

Financial Inclusion, Innovation and Regulation: Meeting the Challenges of Policy Reform and Capacity Building



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Abbreviations

ABAC	APEC Business Advisory Council
AFD	Agence Francaise de Développement
AML	Anti-money Laundering
APEC	Asia-Pacific Economic Cooperation
ARC	Agrarian Reform Community
ARISP	Agrarian Reform Infrastructure Support Project
CARP	Comprehensive Agrarian Reform Program
CGAP	The Consultative Group to Assist the Poor
CFT	Combating the Financing of Terrorism
CGC	Credit Guarantee Corporation
CI	Consumers International
CMA	Cambodia Microfinance Association
DFI	Development Financial Institution
FIP	Financial Inclusion Policy
FSB	Financial Stability Board
GSMA	Global System for Mobile Communications Association
KYC	Know your Client
LAC	Latin America and the Caribbean
MFI	Microfinance Institution
MIF	Multilateral Investment Fund
MNO	Mobile Network Operator
MPU	Myanmar Payment Union
MSME	Micro, Small and Medium Enterprise
MTO	Money Transfer Organisation
NGO	Non-government Organisation
ODA	Official Development Assistance
OECD	The Organisation for Economic Co-operation and Development
OFW	Overseas Filipino Worker
P2P	Peer-to-Peer
PCF	People's Credit Fund
PCR	Public Credit Registry
POS	Point of Sale
SFI	Specialised Financial Institution
SME	Small-medium Enterprise
STR	Secured Transactions Reform
UN	United Nations
VCF	Value Chain Finance

The Forum Organizers

The Asian Development Bank Institute (ADBI), located in Tokyo, is a subsidiary of the Asian Development Bank. It was established in December 1997 to respond to two needs of developing member economies: identification of effective development strategies and improvement of the capacity for sound development management of agencies and organizations in developing member economies. As a provider of knowledge for development and a training center, ADBI serves a region stretching from the Caucasus to the Pacific islands. For more details, visit www.adbi.org

The Asia-Pacific Economic Cooperation (APEC) Business Advisory Council (ABAC) was created by the APEC leaders in 1995 to advise APEC on the implementation of its agenda and to provide the business perspective on specific areas of cooperation. ABAC is comprised of up to three members from each of APEC's 21 member economies, representing a range of business sectors. ABAC holds an annual dialogue with the APEC leaders and engages in regular discussions with APEC ministers in charge of trade, finance, and other economic matters. For more details, visit www.abaconline.org

The Foundation for Development Cooperation (FDC) is an independent, Australian Foundation committed to enabling better development outcomes in the Asia-Pacific region through collaboration and innovation. FDC was created in Australia in 1990 to harness and leverage the collective skills, knowledge, and resources of organisations from across the public, private, NGO and academic sectors to promote cooperation and alleviate poverty and disadvantage in developing nations in the Asia-Pacific region. We achieve this by researching, piloting and promoting collaborative and innovative market-based approaches to international development. FDC's head office is in Brisbane, Australia. FDC has a Pacific regional office in Fiji. For more details, visit www.fdc.org.au.

The Indonesia Ministry of Finance, with its headquarters in Jakarta, is an Indonesian government institution with more than 60,000 staff and 1,000 branch offices spread all over Indonesia. Its main function is conducting the management of Indonesia's state finance and assets. It has the vision of creating an institution that is trusted, accountable and known as a first class manager of state assets and finance at the international level in order to achieve a prosperous, democratic, and equitable Indonesia. For more details, visit www.depkeu.go.id/Eng/default.asp

The Forum Sponsor

The Citi Foundation is committed to the economic empowerment and financial inclusion of individuals and families, particularly those in need, in the communities where we work so that they can improve their standard of living. Globally, the Citi Foundation targets its strategic giving to priority focus areas: Microfinance, Enterprise Development, Youth Education and Livelihoods, and Financial Capability and Asset Building. The Citi Foundation works with its partners in Microfinance and Enterprise Development to support environmental programs and innovations. Additional information can be found at www.citifoundation.com.

The Forum Collaborators

The Banking with the Poor Network (BWTP) is Asia's pan-regional microfinance network that works towards building efficient, large-scale sustainable organizations, through co-operation, training and capacity building with the aim of achieving larger financial inclusion. The Network is an association of a diverse range of microfinance stakeholders committed to improving the quality of life of the poor through promoting and facilitating their access to sustainable financial services. For details, visit www.bwtp.org

The International Finance Corporation (IFC), a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Our work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives. Further information is available at: www.ifc.org

The Japan International Cooperation Agency (JICA) is an implementing agency for extending the Japanese Government's Official Development Assistance (ODA) to developing countries, including technical cooperation, grants and concessional loans, in an integrated manner. JICA partners with over 100 countries all over the world and Japan's ODA currently ranks fifth on an annual net disbursement basis. Under the Japanese Government's policy, JICA puts priority on inclusive growth, poverty reduction and environmental improvement in coordination with international efforts to accomplish the MDGs and any international goals after 2015. Financial inclusion is also a key focus area of JICA. Additional information can be found at: www.jica.go.jp/english.

The Consultative Group to Assist the Poor (CGAP) works toward a world in which everyone has access to the financial services they need to improve their lives. CGAP develops innovative solutions for financial inclusion through practical research and active engagement with financial service providers, policy makers, and funders. Established in 1995 and housed at the World Bank, our global network of members includes over 35 development agencies, private foundations, and national governments that share a common vision of improving the lives of poor people with better access to finance. More information about CGAP is available at: www.cgap.org.

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) is the focal point of all development banks engaged in the financing of sustainable development through its 131 member-institutions in 45 countries and territories in the Asia Pacific Region. ADFIAP's four key areas of work and advocacy are: MSME finance (Economic), Green Finance (Environment), and Financial Inclusion (Social) with Good Governance at its core, supported by the following programmes: the SME Finance Initiative www.smefi.com, the Environmental Governance Standards project funded by the EU www.egs-asia.com, the DFIs for Corporate

Governance project with the Washington, D.C.-based Center for International Private Enterprise (CIPE) www.governance-asia.com and the ADFIAP Responsible Citizenship (ARC) Institute www.adfiap.org/arc.

The Asia-Pacific Credit Coalition (APCC), an affiliate organization of the Policy and Economic Research Council, a not-for-profit public policy research institution, is comprised of organizations – including lenders, credit bureaus, and data analytics firms – committed to promoting rational consumer credit reporting standards within APEC. The APCC believes that the responsible use of robust credit history data and other payment information unites sound credit risk management with inclusive economic growth, broader credit access, and consumer protection, especially from overextension. We work within APEC to promote policy reforms in the credit market that expand financial inclusion and responsible lending. Additional information can be found at: www.apeccredit.org

Executive Summary

The challenge of increasing financial inclusion globally is evident with 77% of the world's poor currently unbanked. Specifically looking at East Asia and the Pacific, only 55% of adults have an account at a formal institution.¹ Efforts to increase financial inclusion have greatly been driven by the adoption of innovations and new technologies that have the potential to significantly reduce costs and increase the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals and micro, small and medium enterprises (MSMEs). Mobile technologies and branchless banking represent an important opportunity to overcome the challenges associated with reaching the unbanked and recent innovations aimed at achieving scale and reducing costs are making a significant impact. Traditional financial service access points (i.e. bank branches, ATMs, etc) are only accessible to a relatively small portion of the population, particularly in rural areas.

The correlation between income and access to formal financial services remains strong, however, this landscape is now changing with incumbents and mobile/internet innovators now integrating with the main-stream banking system. These forms of non-bank innovation have been critical in inciting broader innovation in ways that are both complementary to existing banking practices as well as more easily adopted by incumbents. This trend has also created new challenges, particularly in expanding usage and boosting payment volumes. Innovations in retail payment systems, such as advances in electronic payments, interconnectivity and inter-operability based on common standards are also proving to be an important and effective aspect of increasing financial inclusion. Factors which contribute to effective payment systems include an optimal environment for regulation, consumer protection, fraud prevention and risk management in payment systems.

With the scale of international remittance flows forecasted to continue increasing sharply over the next few years² the potential for remittances to be harnessed for achieving greater financial inclusion is significant. Remittances are a lifeline for over 700 million people around the world with over 250 million migrants worldwide estimated to have sent home more than US\$ 395 billion in 2012.³ In order to take advantage of the opportunities that remittances represent for financial inclusion, it is critical to understand how to best facilitate the adoption of innovations with the aim of lowering costs and increasing the efficiency of remittances to better promote cross-border financial inclusion. Governments can play a key role in supporting their migrant workers through regulation and incentives to encourage positive remittance behaviour.

1 Source: Global Findex Database, World Bank (2012)

2 Source: World Bank Migration and Remittance Factbook, 2011; World Bank Migration and Development Brief, April 2013; OECD Creditor Reporting System

3 Source: International Fund for Agricultural Development, *The FFR Brief: Five years of the Financing Facility for Remittance*, Rome, February 2012.

Another significant opportunity for financial inclusion is through unlocking the value of movable assets through financing. This is particularly important for small-medium enterprises (SMEs) that do not have immovable assets to offer as collateral for their credit applications. By including SME's within the formal financial sector, greater employment opportunities are created which will drive social and economic development. To achieve this most economies require significant legal and institutional reforms to enable the efficient use of movable assets as loan security.

Credit reporting is another important factor in enhancing financial inclusion as it facilitates equitable lending to underserved communities. By formulating a more inclusive credit reporting system lenders are able to assess credit risk more accurately and gain rapid access to accurate, reliable and standardized information about potential borrowers. It also promotes increased lending while reducing over-indebtedness and overall levels of bad debt. At the core of credit reporting lies the ability to establish financial identities for consumers. Regulatory frameworks need to address issues relating to prudential risk as well as consumer protection to allow an effective and safe system to develop. Innovations in the development of financial identity and data for more inclusive credit decisions and strengthening of credit information data bases are necessary to unlocking this potential. These innovations can further be used as a tool for risk management and prevention of over-indebtedness.

Innovation should not be limited only to technology, however, as innovation in institutional arrangements is also a key factor to inclusive finance. Financial exclusiveness is the most challenging among poor farmers in remote areas but recent examples have shown how they can effectively attain financial inclusion in combination with the fulfilment of other developmental needs by utilizing farmers' cooperatives. Furthermore, value chain mechanisms and small infrastructure development can also be positively linked with financial services to the poor.

As innovative approaches with technologies and institutions are deployed to increase the reach and effectiveness of financial services, the need to support financial capability is equally important. Innovative approaches to financial education such as how migrant workers and their families can better receive the benefits of financial products and services through financial literacy training provide important examples of this point. The need for greater attention to be paid to consumer protection in a rapidly expanding and developing marketplace is also important.

To provide an opportunity for stakeholders from across the region to learn and share knowledge and explore each of these issues the 2013 ABAC Asia-Pacific Forum on Financial Inclusion was organized. The Forum focused on specific themes which reflect these current opportunities and challenges including: mobile and branchless banking, retail payment systems, remittances, legal frameworks for secured lending, financial identity and data flows, innovative institutional frameworks and financial education and consumer protection. Forum participants discussed these themes within the context of addressing critical issues which are currently hindering efforts to achieve greater financial inclusion in the region. These discussions yielded the following recommendations for APEC economy financial regulators and policy makers:

Mobile and Branchless Banking

1. While the sector has seen significant developments recently in mobile and branchless banking solutions, bringing the potential for financial inclusion to a scale not previously before possible poses several regulatory challenges due to the complexity of the ecosystem and number of actors involved in providing these services. Greater coordination amongst stakeholders is required to address this challenge while increasing efficiency of these innovations. Within each economy there is a variety of regulators which may include different departments of central banks (payments, supervision etc) and ministry of finance or ministry of telecommunications. Apart from coordinating between these various government agencies, these regulators also need to understand private players, including banks, MNOs, third party payment providers and non-traditional data sources.
2. Regulators also need to understand the risks that these new developments in mobile and branchless banking bring. These risks are not greater than in traditional banking but they are different. Once these risks are understood, regulators are encouraged to not just focus on eliminating them, but to better allow and support new technologies and monitoring and mitigating them through a proportionate, risk-based approach to reflect local circumstances and enable innovative technologies that will advance greater financial inclusion. It is recommended that incremental approaches to regulation that incorporate learning with the private sector and careful understanding of client access and protection step by step be used as was done in the Philippines for example.
3. To manage the risks of mobile and branchless banking, specific regulations are needed to regulate important aspects of the sector such as those related to outsourcing to agents, Anti-Money Laundering (AML), Combating the Finance of Terrorism (CFT), emoney regulation (protection of the “float”), and client protection. There are good practices in the market that can provide sound guidance, including the experience of Pakistan, the Philippines and Mexico, as well as ready and capable resource partners such as the Alliance for Financial Inclusion (AFI) and the Consultative Group to Assist the Poor (CGAP) which have produced numerous research and guidelines on regulation of branchless banking.
4. A key enabler in the eco-system is the agent network utilized to support branchless banking and mobile money. As such, regulators need to address with clarity the guidelines around formation of such agent networks and specific aspects such as types of allowed agents, required permissions, exclusivity, opening of accounts and liability.
5. There should be a long term view on interoperability between payments schemes to extend the consumer value propositions and drive scale in the system. Such interoperability can be achieved through a combination of market drivers as well as careful policy incentives and guidelines. An example of this is the Bank of Indonesia’s recently launched interoperable money transfer platform that connects the mobile money wallets of Indonesia’s top three MNOs.

Retail Payment Systems

1. As the payments and financial system evolves, regulators should ensure that policies are in place to protect consumers, ensure fair access and handle data privacy issues. While new opportunities for harnessing payment systems for greater financial inclusion are created, these opportunities also produce their own unique challenges which need to be considered and addressed within regulatory frameworks.

Remittances

1. Remittance related financial products and services are continuing to grow rapidly as the demand for these services increases. While it is expected that both the development of remittance related products and services along with the demand for them will continue to grow, regulators need to be involved in this process to ensure that policy and regulation do not hinder market growth and business opportunities.
2. In terms of increasing financial inclusion, remittances represent a great opportunity which regulators, with the participation with other stakeholders, can take advantage of by facilitating access to services, providing financial education and supporting the expansion of services of banks and other financial institutions. The case of the Philippines provides an example of how regulation can support migrant workers and to provide options for their use of remittance services resulting in positive economic impacts for migrant workers and their families.

Legal Frameworks for Secured Lending

1. Economies should be encouraged to develop an efficient and dynamic movables financing market encompassing modern secured transactions law, an electronic registry, a competent movables lending industry and a diversified range of effective services providers. For example, a simple, electronic and economy-wide registry covering all security interests on all movable assets should be set up. The registration should be based on modern notice filing principles.
2. Economies can encourage their policy-makers, regulators, lenders and borrowers to better understand the benefits of movables lending, the reforms required, and the market practices that need to be developed. In particular, the lending institutions, both bank and non-bank lenders, need to recognize the business opportunities of financing MSMEs through movable assets, rather than through immovable collaterals.
3. Specific to regulators, economies should not disadvantage movables lending vis-a-vis immovables lending (in terms of provisioning, capital allocations, etc.). Regulators also need to take an active stance in advocating for Secured Transactions Reform (STR), in encouraging the lenders to look beyond real

estate collaterals, and in promoting the development of support services such as collateral management companies (which are often necessary for inventory financing, among others) and the institutions which provide credit enhancements (e.g., on accounts receivable).

Financial Identity and Data Flows

1. The sharing of traditional data (i.e. bank loans, mortgages, credit cards, overdrafts and retail store credit) may not be sufficient to promote optimal financial inclusion as consumers and SME's without access to mainstream credit will not be included in these data sets. To overcome this challenge, regulators should consider ways by which other sets of "alternative data" (i.e. data from mobile phones, educational loans, rental payments, utility payments, microfinance loans, etc) can be used to assess credit worthiness. However, when considering data sharing infrastructure, regulators need to ensure that while creating a system which offers the broadest data sharing to optimise financial inclusion, the protection of financial consumers and SME rights needs to also remain a priority.
2. Using alternative data in credit reporting can help to build a more inclusive financial system which can be expanded to reach a greater number of the financially excluded while also creating greater trust in financial institutions. An approach which utilizes alternative data will also encourage private credit bureaus to develop a fairer and more inclusive system and enables better responsible lending. When developing a model for using alternative data, this should remain flexible to allow for adequate experimentation as it evolves. Regulators should be creative with this process and take chances in order to achieve results.
3. Regarding data protection, legislation is needed to strike a balance between individual rights to privacy and the requirement for transparency of an individual's credit history to enable a functional consumer/SME credit market to operate. Access to finance is a significant condition of development, and regulations should consider how financing for consumers and small and micro-enterprises may be affected.
4. It is recognised that in some developing markets establishing the identity of an individual, either as a consumer or owner of an SME, may be challenging and that reliable identities are key to a properly functioning credit market. In these cases, it is recommended that consideration of specific financial identity schemes which may rely on methods such as interviews of applicants and their families or associates and biometrics be used to establish an individual's identity. Once an identity is established the use of biometrics or the presentation of a secure token or document can be used to verify identity as part of the credit process.

Innovative Institutional Frameworks

1. While technology-driven delivery channels are increasing in use, government policy makers and regulators are required to establish an enabling policy environment which promotes 1) leveraging of local knowledge and maintaining close relationships between financial services providers and their clients, 2) inventing financial products most suitable to the poor and MSMEs, based upon learning from their behaviour, needs and demands, 3) encouraging a holistic livelihood approach and linkage formulation among various stakeholders for the benefit of the poor and MSMEs and for establishing a business case by scaling-up, and 4) conducting consumers' education and ensuring their protection with technology usage. In other words, non-technological but innovative measures are also indispensable in order to make technology developments work for the poor and MSMEs and work for small and medium-sized financial providers as well as for big players by reducing costs.

Financial Education and Consumer Protection

1. The provision of financial education has great potential to increase the financial capability of low-income population segments; thus providing them with the opportunity to make effective use of financial services to improve their own economic situation and alleviate poverty. Regulators need to ensure that a balance is met between focusing on creating enabling environments for service providers to innovate and develop products and services, alongside product-driven financial education initiatives to support the needs of consumers.
2. With standard consumer protection principles becoming more prominent on a global level, regulators should look closely at how they might adopt and advocate these principles within their own economies and with particular focus on transparency and disclosure issues.

Introduction

The past two decades have seen an expansion of financial inclusion driven by the adoption of innovations and new technologies that have significantly reduced the costs and increased the efficiency of offering financial services to low-income households, traditionally unbanked or under-banked individuals and micro, small and medium enterprises (MSMEs). Mobile and branchless banking have made considerable progress in developing economies, enabling a growing number of such households and enterprises to gain access to finance, which in turn, is expanding the prospects of improving people's standard of living and increasing the opportunities for economic growth.

Improvements in credit information systems and risk analytics have allowed more credit to be safely channelled to traditionally underserved borrowers while stimulating competitive pricing. Improvements in electronic data security have allowed the development of innovative services while minimizing the risks of unauthorized data use. These developments demonstrate the great potential of innovation in addressing one of the major challenges of our time – empowering an estimated 2.5 billion adults⁴ on the planet who have yet to gain access to the most basic financial services to effectively participate in, benefit from and contribute to the process of economic growth.

The successful adoption of innovations in delivering a complete range of financial services to the unbanked entail not just adjustments in financial regulation and supervision, but also the development of new legal, policy and regulatory frameworks that these new delivery modes will require to effectively protect the interests of consumers, including their privacy. It will entail efforts to ensure the legal transparency and predictability required to attract financial service providers into the market, and to ensure the financial stability and efficiency of the overall economy. It will entail the development of new methods of financial education and financial capability building, especially for vulnerable low-income population groups. Innovations will also have an impact on the development of the market infrastructure supporting the delivery of financial services, particularly payment and settlement systems, remittances and credit reporting. These innovations are expected to eventually benefit all in the process of financial inclusion.

The rewards of advancing further the frontiers of financial inclusion through innovation will be enormous, but the challenges for policy makers, regulators, market players and consumers will be considerable. While there is much ongoing research, discussions and development of guidelines for governments and regulators,⁵ it is

4 Asli Demirguc-Kunt and Leora Klapper, *Measuring Financial Inclusion: The Global Findex Database* (World Bank Policy Research Working Paper 6025), April 2012.

5 See for example CGAP's (www.cgap.org/) updated work, *A Guide to Regulation and Supervision of Microfinance*, the Alliance for Financial Inclusion's (<http://www.afi-global.org/>) guideline notes on technology risks and regulatory reporting in mobile phone banking; and the IFC's (www.ifc.org/) publication, *Toward Universal Access: Addressing the Global Challenge of Financial Inclusion*.

also important to share and compare actual experiences with international good practices on dealing with innovations that are now being introduced in the delivery of financial services; to what extent current legal, policy and regulatory frameworks (including consumer protection) and supporting market infrastructure are conducive to innovation in the provision of inclusive financial services by market players; their implications for the design and implementation of policy reforms and capacity building; and the development of effective regional public-private partnership platforms for policy dialogue and capacity building. To advance these promising discussions and recommendations to the stage of actual deployment and realization, it will be important to engage with key decision makers in relevant ministries, legislative bodies and other agencies that hold the responsibility and authority for implementing needed reforms, as well as experts from the public and private sectors.

This was the theme for the 2013 Asia-Pacific Forum on Financial Inclusion which was hosted by the **Indonesian Government** and co-organized by the **APEC Business Advisory Council (ABAC)**, the **Asian Development Bank Institute (ADB)** and the **Foundation for Development Cooperation (FDC)**, in collaboration with the **International Finance Corporation (IFC)**, the **Japan International Cooperation Agency (JICA)**, the **Association of Development Financing Institutions in the Asia-Pacific (ADFIAP)**, the **Asia-Pacific Credit Coalition (APCC)** and the **Consultative Group to Assist the Poor (CGAP)** with sponsorship from the **Citi Foundation**. The Forum brought together participants from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private foundations. The focus of the Forum consisted of the following topics:

- Experiences and perspectives of the public and private sectors across the region with the legal, policy and regulatory environment for innovation in delivery of financial services (including mobile and branchless banking, enabling branchless banking through digital data, intersection of know-your-customer rules and new delivery technologies), including analysis of successful cases as well as those in which unintended consequences of policies and regulations have inhibited the development of these services;
- Innovations in retail payment systems (including electronic payments; interconnectivity and inter-operability based on common standards, optimal environment for regulation, consumer protection, fraud prevention and risk management in payment systems);
- Innovations in the development of financial identity and data for more inclusive credit decisions and strengthening of credit information data bases for use as a tool for risk management and prevention of over-indebtedness, as well as their legal, policy and regulatory implications (including new models of information sharing, access and analytics of data and the promotion of full-file credit bureau systems around new technologies and new technology-enabled data such as digital pre-pay and

top-ups, among others, ongoing initiatives to develop non-financial data centered on digital services, experiences in promoting consumer protection in the context of digital data);

- Ramifications for the regulation of data flows, including the need to facilitate as appropriate cross-border data flows as part of the promotion of regional economic integration and talent and capital mobility;
- Improvements in legal frameworks for lending both to the consumer and MSME segments, including, on the consumer side, a regulatory approach that affords consumer protection while allowing the flexibility to bring innovative and inclusive products to market, and on the MSME side, the frameworks for secured and structured lending products that will be responsive to their needs for liquidity to promote economic growth and employment;
- New requirements for financial education and innovative approaches (including the incorporation in financial education of government-to-person payments, remittance collections/disbursements and branchless and mobile banking, and the development of financial education models, including for use in elementary and secondary education, that not only align with credit, but also reflect other modes of access such as correspondent banking, remittances, cash transfers, mobile money, basic savings, insurance, and bundles of these products);
- Facilitating the adoption of innovations to lower costs and increase efficiency of remittances and promote cross-border financial inclusion; and
- Innovative approaches and products that are being tried and scaled up for deepening financial inclusion, in particular with the purpose of reaching agriculture-dependent households and enterprises located in remote rural areas and the informal economy.

Chapter 1: Expanding Reach and Reducing Costs - The Case of Mobile and Agent Banking

This chapter summarizes the presentations and discussions in **Session One: Mobile and Branchless Banking**

Session Chair:

Shilpak Mahadkar, Head of Mobile Prepaid Solutions, Visa, AP & CEMEA.

Speakers:

- Mr. Eric Duflos, Regional Representative for East Asia and the Pacific, CGAP
- Mr. Elio Vitucci, Managing Director, Experian Microanalytics
- Mr. Ahmad Haniff Jamaludin, Manager, Development Finance and Enterprise Department, Bank Negara Malaysia
- Mr. Kenneth Waller, Director, Australian APEC Study Centre (AASC) at RMIT University

The challenge of increasing financial inclusion globally is evident with 77% of the world's poor currently unbanked. Specifically looking at East Asia and the Pacific, only 55% of adults have an account at a formal institution.⁶ Mobile technologies and branchless banking represent an important opportunity to overcome the challenges associated with reaching the unbanked and recent innovations aimed at achieving scale and reducing costs are making a significant impact. Traditional financial service access points (i.e. bank branches, ATMs, etc) are only accessible to a relatively small portion of the population, particularly in rural areas. The Consultative Group to Assist the Poor (CGAP) estimates that of the world's current 6.2 billion mobile phone connections, 1.7 billion of these people do not have access to a bank account, thus highlighting the great potential for mobile banking solutions to reach this currently unbanked portion of the population. This chapter focuses on the experiences and perspectives of the public and private sector on the legal, policy and regulatory environment for delivering innovative mobile and branchless financial services. Key topics include enabling branchless banking through digital data, intersection of know-your-customer rules and new delivery methods and technologies.

Overcoming the Limitations of the Traditional Banking Model

Banks are not able to serve 100% of the population on their own due to a few significant barriers. The first is that where a bank's branches do not reach, clients typically cannot be served. Opening new branches to increase reach is a slow and costly process and is usually only viable for a return on investment in areas with high

6 Source: Global Findex Database, World Bank (2012)

population density and greater relative income. The cost to banks to provide services through the traditional branch based banking model is often too expensive to serve low balances and still be profitable. Another key challenge for banks is that they are less able to supply the necessary product mix to meet the needs of the underbanked/unbanked. Deposit and savings products are possible under a distributed model but do not provide enough profitability for the model to be sustainable. In order to overcome this, higher margin credit products are needed, however, it is difficult for banks to provide these since there is often little or no credit history information available for the low-income and financially excluded segments.

Partnering with distribution networks is one solution for overcoming the problem of reach. By utilising third party distribution channels for financial services clients can be served outside of the catchment area of the branch network, thus delivering faster scale and increasing reach. Under this model, retail outlets, or agents, can perform services such as recruitment and transactional functions with their cash needs being handled by the bank branches. Selected agents can also be promoted to “master agents” and be authorised to recruit and manage sub-agents to further extend reach. The regulatory framework to enable this framework is currently evolving with specific consideration being given to know your client (KYC) requirements and the handling/use of mobile money.

To reduce the costs to serve clients banks can increase self-served transactions and move other transactions to the distribution network. By lowering the cost to serve, the traditionally underserved areas will have the potential to develop into large and profitable growth areas. To achieve this, the branch should only serve the outlets of its distribution partners whereas the distribution outlets will in turn serve the bank’s clients for deposit and withdrawal transactions (cash-in and cash-out). For all other transactions, including requesting account opening (including loans), account transfers, bill payments or balance of enquiry, clients can use their mobile phones.

In order to enable lending products, credit profiles of clients can be created using alternative data. There is a wealth of alternative data available that can help banks profile their clients and assess credit risk including mobile usage data, utilities, bill payments or mobile money usage. To further control credit risk banks can operate via a progressive lending model by using alternative data to create a client profile and increasing lending over time only on proven good clients. Lastly, further gains can be achieved by creating an appropriate incentive structure and putting in place operational checks to ensure a good quality portfolio is maintained.

Case Study of mBank Philippines

The partnership of SMART and mBank in the Philippines provides a useful example of an effective branchless banking operation. SMART, which is the leading mobile operator in the Philippines, currently has over 50 million clients and a mature mobile money system. In an effort to expand and complement their mobile money system, SMART wanted to introduce a credit facility. To achieve this mBank Philippines was

created and operated under a branchless model to distribute its products through SMART's airtime distribution network.

Through this model, mBank employees assess clients and process loan applications instantly through software created for Android phones. The operations are deployed in two stages: first, products are offered to retailers (airtime distributors); and second, good retailers who are familiar with the product are promoted to agent status thus enabling them to provide financial services to their clients including cash-in/out services.

The model has been very successful in terms of credit risk with a very low single-digit reported loss rate. It has also enjoyed a very high take up with retailers appreciating the flexibility of the credit line product which also boosts their own working capital. Clients are also attracted due to the system's ease of use, flexibility and real time capabilities of the products offered. Furthermore, the model has been proven to scale and is able to serve clients at a fraction of the cost of a traditional branch based operation.

A number of important lessons were learned from the experience of mBank Philippines. From the perspective of banks, the case study showed that "distributed banking" is viable and that it allows banks to:

1. Capture new clients well beyond the branch network reach;
2. Expand towards a new customer base via a low cost and scalable model; and
3. Reduce operational and servicing costs and increase therefore the profitability of the lower income segment.

The mBank experience also highlighted the differences between the processes and systems of a distributed model vs. traditional banking; specifically the need for significant re-engineering of these to enable the model to work effectively. The importance of understanding the distribution network processes and systems and adapting the bank's model to the existing process is also important to ensure traction and low impact on the distribution network. Overall, the model allows profitable and scalable expansion towards clients currently not served, however, in order to be successful it requires a lot of effort and a dedicated unit to tackle the challenges of the model.

From the perspective of the distribution network, it was determined that they value the provision of credit products to their retailer base because it eliminates their risk on formal/informal trade credit and it increases their working capital. On the other hand, retailers who are recruited and eventually promoted to agents value the services offered to their clients because it eliminates their risk on informal credit and they increase revenue of their business by being able to offer additional services. Even though distributing financial products is not the core business of the distribution networks, it can be made easy for them to incorporate and provides good synergies with their core business.

The high rate of take up in the rural/less-served parts of the Philippines highlighted the clear need for these products and most clients served had never had access to financial services before. One downside, however, is that most clients find the system difficult to operate in the early stages and require a great deal of support before becoming comfortable with the mobile interface. Providing loans was found to be the key product to get interest and traction amongst new clients after which they could be introduced to other financial products. The proximity and ease of service were the most important aspect to clients who really appreciated the ability to make repayments or deposits without having to travel.

Reaching Scale and the Importance of Understanding the Consumer

While mobile and branchless banking solutions have great potential to increase financial inclusion, reaching scale remains a key challenge. While using such technologies to increase access to financial services is possible, high rates of user inactivity remains a major problem for most branchless banking providers. Since 2007, over 120 branchless banking implementations had been launched globally by early 2012 (now over 150 according to GSMA); however, only about 11 of these had managed to achieve more than 200,000 active users. The results of a recent CGAP study further highlight this problem with 64% of surveyed managers reporting that less than 30% of their registered customers were active. Amongst the service providers surveyed active rates of less than 10% were not uncommon.⁷

Mobile banking solutions also provide a unique opportunity for the development of other services which can provide benefits for the poor. Case studies have shown that as scale is reached, mobile banking drives the development of new complementary services which have the potential to increase its overall positive impact. These new services generally begin with traditional microfinance institutions utilizing mobile technologies to improve their services, however, over time there have been growing cases of other services including insurance, energy, water, health, transportation and agriculture which have been developed based on the potential and scale of mobile banking products and provide clients with additional services.

Understanding the needs of clients in relation to market conditions is crucial for overcoming the problem of inactive users and achieving scale. Case studies of branchless banking operations have shown that there is not a “one-size-fits-all” method for achieving this and that products must be developed appropriately to meet the needs of clients while also effectively filling market gaps where there is unmet demand. Client segmentation is a useful tool to help service providers achieve this and reduce the percentage of inactive users. Through client segmentation, the service provider will be better able to target specific clients based on their similar behaviors and needs. For example, recent research conducted by CGAP in which various groups living under the poverty line were examined, specific common behaviors were identified such as the most popular transaction types (i.e. deposits, withdraws,

⁷ Source: CGAP and Coffey International, Data as of Q1 2012

topping up mobile phone credit, etc).⁸ Such information could be used to influence the development of branchless banking products and services to more effectively meet the needs of clients.

Managing Risk and Allowing for Innovation

As telecommunication providers, mobile network operators (MNOs) and new financial service platforms continue to challenge the traditional role of banks and existing payment systems new risks are created. Through branchless banking methods, such as mobile phone technologies or the use of agents, a third party intermediary is introduced between the service providers and the clients. These third parties conduct activities and services on behalf of the financial services provider while providing a new access point for customers. It is important to understand that the use of third party agents also potentially changes the allocation of risk amongst the players. While the risks that are unique to branchless banking may not be greater than traditional service methods, regulators need to be aware and understand that they are *different*, and as such, it is necessary to assess and deal with them accordingly.

As these risks are understood regulators should consider whether and how regulation should be changed or adjusted. This should be done through a cost-benefit analysis to determine the cost of regulatory compliance and weigh it against the benefits of innovation and inclusion, with the cost of regulating not outweighing the impact of risks. This balancing act of risk vs access is important to ensure the stability of the financial system and protection of customers' funds, while also facilitating the opening of new accounts, leveraging existing infrastructure of retailers and producing macroeconomic benefits.

By adopting a proportional regulatory framework to address risk regulators are also able to provide space within the market for innovation. The Philippines provides an example of how through incremental regulation regulators have been able to better understand the market and promote experimentation which has led to several innovative and effective branchless banking solutions for the economy.

The development of mobile payment systems has also provided useful examples of how appropriate controls of these systems can significantly impact the risks associated with money laundering and terrorism financing. For example, a general risk factor for money laundering would be the rapidity by which the funds could be transferred. With the introduction of mobile money, this risk greatly increases as an alternative to cash-based methods with users able to make instant transfers through the use of mobile technology. However, these risks are significantly reduced by introducing specific regulatory controls such as real-time monitoring, frequency restrictions on transactions and restrictions on transaction amounts and total account turnover within a given period. Without such controls, cash based anti-money laundering (AML) risks are higher than those experienced with appropriately controlled electronic money.

⁸ Source: *Customer Segmentation: A Powerful Tool to Understand and Enhance Activity Levels*, CGAP, 2012

Complexity of Regulatory “Architecture”

Due to the complexity of the issues surrounding these services a “whole of government” approach is required to ensure efficient coordination amongst regulators to effectively utilize technology and innovation as a major force for financial inclusion and development. Cooperation amongst finance system and telecommunications regulators is particularly important to encourage and facilitate the use of technology in the delivery of financial services.

It is also important that regulation on electronic services not be too heavy, as this limits the potential for technology applications and innovative service delivery channels to develop and achieve scale. Policy makers and regulators need to be both creative and flexible in their responses to mobile and branchless banking to enable the development and delivery of these services, however, as this market grows new regulatory approaches are required. One possible approach is for regulators to create different levels of requirements for innovative bank accounts based on KYC requirements to meet the needs of clients. Furthermore, a steering committee could be established to collaboratively involve the necessary players and to create a financial inclusion plan with measureable milestones.

When identifying the players and assessing the unique risks which are part of branchless banking implementations regulators also need to understand the complexity of the regulatory “architecture” which will encompass a range of elements including commerce, payments, AML and combating the financing of terrorism (CFT) and consumer protection. The below table outlines specific examples of policy and regulatory factors which would need to be considered to develop an effective regulatory framework.

Banking, Telecommunications, Commerce	Payments	AML/CFT	Consumer Protection
Banking Law	International Remittances	KYC rules of account openings	Transparency
Microfinance Law	Domestic Transfers	AML monitoring and reporting	Sufficient Recourse
Cooperatives Law	Prepaid Cards		
Telecommunications	Retail Payment Systems		
Electronic Commerce	Use of Electronic Channels		

While factors such as legacy regulations or multiple governing bodies creating their own regulations leads to greater complexities, a holistic approach is key to reducing these complexities while ensuring that all relevant topics (i.e. banking, payment, AML, etc) are effectively addressed.

Achieving Prudential Regulation

An appropriate legal framework for financial services, or prudential regulation, is crucial for ensuring the protection of people's deposits and ensuring the integrity and stability of the financial system. Prudential regulation is generally driven by the level of banking activity taking place within an economy. However, a common challenge which is encountered is the fact that existing regulation does not always provide clear definitions for what constitutes banking activities (e.g. acceptance of repayable funds and/or intermediation of such funds, etc). This issue varies between economies and has implications on how mobile money is regulated (or if it is regulated at all) depending on how different economies define banking activity.

When regulating non-bank eMoney issuers, the primary issue to address should be the protection of consumer funds. In order to achieve this, fund safeguarding measures need to be enforced such as ensuring that all funds must be kept within bank accounts or government bonds (liquidity) or diversification by holding funds within multiple banks. Fund isolation measures such placing restrictions on the use of funds as are also important to protect funds from issuer creditors.

The regulation of agents also requires careful attention to ensure that their intermediary role between the financial service providers and clients is not harmful to the clients or the stability of the financial sector in general. Regulators will need to specifically identify the type of organizations which are eligible to act as agents and what type of approvals they will require to obtain this status. Consideration will also need to be given to important questions such as if agents are to be exclusive, whether or not they can open accounts, and who is liable for any transactions conducted with an agent?

Consumer Protection Approach to Branchless Banking

While technology has the potential to challenge consumer protection, it also has the ability to enable it. When developing regulation which specifically addresses consumer protection for branchless banking there are three core objectives which should be met: *transparency*, *fair treatment* and *effective recourse*. These core objectives are the same for any financial institution; however, in the case of branchless banking they require a few additional considerations to account for agents and the use of specific technologies. As a first step, the regulators' authority must be clarified. For example, how payment services vs. "banking" is defined can impact the regulator's ability to intervene. After this is clarified the providers' liability for agents needs to be established to further clarify the role amongst players and ultimately protect the consumers.

Appropriate disclosure requirements are necessary to provide transparency and should include consideration for product pricing, terms and conditions; the use of plain and simple language (and if possible, standardized formats), whether customers can seek recourse and how, and required displays at agent premises. To ensure fair treatment of customers regulation should ensure that the financial service providers are liable for agent conduct in transactions, consider appropriate charges by agents, data privacy and security issues, fraud prevention and detection, and the protection of consumer funds. Effective recourse can be achieved by requiring providers to offer internal dispute resolution services (with standards set by regulation). The complaints and resolution data can also be valuable information for regulators for monitoring the market.

Regarding AML requirements, an increased focus on data privacy concerns and competition polices is needed. Of particular concern is the use of customer data by collecting agents and appropriate security measures which are vital to sustain consumer confidence. In cases where system breaches do occur, regulators should vigorously defend the system and keep the public informed to ensure faith and confidence in the system is maintained which will impact long-term financial stability.

Experiences from Malaysia

Malaysia has continued to prioritize financial inclusion in tandem with the overall development of the financial sector. Malaysia's Financial Sector Blueprint (2011-2020) includes a framework for financial inclusion which envisions a financial system that best serves all members of society, including the underserved. The framework is aimed at driving policies to provide greater access to and usage of quality and affordable financial services to meet the needs of the underserved and financially excluded. Further, the framework defines its specific desired outcomes, affirming that the successful achievement of financial inclusion is characterized by convenient accessibility, high take-up, responsible usage and high satisfaction of financial services.

This framework outlines four key strategies to drive policies towards enhancing financial inclusion at the economy level. Firstly, to facilitate the development of innovation distribution channels such as agent banking or mobile banking. Secondly, to expand the range of innovative products and services to meet the diverse needs of the underserved and financially excluded through the provision of flexible micro-financing, contractual micro-savings and microinsurance products. Thirdly, to strengthen the institutional arrangements and infrastructure which includes structured training programs, a holistic monitoring framework and strengthening the role of specialized Development Finance Institutions (DFIs) in financial inclusion. Lastly, to enhance the knowledge and responsibility of the underserved by supporting financial literacy training via enhanced outreach of advisory, and leveraging NGO's for capacity building programs. These strategies are aimed at enhancing financial inclusion in a comprehensive manner by addressing the gaps and encouraging innovation.

Over the past 12 years Malaysia has implemented a number of specific measures in

an effort to build an inclusive financial sector. These measures fall under five distinct Pillars which make up the priority areas of the financial inclusion framework; namely: Financial Service Providers; Distribution Channels; Banking Products and Services; Financial Literacy, Advisory and Awareness; and Supporting Financial Infrastructure. Through these initiatives, Malaysia has reported a number of key outcomes, primarily the steady increase overtime in the number of clients reached (outreach) and the take-up of specific financial services such as deposits and loans. The below table provides examples of specific measures which have been implemented between 2000 and 2012 under each of these Pillars:

Pillar 1: Financial Service Providers	Pillar 2: Distribution Channels	Pillar 3: Banking Products and Services	Pillar 4: Financial Literacy, Advisory and Awareness	Pillar 5: Supporting Financial Infrastructure
<p>Measures:</p> <ol style="list-style-type: none"> 1. Sustainable Microfinance Framework 2. Transformation of Credit Guarantee Corporation (CGC) 3. Strengthened role of Development Financial Institutions (DFIs) 	<p>Measures:</p> <ol style="list-style-type: none"> 1. Guidelines on shared banking services 2. Banking services in every district and sub-district 	<p>Measures:</p> <ol style="list-style-type: none"> 1. Basic banking services and products 	<p>Measures:</p> <ol style="list-style-type: none"> 1. Guidelines for Consumer Education and Protection 2. Integrated Contact Centre 3. Credit Counseling and Management Agency (AKPK) 4. Small Debt Resolution Scheme (SDRS) 5. Financing Help Desks at Associations/ Chambers of Commerce via 'Train the Trainers' initiative 	<p>Measures:</p> <ol style="list-style-type: none"> 1. SME Development Council 2. Central Bank Act 2009 (Financial Inclusion as one of the Central Bank's primary roles) 3. CCRIS (a credit registry managed by the Central Bank) and Credit Bureau Malaysia

In 2012 Malaysia formally implemented its agent banking scheme to overcome the challenges of its relatively low levels of physical outreach compared to high income economies⁹ and high percentage of population without access points to receive financial services. The agent banking solution was implemented due to its high potential to enhance outreach to the unserved segments of the population and at lower costs. Malaysia currently has 4,255 agents operating and this number is expected to continue growing as the benefits become more apparent.

9 Source: Financial Access Report 2010, CGAP & FICPS

To ensure that agent banking is done in a safe, reliable and sustainable manner, Malaysia has developed the Guidelines on Agent Banking. These guidelines outline the minimum expectations to be observed by financial institutions that undertake agent banking. These guidelines cover aspects such as agent banking services, oversight and governance, agent selection, conduct and monitoring and customer protection, awareness and education. Examples of specific requirements under the guidelines include emphasizing unserved areas, financial institutions to retain ultimate responsibility of all agent banking risks and activities, agents to comply with relevant legislation and the establishment of dispute resolution mechanisms by financial institutions.

The introduction of agent banking in Malaysia has thus far led to significant positive impact, primarily in the form of enhanced outreach of basic financial services to the underserved and in a much more cost-efficient manner to support socio-economic activities. To further increase the level of financial inclusion, Malaysia is now also leveraging on mobile banking infrastructure to facilitate even greater access to financial services. To achieve this, Malaysia's Central Bank, Bank Negara Malaysia, has supported the establishment of "MyMobile;" an interoperable mobile financial services program which has participation from the three largest Mobile Network Operators (MNOs) and three banks. This represents the coverage of more than 90% of mobile subscribers in the economy. Through the MyMobile program Malaysia has the potential to expand the reach of financial services to cover the entire population and the adoption of mobile banking services is already on the rise. As of Q1 2013 MyMobile has reported a total of 103,307 registered mobile banking users with over 250,000 transactions.

Key Points

1. Branchless and mobile banking solve one of the key challenges for banks to drive financial inclusion by increasing their reach, lowering costs and extending the product mix to new consumers. Partnerships with third party distribution networks (agents) are critical to extend beyond the traditional branch based distribution model. Banks should explore innovative ways / alternative data to assess risk and extend lending products to the poor and the unbanked, beyond basic payments services. In order to succeed, banks must think of unique processes and systems to cater to this segment different from their traditional way of doing business.
2. Mobile and branchless banking is a key enabler to increase access to financial products and services and represents a significant opportunity to bank the unbanked. However, it is a multidimensional issue involving several elements such as: domestic policies for financial inclusion, financial products and services development, regulatory frameworks, cooperation amongst stakeholders and consumer perspectives. As such, the development of mobile and branchless banking services requires a holistic approach to address challenges from multiple angles and perspectives.

3. Mobile and branchless banking systems involve a greater number of stakeholders who are not traditionally involved with the financial sector or in providing access to the un-banked (e.g. Mobile Network Operators (MNOs), agent aggregators, payment companies, technology companies, etc). A greater effort needs to be made to include these stakeholders in the conversations and programs, and furthermore, a greater amount of coordination is required to facilitate the cooperation amongst each of the players.
4. Much has been done throughout the region to progress and develop mobile and branchless banking opportunities. There is a need for private actors and for policy makers to assess the environment and identify what has worked well and what hasn't with the aim of identifying what could be "best-practice." A "one-size-fits-all" model is not realistic, however, as the needs of the poor in each economy varies significantly. Therefore each economy will have to adapt these best practices according to the local stakeholder needs.
5. While mobile and branchless banking represents significant opportunity to assist the poor, serious challenges remain. One crucial challenge to overcome is the number of inactive clients currently found within many cases of implementations. This is mainly due to a lack of in-depth understanding of the needs of different consumer segments within the unbanked and underserved population. By better analysing the specific demand of these segments, banks, MNOs and other key actors would be able to customize their product value propositions and marketing approach. A greater emphasis is needed across all stakeholders on understanding the needs of the consumer in order to ensure that appropriate products are developed.
6. In certain scenarios, policy makers in the government can take steps to encourage interoperability between payment schemes to encourage further scaling of the programs. (E.g. Bank Negara in Malaysia spurred the establishment of "MyMobile", an interoperable mobile financial services program which has participation from three MNOs and three banks).
7. A regulatory framework for mobile and branchless banking should encourage long-term commercial sustainability of the financial inclusion business model. To achieve this, relevant actors should be fairly treated from a regulatory perspective so as to not impose a "friction" cost of doing business on any one actor.

Specific Recommendations for Regulators

1. While the sector has seen significant developments recently in mobile and branchless banking solutions, bringing the potential for financial inclusion to a scale not previously before possible poses several regulatory challenges due to the complexity of the ecosystem and number of actors involved in providing these services. Greater coordination amongst stakeholders is required to address this challenge while increasing efficiency of these innovations. Within each economy there is a variety of regulators which may include different departments of

central banks (payments, supervision etc) and ministry of finance or ministry of telecommunications. Apart from coordinating between these various government agencies, these regulators also need to understand private players, including banks, MNOs, third party payment providers and non-traditional data sources.

2. Regulators also need to understand the risks that these new developments in mobile and branchless banking bring. These risks are not greater than in traditional banking but they are different. Once these risks are understood, regulators are encouraged to not just focus on eliminating them, but to better allow and support new technologies and monitoring and mitigating them through a proportionate, risk-based approach to reflect local circumstances and enable innovative technologies that will advance greater financial inclusion. It is recommended that incremental approaches to regulation that incorporate learning with the private sector and careful understanding of client access and protection step by step be used as was done in the Philippines for example.
3. To manage the risks of mobile and branchless banking, specific regulations are needed to regulate important aspects of the sector such as those related to outsourcing to agents, Anti-Money Laundering (AML), Combating the Finance of Terrorism (CFT), emoney regulation (protection of the “float”), and client protection. There are good practices in the market that can provide sound guidance, including the experience of Pakistan, the Philippines and Mexico, as well as ready and capable resource partners such as the Alliance for Financial Inclusion (AFI) and the Consultative Group to Assist the Poor (CGAP) which have produced numerous research and guidelines on regulation of branchless banking.
4. A key enabler in the eco-system is the agent network utilized to support branchless banking and mobile money. As such, regulators need to address with clarity the guidelines around formation of such agent networks and specific aspects such as types of allowed agents, required permissions, exclusivity, opening of accounts and liability.
5. There should be a long term view on interoperability between payments schemes to extend the consumer value propositions and drive scale in the system. Such interoperability can be achieved through a combination of market drivers as well as careful policy incentives and guidelines. An example of this is the Bank of Indonesia’s recently launched interoperable money transfer platform that connects the mobile money wallets of Indonesia’s top three MNOs.

Chapter 2: Utilizing Retail Payment Systems as a Driver for Financial Inclusion

This chapter summarizes the presentations and discussions in **Session Two: Retail Payment Systems**

Session Chair:

Ms. Rachel Freeman, Regional Business Line Manager, A2F Advisory Services, East Asia and Pacific, International Finance Corporation

Speakers:

- Mr. Ivan Mortimer-Schutts, Leader for Retail Payments and Mobile Banking in East Asia, International Finance Corporation
- Mr. Raymond Yap, Vice President, Market Development South East Asia, MasterCard Worldwide
- Mr. Yura A. Djalins, Head of Division, Payment Instrument Development Division, Bank Indonesia
- Mr. Shafqut Rehman Ranjha, Additional Finance Secretary, Finance Division, Ministry of Finance, Government of Pakistan, Islamabad

The correlation between income and access to formal financial services is still very strong, but this landscape is now changing. This shift is being boosted by growth prospects and innovation with a broad and growing range of distribution and business models now capable of reaching new client segments. Initially, many of these new innovative models, which provided ways to serve consumer needs beyond the focus on incumbents, were considered “disruptive” as they did not specifically align with the formal financial sector. But these models are now increasingly giving way to more complementary innovation across all economies in which incumbents and mobile/ internet innovators are now integrating with the main-stream banking system. These forms of non-bank innovation have been critical in inciting broader innovation in ways that are both complementary to existing banking practices as well as more easily adopted by incumbents.

Despite this positive trend, challenges are still faced in expanding usage and boosting payment volumes. This is particularly the case in lower income and rural segments. For example, there are currently over 140 mobile money implementations globally but usage levels remain very low and concentrated on a few transaction types; namely: airtime top-up, peer-to-peer (P2P) transfers and making bill payments.¹⁰ On the other hand, the volume of card transactions is growing in middle income markets but at the margins usage is still limited.

10 Source: Global System for Mobile Communications Association (GSMA)

This chapter focuses on recent innovations in retail payment systems include examples of advances in electronic payments, interconnectivity and inter-operability based on common standards. The chapter also examines factors which contribute to an optimal environment for regulation, consumer protection, fraud prevention and risk management in payment systems.

The Evolution of Payments and Financial Services

At a very basic level, a few key established innovations have enabled much of the evolution in payments and financial services to be initiated over the years. One of these key innovations are the new distribution channels with existing businesses and shops being leveraged as a channel to offer payment services through agents and banking correspondents. Another important innovation has been with communication technology and the increasing use of mobile and other IT solutions to expand means to interact with clients as well as the increased availability of data and analytics. The emergence of electronic money, or “e-money”, has also had a significant impact as an important innovation; particularly the use of pre-paid balances as a store of value for payments and the rising importance of non-bank actors in the payments business. These innovations have been critical to the development of several new financial services and have opened up several new opportunities. To better take advantage of these new opportunities, these innovations are now being “reassembled” into new forms to better grasp new agendas such as product innovation, client and risk analysis and new value propositions.

In the past, retail payments were able to simply use a one-size-fits-all model approach, however, modern payment systems are increasingly becoming more complicated as they are customised to meet the individual users’ needs. Specific elements of customisation include providing complex invoicing managed by integrated tools as part of invoice calculation, providing new ways to validate a client’s ID or integrating payment receipts into other applications. The ability for service providers to offer greater variety in their products and features is now influencing greater competition further down the market, resulting in reduced costs.

Experiences globally have highlighted that as payment innovation increases direct fee revenue from users is becoming less important. Examples of this occurring include increased competition increasing on remittance fees, downward pressure on domestic debit card fees or pressure from regulators on interchange. These situations slowly lead to a scenario where the less visible indirect gains beyond payments become more essential to the sustainability of the business. Examples of this include the rising value of payment impact on client loyalty, using payments as a source of information and marketing for banks and the development of new processes which will help retailers sell and keep stock.

The Financial Inclusion Cycle

The trends in the evolution of payment systems are driving a cycle of innovation and service provision. This cycle begins with factors such as technology, business innovation, growth and regulatory reforms enabling new business development that expands reach and variety of payment services. These are then adopted by banks and mobile operators to provide them with a new means of reaching new client segments and their products are gradually developed and enhanced overtime, resulting in greater usage and revenues. Due to the lower costs of reaching these new client segments, other providers are attracted to the market resulting in increased competition. Finally, as greater economies of scale are achieved providers are able to reach lower income clients as well. This cycle is becoming self-reinforcing and is resulting in greater outcomes for financial inclusion, however, in order to be successful, service providers need to assess their assumptions about users' needs (i.e. appropriate distribution channels and client segmentation), the market ecosystem (i.e. relationships between financial institutions and the government sector, enterprises, households and the retail sector) and how value propositions meet these demands.

On a policy level, policy makers also face challenges regarding how to regulate and guide the payments and financial system through its evolutionary process. Each new opportunity produces its own unique challenges which will need to be considered and addressed within regulatory frameworks. For example, access and usage of new data sources through mobile technology provides financial services providers with opportunities to reach new clients and make use of alternative data sources to help assess risk. From a regulatory standpoint policies will need to be in place to protect consumers, ensure fair access and handle data privacy issues.

Promoting Financial Inclusion through New Technologies

In both emerging and developing markets consumers are transacting regularly, whether it be physically or digitally. The experiences of consumers in these different markets may differ, with services such as receiving payroll and social benefits on mobile phones or cards being more prevalent in developing markets, whereas shopping via a mobile phone is an experience more prevalent in a developed market. In order to meet the needs of the clients within each end of the market, financial services providers need to utilize different mobile channels. In affluent markets where clients have access to modern smart phones and tablet computers providers are able to provide customized services which utilize the capabilities of these technologies (i.e. mobile banking or e-commerce through mobile channels). However, in unbanked emerging markets with low banking infrastructure the technology will be more limited but also the needs of clients with services such as P2P payments, airtime top up and bill payments being more appropriate.

The payments sector has the potential to be an enabler of financial inclusion due to its robust, global networks and integration within the public and private sectors. It also has the potential to provide lower-cost solutions since dealing with cash is costly and often inefficient. In areas where there are high populations of underserved or unbanked customers cash is generally the dominant form of payment, but with the increasing number of mobile phones this represents an opportunity to bring new/ additional services to these groups to fulfill the demand.

To achieve a viable business case for providing payment services within developing markets proactive actions by key players can be applied to create a self-sustaining cycle whereby the Government provides incentives to services providers to provide products for the underbanked, payments amongst the underbanked increase and merchants provide additional tax revenues to the Government.

Drivers for Financial Empowerment and a Platform for Financial Inclusion

To promote financial empowerment services must be designed appropriately to both solve specific issues and meet the needs relative to the clients. This requires an in-depth understanding of where consumers' funds are coming from, how it is deposited/ managed and how it is used. In order to achieve this providers need to assess how consumers receive money to fund their unique lifestyle needs (i.e. depositing payroll, receiving funds from friends/family, account transfers, etc), how they manage their money once deposited including their ability to be informed and have control over their funds (i.e. balance queries, account management, activity alerts, etc) and, lastly, how consumers spend their funds (i.e. buying airtime, paying bills or merchants, account transfers, etc).

A platform to facilitate the development of payment services with the aim of increasing financial inclusion should focus on four key elements: scalability, performance and security including flexible business rule orchestration; quick time to market to reduce OPEX and CAPEX and include reusable enablers and components; multi-channel integration to allow for the same services and business logic to be enabled through multiple channels; and ecosystem support by connecting with other enabler partners and linking merchants, consumers and service providers into a single platform.

To develop such a platform, certain steps must be taken to gradually expand from "light" banking services for underbanked customers (i.e. mobile payment platform) into micro banking and other financial services. Five key steps are recommended to achieve this expansion, with the first being to formulate an effective business model. The business model should be developed through internal discussion about appropriate approaches and determining the right partners. Following this, the next step is to build and launch the mobile payment platform. By providing this convenient payment service the customer base can be expanded and revenue generated to provide the necessary cash flow to expand services. This then leads to the third step, which is to launch micro-banking services (i.e. deposit and lending) and integrate these services with the core banking system. Other financial services can also be

added including insurance and workflow management products. The fourth step to continue expanding and developing this platform is to introduce innovative products to further expand the customer base such as using analytics tools to up-sell and cross-sell or bundling products and services. Customer-centric or relationship based pricing options can also be explored as well as the integration of social networking. The final step in this process is to fully develop into a “next-gen financial institution” by being able to run virtual banking and payment services on mobile devices with a robust technological framework and scalable business model to meet future needs and demand.

Example of Using Technology to Issue Grants in South Africa

The Government of South Africa has recently begun a program to issue social grants through a technologically advanced program. The objective of this program is to distribute social benefits to 15 million recipients in South Africa with limited risk and a low transaction cost. To achieve this, the Government issues cards to recipients instantly through a mobile issuance “kit.” Due to its biometric functionality, which includes both finger print and voice recognition for ID confirmation, fraud is virtually eliminated. Since the program was initiated in January 2012, 3 million cards have been issued, with a total of 10 million projected by Q2 2013. Due to the cost efficiency this program provides, the Government has projected a savings of \$360 million within 5 years from paying 10 million social grants electronically.

Experiences from Indonesia

Indonesia has been broadening its retail payment systems beyond a paper-based industry by expanding with the development of electronic and mobile banking services. This expansion is part of Indonesia’s vision to deliver a secure and efficient retail payment system that complies with international standards and achieves appropriate consumer protection measures. By developing a retail payment system through research and facilitation as well as effective coordination amongst industrial players and other authorities, Indonesia hopes to broaden the access and choice of instruments to all communities including the underserved/unbanked.

Over the last 12 months Indonesia has experienced a steady increase in the adoption and use (no. of transactions) of electronic payment instruments including debit cards, credit cards and e-money. Amongst the financial services operators it is further evident that most are moving beyond paper based facilities and including a range of electronic instruments to meet the growing demand for such services.

With 240 million mobile phone subscribers in Indonesia, a significant opportunity exists to utilize this technology to increase financial inclusion. As more and more innovative approaches to capitalize on the new technology are developed, the Indonesian Government is taking steps to ensure that an effective regulatory framework is also developed to protect consumers and the overall stability of the sector. One particularly innovation which has proven effective and popular amongst clients is the partnership

between Indonesia's three leading MNOs: Indosat, Telkomsel and XL. Through this partnership, P2P transfers have been made possible between all three service providers since 15 May 2013. This significant achievement, which is also the first in the world, mobile money services are capable of reaching a far greater portion of the population as these services are less restricted based on the clients' issuer.

Indonesia is now progressing its financial inclusion mission by leveraging off the interconnection partnership between MNOs through a program with a defined action plan. This action plan includes specific activities such as an education campaign to raise public awareness of mobile money, expanding services (i.e. providing agricultural and fishery information to farmers and fishermen) and to further address policy and regulation concerns regarding the increasing use of electronic money and fund transfers.

Experiences from Pakistan

Retail payments in Pakistan are facilitated through a number of institutions including commercial banks, microfinance banks exchange companies and the Pakistan Post. Pakistan's 38 commercial banks play a significant role in facilitating retail payments through their 10,523 branches as well as their arrangements with key service providers, including switches (i.e. 1LINK, MNET and NIFT). Microfinance banks on the other hand, cater to the lower income population segments. One particular microfinance bank, Tameer Microfinance Bank, leads branchless banking in Pakistan with a service called Easypaisa. Established in partnership with Telenor Pakistan (a leading mobile phone service provider) in 2009, Easypaisa provides Pakistan's largest branchless banking service which includes mobile account management tools, money transfer, bill payment and remittance facilities. Remittance related business is facilitated by Pakistan's exchange companies who play an instrumental role in routing foreign remittances to Pakistan. The Pakistan Post also provides additional services by way of a secure and affordable mode to remit payments locally.

Pakistan's retail payment system includes a large variety of payment instruments including both paper based (i.e. cheques, demand drafts, money/postal orders, etc) and electronic based (i.e. credit or debit cards, credit transfer, etc). There are also a wide variety of payment channels such as bank branches, ATMs, internet, mobile phones, call centers, Pakistan Post Office branches, branchless banking agents and Money Transfer Organisations (MTOs) (i.e. Western Union or MoneyGram). Statistics providing quarterly comparisons show steady growth trend of electronic banking take up and transaction amounts as well as a steady growth of electronic banking infrastructure. In terms of the specific electronic banking transactions taking place, ATMs make up the majority of the share with over 60%, whereas newer technologies and services such as mobile and internet banking account for only about 1% and 3% respectively.

Pakistan has three main retail payment service providers: 1LINK, MNET and NIFT, which is also the Clearing House. 1LINK (Guarantee) Limited was established in 2002 as a consortium of 11 banks. Currently, there are 30 commercial banks connected with the 1LINK switch which enables them to offer the following services:

- Balance enquiry
- Cash withdrawal via ATM
- Inter-bank fund transfer (intra-switch and inter-switch) via ATM or internet
- Utility bill payments
- VISA/China Union Pay Certification to Member Banks

MNET Services Pvt. Limited was established in 2001 by MCB, one of Pakistan's largest commercial banks. MNET currently has 6 members connected with the switch and is able to offer the following services:

- Balance enquiry
- Cash withdrawal via ATM
- Intra-bank fund transfer by MCB via ATM or internet
- Intra-switch and inter-switch transactions via ATM
- Utility bill payments

In May 2004 a major initiative took place to have both switches be interconnected with each other. This facilitated the transactions to be conducted at an inter-switch level to enable account holders of certain banks to use each other banks' ATMs seamlessly across the economy. These services and interoperability between banks have continued to expand over the years to provide clients with further options and convenience when transferring funds.

NIFT (Pvt.) Limited is providing the clearing process for paper based instruments such as cheques and payment orders in 16 different cities through its automated clearing houses. NIFT processes four types of clearing; namely: overnight, same day/high value, inter-city clearing (all of which include return cheque processing); as well as economy-wide local US dollar clearing. Currently, NIFT is also in the development phase for Check Truncation.

Pakistan has been developing its legal and regulatory framework over several decades including the introduction of specific prudential regulations for corporate and commercial banks. Pakistan's first formal regulation was established in 1962 with the Banking Companies Ordinance, which later evolved into the Company Ordinance in 1984. Since then specific regulations have been introduced including the Microfinance Institutions Ordinance 2001-02, the Electronic Transaction Ordinance 2002, Payment systems and Electronic Fund Transfer Act 2007 and the Branchless banking Regulations 2008.

Key Points

1. Distribution channels, communication technology and e-money products and services will support product innovation and client and risk analysis; thus leading to new value propositions on financial services.
2. Retail payment systems have the potential to broaden financial inclusion, however, this potential is limited to how well the needs and demands of clients is understood. Stakeholders need to put more effort into understanding the needs of their clients in order to maximise the potential impact retail payment systems has for financial inclusion.
3. There are currently too many independent closed loop entities operating within the retail payment space which is resulting in inefficiencies and disruptive practices. Greater collaboration is needed and stakeholders should look to each other as potential partners rather than attempting to operate independently.

Specific Recommendations for Regulators

1. As the payments and financial system evolves, regulators should ensure that policies are in place to protect consumers, ensure fair access and handle data privacy issues. While new opportunities for harnessing payment systems for greater financial inclusion are created, these opportunities also produce their own unique challenges which need to be considered and addressed within regulatory frameworks.

Chapter 3: Innovative Approaches to Remittances

This chapter summarizes the presentations and discussions in **Session Three: Remittances**

Session Chair:

Dr. Julius Caesar Parrenas, Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Speakers:

- Ms. Leesa Shrader, Senior Consultant, Consultative Group to Assist the Poor (CGAP)
- Ms. Rosabel B. Guerrero, Director, Department of Economic Statistics, Bangko Sentral ng Pilipinas
- Mr. Juan Borga, Outreach and Partnerships, Lead specialist, Inter-American Development Bank (IDB)
- Mr. Panithan Suksamran, Senior Economist, Fiscal Policy Office, Ministry of Finance, Thailand.
- Mr. Newaz Hossain Chowdhury, Senior Assistant Secretary, Bank and Financial Institutions Division, Ministry of Finance, Bangladesh Secretariat, Dhaka

Remittances are a lifeline for over 700 million people around the world. In 2012, over 250 million migrants worldwide were estimated to have sent home more than US\$ 395 billion, with over US\$ 220 billion to Asia alone¹¹. The current scale of international remittance flows currently doubles that of Overseas Development Assistance (ODA) funds, with remittance flows forecasted to continue increasing sharply over the next few years¹². This highlights the potential for remittances to be harnessed for achieving greater development outcomes, particularly those relating to financial inclusion.

This chapter focuses on how to best facilitate the adoption of innovations with the aim of lowering costs and increasing the efficiency of remittances to better promote cross-border financial inclusion. Specific examples of how Governments can support their migrant workers through regulation and incentives to encourage migrant workers to remit money home are also examined.

11 Source: International Fund for Agricultural Development, *The FFR Brief: Five years of the Financing Facility for Remittance*, Rome, February 2012.

12 Source: World Bank Migration and Remittance Factbook, 2011; World Bank Migration and Development Brief, April 2013; OECD Creditor Reporting System

Remittances through Branchless Banking: Challenges, Innovations and Trends

Branchless banking technologies have enabled users to transfer remittances without having a bank account, such as through mobile phones or pre-paid cards. But as new models for international remittances are developed and implemented, how “branchless banking” is defined is becoming increasingly important. International remittances through *branchless banking* include financial flows from an individual sender to a receiver that:

- Are *received* in a mechanism other than a traditional bank account;
- Can be cashed out through a network beyond traditional bank branches and bank terminals (ATMs); OR
- Can serve as cash substitutes to provide for payment of basic necessities.

CGAP, in partnership with Dalberg Global Development Advisors, has completed three studies to examine the landscape of international remittance transfers through branchless banking. The first two studies revealed several key findings relating to the challenges, innovations and trends within this market including the lack of maturity of the mobile wallet ecosystem, challenges with the regulatory environment, operational issues such as establishing partnerships and difficulties associated with marketing and customer education. Specific innovations highlighted in these earlier studies included methods to lower currency exchange rates (i.e. KlickEx), effective partnership models with traditional remittance providers (i.e. Western Union) and remittance platforms which enable interoperability. Key trends examined were the growing optimism about revenue opportunities for remittance service providers and the prioritization of banked segments during the launch phase.

CGAP’s third and most recent study focused on understanding the sending-side players of the remittance industry, and profiling the end-to-end remittance corridors. More specifically, it examined the receiving mechanisms that use technology to expand access to remittances (i.e. cash or payments for basic necessities) to beneficiaries. This included branchless banking implementations that include support for cash-out (i.e. transfers to mobile wallets or pre-paid debit cards) and the provision of cash substitutes (i.e. transfers to gift cards or direct payments to service providers).

Within this study, which took place a year after the last, the progress overcoming the previously highlighted challenges was also assessed. The current evaluation found that core challenges relating to the development of the mobile money ecosystem have remained, however, progress has been made overcoming operational issues with major players becoming more accustomed to, and adopting, best practices even through achieving financial viability and establishing consumer trust for the reliability of their services are still major challenges.

An assessment of the progress of innovations within the most recent study has revealed that partnerships with money transfer organisations have continued to grow and are doing so beyond the traditional players (i.e. Western Union or HomeSend).

Online send-side models are also increasing and are providing enhanced customer service and/or new sending methods for clients. Key trends highlighted in the recent study include an increase in customer benefits, primarily through innovative online platforms and a diminishing expectation amongst industry players regarding short-term revenue potential, but recognising that a focus on the long-term potential is required.

A key finding from the study was that there has been a clear and steady increase in international remittance through branchless banking deployments since 2010; with mobile money cash-out services being the most popular services to be adopted over the last three years. Globally, the Africa region has had the greatest increase of live international remittance through branchless banking, with an increase from 6 to 12 deployments between 2012-2013. The significant numbers of unbanked in the region make Africa an ideal market for these services, which has no doubt resulted in the high rate of branchless banking deployments there. On the other hand, the Philippines, which has the oldest mobile international remittance deployments, has benefited from a very strong domestic mobile money ecosystem which it could leverage for further development of the market there.

Mobile-based remittance service providers are increasing their partnership base globally and regionally, specifically engaging partners that are specialised in money transfers such as Western Union and BICS HomeSend. These two companies are the current market leaders, accounting for about 60% of active deployments, and each offer a unique value proposition to their partners. In economies where the deployment of mobile transfers are new, these partnerships with experienced senders have facilitated a rapid expansion of such services, with MNOs particularly seeking out partnerships with organisations which have sufficient scale to support their operations.

Impact of Remittances through Branchless Banking

Innovations in remittance services made possible through mobile or branchless banking have so far failed to make a significant impact on financial inclusion directly, however, they have been successful in driving down the cost of remittances as well as expanding the customer base. The entrance of new players into this market is increasing competition which is in turn causing operators to lower their prices. Prices are also being affected by the introduction of new business models which include features like flat fees, transparent foreign exchange rates and cheaper smaller-value transactions (i.e. through online portals with fixed percentage fees).

In terms of expanding the access and making the services easier to use, operators see the opportunity in an enhanced remittance offering, but international remittance is just one product in their mobile portfolio and a robust mobile money ecosystem is first required before it can be successful. This opportunity has not yet been realised in most markets and the use of mobile wallet services remains limited leaving customers with few incentives to choose them over an agent. The introduction of new online transfer options, however, offers greater potential for immediate benefits for the sender (i.e. fee transparency, control over how funds are spent) as well as the receiver (i.e. direct bill payment).

The limited direct impact on financial inclusion from remittance related branchless banking services greatly stems from the fact that operators do not generally target the financially excluded with the “banked” market segments being the primary focus; particularly to achieve short-term gains. Currently, links to other financial services is only available through mobile cash-out, such as access to a savings account in a Mobile Wallet, yet use of these services remains low. One notable potential impact is being created by some online-to-mobile players which improve access for lower-value transactions (i.e. <USD 100) which may benefit the unbanked, but further examination of this is required to determine the full extent of the impact.

Another benefit derived from remittances through branchless banking is that it increases the clients’ choices. As the market develops, changes are being observed in the traditional decision-making roles of both senders and receivers. For example, in a traditional/typical cross border transfer the sender would make decisions such as: how much to send, when to send, etc; whereas the receiver would make decisions like: when to cash out, whether to save or spend the remittance or where exactly to spend it, etc. New evolving models are now adding new options for the senders and receivers which impacts the decisions they need to make. Some of these models offer senders control over where and how funds are spent by directing funds to specific retailer where the receiver then chooses the goods purchased. Some services also allow senders to specify how the remittance is spent by paying bills directly. On the receiving end, receivers can greatly influence how funds are sent through close communication which is made easier through certain services (i.e. services which are linked with social networks). In some economies, Western Union also allows the receivers to choose between receiving cash or having the funds deposited directly into a mobile wallet.

While the direct impact of remittances through branchless banking on financial inclusion has so far been limited, the current trends in their impact on lowering pricing, channel differentiation, and the creation of new online models shows promise for further improving benefits to customers in the coming years.

Initiatives for an Efficient Remittance Environment: Experiences from Bangko Sentral Ng Pilipinas

The Central Bank of the Philippines, Bangko Sentral Ng Pilipinas, is renowned for its support for Overseas Filipino Workers (OFWs). Part of this support focuses specifically on remittances which account for nearly 10% of the local economy. At the core of the Central Bank’s approach relating to remittances are two aspects: encouraging a continuous flow of remittances and mobilizing remittances to fund productive activities.

To encourage the flow of remittances, the Central Bank focuses on enhancing competition and improving remittance channels. To enhance competition, they have introduced policy which requires all banks and other players to have their remittance charges publicly displayed both at their premises as well as on their website. They have also established a central portal that links users to banks’ websites that contain information on remittance charges, services, partners and other links abroad. By

making it easier for clients to access this important information the service providers have to work harder to attract their business, which encourages greater competition.

In order to improve remittance channels, the Central Bank has supported the use of new technologies for remittance transfers, including mobile phones, internet and cash cards. They have also worked to enhance the interconnection of ATM networks and encouraged partnerships between banks and other service providers. To help reach the underserved communities they have also granted licences for foreign currency deposits to rural and cooperative banks. Efficient payments and settlement systems have also been established with the Philippine Payments and Settlements System used as a local clearinghouse for credit-to-other banks mode of remittance.

The Central Bank has also launched several initiatives to mobilize remittances to fund productive activities locally to further harness their potential for achieving greater development outcomes. One example is the Central Bank's efforts to facilitate access to financial services and products. This has been achieved by simplifying regulations and relaxing access of bank clientele to financial services. Commercial banks are also encouraged to offer investment products to migrant workers and their families (i.e. hedging programs, derivative products or long-term negotiable certificates of deposits). The Central Bank also provides the approval for issuance of multi-currency retail treasury bonds and promotes market-based lending to micro, small and medium enterprises (MSMEs)

Another example of how the Central Bank mobilizes remittances to fund productive activities is seen in their initiatives to increase financial literacy/education of migrant workers and their families. To achieve this the Central Bank facilitates Financial Learning Campaigns which aim to cultivate stronger financial education amongst migrant workers and their beneficiaries. These Campaigns also promote savings and investments by promoting alternative uses of remittances, including savings, investments in financial products and business ventures. These campaigns have proven to be very effective with results showing significant behavioural changes amongst remittance receiving households. More specifically, since the campaigns first began six years ago remittance receiving households are now reporting a significant increase in these funds being used for more productively for education, medical expenses or savings.

Remittances to Latin America and the Caribbean: Trends and Challenges

Remittance flows to Latin America and the Caribbean (LAC) are significant with the total amount reaching \$61.3 billion in 2012. Between 2002-2008 the average annual increase of remittances was 17%. In 2009 the growth rate dropped by 15% due to financial crises that affected major remittance-sending economies but since 2010 flows have stabilized. The main economies of origin of remittances to LAC are the USA and Spain while the main recipients in the region are Mexico, Guatemala, Colombia, El Salvador and the Dominican Republic. Over the years the region has also experienced a growing trend of intra-regional remittances with major sending economies such as Argentina, Brazil, Dominican Republic and Costa Rica.

Current estimates of remittance clients in LAC indicate that most of them do not have accounts with any formal financial institution. However, research conducted by the Multilateral Investment Fund (MIF) shows that there is a growing demand amongst remittance recipients for financial products such as savings accounts, business loans, life and health insurance, home mortgages and education loans. Programs implemented with the aim of turning remittance customers into users of financial services have been successful and with these cases the evidence is growing which highlights the impact and potential for remittances to be harnessed to reduce poverty.

Remittance flows to LAC continue to represent an important share of GDP for many of the region's economies and represent more than 10% of GDP in several economies. Remittance amounts greatly exceed the amount of Official Development Assistance (ODA) inflows with the total ODA in 2011 only totalling about 19% of remittances received that same year. Studies on the impact of remittances in LAC during the 2009 economic crises have also revealed that remittance flows are less volatile than other international financial flows with migrant workers continuing to remit funds by tapping into their savings or accessing credit.

Even though prices of remittances has significantly decreased over the past decade, with the average cost to send now 8%, further efforts are still needed to reduce these costs further. Reducing the cost of remittances in LAC remains a major challenge but the potential benefits are great with a one percentage point reduction in the cost of sending remittances estimated to save migrant workers and their families throughout the region about USD 150 million annually.

Another challenge regarding remittances in LAC is the availability of quality data. Further efforts are needed with the aim of improving the quality of remittance data as well as the availability of this information. Currently, the MIF, in partnership with the Center for Latin American Monetary Studies (CEMLA), is working with the region's Central Banks to improve the quality of remittances data. The MIF and CEMLA are also working with the World Bank on further initiatives to improve the safety and efficiency of the remittance market in LAC. One of these initiatives aims to improve transparency and enhance consumer protection through the establishment of an internet-based information hub on remittances between the USA and Central American economies. This information, which is updated on a monthly basis, provides details on fees, exchange rates and commissions charged by service providers operating in corridors between the USA and six Central American economies as well as the intra-regional corridor between Costa Rica and Nicaragua.

Experiences from Thailand

Thailand's financial sector is made up of four major players: commercial banks and non banks, Specialised Financial Institutions (SFIs), Village Funds and MFIs. Commercial banks are the main financial institutions, however, they are located mostly within urban areas and have very limited access to the poor and micro-enterprise. Non-bank financial institutions are also important players in Thailand's financial industry, however, their services are also very limited (loans only) and they also

struggle to reach the underserved/unbanked population segments. To help overcome the challenge of providing effective and reliable services to the poor, Thailand's Government has established the Financial Sector Master Plan II which aims to assist commercial banks and non-banks to expand their services and better enable them to reach the underserved/unbanked. Through the Master Plan, specific regulation has been amended to remove obstacles for the provision of microfinance services which have previously been in place.

Specialised Financial Institutions (SFIs) have also been established to support financial inclusion. These institutions, which are government owned, have been set up specifically to target and provide services for certain population segments which lack access to financial services from commercial banks. SFIs provide these groups with microfinance products and services as well as other social benefits such as community strengthening and education. Two SFIs, namely the Government Savings Bank (GSB) and the Bank for Agriculture and Agricultural Co-operatives (BAAC), have most prominently supported microfinance and have implemented their own initiatives to better reach and serve the poor.

Thailand's Government has also set up various Village Funds to further support the needs of rural communities. Government grants of 1 million Baht are provided to facilitate revolving funds within villages, specifically targeting low income people. To-date, approximately 80,000 villages have about 162,000 million baht within the system with about 12 million members. As these numbers continue to grow it is expected that the Village Funds will expand to add greater variety to their services and further meet the needs of the clients.

MFIs in Thailand mainly consist of savings groups. Currently it is estimated that Thailand has about 35,000 savings groups with over 4.5 million members. While Thailand's MFIs play an important role in reducing the financial inclusion gap, they do not have legal status or are formally regulated which greatly limits their role and impact.

Thailand's Government has set specific goals with regard to their vision of enabling all of its citizens to have access to good quality financial services and have sufficient financial management skills. The Financial Inclusion Master Plan sets out certain key strategies such as increasing financial services efficiency by developing financial suppliers, enhancing grass root financial management skills and developing government infrastructure to support financial inclusion policy.

The Financial Inclusion Master Plan also supports the growth and strengthening of the remittance market. The high fees and inconvenience to travel to bank branches are major challenges with current remittance services in Thailand. The Master Plan aims to expand the roles of banks, SFIs, MFIs and Village Funds in providing remittance related financial services which will assist in reducing costs and increasing access/ convenience for customers.

Experiences from Bangladesh

Bangladesh has a large and thriving microfinance industry with 718 MFIs and more than 18,000 branches currently operating. As of June 2012 Bangladesh's Microfinance Regulatory Authority (MRA) reported that these MFIs had more than 35 million clients (more than 75% of which are estimated to be women) and the total number of outstanding loans on MFIs nearly USD 4 billion. The loan recovery rate is calculated to be 87%.

Bangladesh is increasingly being regarded as a role model within the region for financial inclusion. This is mainly due to the extensive steps which the Central Bank has taken such as providing direct guidance to banks to assist them with embracing new innovative products, supporting bank-led mobile and agent banking and pushing for an emphasis on socially responsible activities to expand the humane dimension of financial services.

Remittances are an important aspect of Bangladesh's financial inclusion strategy and the potential for migrant workers' remittances to produce economic benefits is recognised. Over the last six years it is estimated that up to USD 65,000 million was remitted to Bangladesh; however, it is nearly impossible to get an accurate estimate as it is believed that a large portion of the total remittances is being sent via informal channels. The Government's policies towards remittances aim to achieve several key aspects including more reliable/safer services, productive use of remittance funds to better the livelihoods of migrant workers and their families, increased savings and business opportunities and better service from remittance providers.

Bringing unofficial remittance into formal channels is an important step necessary to realize the full potential remittances have to offer for financial inclusion and poverty alleviation. The main reasons for migrant workers to use informal channels include lack of access to formal services, lack of confidence in conventional banks, limited financial literacy and the lack of an efficient automated banking infrastructure. In light of these challenges, the Government has begun a number of initiatives to address these issues. A great deal of work has gone into extending the services of local financial institutions to other locations where migrant workers might be based such as overseas bank branches or remittance wings, establishing relationships with overseas banks or exchange houses or opening foreign exchanges. Locally, specific emphasis has also been given to the opening of rural bank branches, with banks required to have at least 50% of their branches in rural areas.

Mobile banking has also represented a significant opportunity to expand the reach of financial services (including remittances) in Bangladesh. By taking advantage of the extensive mobile network coverage additional services are able to be provided efficiently, safely and at an affordable cost. Mobile banking in Bangladesh is becoming increasingly popular and is being explored and adopted by a growing number of industry players, however, banks must receive approval from the Central Bank before providing mobile banking services. The impact of mobile banking on remittances has also been clear as it provides customers a simple, effective and instant funds

transfer service from home and abroad. To-date, 17 banks in Bangladesh have begun offering mobile banking services and so far about 5 million people have opened mobile banking accounts with an average of almost half a million transactions (totalling about USD 15 million) occurring daily. Positive impacts on the rural economy are also being seen as the adoption of this technology increases with greater amounts of funds from urban areas being redistributed to rural areas.

Key Points

1. Innovation in remittances is continuing at a rapid pace, indicated by new sending mechanisms and enhanced services that are benefiting more customers. The market for mobile-based remittances is expanding with consumers becoming more accustomed to the services, a growing number of partnerships among stakeholders, and customer benefits being proven.
2. Financial viability of remittance related products and services is still an issue, but long-term prospects are attractive in view of the growth of the remittance market and its business potential. Flows from developed to developing economies currently predominate, but the case of Latin America shows that the share of remittance flows among developing economies are increasing. As such, significant growth of intra-regional flows should be expected for the future.
3. Regulatory environment, market infrastructure and customer education are major challenges for the growth and expansion of the remittances market. Innovations are providing significant benefits to migrant families through lower prices; however, the impact varies across regions with Asia relatively behind other parts of the world in bringing down the cost of remittances.
4. There is a great opportunity to harness remittances to achieve greater financial inclusion for the unbanked and more work needs to be done to promote and enhance its benefits including: facilitating access to services, providing financial education and supporting the expansion of services of banks and other financial institutions.
5. More dialogue is needed between the public and private sectors to develop an appropriate policy and regulatory environment that will support the development of the remittance market. These discussions should focus on developing an understanding of the remittance environment, constraints and development needs of the market infrastructure, identifying and understanding the roles of various stakeholders and effective business models.

Specific Recommendations for Regulators

1. Remittance related financial products and services are continuing to grow rapidly as the demand for these services increases. While it is expected that both the development of remittance related products and services along with the demand for them will continue to grow, regulators need to be involved in this process to ensure that policy and regulation do not hinder market growth and business opportunities.
2. In terms of increasing financial inclusion, remittances represent a great opportunity which regulators, with the participation with other stakeholders, can take advantage of by facilitating access to services, providing financial education and supporting the expansion of services of banks and other financial institutions. The case of the Philippines provides an example of how regulation can support migrant workers and to provide options for their use of remittance services resulting in positive economic impacts for migrant workers and their families.

Chapter 4: Unlocking the Value of Movable Assets

This chapter summarizes the presentations and discussions in **Session Four: Financial Infrastructure I: Legal Frameworks for Secured Lending**

Session Chair:

Ms. Emily Chin, Director, Transaction Banking, Standard Chartered

Speakers:

- Mr. Jinchang Lai, Principle Operations Officer, and Lead for Financial Infrastructure, Advisory Services, East Asia and the Pacific, International Finance Corporation
- Mr. Richard Fisher AM, Adjunct Professor, Faculty of Law, The University of Sydney, Australia
- Mr. M.J.S. Abeysinghe, Director, Regional Development Department, Central Bank of Sri Lanka
- Mr. Joselito Suguitan Almaito, Director III, Fiscal Policy and Planning Office, National Credit Council, Department of Finance Philippines

Unlocking the value of movable assets (i.e. accounts receivable, inventory, equipment, intellectual property, etc.) through financing has great potential to increase financial inclusion, especially for small-medium enterprises (SMEs). Since most SMEs do not have real estates (immovables) to offer as collateral for their credit applications, “movables financing” is a key to overcoming lending obstacles to SMEs. By enabling financial support for the establishment and development of SMEs, and including them within the formal financial system, greater employment opportunities are created which will drive social and economic development. To achieve this, however, most economies will require significant legal and institutional reforms (commonly called “secured transactions reforms”) to enable the efficient use of movable assets as loan security. Recent reforms in Australia, Sri Lanka and the Philippines provide useful examples of how the movables market can be further developed and provide long-term benefits.

This chapter explores how secured transactions reform (STR) helps to improve access to finance by SMEs, and ultimately promote economic growth and employment. It starts by discussing how movables lending mechanisms support greater outreach to SME borrowers, what a STR entails and then explains the key elements of collateral registry and secured transactions law. Within this context three economy case studies are also examined.

Overcoming Key SME Lending Obstacles

The common difficulties of lending to SME borrowers include mainly: lack of adequate collateral acceptable to lenders, unreliable (or non-existent) financial information and the problem of moral hazard after loan disbursement (e.g., diversion of funds to activities different from the specified lending purpose). Many mature markets have developed a diversified range of practices to overcome these difficulties through movables financing. For example, although most SMEs do not have (or do not have sufficient) real estates, practically all SMEs have some form of movable assets, which can be used as the basis for borrowing. This reduces the reliance on real estate collaterals. The evaluation and monitoring of movables collateral generate on-going information about the operations of the borrower (e.g., by looking at the movements in accounts receivable and inventory). This operating data is valuable to the lenders who can gain a deeper insight into the business performance of their borrowers. They are also more reliable than the typical financial statement of a SME which, even if available, has a significant time lag. For another example, good movables lenders often do not provide money to SMEs directly; they disburse funds to the suppliers, which then deliver goods and services to enable the operations of SMEs. Similarly, lenders often want the collections from receivables to flow back to a designated account that the lenders can monitor and, if necessary, control. These methods of loan structuring can largely prevent borrowers from engaging in arbitrage behaviours.

In addition, movables lenders monitor and control the availability of funds to the SME borrowers, tied to a borrowing base through an advance rate (the ratio between outstanding loans and eligible collateral). The borrowing base typically consists of the collateralized “current assets” such as accounts receivable and inventory. The beauty of such an approach is that all SMEs have current assets; and the size of their current assets grows naturally with the expansion of business operations. As the borrowing base expands, so does the availability of funds from the lenders. This mechanism provides a critical incentive as well as reasonable confidence for SME borrowers to expand and do their business well without undue concern about a sudden break in funding. It also engenders a healthy lender-borrower dynamic: lenders can see the on-going expansion of their borrowers’ business through the monitoring of accounts receivable and inventory. As a result, lenders have the confidence to provide more funding to enable such expansions and the cash generated from each operating cycle of borrowers naturally goes to repay the loans. Financing is then provided to subsequent operating cycles repeatedly and, in the process, good SMEs become larger and employ more and more people.

Achieving Secured Transactions Reforms

Secured Transactions Reforms are required to create a financial eco-system which is capable of supporting a sustainable movables financing industry, involving all key players including Government, regulators, registry operators, service providers, lenders and borrowers. How to build up the necessary legal, regulatory and business systems that are conducive for lenders and borrowers to take movable assets as the security for lending has been a basic challenge in most APEC economies.

A comprehensive STR typically involves the development of a secured transactions law, creation of a modern collateral registry, education and training of lenders in movables financing practice, issuance of business-friendly regulatory policies and guidelines that encourage the use of movable assets in credit transactions and the development of supporting services (e.g., collateral management companies, credit enhancers). This process could take many years to be accomplished. Among others, a good secured transactions law requires several pillars including a broad scope of permissible collateral, a clear priority rule, an Internet-based security interest registration system covering the whole economy and an efficient and low-cost enforcement mechanism.

Several APEC economies are already in the process of reform including Japan, Mexico, China, Vietnam, Philippines and Australia. The experiences of these economies have provided a number of important lessons for achieving STRs. First, the reform should be positioned as a development of a movables financing market, not a pure legal reform or establishment of a registry. Second, the reform can better be led by a government authority which understands the credit market, and be promoted as a SME development program or a banking reform initiative. Third, lenders need to be trained in the modern concepts of movables financing; otherwise, legal and registry reforms will not lead to much results. Fourth, as the market grows, supporting services should be developed, including a competent collateral management sub-industry and the construction of various electronic movables financing platforms linking borrowers, lenders, service providers, suppliers and buyers along value chains.

Successful STRs can produce significant benefits for the financial sector such as increased transparency, enforceable laws and providing incentives to both lenders and borrowers. In several APEC economies, such a reform has demonstrated major impacts on SME finance. For example, in Mexico, the STR efforts over the past decade has enabled greater financing to the agri-business SMEs; and an accounts receivable financing platform operated by the local development bank (NAFIN) has reached more than 100,000 SME suppliers and facilitated 1.7 million financing transactions. Similarly, in China, the secured transactions reform since 2003 has created a new movables financing industry from scratch. The volume of movables financing amounted to over USD 3.0 trillion cumulatively in the five years from 2008 to 2012. By now, practically, every Chinese lender has some movables financing products. The largest lenders have set up their own electronic movables financing platforms, which not only facilitates credit based on accounts receivable, inventory and other movable assets but also delivers non-credit financial services to SMEs efficiently (e.g., payments, collections, cash management, guarantees, insurance).

The Importance of a Movable Collateral Registry

Having a fully functional movable collateral registry is a critical step to enabling lending based on movable assets not only to enhance access to credit but more importantly it promotes greater financial inclusion across all sectors. This registry should be electronic allowing Secured Creditors (i.e. financial institutions, leasing companies or private

lenders) to declare their security interests in the movable assets of an enterprise or individual. Through this system a lender can offer credit to a debtor and register his “security interest” on movables within the registry upon execution of the loan transaction. This enables the debtor to maintain possession of the goods (movables) while the lender has the right to legally enforce his security interests over the asset in the case of a loan default. The information of security interests currently being applied by lenders is made available through the register so that other potential lenders do not make lending decisions based on the same movables.

The movable collateral registry also provides potential purchasers of goods with additional protection as it allows them to ensure that the goods which they are interested in purchasing does not already have a security interest from a lender. In the case where a purchaser decides to purchase goods which has security interest attached, they are required to also purchase the security interest (debt). Since it is in the best interest of purchasers to ensure that the goods they are interested in purchasing are free from security interests, the movable collateral registry provides a simple and effective system to achieve this.

Australia’s Personal Property Securities Act 2009

In 2009 Australia introduced new legal reforms for secured lending through the Personal Property Securities Act 2009 (PPSA). The reasons for this reform mainly stemmed from two crucial issues impacting the lending industry, particularly where movable assets were involved. The first issue was the large number of registers. Overall, Australia had about 30 asset registers with no single register for movable property within any state or territory. For example, within the state of South Australia there was a number of registers including the Vehicle Securities Register, Bills of Sale Register, Stock Mortgages and Wool Liens Register, Liens on Fruit Register and the Register of Co-operative Charges. This multiplicity of registers created significant challenges for financiers as it was often difficult to determine if the borrower had a clear title to assets. The situation also created specific challenges for borrowers as there was no simple means of providing security over movable property.

The second major reason for the PPSA reform was that debtors could undertake transactions which had the effect of securing the interest of the counterparty to the transaction in its capacity as a creditor without there being any obligation to register that transaction. This had the consequence that debtors could have the appearance of commercial substance by reason of their possession or control of movable property due to the fact that that property would be under their control but not actually be owned by it. This issue reflected the narrow definition of what transactions were recognised as creating security interests.

To resolve these two major issues impacting the movables lending industry in Australia, the PPSA was designed to operate based on two fundamental concepts: *attachment* and *perfection*. With regards to *attachment*, the PPSA aims to enable debtors to grant securities to creditors which are enforceable against the debtor. For the concept of *perfection*, the PPSA aims for security interests to be registered to

establish priority and to protect them in the event of an insolvency. Australia's model for this reform was based on other similar reforms in Canada, New Zealand and the USA.

To address the issue of multiple registers, a single Register for all security interests in movable property was established. This register includes all personal movable property security interests whether they were granted by individuals or by companies. This register, known as the Personal Property Securities Register, provides easy and immediate access to securities information and eliminates the challenges previously encountered as a result of there being a multiplicity of registers.

The PPSA also includes provisions to solve the issue of debtor control over assets. This was done by providing a clearer and more extensive definition of "security" as an interest in personal property that *in substance* secures payment or performance of an obligation. Under this definition transactions such as leases of movable property, goods sold subject to reservation of title pending payment, or commercial consignments (e.g. floor plan arrangements) are treated as security interests and are required to be registered in the Personal Property Securities Register for those interests to be perfected.

Experiences from Sri Lanka

All secured lending in Sri Lanka is covered under six statutes, each focusing on specific elements of the financial sector. The Banking Act No. 30 of 1988 sets forth standard procedures for providing formal licenses to banks. It also provides specific regulation and control over banking matters and operations, including deposit taking services and investing such money. The Finance Business Act No. 42 of 2011 provides regulation specific to finance businesses. Leasing business are regulated through the Finance Leasing Act No. 56 of 2000 which specifically clarifies the rights and duties of lessors, lessees and suppliers of equipment. All hire-purchase companies and agreements entered into in Sri Lanka are covered under the Consumer Credit Act No. 29 of 1982 and the Money Lending Ordinance No. 2 of 1918 provides regulation for money lending transactions including the prohibition of certain persons to provide money lending services. Lastly, Sri Lanka's Pawnbrokers Ordinance provides regulation for pawnbrokers by persons or entities other than banks.

The recovery of loans and advances are also covered under specific statutes such as the Mortgage Act (which covers both movable and immovable properties) and the Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990. Further regulation in this regard is provided under the Debt Recovery (Special Provisions) Act No. 2 of 1990 and the Mediation Boards Act No. 72 of 1988. The later Act provides for the establishment of mediation boards and specifically focuses on amounts below Rs. 250,000.

To deal with the registration of collateral data for prioritised and secured lending, the Credit Information Bureau of Sri Lanka (CRIB) has been established. Further to this, the Secured Transactions Act No. 49 of 2009 was introduced to promote the interest

of the economy and economic activity by improving access to credit; especially to SMEs. This Act specifically identifies that all pledges, mortgages or obligations of movable property may be secured with any movable asset collateral and also provides for the establishment of the Secured Transactions Register to provide information on security interests on movable assets. The Act further imposes the responsibility of maintaining this register to CRIB. The Act, however, does not include specific rules for transactions such as collaterals registered under the Motor Traffic Act or the Civil Aviation Authorities Act.

Other requirements for lending transactions in Sri Lanka include those stipulated through the Registration of Documents Ordinance No. 23 of 1927 which handles the registration of mortgage bonds, and the Financial Transaction Reporting Act No. 6 of 2006 which regulates the collection of data relating to suspicious financial transactions. This later Act aims to facilitate the prevention, detection, investigation and prosecution of the offences of money laundering and the financing of terrorism. It also lays out specific requirements for due diligence measures to combat money laundering and the financing of terrorism as well as identifies the specific authority which is responsible for overseeing the activities of institutions to which the Act applies.

Secured lending based on movable assets is currently very limited in Sri Lanka. SMEs in Sri Lanka generally have constrained access to credit on commercial terms and credit secured on movable assets is severely underutilized. This is mainly due to high risks and transaction costs associated with such transactions. Non-movable assets, such as land or buildings, are often the only collateral considered to have reliable value in granting credit to businesses. This environment restricts access to such credit to a limited number of established larger firms. Lenders who finance against movables in Sri Lanka need to account for significant default and enforcement risks with double-collateralization of the same asset to different lenders is a common occurrence. This issue is mainly due to current weaknesses in the movables registration system. The ability of debtors to create delays through court action causes further problems and further dilutes the interest of potential creditors. All of these factors drive up the cost of credit and further constrain its availability against movables.

Experiences from the Philippines

Lack of access to finance for Micro, Small-medium Enterprises (MSMEs) is considered a major problem in the Philippines. Currently, only 33% of MSMEs have access to credit with lenders taking security requiring as much as 240% of loan value in collateral. The majority of assets held by MSMEs consists of movables such as vehicles, machinery or equipment (44%). Accounts receivable makes up another large portion of their assets (34%) with the remaining 23% being made up of land and real estate. Based on this, a mismatch of current assets and requirements of lenders is evident with most banks only accepting land or real estate as collateral (73%) and only a small relative portion accepting movable property (27%).

The reason for this mismatch is mainly due to how financing based on movables is deemed as too risky. Providing assurances of priority against other interests is very difficult and current systems for enforcement measures against movable collaterals are unreliable and slow. On top of this, the registration system for movables is inadequate and currently provides unequal treatment of deferent forms of security interests in the law.

The Philippines Government is now working to introduce reforms that will improve this situation and create an environment which will allow for greater financing opportunities for MSMEs. As part of the 2011-2016 *Medium Term Philippine Development Plan (MTPDP)* a technical working group has been created and given the task of finalising a framework to assist with achieving this goal. *The anticipated benefits of this framework and subsequent reforms include increased access to capital for MSMEs (and also at lower rates), higher number of new business start-ups and further growth of current businesses, increased employment and lower risks to lenders. More specifically, the proposed reforms aim to provide further clarity on the scope of movable assets that can be used as collateral, facilitate the creation of a simple, cost-effective, accurate and transparent registry, provide clear rules on priority of claims and ensure effective enforcement upon default. While these reforms are intended to provide further financing opportunities for MSMEs, they will also result in clear benefits for lenders such as adding further diversity to their portfolios, providing access to critical information through the Registry, increased risk management and better reporting mechanisms.*

To take this forward, the Philippines is currently working to identify the appropriate government regulatory or supervisory body to establish and maintain a movable collateral registry and to promote the necessary rules and regulations pertaining to it.¹³ The creation of an electronic means to file notices of collateral interest and liens is also important, particularly as this electronic system will greatly simplify the task of searching for notices. Lastly, reforms are needed for information filed with the registry to be accepted as a public record and be accessible to the general public for greater transparency.

Key Points

1. Unlocking the value of movable assets (“movables”) through financing will help to increase financial inclusion to the unserved and underserved clients, especially small-medium enterprises (SMEs). Increasing access to credit in turn achieves a greater purpose i.e. to create employment and alleviate poverty by developing a sustainable conduit for social and economic development. These will require a number of reforms to the legal system which enables secured transactions--the taking of movable assets as collateral for credit. In the unreformed economies, secured transactions reform (STR) typically entails the development or revision of secured transactions law, the establishment or improvement of collateral registry, and the development of movables-based lending practice.

¹³ In June 2013, private and government sector representatives finalized a framework for establishing a movable collateral registry system.

2. Secured transactions reforms, aiming to create a more inclusive financial ecosystem, can produce significant benefits including increased transparency, enforceable laws, and providing incentives to both lenders and borrowers. Throughout the process of such reforms, it is crucial to capture the perspectives of the market to ensure that the proposed reform measures are meeting the needs of lenders and borrowers so that any frameworks for secured financing can, indeed, lead to greater access to financial services for the unserved and under-served segments of the economies, such as rural clients, micro businesses and SMEs. These priority clients often do not have real estate collaterals that are acceptable to the lenders; but, they all have some movable assets (accounts receivable, inventory, equipment, intangible property, etc.) which can be used as the basis for borrowing.
3. Based on the experience of a number of APEC economies (e.g., Vietnam, China, Mexico), legal reform and the development of collateral registry alone are not sufficient to create a viable movables lending market. Among others, the government authorities and regulators can be more active in creating an enabling environment; lenders need to build up capacities in movables businesses; collateral management companies and other service providers should be developed; and some movables financing electronic platforms linking up the lenders and borrowers (including suppliers, buyers and services providers along value chains) can be set up.

Specific Recommendations for Regulators

1. Economies should be encouraged to develop an efficient and dynamic movables financing market encompassing modern secured transactions law, an electronic registry, a competent movables lending industry and a diversified range of effective services providers. For example, a simple, electronic and economy-wide registry covering all security interests on all movable assets should be set up. The registration should be based on modern notice filing principles.
2. Economies can encourage their policy-makers, regulators, lenders and borrowers to better understand the benefits of movables lending, the reforms required, and the market practices that need to be developed. In particular, the lending institutions, both bank and non-bank lenders, need to recognize the business opportunities of financing MSMEs through movable assets, rather than through immovable collaterals.
3. Specific to regulators, economies should not disadvantage movables lending vis-a-vis immovables lending (in terms of provisioning, capital allocations, etc.). Regulators also need to take an active stance in advocating for Secured Transactions Reform (STR), in encouraging the lenders to look beyond real estate collaterals, and in promoting the development of support services such as collateral management companies (which are often necessary for inventory financing, among others) and the institutions which provide credit enhancements (e.g., on accounts receivable).

Chapter 5: Enhancing Credit Reporting to Reach the Excluded

This chapter summarizes the presentations and discussions in **Session Five: Financial Infrastructure II: Financial Identity and Data Flows**

Session Chair:

Mr. Phil Cotter, Deputy Managing Director, Business Information Industry Association Asia Pacific

Speakers:

- Dr. Robin Varghese, Vice President, Policy and Economic Research Council
- Mr. Anthony Hadley, Senior Vice President of Government Affairs and Public Policy, Experian

Credit reporting is an important factor in enhancing financial inclusion as it facilitates equitable lending to underserved communities including low-income groups, women and young people, as reputational ‘collateral’ replaces the need for collateral in physical assets. By formulating a more inclusive credit reporting system lenders are able to assess credit risk more accurately and gain rapid access to accurate, reliable and standardized information about potential borrowers. It also promotes increased lending while reducing over-indebtedness and overall levels of bad debt. At the core of credit reporting lies the ability to establish financial identities for consumers and regulatory frameworks need to address issues relating to prudential risk as well as consumer protection to allow an effective and safe system develop.

This chapter highlights innovations in the development of financial identity and data for more inclusive credit decisions and strengthening of credit information data bases. How these innovations are used as a tool for risk management and prevention of over-indebtedness, as well as their legal, policy and regulatory implications, are examined. Specific examples include new models of information sharing, access and analytics of data and the promotion of full-file credit bureau systems around new technologies and new technology-enabled data such as digital pre-pay and top-ups. Ongoing initiatives to develop non-financial data centred on digital services and experiences in promoting consumer protection in the context of digital data are also examined. Further to this, the chapter explores the ramifications for the regulation of data flows, including the need to facilitate as appropriate cross-border data flows as part of the promotion of regional economic integration and talent and capital mobility.

Expanding the Scope of Credit Reporting

Lending to financially excluded population segments can be increased by expanding the standard rules for credit reporting. One innovative method of achieving this is to provide credit reporting based on a person’s reputation largely based on

borrowing and repayment habits. A person's reputation can be assessed based on their behaviour and other information which can act as a substitute for physical collateral. By introducing this method basic asymmetries of information in lending are overcome and greater opportunities for the financially excluded are created. Lenders have greater credence in their assessment of a borrower's risk, and lower-income borrowers, freed from the need to produce physical or financial collateral, get access to credit where they could not do so otherwise.

To build this reputational collateral, there are two major challenges which are particularly relevant for the lower income population segments. The first is how to establish a financial ID with which to match with account histories. In order to establish a financial identity multiple data sources are required. These often include items such as Social Security numbers, government-issued ID numbers, name, address, telephone numbers, date of birth, account numbers and financial transactions. However, identity proofing is also very complex with a number of issues impacting it such as multiple consumers sharing the same names (i.e. first or surname), changing surnames (i.e. at marriage), consumers using nicknames or initials and consumers frequently changing address. In such an environment multiple data sources for identity proofing are required and the underserved segments are less likely to have multiple traditional data sources to satisfy the requirements for establishing a financial identity. The second challenge results from the difficulty in building a financial history and determining what data can be used for this process as well as supplying this data. The use of non-financial, or "alternative," data has the potential to help overcome both of these challenges.

Moving Beyond Traditional Data

The use of traditional data (i.e. bank loans or retail credit) in credit reporting poses significant limitations as it only works for borrowers currently active within the formal financial system. It is estimated that within the USA up to 1 in 5 people are excluded due to this approach, while in developing markets up to 9 out of 10 people are excluded. Alternative data is non-financial information which can also be used to assess a person's reputation. This includes several forms of post payments such as energy and water utility payments, landline and wireless phone bills, auto liability insurance payments, rental payments (especially apartments) and MFI/saving (especially deposit taking) and small business credit tradelines. Alternative data can also include remittance payments and stored value cards, prepayments (i.e. cell phones, utilities, education expenses, etc) and agricultural production and transactions. In case studies carried out of several US firms which adopted the use of alternative data results showed net benefits from fully reporting. This included declines in accounts in arrears and improved cash flow. Also, the costs of utilising the alternative data approach were not as great as anticipated; particularly with regards to IT, customer service and compliance costs.

While the use of alternative data has the potential to help establish identities for the financially excluded, this approach is limited to the degree of which this data is shared by third-party sources. By providing this information the impact is evident as it provides better identity proofing for the financially excluded as well as validation of consistent identity over time. A functioning data and information sharing network is also an effective way to prevent and combat fraud. As such, policy makers must be mindful of the risks involved with data sharing (much of which is sensitive customer information) to ensure that consumer rights and protection measures are in place. On the other hand, however, policy makers must also create an environment that attracts and sustains investment, so a delicate balancing act is required to ensure that both the needs of the consumers and the market are met. Unfortunately, a one-size fits-all approach is not possible. While the USA and European Union have frameworks which are considered effective, these frameworks were developed over 100 years and are overly restrictive for markets which are emerging or new to credit reporting. Moreover, the creation of these frameworks in Europe and North America were not shaped by the imperatives of economic development.

Public Credit Registry vs. Private Credit Bureau

There are generally two types of credit reporting institutions, Public Credit Registries (PCRs) and Private Credit Bureaus. PCRs collect information from a wide range of sources, including both financial and non-financial institutions, and with this information provide comprehensive consumer credit information along with additional services such as the provision of credit scores to private lenders. Credit Bureaus on the other hand, generally focus more on commercial lenders and collect information more relevant to their needs. The information gathered by credit bureaus is often more detailed and comprehensive than that of the PCRs, which in many cases makes them more capable to assess and monitor the credit worthiness of individuals.¹⁴

In theory, PCRs are capable of performing all of the standard functions of the credit bureaus. However, in practice their different roles are actually complementary of each other with the private credit bureaus being more focused on the needs of the market while the PCRs oversee the performance of the market. Their respective roles are also supported by the fact that they are not subject to competition against each other.

Key Points

1. Traditional data taken from bank loans or retail credit is limited in that it only applies to borrowers that are already in the system. Alternative or non-traditional data provides an additional assessment angle based on the client's reputation and makes it possible to provide identity profiling for the financially excluded through validation of consistent identity over time. By substituting reputation for collateral basic asymmetries of lending can be overcome and lending can be expanded to

¹⁴ World Bank. 2012. *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*. World Bank, Washington, DC (<http://www.worldbank.org/financialdevelopment>)

many currently excluded categories. Examples of alternative data include: post payments such as energy and water utility payments, landline and wireless phone bills; remittance payments and stored value cards; prepayments on cell phones, utilities or education expenses; and agricultural production and transaction.

2. Establishing a financial identity has many potential benefits which could lead to significant impact on poverty alleviation through increased access to financial services. Some of these potential benefits include: decline in accounts in arrears; improving cash flow; reducing costs; increasing credit access; enabling lenders to evaluate credit risk more accurately; enhancing borrower discipline; and facilitating equitable lending to undeserved communities.
3. When considering the options for establishing financial identity policy makers must achieve a delicate balance that includes consumer rights and protection, creation of an environment that attracts and sustains investment and the choice between a gradual or rapid change approach. A “one-size fits all” approach is not possible and so frameworks used in other economies will need to be adapted appropriately. Policy makers should also be encouraged to be creative and take chances in addressing problems faced and ensure that they manage an appropriate balance between prudential risk and consumer protection. For many of the economies in Asia and the Asia Pacific, the added imperative of development should also be factored in when considering a regulatory framework.

Specific Recommendations for Regulators

1. The sharing of traditional data (i.e. bank loans, mortgages, credit cards, overdrafts and retail store credit) may not be sufficient to promote optimal financial inclusion as consumers and SME’s without access to mainstream credit will not be included in these data sets. To overcome this challenge, regulators should consider ways by which other sets of “alternative data” (i.e. data from mobile phones, educational loans, rental payments, utility payments, microfinance loans, etc) can be used to assess credit worthiness. However, when considering data sharing infrastructure, regulators need to ensure that while creating a system which offers the broadest data sharing to optimise financial inclusion, the protection of financial consumers and SME rights needs to also remain a priority.
2. Using alternative data in credit reporting can help to build a more inclusive financial system which can be expanded to reach a greater number of the financially excluded while also creating greater trust in financial institutions. An approach which utilizes alternative data will also encourage private credit bureaus to develop a fairer and more inclusive system and enables better responsible lending. When developing a model for using alternative data, this should remain flexible to allow for adequate experimentation as it evolves. Regulators should be creative with this process and take chances in order to achieve results.

3. Regarding data protection, legislation is needed to strike a balance between individual rights to privacy and the requirement for transparency of an individual's credit history to enable a functional consumer/SME credit market to operate. Access to finance is a significant condition of development, and regulations should consider how financing for consumers and small and micro-enterprises may be affected.
4. It is recognised that in some developing markets establishing the identity of an individual, either as a consumer or owner of an SME, may be challenging and that reliable identities are key to a properly functioning credit market. In these cases, it is recommended that consideration of specific financial identity schemes which may rely on methods such as interviews of applicants and their families or associates and biometrics be used to establish an individual's identity. Once an identity is established the use of biometrics or the presentation of a secure token or document can be used to verify identity as part of the credit process.

Chapter 6: Achieving Inclusive Finance through Innovative Institutional Arrangements

This chapter summarizes the presentations and discussions in **Session Six: Innovative Institutional Frameworks**

Session Chair:

Mr. Kazuto Tsuji, Visiting Senior Advisor to Japan International Cooperation Agency/ Professor, Saitama University.

Speakers:

- Ms. Cristita Racosalem-Epal, Executive Director, Baba Foundation Inc.
- Mr. Yojiro Sekiguchi, Operations Management Expert, ARISP – CPMO
- Ms. Irma T. Canlas, Supervising Agrarian Reform Program Officer, Agrarian Reform Infrastructure Support Project (ARISP) - Central Project Management Office (CPMO), Department of Agrarian Reform
- Ms. Corazon Conde, Group Head, ADFIAP Consulting, Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)

Innovation should not be limited only to technology. Innovation in institutional arrangements is one of the key factors to inclusive finance. Also, financial exclusiveness is the most challenging among poor farmers in remote areas. This chapter explores how financial inclusion can be effectively attained in combination with the fulfilment of other developmental needs by utilizing farmers' cooperatives in rural areas and how value chain mechanisms and small infrastructure development can be positively related with financial services to the poor.

Experiences of Agrarian Reform in the Philippines

The Philippines has been implementing various agrarian reform initiatives over the past 70 years. The most prominent program has been the Comprehensive Agrarian Reform Program (CARP) which was established in 1988. The primary function of CARP is to extend ownership of agricultural land to landless farmers and the program has a land distribution target of 8 million hectares. To support the implementation of CARP, another program was developed in 1993 known as the Agrarian Reform Communities (ARC) Development Project. The aim of this initiative is to provide support services and small-scale infrastructures for a cluster of agrarian reform areas known as ARCs. One ARC is composed of one or more villages or one municipality. Further support for ARCs is provided through the Agrarian Reform Infrastructure Support Project (ARISP) which aims to transform rural areas into centres of economic growth through investments in agriculture; thus driving poverty alleviation and lifting living standards of farmers.

ARISP has been implemented in three stages with the first phase beginning in 1996 and composing of two main components: providing infrastructures (irrigation and farm-to-market road and post-harvest facilities) and strengthening farmers' organisations (i.e. cooperatives and irrigators associations). Due to the success of ARISP I the program was then scaled up in 2000 marking the beginning of its second phase. ARISP II continued the same approach of the first phase but also introduced additional strategies such as strengthening the participation of local governments and including potable water supply as a specific development component. The third phase of ARISP (ARISP III) began in 2008 and has a 7 year program duration. This phase is specifically designed influence the actions and priorities of the Government's Department of Agrarian Reform (DAR) based on the learning's and outcomes of ARISP I and II. ARISP III maintains the same approach developed under its previous phases, however, it also focuses on promoting linkages between and among ARCs with the aim of establishing a network of ARCs that will further enable collective business and crop production, processing, marketing and distribution of products in a holistic manner.

This ARC connectivity component of ARISP III has three main objectives. The first is to establish inter/intra ARC collaboration and partnerships with farmers' organisations, private and government entities to facilitate marketing of agricultural and agri-based products. This objective also includes the development and facilitation of microfinance and other extension services to provide further support. The second objective is to provide advocacy on behalf of the farmers' organisations and ARCs programs to achieve economies of scale, promote value-adding in goods and services and financial stability through coordination, networking and consolidation of their limited resources. The third objective is to serve as a vehicle for continuing agri-business, marketing, financial services and technical assistance support to ARCs after ARISP III's completion.

Through ARISP III's connectivity component, the program is currently supporting 24 federations composed mainly of 525 farmers' organizations including primary cooperatives, irrigators associations, agrarian reform beneficiary organizations, women's groups and indigenous people's associations. The specific types of assistance provided include capacity building (i.e. provision of training and experts to assist federations), agriculture and agribusiness development and maintaining an agrarian information and marketing centre. In order to achieve its objectives under the ARC community development component, ARISP III utilizes various linkage models to facilitate the links between farmers and markets through federations while also supporting their financial needs.

In 2010 the Tripartite Partnership for Agrarian Reform and Rural Development Federation of ARB Cooperatives, Inc. (TriFED) was selected to be the subject organisation within the Compostela Valley to receive direct assistance from ARISP III. After initial consultations and site inspections, ARISP III field staff identified several significant development issues such as high degrees of poverty, lack of access to credit, high exposure to health-related financial risks, rampant practice of

“pole-vaulting” (i.e. buying price lure or other market manipulations by unscrupulous businessmen), clamouring for organic rice production and marketing (due to higher market value) and a lack of microfinance services and agri-business support facilities.

To help find solutions for these problems, TriFED asked ARISP III to identify a suitable partner which could provide additional development expertise. The Baba’s Foundation, Inc. (BFI) was selected for this task shortly afterwards conducted a rapid reconnaissance survey of the areas within the Compostela Valley covered by TriFED to plan how to best address the development needs. The outcome of this was the decision to form a partnership between BFI, ARISP III and TriFED called the TriFED BFI United Transformative Enterprise (TRIBUTE). This partnership was established in 2011 and has set a goal to increase the average annual household income within the Compostela Valley by at least 30%. Specific objectives set forth by TRIBUTE include installing (or making available) microfinance facilities, make operational commodity trading and advocate for sustainable rice-based agriculture.

To meet these objectives, TRIBUTE’s initiatives are made up of three components. The first is to support the delivery of microfinance services to target clients through the integration of the DREAMS microfinance products of BFI into the programs of TriFED. The second component focuses on sustainable agricultural extension services (SAES) and aims to provide opportunities to introduce appropriate organic rice-based farming practices. The last component deals with Partnership Enterprise Development (PED) and is aimed at strengthening the collective-buying and selling functions of TriFED through a joint undertaking with BFI.

To-date the three components of TRIBUTE have resulted in several achievements. With regard to integrating microfinance DREAMS products a number of new products are now available including loans, savings and a welfare fund. Various training programs have also taken place to support TriFED’s adoption of microfinance DREAMS and total clients within the ARC now number over 1,000 with total loans reaching more than USD 200,000 and repayment rates of 100% in the first year and 98% in the second year (due to typhoon impacts). For the SAES component a number of demo farms have been set up and training programs resulting in increased crop yield. The PED component has resulted in commodity trading and a trading fund of almost USD 20,000.

The linkage model set up through TRIBUTE has proven to be mutually beneficial to all stakeholders and can result in both financial and non-financial benefits. All three components of TRIBUTE produce a number of specific partnership benefits. For example, under the microfinance DREAMS component BFI and TriFED both receive a share in interest income from loan products. These products also provide the farmers with continuous access to credit allowing them to expand their businesses and increase production (resulting in increased income). ARISP III also benefits by being able to accomplish its development goals and be able to utilize TriFED and BFI as vehicle for continuing their development support for the ARC after the program’s completion.

Due to the success of the TRIBUTE linkage model, ARISP III is now in the process of exploring opportunities to replicate it with other federations. Other plans for the future of the program include further promoting linkage models to agri-business firms, federations, MFIs, government financial institutions, banks, government agencies and educational institutions across the Philippines as well as promoting the Members Welfare Fund (MWF) to federations as an alternative financing facility for poor farmer households to address their development needs. ARISP III also plans to document its implementation experiences of the linkage models to further disseminate the lessons learned from their experiences.

Value-chain Finance and Small Infrastructure Development Finance

Financial products and services flowing to and/or through a value chain to address the needs of those involved in that chain is known as Value Chain Finance (VCF). The needs being addressed through VCF might include the need for finance, the need to secure sales, procure products, reduce risk and/or improve efficiency. The VCF approach requires an understanding of the value chain and its linkages as well as the structuring of financial products and services to best address the needs of each link. The general objectives of this approach are to improve sectoral competitiveness of industries through increased access to finance, markets and information as well as encouraging financial institutions to expand their base of MSMEs which they provide access to finance through a risk-mitigated and cost-efficient lending environment.

Case studies of this approach being used, particularly within the agriculture market, have highlighted some important lessons. The first relates to the importance of integrating the supply of adequate and timely finance with value chains. In order to achieve this Government, donors and investors need to support the development of nascent value chains until they are able to attract investment from banks themselves. Another important lesson is that integrating mobile money with value chains has immense potential to smoothen the flow of value across the chain. Not only can mobile money do this in real time, but also at a lower cost than conventional banking and/or cash transactions. Lastly, the importance of providing technical assistance and financial literacy training for MSMEs cannot be underestimated. By including additional extension services and management support the capacity of individual players will be strengthened which, in turn, will also strengthen the overall value chain.

Small-scale infrastructure, such as projects that require less than USD 30 million in initial capital expenses, are important to fill gaps in the supply chain. Major infrastructure assets such as seaports, highways and train lines are not capable of people or goods to be transported to their final destinations by themselves. As such, adequate support is needed for small-scale projects such as local feeder roads to connect homes, farms and factories to the economy's transport system; small crop bulking stations to facilitate the storage of crops before they are sent to large warehouses and processing facilities; local markets to provide the end of the retail distribution system; and small-scale power sources to fill the gaps in larger power grids.

To provide this necessary support, a finance mechanism for small-scale infrastructure can be used which leverages the input from numerous stakeholders into small-scale infrastructure projects such as banks and other financial institutions, local governments, infrastructure users, private companies, donors and development finance institutions. For this model to be effective, local governments should work with donors and private sector companies to identify and put together bankable infrastructure projects that can be financed by local banks and the capital markets. Development financial institutions and donors should focus on leveraging their limited funds by using them to mobilize additional funding from local institutional investors through partial guarantees, loan subsidies, technical assistance and capacity building. This is best accomplished by working directly with local governments, private companies and banks. Within this framework, the private companies play multiple roles. Not only can they contribute their knowledge and skills in arranging financing, but also carry out the necessary construction projects and operate the new infrastructure facilities.

Key Points

1. A “best-practice” institutional framework requires both technology-driven efficiency and solutions to leverage local knowledge. This local knowledge is the strength of traditional microfinance institutions that keep close relationships with poor clients and understand their behaviour.
2. While applying new technologies to delivery channels for inclusive financial services, less attention has been given to the development of financial products which are suitable to the poor. To achieve greater financial inclusion product development needs to be based upon further learning from the poor and their behaviours as well as possible financial viability for providers.
3. A holistic approach to clients’ livelihoods and linkage formulation are key elements for an innovative institutional framework. Financial services are one of the indispensable means to livelihood improvement and should be combined with other means, such as capacity building, market development and rural infrastructure, in a mutually enhancing manner. Linkage formulation refers to connectivity development among clients’ organizations such as cooperative federations, financial services providers, government agencies, private businesses and others, and among stakeholders through a value chain in an industry. These linkages are important to empower the poor and enhance their creditworthiness, to achieve a business case by scaling-up and to create affordable and reliable financial services to both poor households and MSMEs.
4. Consumer protection is of paramount importance within institutional frameworks, especially with technology-driven financial services which are quite new to consumers both in emerging and developed economies.

Specific Recommendations for Regulators

1. While technology-driven delivery channels are increasing in use, government policy makers and regulators are required to establish an enabling policy environment which promotes 1) leveraging local knowledge and maintaining close relationships between financial services providers and their clients, 2) inventing financial products most suitable to the poor and MSMEs, based upon learning from their behaviour, needs and demands, 3) encouraging a holistic livelihood approach and linkage formulation among various stakeholders for the benefits of the poor and MSMEs and for establishing a business case by scaling-up, and 4) conducting consumers' education and ensuring their protection with technology usage. In other words, non-technological but innovative measures are also indispensable in order to make technology developments work for the poor and MSMEs and work for small and medium-sized financial providers as well as for big players by reducing costs.

Chapter 7: Supporting and Protecting Financial Consumers in a Rapidly Growing Market

This chapter summarizes the presentations and discussions in **Session Seven: Financial Education and Consumer Protection**

Session Chair:

Ms. Rajitha Vinnakota, Head of Citizenship & Community Development, Citi Asia Pacific

Speakers:

- Ms. May Garlitos, Training Specialist & Finance Manager, ASKI Global Limited
- Ms. Indrani Thuraisingham, Head of CI Office for Asia Pacific and the Middle East, Consumers International
- Mr. Chou Vannak, Deputy Director of Financial Industry Department, Ministry of Economy and Finance, Cambodia

As innovative approaches and technologies are deployed to increase the reach and effectiveness of financial services to the currently underserved population segments, the need to support the financial capability of these segments is equally important. This chapter highlights innovative approaches to financial education including examples of how migrant workers and their families can better receive the benefits of financial products and services through financial literacy training. The chapter also explores the growing need for greater attention to be paid to consumer protection in a rapidly expanding and developing marketplace.

Financial Education for Migrant Workers: The Case of ASKI Global Ltd. in Singapore

It is estimated that there are currently about 800,000 migrant workers living in Singapore. These workers, which come mostly from other parts of the region including Malaysia, Indonesia and the Philippines, each share similar needs when it comes to stability and security and being able to make sound financial decisions is an important factor in fulfilling these needs. In 2010, ASKI Global Ltd was established as a non-profit global development organisation with the goal of supporting Filipino migrant workers living in Singapore and helping them to develop financial literacy and entrepreneurial skills. As part of ASKI's model, educational training seminars are provided not just to the migrant worker, but also to their families in the Philippines. This "back-to-back" training element is a key aspect of the program as ASKI recognises that the decision making on financial matters often requires the support of family members, and as such, the program aims to build capacity of both.

At the core of ASKI's framework are three important elements which the organisation strives to achieve through its program: asset building, job generation and family reunification. ASKI's training provides participants with knowledge about the importance of building assets for greater financial stability. By teaching migrant workers how to become entrepreneurs themselves, they are given the skills to support themselves as well as others by creating new jobs. With this understanding of assets and greater entrepreneur skills, ASKI hopes that the migrant workers will be better able to increase their wealth and financial stability to the point that they no longer need to work overseas and can return home to their family.

To achieve all of this, ASKI's program currently consists of a number of training courses offered to migrant workers in Singapore. These courses cover a range of topics including entrepreneurship (with basic and advanced courses being offered), financial education and personality development and communication. As of May 2013, 600 students have graduated from ASKI's program with 90% of them reporting an increase in savings and 91 having established their own businesses in the Philippines.

Financial Consumer Protection Recommendations to G20 Finance Ministers

It is very important for regulators to prioritise financial consumer protection as without adequate regulation the risks to consumers are very high. These risks greatly stem from issues such as the complexity of financial products and the rapidly changing market which can result in personal hardships or even more widespread financial crisis. The justification of prioritising consumer protection is further highlighted by the fact that there are over 150 million new consumers of financial services every year and many of these new consumers have low financial literacy skills. This increase in consumers with low literacy skills and weak consumer protection is a growing concern as it creates a very risky market.

While there is much work needed to be done in order to develop more effective financial consumer regulation, examples of progress in this regard do exist. Consumers International (CI) is an international federation of consumer organisations with over 240 members across 120 economies. Financial services are a key concern of many of CI's members who have actively campaigned for greater regulation for consumer protection. In 2010, as a result of campaigning led by CI requesting an international body to oversee financial consumer protection G20 leaders requested the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD), to report on "*options to enhance consumer protection*" in financial services in November 2011. Further to this, the FSB and OECD were also asked by G20 Finance Ministers to develop a set of "*common principles*" on financial consumer protection. In response to this, CI compiled its own set of international recommendations on consumer protection to support the task of the FSB and OECD.

After the draft common principles were completed by the FSB and OECD, CI had the opportunity to provide input. In CI's review they particularly noted the frequent use of equivocal language used to describe the principles such as "voluntary", "non-

binding”, or “as appropriate.” The principles also lacked reference to product suitability or to any set of minimum standards. Furthermore, the language around bank deposit guarantees for consumers as well as international cooperation was very ambiguous.

To-date, since the launch of this G20 process, the lack of implementation guidelines for regulators has remained a key challenge. To help overcome this CI has recommended that a peer review process for monitoring impact and demonstrating the results in G20 be implemented. CI has also made a number of other specific recommendations to G20 to further enhance the effectiveness of the draft common principles. These specific recommendations are outlined below.

Disclosure and Transparency

- Consumers should receive clear, reliable, comparable and timely information about financial services products and that failure to provide this should cause any consumer contracts to be voidable.
- Financial services providers should also be responsible for testing the quality and comprehensibility of the information provided and that regulators should conduct additional audits to support this.
- Standard formats (such as Key Information Documents) should be used for the presentation of information about financial services products to make it easier for consumers to compare between products.
- Many financial services products are now so complex that they are difficult to understand. Regulators should therefore introduce requirements to enforce comprehensibility and prohibit the use of products which are not comprehensible.
- The principles do not adequately address the issue of conflict of interest in the provision of advice and the sale of financial services.
- Protection is needed inappropriate marketing methods.
- Contracts need to meet basic standards of consumer protection. Those that do not should be voidable.
- Financial consumer protection bodies need to be independent of the industry and have close links with other consumer protection bodies with consumer representatives integrated into its governance.

Redress and Dispute Resolution

- With regard to redress and dispute resolution, governments should ensure that consumers have access to adequate redress systems that are fair, affordable and accessible.
- Collective redress methods should also be included to reduce the demand for individual proceedings.
- Results from disputes should be synthesized for future reference to mitigate against systems becoming overwhelmed by large numbers of complaints.

Competition

- Measures should be taken to enable consumers to switch products more easily.

Legal/Regulatory Framework

- All industry players (i.e. ratings agencies, providers and their agents) should be subjected to greater accountability and transparency requirements.
- The investment and retail arms of banks should be split through a legal separation of operations to mitigate against the risk of investment banking effecting consumers.
- “Living Wills” should be introduced with provisions for how consumers will be treated in the event of a bank collapse.

Protection of Consumer Rights

- Governments need to reach a balance between effective, safe, and low cost methods of innovation while also supporting the development of consumer protection.
- Safer and fairer rules for remittances are needed including the General Principles for International Remittance Services.¹⁵

International Cooperation

- Greater cooperation is needed to support and enable financial consumer protection bodies to share good practice, compare notes, highlight risks and develop minimum standards and guidelines.
- The international oversight body should have a consumer panel to monitor, advise and support the work of the organisation.

Financial Education and Awareness

- Vulnerable groups need support for continuous learning opportunities to increase knowledge and capability.

Addressing the Concerns of Financial Innovations: Mobile Payment Systems

According to forecasts made by Juniper Research¹⁶ the mobile payments market is expected to expand by almost triple its current value by 2015 and reach USD 670 billion. Further to this, the number of mobile payments users is also expected to grow within this timeframe by at least 40% and reach about 2.5 billion people globally. While this growth represents significant opportunities for increasing financial inclusion, it also raises a number of concerns regarding the protection of mobile payments users and regulators are likely to struggle to keep up with the speed of innovations taking place within this market.

¹⁵ The World Bank, *General Principles for International Remittance Services*, January 2007.

¹⁶ See: www.juniperresearch.com

Some of the specific concerns being raised about the mobile payments market include the lack of tangible proof (i.e. receipts), unreliable mobile account crediting systems, lack of technology standards and the accessibility of services. Consumers are also currently being put at risk by underdeveloped (or nonexistent) regulatory frameworks as well as the lack of an independent ombudsman and legal and regulatory foundations. To overcome these challenges a few specific recommendations to pave a way forward, which include the introduction of digital certificates and international standards on Mobile Banking Payments. The current United Nations (UN) guidelines for consumer protection is currently being reviewed and should be revised to address the new issues of mobile banking. Lastly, greater financial education and awareness is needed, particularly to protect the more vulnerable lower income segments.

Experiences from Cambodia

Cambodia's microfinance sector has developed rapidly and is gaining international attention due to its enabling regulatory and supervisory framework. Recognising the important role the microfinance sector can play in socio-economic development, Cambodia's Government has supported its growth through its evolution which began as just few microfinance projects being supported by international donors until the present with over 50 operating MFIs which have become an integral part of Cambodia's formal financial sector. The vision for the continued growth of this sector is that it will continue to expand and reach the financially excluded and provide them with affordable financial services which will in turn increase income and alleviate poverty.

To achieve this vision, Cambodia's Government recognises the importance of providing financial education and ensuring adequate consumer protection. To implement the Financial Services Development Strategy 2011-2020 (FSDS), a project was developed which would aim to meet each of the goals and milestones set out in the strategy. This project, titled *The Financial Inclusion and Social Impact towards Food Security in Southeast Asia (FinIncAsia)*, was developed by PlaNet Finance and financed by the European Commission and Agence Francaise de Développement (AFD). The FinIncAsia program aims to build the capacity of MFIs as a way to increase financial inclusion and improve food security in small-farm households. The program achieves this by integrating social impact and financial literacy. Specific objectives of the program include increasing access to financial services among low-income segments and improving the social impact of microfinance programs. As part of the program, a number of financial education activities have been, and will continue to be, implemented. The most prominent activity from the program, however, is the promotion of financial literacy campaigns through a training of trainers approach. These campaigns particularly target the clients of MFIs and aim to support the socio-economic development of the lower income segments by increasing access and understanding of financial services.

To support the growing need for greater consumer protection, Cambodia's Ministry of Economy and Finance has received a grant from the French Government through a financial agreement between AFD and the Cambodian Microfinance Association

(CMA). This grant supports the implementation of a three year program (2012-2015) that specifically aims to improve microfinance client protection principles and support MFIs to contribute to the credit bureau of Cambodia. The program will also strengthen CMA's capacity to mobilize financial transactions and support more long-term growth and development of Cambodia's microfinance sector. The specific concepts of financial inclusion which the program will address include appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, mechanisms for complaints and resolutions and privacy of client data.

Key Points

1. Financial sector complaints are on the rise. This highlights the need for common consumer protection principles; however, the current range of established principles fall short in regards to transparency and disclosures which are crucial for meeting the needs of adequate consumer protection. Any principles that aim to support this need to be clear and comprehensible. Furthermore, while global principles and standards for consumer protection are useful, economy specific principles are also needed to ensure that the local context is being appropriately met.
2. Financial education has a significant role in achieving greater financial inclusion as it enables behavioural changes of the targeted groups resulting in their capable use of financial products and services. However, financial education is a life-long initiative and it is interlocked with other important aspects such as consumer protection and access.
3. Financial innovations require consumer protection to be dynamic, especially in regards to security of payments. There is a direct correlation between consumer protection and uptake/usage of financial innovations, particularly among low-income clients, with stronger consumer protection measures, including better redress mechanisms, resulting in increased uptake.
4. Regulation should not limit financial innovation, but rather should be used to create incentives to support the development of new services. The strengthening of an appropriate policy and regulatory framework will promote greater financial education and consumer protection. In this regard, regulators, consumers, and protection agencies need to be dynamic and resilient in order to respond to the rapidly changing environment, including the challenges of financial innovation that are arising from new technological developments.

Specific Recommendations for Regulators

1. The provision of financial education has great potential to increase the financial capability of low-income population segments; thus providing them with the opportunity to make effective use of financial services to improve their own economic situation and alleviate poverty. Regulators need to ensure that a balance is met between focusing on creating enabling environments for service providers to innovate and develop products and services, alongside product-driven financial education initiatives to support the needs of consumers.
2. With standard consumer protection principles becoming more prominent on a global level, regulators should look closely at how they might adopt and advocate these principles within their own economies and with particular focus on transparency and disclosure issues.

Chapter 8: Examples of Financial Inclusion Developments from Select Economies

This chapter summarizes the economy-specific presentations made by the following speakers:

- Ms. LV Ceren, Director, Finance Department, ministry of Finance, PRC
- Mrs. Phetsamone Chandara, Deputy Director, Legal Division, Financial Institution Supervision Department, Bank of Lao PDR
- Mr. Maung Maung, Deputy Director General, Central Bank of Myanmar
- Mr. Sonam Tenzin, Deputy Chief Planning Officer, Policy and Planning Division, Ministry of Finance, Bhutan
- Mr. Nguyen Cong Hung, Inspector, Off-site Banking Supervision, Banking Supervisory Agency, State Bank of Vietnam

China

In November 2010, China launched the Financial Inclusion Initiative with the aim of delivering feasible recommendations to financial policy makers and extend financial services to underserved groups in a financially sustainable way. The specific target groups of the initiative include MSMEs, rural groups and women. China's current financial policy framework centres on the notion that it is the government's responsibility to develop appropriate policies that will support the development of the financial services market and enable service providers to reach the underserved.

Traditionally, China has been an agricultural economy and as such, the development of rural areas is the most important aspect of the government's work. However, rural finance continues to be a major challenge in China with enterprises and farmers struggling to secure financing. This highlights the major starting point for China's financial inclusion goals with the development of innovative rural finance systems is critical for success. To achieve this, one key aspect will be to develop new rural financial institutions which will specifically cover the central and western parts of China. These institutions include village banks, rural fund or cooperative organisations and the finance corporation. As of the end of 2012 939 new rural finance institutions have been established with 62% being located within the central or western regions.

The next goal is to improve the capacity and reach of financial service providers in remote areas. This is achieved by establishing standardized branches, plain service outlets, regular services and banking machines to supply basic financial services to all villages and towns. As of 2012, all towns and villages across 24 provinces have been covered. To help encourage loan support from rural financial institutions to farming activities special finance awards and subsidies have been included as part of China's strategy. The direct cost subsidy policy from rural financial institutions was

raised through central finance and provides for 2% of the average loan balance of the past year to be subsidized for qualified new rural financial institutions. Under the award policy, a 2% award is given to the financial institutions which achieve over 15% increase of the average balance of agricultural related loans in pilot areas. To support agriculture insurance products special policy was developed to reinforce agriculture insurance premium subsidies. Through this policy the variety of premium subsidy has increased as well as the areas covered enlarged.

Providing access to financial services for people who have had difficulties finding jobs is also an important part of China's financial inclusion strategy. To achieve this a small-sum guaranteed loan policy was implemented through funds guaranteed by local governments and loans with discounted interest rates supplied by the finance sector. This initiative allows qualified unemployed people that suffer from difficulties finding jobs (including laid-off workers, urban registered unemployed, college graduates, rural labourers, rural women, etc) to access start-up loans.

Laos

Rural microfinance in Laos began in 1997 as part of a UNDP/UNCDF program which covered three provinces. Since then, Laos has received additional support from the ADB and GTZ to develop its microfinance sector and increase financial inclusion including the development of a savings a credit model as well as direct support to build the capacity of the central bank (Bank of Lao) and MFIs. As part of its Financial Sector Strategy, Laos has also developed a policy statement for the Development of a Sustainable Rural and Microfinance Sector. This policy focuses on four specific aspects of the overall vision: expansion, diversity, sustainability and security.

Currently, Laos has a range of microfinance providers including 13 licensed deposit-taking MFIs, 20 licensed savings and credit unions and 25 licensed non-deposit taking MFIs. Microfinance regulation in has been developed based on these three groups with specific conditions required to be met prior to being established. For deposit-taking MFIs, these conditions include a minimum capital of 3 billion LAK, lending limits set at 20 million LAK per client, a minimum of 5 shareholders in its initial establishment and at least one major shareholder who has experience in banking and microfinance, a defined governance structure, adequate office supplies and a five year business plan. Saving and credit unions are required to have a minimum capital of 100 million LAK, take deposits and only lend to their members, a minimum of 10 founding members and an initial 100 members, adequate staff support and a three year business plan. Furthermore, existing financial institutions or cooperatives that intend to transform into saving and credit unions are required to have a minimum of 250 members and voluntary deposits totalling at least 300 million LAK. To establish a non-deposit taking MFI a minimum capital of 200 million LAK is required along with a letter stating the institution's commitment to microfinance and adequate staff support and office supplies.

Supervision through both on-site and off-site examinations is based on a set of principles known as CAMEL. CAMEL represents five specific principles consisting of: Capital, Asset, Management, Equity and Liquidity. MFIs in Laos are also guided by a standard methodology which sets loan sizes and terms, average interest rates and the percentage of the loan portfolio that are microloans. These standards also state that non-performing loans should not account for more than 5% of total loans and provide timeframes for on-site and off-site examinations.

To date, Laos has over 50,000 savings clients with total deposits over 110 billion LAK and over 20,000 loan clients totalling almost 130 billion LAK. The Laos government recognises; however, that there is still a great deal of work to be done to reach the poor and further increase financial inclusion. To achieve this, the government aims to build a greater common consensus of its vision, policy and strategy for rural microfinance reform and strengthen rural microfinance initiatives and institutions to ensure that the industry becomes sustainable. Further improvements are also needed in current regulatory, legal and policy frameworks to create a more enabling environment for the industry to develop. Lastly, capacity building for supervision officers as well as microfinance practitioners remains a key focus of the government's strategy, particularly for areas such as accounting, financial and credit management, risk management, mobilizing savings and ethics.

Myanmar

With a per capita GDP of around \$900, Myanmar is considered a low-income economy in Asia with about one-quarter of its estimated 60 million population living under the poverty line. While achieving financial inclusion and alleviating poverty presents a serious challenge, Myanmar also has great potential for development due to important factors such as its large geographic size, young labor force, abundant natural resources (including gas, copper, timber and gemstones) and close proximity to some of the world's most dynamic economies.

To take advantage of this potential, in the case of financial inclusion Myanmar faces several constraints, with a key weakness being the current banking infrastructure. It is estimated that more than two thirds of Myanmar's adult population is unbanked in terms of deposit accounts in banks. Being a relatively small financial sector despite the abundance of natural resources and fairly high population size, the number of commercial bank branches per 1000 square km is only 0.85 with some provinces having no branches at all. Furthermore, it is estimated that fewer than 20 people out of every 100 currently have access to formal financial services and most people rely on family savings or informal services such as money lenders.

The lack of financial literacy and education presents another crucial challenge for achieving financial inclusion in Myanmar. This is particularly the case in rural areas which leaves a large population segment relatively marginalised in terms of gaining access to banking services. The Government recognizes the need to support financial education for development of the sector but the reform process needed to achieve this is expected to be medium to long-term.

Another challenge being experienced in Myanmar is the poor level of technological infrastructure. As a minimum risk strategy major banks tend to focus on loans backed by sound collateral. This limits the potential for providing small-sized loans and as a result, the business decisions prevent a major portion of people from accessing loan services such as farmers (for agriculture investments) or SMEs. Promoting technological and institutional innovations will be an important part of solving this issue as a means to expand access and usage of the financial system.

To address these challenges, Myanmar has recently begun a comprehensive program of reforms with the aim of achieving sustainable growth and significantly reducing poverty. As part of this, the economy has made significant changes to its financial sector including opening up to trade and encouraging foreign investment. Myanmar understands the important role which the banking and financial sector play in economic development and so modernizing the financial sector is critical to support its reform process and improve financial intermediation.

Under Myanmar's new government, microfinance has been prioritised as part of its economic policy. Notable recent achievements include the launch of a new Microfinance Business Law and the appointment of microfinance supervisors. The supervisors are also tasked with licensing MFIs and to-date over 173 MFIs have been licensed with about half of these being allowed to take deposits. To facilitate a faster reform process Myanmar authorities are also implementing a financial sector modernization plan.

Currently, Myanmar's financial sector is comprised of the Central Bank of Myanmar, 4 state-owned banks, 19 private banks and 32 foreign bank representative offices. Non-bank financial institutions include 1 state owned insurance enterprise and 12 privately owned insurance companies, 4 privately owned leasing companies, 173 MFIs and the Myanmar Securities Exchange Co. Ltd. Currently it is estimated that less than 20% of the population uses formal financial services and it is expected to take some time for supervisors to develop and implement microfinance regulation and policies that meet international best practice standards.

Myanmar's legal environment is also in need of significant reforms as it is outdated and not in line with international best practice. Currently, there are three main governing laws for the economies' banking sector: The Central Bank of Myanmar Law, The Financial Institutions of Myanmar Law and the Foreign Exchange management Law. The Central bank of Myanmar Law has recently had a replacement law approved by Parliament and is awaiting signature from the President. The Financial Institutions of Myanmar Law is also considered out of date and the World Bank is currently providing technical assistance to assist with drafting a new law to replace it. In 2012 the original Foreign Exchange Regulation Act of 1947 was repealed and was replaced by the current Foreign Exchange Management Law. Aside from these main three governing laws, Myanmar is also in the process of drafting a new SME law being led by the Ministry of Industry.

An autonomous Central Bank is critical to Myanmar's financial sector development strategy and the new Central Bank of Myanmar Law is expected to provide a high degree of autonomy; particularly in regard to the implementation of monetary policy and accountability to the Central Bank. The law will also equip the Central Bank with core central banking functions, some of which are currently undertaken by state-owned banks. Over the last two years a number of measures have been taken to further liberalize the banking sector such as the Central bank lifting the deposit to capital ratio and additional requirements for bank expansion, allowing banks to expand into greater branch networks, restricting eligible collateral and broadening collateral to include agricultural export goods, doubling the loan ceiling for farmers and introducing new products such as hire purchase and ATM cards.

Permitting the participation of foreign banks is also considered an important part of Myanmar's financial sector development plan. The Central Bank plans to allow foreign banks enter the market through a three-phase strategy. First is to permit foreign banks to form joint venture banks with domestic private banks. Secondly, foreign banks are to establish a locally incorporated and 100% owned subsidiary. Third, foreign banks will be permitted to open bank branches.

Another important aspect of Myanmar's development strategy is to improve domestic payment systems. The Central Bank recognises that it has an important role to play in this process and that sound and efficient payment systems are a vital part of a successful economy; particularly with regards to access to finance. The Myanmar Payment Union (MPU) is comprised of a number of banks and is currently in the process of developing and launching card-based services and interconnecting all of the ATM and Point of sale (POS) systems with more than 200 ATMs made available across the economy to-date. As these efforts continue, MPU hopes to soon make it possible for international credit cards to be used within Myanmar, including Visa, MasterCard, American Express, CUP and JCB. Plans are also in place to enable electronic and mobile banking in the near future.

The launch of the Microfinance Business Law in 2011 has been an important development for Myanmar's legal platform for microfinance activities. The main objective of this law is to reduce poverty and to promote socio-economic development at a grassroots level. An key aspect of the law is that it provides a legal basis for the establishment of both deposit taking and non-deposit taking MFIs. Supervision of these MFIs is provided by the Myanmar Microfinance Supervisory Enterprise, which is under the Ministry of Finance. As of April 2013 173 MFIs have been formally established in Myanmar under the Microfinance Business Law.

Myanmar's strategy going forward to continue promoting financial inclusion will focus on strengthening promising domestic initiatives and adopting international best practices. Progress will greatly depend on how successful the economy is in building the necessary financial infrastructure, attracting the right international players (i.e. IT service providers, banks, MFIs, etc) and further adjusting and developing its regulatory framework to meet international best practices. By adopting a gradual and coordinated approach to liberalizing its financial sector and prioritizing initiatives to strengthen the supervisory and regulatory framework, Myanmar has high hopes for success.

Bhutan

Bhutan is currently experiencing rapid economic growth, however the Bhutan Living Standards Survey (BLSS), 2012, revealed extensive gaps between rural and urban areas in terms of access to social services, basic amenities and economic opportunities. Therefore, the focus of the government's strategy for poverty alleviation is on improving rural livelihood through the provision of roads, electricity, telecommunication links, community e-centres, promoting agricultural productivity, promoting rural industries and enterprises and creating employment opportunities.

While these are essential for poverty alleviation, it has also been found critical to increase access to financial services to the poor and weaker sections of society. A survey conducted by the RMA (2011) concluded that the number of savings accounts corresponded to 80 percent of the adult population (20 years and above) and the number of loan accounts to 21 percent. As many customers have more than one account (e.g., in Thimphu the average number of savings accounts per adult is 2), the number of unique account holders would be much lower. This evidence reveals that there is a weak and inadequate micro-financial service providers.

Therefore, to sustain socio-economic development, financial inclusion has been identified as an important tool for its success. Bhutan's financial institutions consist of four banks, one agricultural development bank, two insurance companies, a stock exchange and a pension fund.

In 2010, Bhutan initiated the formulation of a Financial Inclusion Policy (FIP). In August 2010, the Prime Minister issued an executive order for drafting the Financial Inclusion Policy before the end of the year. In October 2010, a financial inclusion working group was established to discuss and draft the policy. By March 2012, the policy had been finalized after a thorough international consultation process with various stakeholders. As of March 2013, the Policy has been approved in principle by the Cabinet for the new Government to consider.

The objectives of Bhutan's FIP include the creation of rural prosperity and urban well-being, developing an enabling regulatory environment, ensuring the provision of quality and diverse financial products and services and enabling clients to make informed choices about their use of financial products and services. Each of the objectives fall under five broader strategic objectives of the Policy that are consistent with the challenges facing the economy in promoting FIP to pursue poverty alleviation. These five strategic objectives are:

1. Strengthen policy environment and institutional framework;
2. Strengthen the regulatory and legal framework;
3. Enhance competitiveness and innovative MFIs development;
4. Enhance access to basic financial services to rural populace and weaker section of society at affordable cost; and
5. Enable the poor to build assets, enhance income, and reduce their vulnerability to economic shocks.

To strengthen the policy environment and institutional frameworks, The Royal Government of Bhutan takes the role of an enabler rather than a direct provider of financial services. As such, the government provides a mandate for financial institutions to better serve target groups, periodically reviews and updates the FIP, facilitates access to funding for inclusive finance providers, strengthens the capacity of inclusive finance providers and actively invites the support of international development partners.

The Royal Monetary Authority (RMA) of Bhutan plays a key role in strengthening the regulatory and legal framework. The RMA has been tasked with developing a specific framework for the development of MFIs. Furthermore, the RMA aims to stimulate various new MFIs and link them with different categories of existing financial and non-financial institutions. To achieve this, the RMA provides legal clarity with regard to the operations of non-deposit taking MFIs, creates a legal framework for deposit-taking MFIs, develop a client protection regime and clarify the potential role and legal framework for non-bank institutions in the delivery of financial services.

The sustainability of MFIs will entirely depend on the ability to increase their competitive and innovation capacity. The use of information and communication technology has great potential to reduce transaction costs and allow for the expansion and diversification of financial services. In order to promote this competitiveness, various strategies such as facilitating the use of lower-cost delivery channels, increasing financial literacy and capability of target groups, strengthening the integrity of inclusive finance providers, attracting new service providers and making use of alternative delivery channels shall be adopted.

Access to basic financial services to rural poor and vulnerable population segments contributes directly to increasing income and reducing vulnerability of the poor. To enhance access to basic financial services, the FIP supports the development of tailored financial products and improving existing financial services to suit the needs of the target group, developing a joint strategy on how to promote financial inclusion, promoting financial literacy and capability of the target group and creating awareness amongst clients' to help them better understand client protection measures available to them.

Lastly, the FIP is expected to achieve poverty reduction, particularly in rural areas, by focusing on enhancing rural livelihoods. This will be done through supporting agricultural productivity, promoting micro-enterprises and creating employment opportunities. In order to overcome the challenges associated with enhancing livelihoods, four specific strategies have been adopted. First, improving the availability of information about clients and potential clients, second, following the concept of responsible finance, third, conducting financial education and counselling and fourth, develop a culture of savings.

For the execution of the FIP, the Ministry of Finance and RMA will have to lay out the action plan to implement its strategies, which will include the activities, responsibilities, deadlines and resources for successful implementation of FIP and its strategies.

Vietnam

A crucial part of Vietnam's financial sector is the People's Credit Fund (PCF) system. The PCF system links with the Vietnamese formal banking system and operates with the same financial indicators. At the core of Vietnam's banking system is the State Bank of Vietnam which, as Vietnam's Central Bank, provides supervision of all other financial institutions including MFIs, commercial banks, state-owned banks, finance and leasing companies, joint venture banks, foreign owned banks and PCFs.

PCFs are credit institutions that are established on a voluntary basis in the form of co-operatives by legal entities, individuals and households. They carry out several different banking activities, but their main purpose is to mutually assist the poor and low-income people and SMEs. Prior to 2000, the PCF system was comprised of three tiers: the Central PCF, Regional PCF and Provincial PCF. Since 2000 the PCF has been re-structured with just two tiers: the Central PCF and the Provincial PCF. While the Central PCF is a single entity, there are currently over 1000 Provincial PCFs operating in Vietnam with combined assets totalling more than USD 2 million¹⁷.

Efforts to further re-organising the two tier model for PCFs is currently underway in order to improve the safety and effectiveness of the existing PCFs, launch new PCFs in rural areas and ensure that PCFs comply with the Law on Credit Institutions and the Cooperative Law. Furthermore, initiatives are also being planned to enhance the respect for the principles of voluntary, autonomy, self-responsibility and mutual benefit, cooperation and community development. Creating greater mutual assistance amongst members of PCFs is also a priority. It is envisioned that these actions will contribute to the development of a sustainable microfinance system that serves the poor and SMEs to support poverty alleviation, agricultural and rural development and mitigate usury.

The Central PCF will be converted to operate under the cooperative banking model. This will enable it to act as a leading coordinator in harmonizing capital in the PCF system. It will also be able to provide support for people's Provincial PCFs and expand its branches to areas with lots of local credit funds and further support them and the capital harmonizing model within the PCF system. The Provincial PCFs will also be re-organized, and split into two categories: Community PCFs and Industrial PCFs. For the current Provincial PCFs that are operating normally, the focus of the re-organization will be on enhancing credit quality, management, operational efficiency, liquidity and lawful compliance. For those that are currently operating poorly, the focus will be on facilitating liquidity problems, solving bad debts and dealing aggressively with deficiency and law violations. Insolvent PCFs will be dissolved, liquidated and have their licences revoked.

To implement these changes the State Bank of Vietnam will coordinate with committees and local governments at various levels to manage, inspect and supervise the process; especially in the liquidation of any funds that are dissolved. The Bank will also promote the propaganda of directions, policies and laws of PCFs to create greater awareness. Lastly, the Bank will propagandize the population to further develop the PCF system with the aim of creating greater assurance and trust amongst depositors.

¹⁷ Source: www.sbv.gov.vn

Appendix: Forum Program

Day One - 11 June 2013	
09:00 – 09:45	OPENING SESSION
09:00 – 09:05	<ul style="list-style-type: none"> Dr. Jae-Ha Park, <i>Deputy Dean, Asian Development Bank Institute</i>
09:05 – 09:10	<ul style="list-style-type: none"> Mr. Amin Subekti, <i>Executive Director, APEC Business Advisory Council and Senior Vice President, PT Indika Energy Tbk</i>
09:10 – 09:15	<ul style="list-style-type: none"> Mr. Shawn Hunter, <i>Networks Manager, The Foundation for Development Cooperation</i>
09:15 – 09:20	Introduction of Keynote Speaker <ul style="list-style-type: none"> Ms. Rajitha Vinnakota, <i>Head of Citizenship & Community Development, Citi Asia Pacific</i>
09:20 – 09:45	Keynote Speech <ul style="list-style-type: none"> Mr. Decy Arifinsjah, <i>Director, Center for Regional and Bilateral Policy, Fiscal Policy Agency, Ministry of Finance of The Republic of Indonesia</i>
09:45 – 10:00	PHOTO SESSION
10:00 – 10:30	BREAK
10:30 – 12:00	SESSION 1: Mobile and Branchless Banking
	Session Chair <ul style="list-style-type: none"> Mr. Shilpak Mahadkar, <i>Head of Mobile Prepaid Solutions, Visa, AP & CEMEA</i>
10:30 – 10:35	Session Chair's opening remarks
10:35 – 10:55	Presentation 1 <ul style="list-style-type: none"> Mr. Eric Duflos, <i>Regional Representative for East Asia and the Pacific, CGAP</i>
10:55 – 11:15	Presentation 2 <ul style="list-style-type: none"> Mr. Elio Vitucci, <i>Managing Director, Experian Microanalytics</i>
11:15 – 11:25	Economy Presentation 1 <ul style="list-style-type: none"> Mr. Ahmad Haniff Jamaludin, <i>Manager, Development Finance and Enterprise Department, Bank Negara Malaysia (the Central Bank of Malaysia)</i>
11:25 – 11:55	Open forum
11:55 – 12:00	Session Chair's closing remarks
12:00 – 13:30	LUNCH

13:30 – 15:00	SESSION 2: Retail Payment Systems
	<p>Session Chair</p> <ul style="list-style-type: none"> Ms. Rachel Freeman, <i>Regional Business Line Manager, A2F Advisory Services, East Asia and Pacific, International Finance Corporation</i>
13:30 – 13:35	Session Chair’s opening remarks
13:35 – 13:55	<p>Presentation 1</p> <ul style="list-style-type: none"> Mr. Ivan Mortimer-Schutts, <i>Leader for Retail Payments and Mobile Banking in East Asia, International Finance Corporation</i>
13:55 – 14:15	<p>Presentation 2</p> <ul style="list-style-type: none"> Mr. Raymond Yap, <i>Vice President, Market Development South East Asia, MasterCard Worldwide</i>
14:15 – 14:30	<p>Economy Presentation 1</p> <ul style="list-style-type: none"> Mr. Yura A. Djalins, <i>Head of Division, Payment Instrument Development Division, Bank Indonesia</i>
14:30 – 14:55	Open forum
14:55 – 15:00	Session Chair’s closing remarks
15:00 – 16:30	SESSION 3: Remittances
	<p>Session Chair</p> <ul style="list-style-type: none"> Dr. Julius Caesar Parrenas, <i>Advisor on International Affairs, The Bank of Tokyo-Mitsubishi UFJ, Ltd.</i>
15:00 – 15:05	Session Chair’s opening remarks
15:05 – 15:20	<p>Presentation 1</p> <ul style="list-style-type: none"> Ms. Leesa Shrader, <i>Senior Consultant, Consultative Group to Assist the Poor (CGAP)</i>
15:20 – 15:35	<p>Presentation 2</p> <ul style="list-style-type: none"> Ms. Rosabel B. Guerrero, <i>Director, Department of Economic Statistics, Bangko Sentral ng Pilipinas</i>
15:35 – 15:50	<p>Presentation 3</p> <ul style="list-style-type: none"> Mr. Juan Borga, <i>Outreach and Partnerships, Lead specialist, Inter-American Development Bank (IDB)</i>

15:50 – 16:00	Economy Presentation 1 <ul style="list-style-type: none"> Mr. Panithan Suksamran, <i>Senior Economist, Fiscal Policy Office, Ministry of Finance, Thailand.</i>
16:00 – 16:10	Economy Presentation 2 <ul style="list-style-type: none"> Mr. Newaz Hossain Chowdhury, <i>Senior Assistant Secretary, Bank and Financial Institutions Division, Ministry of Finance, Bangladesh Secretariat, Dhaka</i>
16:10 – 16:25	Open forum
16:25 – 16:30	Session Chair’s closing remarks
16:30 – 17:00	BREAK
17:00 – 18:30	SESSION 4: Financial Infrastructure I: Legal Frameworks for Secured Lending
	Session Chair <ul style="list-style-type: none"> Nina Nayar, <i>Consultant, The Banking With The Poor Network (BWTP).</i>
17:00 – 17:05	Session Chair’s opening remarks
17:05 – 17:25	Presentation 1 <ul style="list-style-type: none"> Jinchang Lai, <i>Principle Operations Officer, and Lead for Financial Infrastructure, Advisory Services, International Finance Corporation</i>
17:25 – 17:45	Presentation 2 <ul style="list-style-type: none"> Mr. Richard Fisher AM, <i>Adjunct Professor, Faculty of Law, The University of Sydney</i>
17:45 – 17:55	Economy Presentation 1 <ul style="list-style-type: none"> Mr. M.J.S. Abeysinghe, <i>Director, Regional Development Department, Central Bank of Sri Lanka</i>
17:55 – 18:05	Economy Presentation 2 <ul style="list-style-type: none"> Mr. Joselito Suguitan Almaito, <i>Director III, Fiscal Policy and Planning Office, National Credit Council, Department of Finance Philippines</i>
18:05 – 18:25	Open forum
18:25 – 18:30	Session Chair’s closing remarks
19:00 – 21:00	DINNER

Day Two - 12 June 2013	
09:00 – 10:30	SESSION 5: Financial Infrastructure II: Financial Identity and Data Flows
	Session Chair <ul style="list-style-type: none"> ▪ Mr. Phil Cotter, Deputy Managing Director, <i>Business Information Industry Association Asia Pacific</i>
09:00 – 09:05	Session Chair’s opening remarks
09:05 – 09:25	Presentation 1 <ul style="list-style-type: none"> ▪ Dr. Robin Varghese, <i>Vice President, Policy and Economic Research Council</i>
09:25 – 09:45	Presentation 2 <ul style="list-style-type: none"> ▪ Mr. Anthony Hadley, <i>Senior Vice President of Government Affairs and Public Policy, Experian</i>
09:45 – 09:55	Economy Presentation 1 <ul style="list-style-type: none"> ▪ Ms. LV Ceren, <i>Director, Finance Department, Ministry of Finance, PRC</i>
09:55 – 10:05	Economy Presentation 2 <ul style="list-style-type: none"> ▪ Mrs. Phetsamone Chandara, <i>Deputy Director, Legal Division, Financial Institution Supervision Department, Bank of Lao PDR</i>
10:05 – 10:25	Open forum
10:25 – 10:30	Session Chair’s closing remarks
10:30 – 11:00	BREAK

11:00 – 12:30	SESSION 6: Innovative Institutional Frameworks
	<p>Session Chair</p> <ul style="list-style-type: none"> Mr. Kazuto Tsuji, <i>Visiting Senior Advisor to Japan International Cooperation Agency/ Professor, Saitama University.</i>
11:00 – 11:05	Session Chair’s opening remarks
11:05 – 11:25	<p>Innovative and holistic approaches to financial inclusion: Experiences from a project for low-income farm households in Mindanao, Philippines</p> <p>Joint presentation provided by:</p> <ul style="list-style-type: none"> Ms. Cristita Racosalem-Epal, <i>Executive Director, Baba Foundation Inc.</i> Mr. Yojiro Sekiguchi, <i>Operations Management Expert, ARISP – CPMO</i> Ms. Irma T. Canlas, <i>Supervising Agrarian Reform Program Officer, Agrarian Reform Infrastructure Support Project (ARISP) - Central Project Management Office (CPMO), Department of Agrarian Reform</i>
11:25 – 11:45	<p>Value-chain finance and small infrastructure development finance: Experiences from the work of development financing institutions</p> <ul style="list-style-type: none"> Ms. Corazon Conde, <i>Group Head, ADFIAP Consulting, Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)</i>
11:45 – 11:55	<p>Economy Presentation 1</p> <ul style="list-style-type: none"> Mr. Maung Maung, <i>Deputy Director General, Central Bank of Myanmar</i>
11:55 – 12:05	<p>Economy Presentation 2</p> <ul style="list-style-type: none"> Mr. Sonam Tenzin, <i>Deputy Chief Planning Officer, Policy and Planning Division, Ministry of Finance, Bhutan</i>
12:05 – 12:25	Open forum
12:25 – 12:30	Session Chair’s closing remarks
12:30 – 14:00	LUNCH

14: 00 – 16:00	SESSION 7: Financial Education and Consumer Protection
	Session Chair <ul style="list-style-type: none"> Ms. Rajitha Vinnakota, <i>Head of Citizenship & Community Development, Citi Asia Pacific</i>
14:00 – 14:05	Session Chair’s opening remarks
14:05 – 14:25	Presentation 1 (Financial Education) <ul style="list-style-type: none"> Ms. May Garlitos, <i>Training Specialist & Finance Manager, ASKI Global Limited</i>
14:25 – 14:45	Consumer Protection and Financial Innovation <ul style="list-style-type: none"> Ms. Indrani Thuraisingham, <i>Head of CI Office for Asia Pacific and the Middle East, Consumers International</i>
14:45 – 14:55	Economy Presentation 1 <ul style="list-style-type: none"> Mr. Nguyen Cong Hung, <i>Inspector, Off-site Banking Supervision, Banking Supervisory Agency - State Bank of Vietnam.</i>
14:55 – 15:05	Economy Presentation 2 <ul style="list-style-type: none"> Mr. Chou Vannak, <i>Deputy Director of Financial Industry Department, Ministry of Economy and Finance, Cambodia</i>
15:05 – 15:55	Open forum
15:55 – 16:00	Session Chair’s closing remarks
16:00 – 16:30	BREAK
16:30 – 17:30	SESSION 8 (PANEL DISCUSSION): The Way Forward
	Session Chair <ul style="list-style-type: none"> Dr. Yuqing Xing, <i>Director, Capacity Building and Training, Asian Development Bank Institute</i>
16:30-16:35	Session Chair’s opening remarks
16:35 – 16:45	<ul style="list-style-type: none"> Mr. Ricky Satria, <i>Assistant Director, Access to Finance and SME Development Department, Bank Indonesia</i>
16:45 – 16:55	<ul style="list-style-type: none"> Ms. Leesa Shrader, <i>Senior Consultant, Consultative Group to Assist the Poor (CGAP)</i>
16:55 – 17:05	<ul style="list-style-type: none"> Mr. Kazuto Tsuji, <i>Visiting Senior Advisor to Japan International Cooperation Agency/ Professor, Saitama University.</i>
17:05 – 17:15	Dr. Li Kouqing, <i>Deputy Director-General, Asia-Pacific Finance and Development Center (AFDC), China</i>
17:15 – 17:25	Open Forum
17:25 – 17:30	Session Chair’s closing remarks

17:30 – 17:50	CLOSING SESSION
	<ul style="list-style-type: none"> ▪ Dr. Yuqing Xing, <i>Director, Capacity Building and Training, Asian Development Bank Institute</i>
	<ul style="list-style-type: none"> ▪ Mr. Amin Subekti, <i>Executive Director, APEC Business Advisory Council and Senior Vice President, PT Indika Energy Tbk</i>
	<ul style="list-style-type: none"> ▪ Mr. Shawn Hunter, <i>Networks Manager, The Foundation for Development Cooperation</i>
	<ul style="list-style-type: none"> ▪ Mr. Decy Arifinsjah, <i>Director, Center for Regional and Bilateral Policy, Fiscal Policy Agency, Ministry of Finance of The Republic of Indonesia</i>
19:00 – 21:00	FAREWELL DINNER

