what does not in the digital ecosystem for expanding innovative financial inclusion solutions to meet their development objectives. This report also discusses the role of multilateral development banks in supporting the development of digital finance by providing policy advice and financing.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to half of the world's extreme poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



LE GOUVERNEMENT
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