

GPF 2018 REPORT ALLIANCE FOR FINANCIAL INCLUSION (AFI)



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INTRODUCTION

Ten years ago, AFI's founding member institutions and early partners joined hands for the first-ever Global Policy Forum (GPF) in Nairobi, Kenya. At this year's landmark 10th anniversary GPF in Sochi, Russia, more than three times as many participants came together to do what the AFI network and its partners have always done: tackle the most pressing financial inclusion issues of our time and make ambitious commitments to transform the financial lives of millions.

Co-hosted by Bank of Russia, the theme of this year's jubilee GPF was "Innovation, Inclusion, Impact", which shone a light on the impact of a decade of financial inclusion policies and ushered in a new era in which innovative financial technologies (FinTech), such as blockchain, biometric IDs, e-wallets and cross-border remittances, promise to move the needle on financial inclusion for the world's 1.7 billion unbanked and rapidly scale up access for those who have been hardest to reach: women, the rural poor and forcibly displaced persons (FDPs).

To help regulators and policymakers navigate this rapidly developing area and keep pace with the changes, the AFI Membership Council unanimously endorsed the Sochi Accord on FinTech for Financial Inclusion, the AFI network's commitment to developing regulatory or policy interventions that balance innovation with financial stability and consumer protection.

AFI also extended its global reach at the 2018 GPF with the launch of the Eastern Europe Central Asia Policy Initiative (ECAPI) and endorsed two frameworks for the issuance of Financial Inclusion Policy Models, which will enable AFI members to share their lessons and experiences with cross-border remittances and the interoperability of digital financial services in Africa and develop policy.

After a decade of building a global policy leadership alliance, AFI turns 10 as the world's leading organization on financial inclusion policy and regulation. Almost 400 policy reforms that have been issued and implemented by AFI members, from regulations on digital financial services to national financial inclusion strategies (NFIS) and financial education initiatives, have had a tangible and significant impact. 634 million adults worldwide have accessed finance as a result of AFI

policy reforms, the number of unbanked adults has dropped from 2.5 billion 10 years ago to 1.7 billion today, and AFI members report that 60 percent of policy and regulatory reforms in their country have been influenced by their membership and work with AFI.

At the end of its first decade, AFI remains united by the same core belief that first set it on its path: that greater financial inclusion will lead to more inclusive economic growth, reduce poverty and build stable financial systems. In the following pages, we present the highlights of the discussions and outcomes of the 2018 GPF, a truly landmark event.



THE 2018 AFI GLOBAL POLICY FORUM

INNOVATION INCLUSION IMPACT

5 - 7 SEPTEMBER 2018, SOCHI, RUSSIA

OUTCOMES OF THE 2018 GPF

AFI's 10th annual Global Policy Forum produced three key outcomes: the adoption of the Sochi Accord on FinTech for Financial Inclusion, the launch of the Eastern Europe Central Asia Policy Initiative (ECAPI), and the announcement of two frameworks for the issuance of Financial Inclusion Policy Models.

SOCHI ACCORD ON FINTECH FOR FINANCIAL INCLUSION

"The adoption of the Sochi Accord is extremely significant for AFI. ... Traditional approaches need a complete relook so that we are able to deliver financial services efficiently and effectively." -

Norbert Mumba, AFI Deputy Executive Director

The Sochi Accord will encourage peer learning and progress on FinTech for financial inclusion, including the exchange of tested and transformative solutions to accelerate access and use of financial services. It will also usher in new Maya Declaration commitments and push AFI members to harness the potential of FinTech to scale up financial access in their countries, strengthen market conduct and protect against risks such as money laundering and data privacy. The Sochi Accord will also provide space for member engagement with developed economies.

EASTERN EUROPE CENTRAL ASIA POLICY INITIATIVE (ECAPI)

At the first GPF to be held in the region, AFI extended its global and policy reach with the launch of the Eastern Europe Central Asia Policy Initiative (ECAPI). Members of ECAPI include the Central Bank of Armenia, National Bank of the Republic of Belarus, National Bank of Georgia, Financial Regulatory Commission of Mongolia, Bank of Russia, National Bank of Kazakhstan, National Bank of Tajikistan and Central Bank of Uzbekistan.

Members agreed to exchange best practices and harmonize approaches to advancing financial inclusion and strengthening market conduct and supervision in the region, with a focus on several key priorities:

"The goal is to focus on issues that are culturally and historically rooted in this region, like remittances and cross-border transactions, digital financial services, market conduct regulation and

supervision, consumer protection, complaints handling and financial education initiatives... The last focus is behavioral insights. We need to think about consumer-centric policy solutions that are really effective in life, not just in law or in documents. We want to bring standards and general policies to life."

Armenuhi Mkyrtchan, Central Bank of Armenia

AFI POLICY MODEL FRAMEWORK

At last year's AGM, the Membership Council endorsed the AFI approach to issuing regulatory and policy guidance based on peer learning, cooperation and a bottom-up approach. This year, members approved two frameworks for the issuance of Financial Inclusion Policy Models.

Innovative cross-border remittances: This policy framework aims to address the cost and efficiency challenges of remittances in Africa. AFI members are encouraged to use this guide to develop or improve their cross-border remittance policies and regulations.

Digital financial services interoperability in Africa: This policy framework enhances in-country policy implementation to expand interoperability among digital financial services providers and other financial services providers to enhance efficiencies, increase customer convenience and scale up both domestic and cross-border payments.

The approval of the AFI Policy Model Framework provides a structure for AFI members to develop and issue policy and regulatory guidance for voluntary adoption in the network and marks a major step forward in realizing the vision of AFI as a global policy leadership alliance.

ANNOUNCEMENT OF MAYA COMMITMENTS

When the Maya Declaration was launched in 2011, it gave AFI members a clear, practical and public way to set financial inclusion targets, implement in-country policy changes and share the progress of their work. Seven years later, the Maya Declaration is still pushing AFI members to lift their national aspirations and drum up domestic and international support to achieve their greatest financial inclusion goals. This year, AFI members announced new and renewed Maya commitments.

NEW MAYA COMMITMENTS

2 - Central Bank of the Bahamas & Insurance Development Regulatory Authority of Bangladesh

NEW MAYA COMMITMENT TARGETS

82 targets from 17 member institutions

RENEWED MAYA COMMITMENTS

11 targets from 5 member institutions

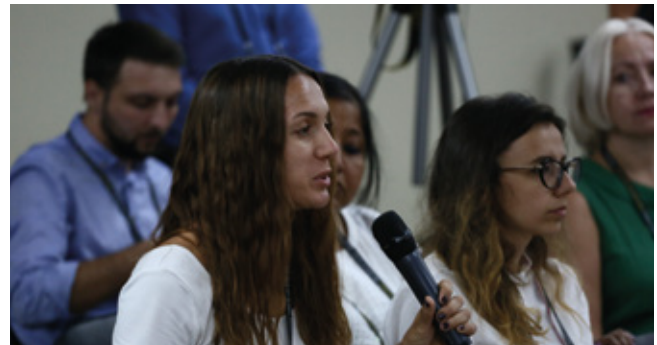
AFI MEETS THE PRESS

At a press conference held ahead of the GPF in Sochi, Governor Elvira Nabiullina of Bank of Russia (CBR) and Dr. Alfred Hannig, Executive Director of AFI, announced the expected highlights and outcomes of the tenth annual GPF, including the launch of the Eastern Europe Central Asia Policy Initiative (ECAPI) and the Sochi Accord on FinTech for Financial Inclusion.

These efforts, Governor Nabiullina said, will enable AFI members in Eastern Europe and Central Asia to exchange best practices, harmonize approaches to improving financial inclusion and consumer protection and strengthen market conduct regulation and supervision - all focus areas for the CBR. Developing an interoperable regional remittance system, expanding financial programs and measuring their impact were also identified as priorities.

Dr. Hannig explained to journalists how the Sochi Accord will provide a framework for AFI members to leverage financial technology to improve financial access, usage and quality for the world's 1.7 billion unbanked, and emphasized that Russia is an important partner when it comes to dealing with the risks of technology.

Finally, Dr. Hannig reflected on AFI's 10-year journey and key accomplishments, reporting that the policy reforms implemented by members have translated into 634 million adults worldwide receiving access to financial services. Members from the EECA region and across AFI's global network, he said, are making new Maya Declaration commitments to tackle two major challenges: closing the persistent gender gap in financial inclusion and building resilience to the financial impacts of climate change.



GPF 2018 BY THE NUMBERS

596 TOTAL PARTICIPANTS



426 AFI MEMBER PARTICIPANTS



351 MALE 245 FEMALE



230 WORKING GROUP ATTENDEES



84 PARTICIPATING AFI MEMBER INSTITUTIONS

78 TOTAL AFI PARTNERS AND STAKEHOLDERS



5 DONORS



10 FUNDERS

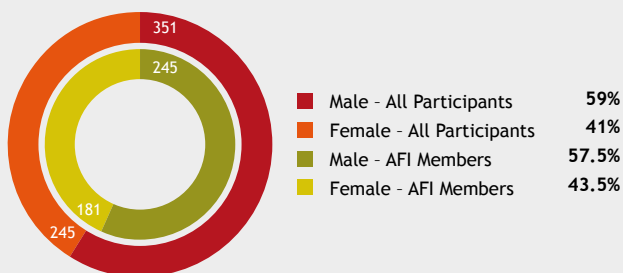


33 OTHER
STAKEHOLDERS

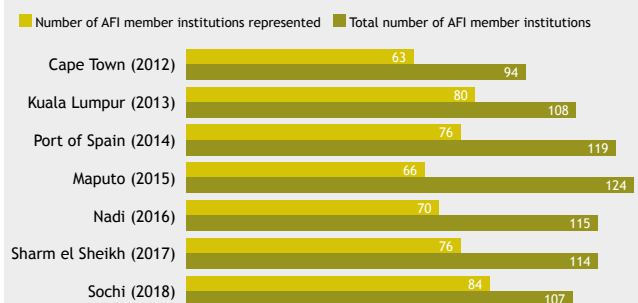


30 PARTNERS

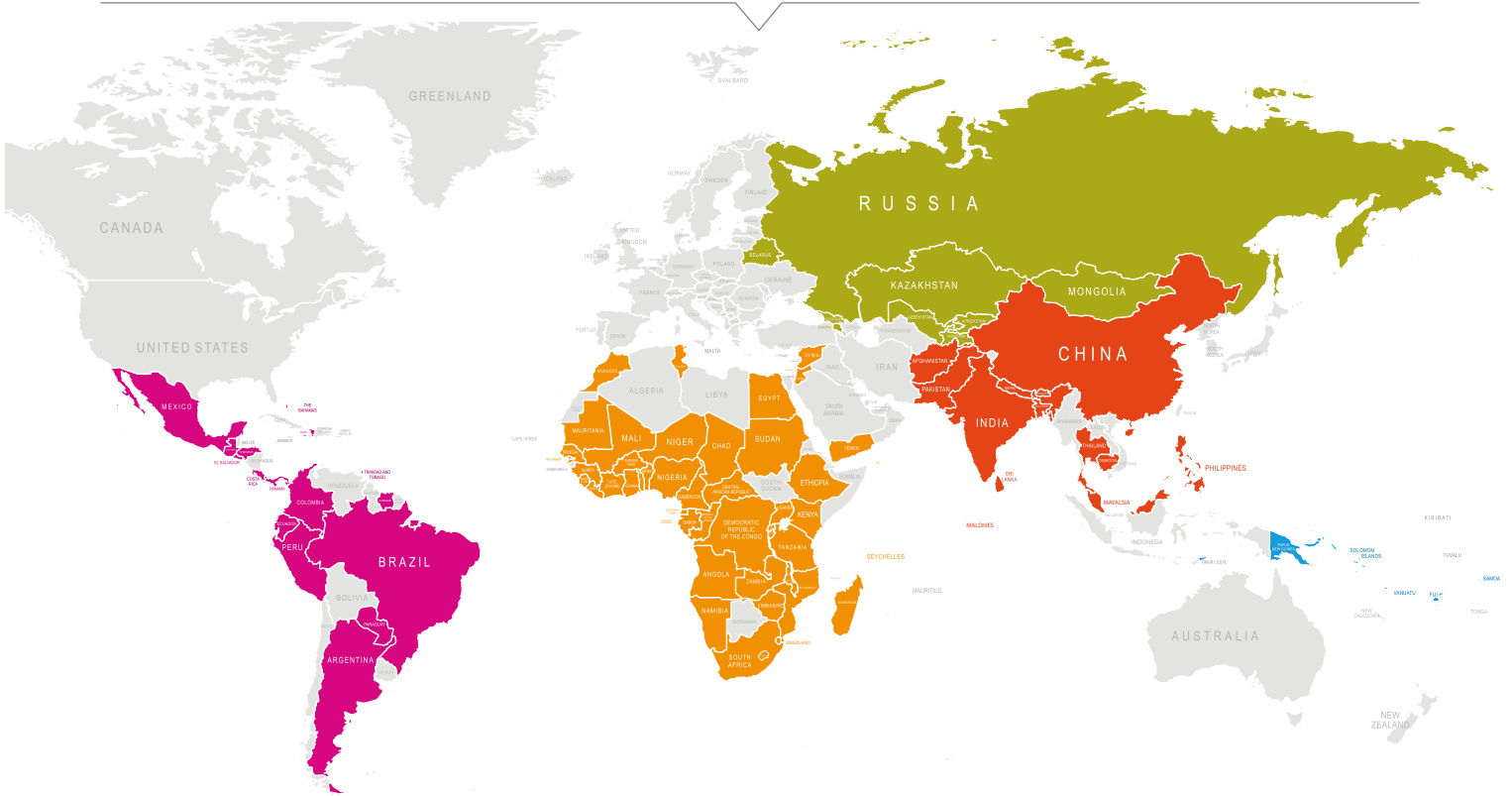
PARTICIPANTS BY GENDER



PARTICIPATING VS. TOTAL MEMBER INSTITUTIONS



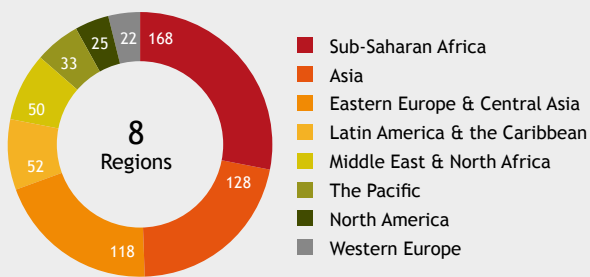
96 COUNTRIES REPRESENTED 76 AFI MEMBER COUNTRIES



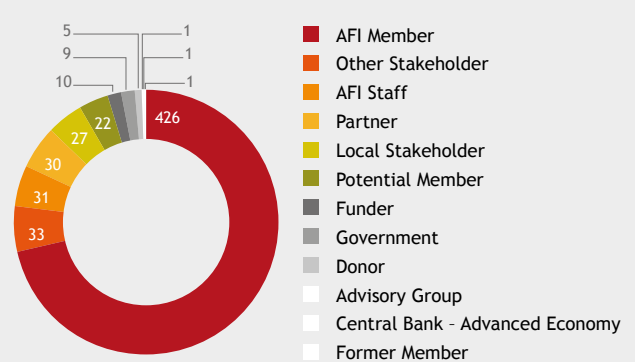
AFI PARTNERS AND STAKEHOLDERS BY REGION

REGION	DONORS	FUNDERS	OTHER STAKEHOLDERS	PARTNERS	TOTAL
SUB-SAHARAN AFRICA	-	-	3	8	11
ASIA	1	-	7	1	9
EASTERN EUROPE & CENTRAL ASIA	-	-	1	4	5
LATIN AMERICA & THE CARIBBEAN	-	-	3	-	3
MIDDLE EAST & NORTH AFRICA	-	3	3	-	6
THE PACIFIC	-	-	2	-	2
WESTERN EUROPE	-	5	8	4	17

PARTICIPANTS BY REGION



PARTICIPANTS BY TYPE



AFI AWARDS

AFI Awards are given to members who have consistently contributed to the wealth of financial inclusion knowledge in the network and advanced peer learning, from hosting training events to reporting progress on Maya commitments.

The nominees have demonstrated strong leadership and acted as champions for financial inclusion on the global stage.

PEER LEADERSHIP AWARD

Bank of Ghana



AFI YOUNG GENERATION AWARD

Winners were from every AFI region:

- > Ms. Jenny Romero and Ms. Nangi Massawee, Bangko Sentral ng Pilipinas
- > Dr. Arthur Pokrikyan, Central Bank of Armenia
- > Ms. Ann Valery Victor, Banque de la République d'Haiti
- > Mr. Aktham Abuassi, Central Bank of Jordan
- > Ms. Liz Julienne, Central Bank of Seychelles
- > Ms. Norma Qurusu, Central Bank of Solomon Islands



TECHNICAL LEADERSHIP AWARD

Ms. Nangi Massawee, Bank of Tanzania



MAYA DECLARATION AWARD

Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)



ADVOCACY CHAMPION AWARD

Advocacy Champion Award recognized leaders of the Pacific Islands Regional Initiative (PIRI) as advocacy champions in de-risking



SPECIAL RECOGNITION AWARDS

AFI honored Member Institutions (and some partners) that hosted an AFI event between GPF 2017 and GPF 2018



Advocacy Champion Award recognized AFI Gender and Women's Financial Inclusion Committee for bridging the financial inclusion gender gap



AFI honored Partnership Champions supported AFI with funding and intellectual cooperation that have scaled up AFI's services significantly



ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting (AGM) of the AFI Membership Council was held on 6 September in advance of the 2018 GPF, with a record 95 percent of voting members in attendance.¹ This was the third AGM since AFI became an independent, member-owned network.

At the meeting, the Council unanimously endorsed the Sochi Accord on FinTech for Financial Inclusion, which provides a framework for AFI members to leverage innovative new technology-based financial services, or FinTech, to advance financial inclusion for the world's 1.7 billion unbanked.

The Council also approved the framework for the issuance of Financial Inclusion Policy Models, a major step forward in realizing the vision of AFI as a global policy leadership alliance. The first policy models, on innovative cross-border remittances and digital financial services interoperability in Africa, will provide a guide for AFI members to share their lessons and experiences and develop or improve policies and regulations in these areas.

As required by the Articles of Association once every three years, the Council deliberated and approved the revision of AFI's membership fee rates.

The Council ratified the appointment of Governor Fazle Kabir of Bangladesh Bank as Chair of the AFI Board. The Membership Council also ratified the appointment of Governor Tarek Amer of the Central Bank of Egypt as the new Vice-Chair of the AFI Board.

The Council also confirmed the reappointments of members of AFI committees for a second term, including the Budget and Finance Committee, Global Standards and Policy Committee, and Gender and Women's Financial Inclusion Committee.

Finally, the Council was presented with the AFI Management Performance Report, which detailed AFI's performance since September 2017 in strategic direction, membership engagement and commitments, member needs assessment, capacity building, working groups, regional initiatives and strategic partnership engagements.

“As AFI members, we have traversed through a decade's journey of developing impactful financial inclusion policies.... As Phase II of AFI's strategic path concludes in 2018, AFI can look forward to 2019 and beyond (Phase III) to scale our position as a global leader in financial inclusion and truly member-driven organization with South-South collaboration.”

Governor Fazle Kabir of Bangladesh Bank and Chair of the AFI Board



¹ The AFI Membership Council is the overall governing body of the AFI network whose strategic decisions steer the organization.



HIGH-LEVEL PUBLIC-PRIVATE DIALOGUE ON BUILDING RESILIENT DIGITAL FINANCIAL SERVICES: EXPLORING EMERGING AND FUTURE RISKS

Globally, digital financial services (DFS) are playing a key role in helping AFI members reach the underserved and unbanked. For example, in China, a leading technology platform is handling more than 250,000 transactions per second. However, these innovations are introducing new risks and challenges that need to be monitored carefully to ensure they do not create systemic risks to financial stability, jeopardize consumer trust or compromise financial integrity.

Regulators and policymakers recognize that full financial inclusion requires a stable and enabling environment that encourages innovation. They also recognize that the new risks of the digital transformation of financial services, such as cybersecurity, will need to be addressed at national, regional and global levels, including through dialogue and cooperation with the private sector.

This High-Level Public-Private Dialogue (PPD) Roundtable aimed to help AFI members prepare to mitigate these risks and ensure that the widespread gains they have seen in DFS uptake do not lose momentum.



The Roundtable addressed the following questions:

- > What risks should AFI members be considering to stay ahead of the curve?
- > What have the private sector and AFI members done to mitigate emerging risks and allow regulators and policymakers to move forward with confidence?
- > Where does the private sector see the greatest need for harmonized policy approaches and policy guidance from AFI?
- > How can the public and private sector work together to address emerging risks like cybersecurity and consumer protection challenges?

The discussion revealed several shared priorities, including improving connectivity, creating interoperable payments platforms, developing electronic Know Your Customer (KYC) procedures that leverage biometrics and adopting appropriate regulatory technologies (RegTech). There was also consensus that continued, systematic public-private dialogue is essential to tackling these issues and that this dialogue should advance to practical, in-depth discussions at the regional level.

“It is very helpful to discuss these issues between public and private sectors, as it allows us to maintain constant engagement in the face of constant technological change, which helps us as regulators to adjust and stay flexible.”

Vice Governor Monique Nsanzabaganwa,
National Bank of Rwanda

NEXT STEPS

Several next steps are envisioned:

- > Enhancing AFI’s capacity building offerings with insights generated from the dialogue;
- > Exploring opportunities to strengthen AFI’s support for in-country policy implementation through cooperation with the private sector and other stakeholders; and
- > In consultation with members and PPD partners, AFI will explore the development of an “Emerging Risks Framework” to help members understand and mitigate emerging DFS risks.



REGIONAL INITIATIVE MEETINGS

AFI's Regional Initiatives bring members together to build high-level consensus on financial inclusion policy issues and find innovative solutions to shared challenges. AFI's five Regional Initiatives – AfPI, FILAC, PIRI and the new ECAPI – met ahead of the GPF in Expert Group meetings and Leaders' Roundtables to discuss new and emerging policy issues, review progress and prepare action plans for 2019.



AFRICAN FINANCIAL INCLUSION POLICY INITIATIVE (AFPI)

AfPI members discussed and agreed on plans to implement two new frameworks – Innovative Cross-Border Remittances in Africa and Digital Financial Services (DFS) Interoperability in Africa – which provide minimum requirements for enabling digital cross-border remittances and DFS interoperability. The group also agreed to develop two more frameworks to provide guidance on digitizing government payments and responsible use of digital credit.

EASTERN EUROPE CENTRAL ASIA POLICY INITIATIVE (ECAPI)

At its first meeting, members of ECAP I endorsed four priority areas: interoperable regional remittance system and cross-border transactions/remittances; market conduct regulation and supervision; regional guidelines for financial education and impact measurement; and behaviorally-based design of financial education programs. Central Bank of Armenia was selected as Chair and Bank of Russia as Vice Chair. Technical staff from ECAP I member institutions will be appointed and will work together to move the priorities of the initiative forward.

FINANCIAL INCLUSION INITIATIVE IN LATIN AMERICA AND THE CARIBBEAN (FILAC)

Members shared progress, challenges and lessons in FILAC's priority areas, including CNBV Mexico's experience using data analytics to assess the impact of banking agents on the use of financial products, and the lessons it has learned from Mexico's new FinTech Law, the first in the region. FILAC's work plan for 2019 includes developing activities to foster the use of e-wallets, advising members on managing cybersecurity and interoperability, and continuing to discuss and share experiences with FinTech, including Argentina's experience developing diagnostic indicators for its FinTech ecosystem. The next LAC EGFIP Meeting will be hosted by the Peruvian Superintendence in Lima in March 2019.

PACIFIC ISLANDS REGIONAL INITIATIVE (PIRI)

The ninth PIRI EGFIP meeting discussed the upcoming training on FinTech for Financial Inclusion in Dili, Timor-Leste, the results of the 2018 AFI Member Needs Assessment (MNA) and the work plan for the coming year. SME finance and inclusive insurance were highlighted as priority areas for the region and members committed to strengthen collaboration on these issues. It was noted that progress has been made in using digital technologies to increase access to finance for women and those in remote areas of the Pacific, but cybersecurity and fraud are challenges that members should tackle together.

OPENING CEREMONY

The first Global Policy Forum to be held in Eastern Europe and Central Asia, the 2018 GPF opened with a bread and salt ceremony, a traditional gesture of Russian hospitality that welcomed nearly 600 AFI members and partners to Sochi.

The First Deputy Governor of Bank of Russia, Ms. Olga Skorobogatova, welcomed participants to Russia and spoke of the role of accessible and affordable financial products and services in what is a vital human project: to make it possible for people everywhere to feel protected, secure and able to meet their financial needs.

Mr. Igor Galas, Deputy Governor of the Krasnodar Region Administration, extended a warm welcome to everyone who had traveled to Sochi. Participants were addressed by Mr. Yevgeny Bushmin, Deputy Speaker of the Federation Council of the Russian Federation, followed by a keynote address from Mr. Maksim Akimov, Deputy Prime Minister of the Government of the Russian Federation.

In his remarks, Mr. Akimov noted that lower cost financial services are being tailored to meet the unique needs of the underserved. “Authorities can now lead the digital transformation of societies, along with the private sector,” he said, adding that in Russia, “digital transformation has been launched as part of the President’s program aimed at reaching all segments of this vast country.” However, he noted that new regulations are needed to meet the demands of this digital transformation and protect consumers from the risks of new financial technologies.

Chair of the AFI Board and Governor of Bangladesh Bank, Mr. Fazle Kabir, and Executive Director of AFI, Dr. Alfred Hannig, both reflected on AFI’s 10-year journey and recognized the support from partners that has

allowed it to evolve from a donor-sponsored project into a thriving, independent and global policy leadership alliance.

“We have galvanized a rich base of practical knowledge on financial inclusion,” Governor Kabir said, and encouraged AFI members to build on the lessons of the last decade to reinvigorate their journey.

Dr. Hannig noted the irony of AFI originating amid a global financial crisis that some believed (erroneously) was the fault of too much inclusion. It is now clear, he said, that the developed world did not have all the answers and that “the incredible innovations coming out of the developing world have shown that there are rich resources of financial knowledge and lessons waiting to be shared.”

However, Dr. Hannig stressed that AFI’s vision to achieve and maintain sustainable financial inclusion will depend on improving the usage and quality of financial products and services, narrowing the gender gap in financial inclusion, and enabling the poor to become more resilient to financial losses stemming from the impacts of climate change. If these issues are not resolved, he warned, we could see a drop off in financial access and a return to poverty for the world’s most vulnerable populations.

The opening ceremony closed with the traditional ringing of the gong, and participants embarked on two days of presentations and discussions.

“Just as one candle lights another and can light thousands of other candles,’ let’s take this sentiment from the great Leo Tolstoy in our quest to bring change to the millions of lives across the AFI network countries and ensure inclusive development.”

Mr. Fazle Kabir, Chair of the AFI Board and Governor of Bank of Bangladesh



AFI 10: IMPACT OF FINANCIAL INCLUSION POLICIES IN THE LAST DECADE

THEME SETTER

Mr. Patrick Ngugi Njoroge, Governor, Central Bank of Kenya

MODERATOR

Dr. Alfred Hannig, Executive Director, Alliance for Financial Inclusion (AFI)

PANELISTS

Mr. Abraão de Vasconcelos, Governor, Banco Central de Timor-Leste

Ms. Tanja Gönner, Chair of the Management Board and Managing Director, GIZ

Prof. Thorsten Beck, Professor of Banking and Finance, Cass Business School, University of London

Ms. Dorothe Singer, Economist, World Bank (Co-author of Global Findex)

Ms. Amina Tirana, Senior Director, VISA

In 2008, financial regulatory authorities from six countries came together with a vision to harness the transformative power of peer learning to achieve ambitious financial goals in their countries. This plenary session on the opening morning of the GPF looked at the latest evidence on the global state of financial inclusion, the key policies driving financial inclusion in countries that have made the most progress, and the relationship between financial inclusion and broader economic and developmental goals, such as poverty reduction and gender equality.



“Financial Inclusion takes time”

Dr. Alfred Hannig, Executive Director, AFI



TEN YEARS OF PROGRESS IN FINANCIAL INCLUSION

When AFI first stepped onto the world stage at the end of 2008, it was a group with a big vision and a steep hill to climb. The global financial crisis was just taking hold and over half the world's adult population did not have access to formal financial services. Microfinance was a success story in some countries, but AFI's vision of formal financial services for all was just beginning to take shape. Today, AFI finds itself on a new course, and research and data shows that significant progress has been made in financial inclusion over the last decade.

- > The AFI network has more than doubled in size, from 38 to 107 member institutions from 92 countries, a clear sign that financial inclusion has become a core policy concern for countries in all continents and at all levels of development.
- > AFI members have collectively implemented almost 400 policy changes to advance financial inclusion. More than 50 members have set concrete, quantifiable financial inclusion commitments under the framework of the Maya Declaration, and more than 40 have adopted National Financial Inclusion Strategies.
- > Globally, research and data show that significant progress has been made in the last decade, with financial innovations and enabling and proportionate regulatory approaches as key enablers;

- > Global awareness of financial inclusion is much higher, moving to the forefront of the G20 agenda and recognized as a key enabler of most of the 17 United Nations Sustainable Development Goals (SDGs).
- > The availability of high-quality data has markedly improved, both in terms of global datasets, such as the World Bank FINDEX and the IMF Financial Access Survey, and sophisticated national data collection efforts that are informing policy and allowing progress to be accurately monitored.
- > Quantitative and qualitative research have greatly enhanced understanding of how financial inclusion is driven at the national level. This includes the role of policy and regulation as well as the impact of the spread of technology and enabling infrastructure, such as national biometric IDs, national payment systems and enhanced digital connectivity.
- > Payments emerged as a key entry point for financial inclusion. Having the new players such as telcos enter the field environment has been crucial, leading to the rise of measures to increase interoperability amongst financial services providers.
- > Financial innovations such as mobile money has had a great impact. It can help firms become more efficient, while small entrepreneurs are able to get greater access to affordable credit. Financial inclusion can also have an impact in addressing the overall development agenda, contributing to inclusive growth and reducing informality.



СПАСИБО MERCI GRACIAS
#AFITURNS10

WHERE SHOULD GLOBAL ATTENTION BE FOCUSED IN THE NEXT DECADE?

The panelists shared the view that despite the achievements of the last decade, major challenges remain, including:

- > the persistent nine percent gender gap in financial inclusion in developing and emerging countries, and ensuring that the benefits of financial inclusion reach rural areas and vulnerable groups, such as forcibly displaced persons.
- > Moving beyond access to focus on the usage and quality dimensions of financial inclusion. Usage remains a challenge in many countries. For example, 40 percent of the 300 million bank accounts opened in India between 2014 and 2017 are dormant.
- > Innovative technologies and digital financial services offer huge potential but must be delivered by responsible providers and supported with adequate consumer protection regulations that includes managing new risks like cybersecurity to avoid consumers losing trust in the services to which they now have access.
- > Building on payments interoperability by expanding the ecosystem to connect to a broader range of services such as savings accounts, health insurance and other products.
- > The role of competition policy to ensure new providers such as non-bank financial institutions (30 per cent of accounts in the banking system in Timor Leste) can enter the financial services marketplace, whilst avoiding risks of regulatory arbitrage.

As part of discussions on lessons about the impact AFI has had in the past decade, Ms. Tanja Gonner of GIZ, shared her view that key elements of AFI cooperation model have wider applicability in international development and can be replicated in other contexts, particularly the values of 'equality, fairness, self-governance for countries, and ownership'.

"FinTech offers the greatest hope for aligning ourselves with the objective of deepening financial inclusion also shared prosperity"

Dr. Patrick Njoroge, Governor, Central Bank of Kenya



FINANCIAL INCLUSION SUCCESS STORIES

KENYA

Following the launch of M-PESA in 2007 and the Microfinance Act in 2008, Kenya has achieved dramatic increases in financial inclusion. Today, about three-quarters of the population have either a bank account or mobile money account from a formal regulated institution. Mobile money has been a key driver of financial inclusion in Kenya, with payment, credit, savings and insurance products all available through the M-PESA platform. Mobile money accounts for 90 percent of all transactions, even though they represent less than 10 percent of the value.

"The population really voted with their feet, wanted to be unshackled from brick and mortar environment... FinTech offers the greatest hope for aligning ourselves with the objective of deepening financial inclusion and shared prosperity."

Governor Patrick Njoroge, Central Bank of Kenya

TIMOR-LESTE

A 2018 supply-side survey conducted by Banco Central de Timor-Leste found that almost 400,000 people in Timor-Leste are banked, a significant improvement in just 10 years, but more access points are needed for the 70 percent of the population who live in rural areas, and better payment options are needed for all.

"In Dili at the weekend you see long queues at Western Union and MoneyGram. Why should people have to do this instead of transferring money straight into their accounts?"

Governor Abraão de Vasconcelos,
Banco Central de Timor-Leste

Timor-Leste's National Financial Inclusion Strategy (NFIS) for 2017-22 includes initiatives to extend access to financial services for at least 80 percent of the population in the next five years, with a special focus on young adults 17 to 30 years old. Other efforts include:

- > Integrating the entire financial system, including money transfer operators sending money across borders;
- > Introducing interoperability with a mandatory requirement for all e-money issuers to connect with the national switch, including for utilities payments.
- > Enabling non-bank financial institutions (NBFIs) to reach areas commercial banks have not. Two NBFIs, which account for over 30 percent of accounts in the banking system, have already been licensed.

RUSSIA'S FINANCIAL INCLUSION JOURNEY

MODERATOR

Elman Mekhtiev, Board Member, National Association of Professional Collection Agencies

PANELISTS

Mr. Mikhail Mamuta, Head of the Service for Consumer Protection and Financial Inclusion, Bank of Russia

Mr. Andrey Melnikov, Vice Chair, Association of Banks of Russia

Mr. A. Rudenko, Director General, Sberbank Insurance, LLC

Mr. Viktor Klimov, Leader of the For the Borrowers' Rights Project

For Bank of Russia, financial inclusion is at the top of the agenda. The same year that the Bank approved a National Financial Inclusion Strategy for Russia, they also hosted the GPF, welcoming financial inclusion regulators and policymakers from around the world. Russia's financial inclusion journey has been described as "swift but successful". Since joining AFI in 2014, Bank of Russia has adopted a financial inclusion action plan and developed strategies and targets for financial literacy, consumer protection and FinTech.

THE GOALS, TARGETS AND PROGRESS ON RUSSIA'S MAIN FINANCIAL INCLUSION GOALS

1	2	3
GOAL Increasing financial inclusion in remote, rural and sparsely populated areas	GOAL Expanding possibilities for SMEs to receive funding	GOAL Creating incentives for financial inclusions to increase financial inclusion for vulnerable groups of population with limited access to financial services (low income, disabled and elderly persons and other mobility-impaired groups)
TARGET 2020 Increase the quality of access points to financial services in remote, rural and sparsely populated areas	TARGET 2021 Increase the SMEs dept portfolio	TARGET 2022 Complete the work on the formation of an inclusive financial environment and remove barriers in receiving financial services for the most vulnerable groups of population
RESULT Increased x 2	RESULT Increased x 1,5	RESULT Inclusive financial environment is created. All of the barriers are eliminated.

FINANCIAL INCLUSION INITIATIVES AND PROGRESS

Russia's National Financial Inclusion Strategy has three main goals: 1) to improve the quality, accessibility and speed of access to financial services, with a special focus on increasing the financial inclusion of consumers in remote and rural areas; 2) increasing financing for SMEs; and 3) enhancing financial inclusion for those with limited access to financial services, including low-income, disabled and elderly persons and other mobility-impaired groups. Closing the stark rural-urban divide is a priority as 95 percent of cities, towns and urban-type settlements have enough bank branches, while 95 percent of rural settlements have no bank branches at all.

Clear progress has been made on all these goals. The number of adults using accounts has increased by 10 percent since 2016 and it is becoming more affordable for adults to use financial services, such as obtaining a loan or opening an account. The goals, targets and progress on Russia's main financial inclusion goals are outlined opposite.

WHAT'S NEXT IN RUSSIA'S FINANCIAL INCLUSION JOURNEY?

Together with financial institutions and other organizations, Bank of Russia is planning to establish the Association for Financial Literacy Development, which will aim to increase the financial literacy of the Russian population and SMEs. Planned activities include scaling and replicating successful financial literacy initiatives, supporting a financial literacy volunteer movement, and unifying financial literacy standards.

Work will also continue on the promotion of financial inclusion for the disabled and those with limited mobility, led by a working group that has developed a roadmap and issued: 1) guidance on providing proper service to disabled customers in banks and non-credit institutions; and 2) Basic Standards on Consumer Rights Protection for Financial Institutions, which include provisions on serving disabled customers. In partnership with disability organizations and independent experts, the working group is conducting research on the level of financial inclusion and access to financial services for disabled persons and those with limited mobility, analysis and application of international best practices in providing services to these groups, and rating financial institutions.

Finally, there is a national project underway to promote the financial inclusion of SMEs. The Strategic Development Plan, "Small and Medium-Sized Enterprises and Individual Entrepreneurial Initiatives Support", aims to promote lending to SMEs by banks and microfinance institutions, boost capital market financing, strengthen government funding and support (e.g. crowdfunding, leasing, factoring), shift from paper financial documents to digital, improve alternative financing instruments, and implement securitization mechanisms for SME loans.

BREAKING DOWN THE BLOCKCHAIN AND ITS RELEVANCE TO FINANCIAL INCLUSION

THEME SETTER

Dr. Jesimen Tarisai Chipika, Deputy Governor, Reserve Bank of Zimbabwe

MODERATOR

Mr. Hayder Al-Baghdadi, GIZ, Egypt

PANELISTS

H.E. Ms. Neav Chanthana, Deputy Governor, National Bank of Cambodia

Mr. Ellison Pidik, Assistant Governor, Bank of Papua New Guinea

Dr. Janet Terblanché, Divisional Head, Policy, Statistics and Industry Support Department, South African Reserve Bank

Blockchain technology has seen a surge in interest as first bitcoin and then numerous other cryptocurrencies have been marketed to consumers in almost every country. However, many policymakers are looking beyond cryptocurrencies to the role that underlying blockchain technology could play in addressing specific pain points. In the financial services sector, the application of blockchain is being tested for domestic and cross-border payments, customer due diligence and KYC compliance and securities settlement. This session examined three use cases in which blockchain technology is helping to promote and accelerate financial inclusion.

BLOCKCHAIN AND FINANCIAL INCLUSION: EXPLORING THE POTENTIAL

BAKONG PROJECT: CREATING A DIGITAL CURRENCY FOR A CENTRAL BANK

In April 2017, the National Bank of Cambodia and Soramitsu created a central bank digital currency using

blockchain and distributed ledger technology (DLT) called the Bakong Project. Financial institutions that join Bakong register with the central bank and top up the Bakong settlement account. Financial institutions can then send money to each other through the Bakong desktop application. Each participating financial institution can create accounts for their users and are responsible for managing their customers' accounts, including KYC.

IDBOX: BLOCKCHAIN FOR IDENTITY

Lack of identity is one of the major barriers to financial inclusion. Seeing the opportunity to leapfrog mature economies and conventional models with new technologies, Bank of Papua New Guinea is testing blockchain to develop an identity trust framework. The first proof of concept in 2017 was successful and the Bank is in the process of conducting another.

PROJECT KHOKHA: BLOCKCHAIN FOR WHOLESALE PAYMENTS

South African Reserve Bank is testing the use of DLT for interbank payments settlement. Project Khokha will provide a better understanding of how the South African Multiple Option System (SAMOS) would integrate with a DLT system, which several central banks have already demonstrated is well suited to wholesale payments. Project Khokha has shown that a DLT system can sustain process speeds to cope with typical transaction volumes of the operational environment.

Panellists agreed that blockchain initiatives are at a preliminary stage. However, as Bank of Papua New Guinea highlighted: "Ignorance is not basis for good policy and governance". These pilot initiatives would help in learning more about the blockchain technology as a solution to issues they are facing such as identity, payments, remittances. These lessons will be crucial when assessing the effectiveness of blockchain technology and benchmarking it with existing technology infrastructure.



DIGITAL IDENTITY: A FINANCIAL INCLUSION REVOLUTION FOR THE MOST VULNERABLE POPULATIONS

THEME SETTER

Mr. K.D. Ranasinghe, Deputy Governor, Central Bank of Sri Lanka

MODERATOR

Dr. Douglas Arner, Professor of Finance, Hong Kong University

PANELISTS

Mr. Amr Ahmad, Central Bank of Jordan

Mr. Obogo J. Acheme, Central Bank of Nigeria

Mr. Yuri Bozhor, Financial Inclusion for the disabled, Bank of Russia

Prof. Leon Perlman, Digital Financial Services Observatory, Columbia University

Proof of identity is a mandatory requirement of global Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) standards and is vital to safeguarding the overall integrity and safety of the financial system. However, for those who lack identification, most often women, rural residents and forcibly displaced persons (FDPs), financial services can be out of reach. This session looked at how digital identity is opening doors for the world's most vulnerable populations.

Due to mandatory Know Your Customer (KYC) requirements, formal financial institutions cannot open a bank account without a recognized form of identification, and even with this proof require a face-to-face meeting with customers. However, digital identification is making access to formal financial services easier and more convenient as authentication can provide banks with all the information they require



without the need for the customer to travel to a bank branch.

Although national digital ID systems can remove access barriers to financial services, gap analyses of national ID systems are revealing a lack of coordination between multiple regulators, within different country regions, and even within national banking systems themselves. Several central banks have found ways to integrate parallel systems, however, and are accelerating financial inclusion by providing alternative digital identities for their countries' most vulnerable populations.

DIGITAL IDENTITY SUCCESS STORIES

JORDAN

Central Bank of Jordan allows refugees in the country to open a mobile wallet once their biometrics have been captured by UNHCR and they have established a digital identity. The Central Bank has also established a regulatory sandbox to find ways to enhance onboarding and financial inclusion initiatives for refugees.

RUSSIA

Bank of Russia is leveraging its national digital ID system to serve the country's 30 million people with disabilities by using their biometrics for remote onboarding.

NIGERIA

Central Bank of Nigeria has established a centralized biometric ID system for the banking system called BVN, which provides a functional ID for individuals to access the financial system, and allows the Central Bank to protect consumers from fraud and promote the use of payments, microloans and a savings culture. Since BVN was launched in 2014, financial inclusion has increased significantly in the country.

“The digital revolution has changed the way the world works, learns, communicates, does business and treats illness. It provides immense opportunities for progress in all walks of life in all countries. We should harness the opportunity to promote financial inclusion.”

Norbert Mumba, Deputy Director, Alliance for Financial Inclusion



SCALING INSURANCE FOR FINANCIAL INCLUSION

THEME SETTER

Mr. Ernesto Velazquez-Argaña, Deputy President, Banco Central del Paraguay

MODERATOR

Ms. Anke Green, Advisor, GIZ, Access to Insurance Initiative

PANELISTS

Mr. George Awap, Senior Manager, Bank of Papua New Guinea

Mr. Md. Shafiqur Rahman Patwari, Chairman, Insurance Development and Regulatory Authority, Bangladesh

Ms. Karen Miller, Vice President, Knowledge and Communications, Women's World Banking

Mr. Igor Yurgens, President, All-Russian Insurance Association

A full suite of financial products is necessary to comprehensively address the needs of the poor, including insurance. Although a growing number of policies and products are being offered, insurance has only recently become an integral part of national financial inclusion strategies (NFIS) or other financial sector strategies (FSS). In this session, panelists explored the experiences of Paraguay and Papua New Guinea and the role of regulators and the private sector in integrating insurance in national strategies, with a focus on unserved and underserved customers.

THE EXPERIENCE OF PARAGUAY

How can insurance be best integrated in NFIS and what should stakeholders consider during implementation? In Paraguay, insurance for vulnerable populations has been on the national agenda since its original NFIS was issued, with microinsurance and agricultural insurance promoted to improve the social well-being of the poor and underserved.

THE EXPERIENCE OF PAPUA NEW GUINEA

In Papua New Guinea, research has identified mobile microinsurance as the best way to reach customers in this island country, where 67 percent of the population has a mobile phone and the liberalization of telcos in recent years has stimulated uptake of mobile banking.

“The island landscape, rough terrain, creates complexity for PNG - traditional insurance and other financial services are not accessible, technology is needed for penetration to remote populations.”

George Awap, Bank of Papua New Guinea

NEW REPORT SUPPORTS THE INTEGRATION OF INSURANCE IN NFIS

The National Financial Inclusion Strategies Survey Report was launched during this session. The most important finding of the report is that when insurance is comprehensively integrated into the NFIS, an ideal enabling environment for policy intervention follows, stimulating alternative distribution channels. However, stakeholder collaboration from the beginning of this process is essential.



Public-private partnerships with mobile and insurance providers have played an important role in reaching and attracting new customers in PNG. BIMA, a global microinsurance provider, entered the PNG market in 2014 in partnership with Capital Life Insurance, a local underwriter, and PNG's largest mobile provider, Digicel. The offerings are appealing to first-time and low-income customers who, with a simple text message, can purchase medical, life, agricultural and other types of insurance for just a quarter or dime a day. Although insurance was not originally part of the Bank of Papua New Guinea's financial literacy agenda, it became clear that new policy owners, now numbering more than 600,000, needed to be better educated in its products and policies, and that insurance had to be added as a focus area. The central bank has also embraced technology and innovation and is taking a light touch to the regulation of microinsurance offered by licensed banks and non-banks.

In Russia, inclusive insurance is considered “a vestige of the Soviet past”, with the state providing insurance and social security to the entire population regardless of income. New forms of insurance, such as mobile, car and travel, are becoming widely available as a one-click product, but Igor Yurgens of the All-Russian Insurance Association says that ‘financial



enlightenment' is needed to educate beneficiaries on new options as there is a widespread expectation that insurance is the sole responsibility of the state. The insurance community and companies are developing low-cost insurance programs (\$3 a year ensures a house or apartment for up to \$30,000), but government cooperation is needed to implement them and public-private cooperation to bring them to scale.

INCLUSIVE INSURANCE FOR WOMEN

Research and sex-disaggregated data have shown that women have a unique hierarchy of financial needs that require particular insurance products and services, including maternal health coverage. In Jordan, Egypt, Morocco and Peru, a per diem payout was tested to address the hidden healthcare costs for women in hospital, such as childcare, additional food, medication and absence from work. Women's World Banking has found that delivering innovative interventions such as these and explaining the benefits requires clear and effective communication, marketing and education, particularly for low-income women with low literacy levels.

"Women are extraordinary CFOs of their households. However, their financial stability and security, and household economy is a delicate house of cards, an unexpected health emergency, agriculture crisis, breadwinner loss, can destabilize this fine balance. However, insurance plays a critical role in ensuring that resiliency."

Karen Miller, Women's World Banking

CONCLUSIONS AND NEXT STEPS

Integrating inclusive insurance in an NFIS is key to building an enabling environment for the insurance market and extending coverage to the poor. The session concluded with a call for AFI members to make Maya commitments in this area, and the Insurance Development and Regulatory Authority of Bangladesh reported its intention to make a Maya commitment related to insurance coverage for Bangladeshi migrant workers for loss of work, loss of income, injury and death.



INCLUSION, INNOVATION AND IMPACT: PERSPECTIVES ON FINANCIAL EDUCATION

THEME SETTER

Mr. Derek S. Rolle, Deputy Governor, Central Bank of the Bahamas

MODERATOR

Ms. Ekaterina Petelina, VISA

PANELISTS

Dr. Seeku Jaabi, First Deputy Governor, Central Bank of The Gambia

Mrs. Yangchen Tshogyel, Deputy Governor, Royal Monetary Authority of Bhutan

Ms. Armenuhi Mkrtchyan, Head of Consumer Protection and Financial Education Center, Central Bank of Armenia

Mr. Moisés Coelho, Banco Central do Brasil

Ms. Anna Zelentsova, Ministry of Finance, Russia

Financial education is widely recognized by policymakers and leaders across the world as an important life skill and tool for managing personal finances. Studies have shown that effective financial education programs tailor methodology and content to the financial needs of the target audience. In this session, panelists from six AFI member countries shared their experiences with financial education, literacy and capability in the context of the GPF theme: financial innovation, inclusion and impact.

Due to mandatory Know Your Customer (KYC) Financial education goes hand in hand with financial inclusion, as lack of education can lead to a perceived lack of available and accessible financial services. Financial literacy, on the other hand, leads to more responsible lending, the development of a savings culture and entrepreneurship.



Those most in need of financial education are typically youth, women and rural residents. What are AFI member institutions doing to reach these groups with quality financial education programs and what impact are these programs having on financial inclusion?

THE BAHAMAS: A FIVE-POINT STRATEGY

Central Bank of the Bahamas has a five-point strategy to drive financial inclusion: 1) innovative financial services delivery; 2) clarifying KYC standards; 3) credit bureaus; 4) financial literacy; and 5) banking penetration. In practice, this has meant improving the country's electronic payments framework to reduce the use of cash, and a nationwide financial literacy campaign to promote awareness of financial products to attract new customers.

THE GAMBIA: SKILL BUILDING

Financial institutions in The Gambia offer financial education and capacity building programs to help customers improve their financial management skills. The programs focus on improving their level of financial literacy, loan repayment, strengthening the impact of finance (e.g. business loans to support growth) and building entrepreneurship capabilities.

BHUTAN: VALUES-BASED EDUCATION

In Bhutan, financial education is based on a strong moral foundation, integrating values such as the dignity of labor. Deputy Governor Yangchen Tshogyel of the Royal Monetary Authority of Bhutan emphasized that leadership is important in driving financial education and that financial literacy policy works best when it is tailored to people's needs.

RUSSIA: LONG-TERM FINANCIAL EDUCATION

In Russia, financial education for youth includes developing a financial capabilities framework and education materials for elective courses and extracurricular activities from pre-school through high school, as well as courses for colleges and universities.

The Ministry of Finance is currently piloting eight million textbooks in 60 regions, and financial literacy is integrated in Russia's national curriculum with trainers trained at the national level. These efforts are paying off, as the OECD PISA financial literacy assessment moved Russia from tenth place to fourth place in just three years.

BRAZIL: HUMAN-CENTERED DESIGN

In Brazil, the main financial inclusion challenge is not access, but quality. Banco Central do Brasil chose a human-centered design to deliver online courses, case study databases and videos, and an impact assessment has revealed a statistically significant improvement in the country's financial literacy levels.

ARMENIA: MEASURING FINANCIAL CAPABILITY

Central Bank of Armenia, in cooperation with AFI, has elaborated a new financial capability measurement tool called the Financial Capability Barometer (FCB) which assesses knowledge, skills, attitude and behavior. With the FCB, it is important to identify all the factors that play an important role in the implementation of a financial education policy, including: Economic Impact, Budget Management, Savings and Long-term Planning, Debt Management, Shopping Around, Rights Protection and Safety.

CONCLUSIONS

Panelists agreed that financial education programs should use new interactive technologies to expand their reach and improve quality, and that they should be tailored to users' needs. It was recommended that governments should find new ways to deliver educational programs, including online and mobile, and partner with business to deliver them efficiently. Finally, the impact of financial education should be measured regularly using a consistent set of KPIs aligned with key stakeholders.

“Financial literacy should be approached in a holistic manner. It is about empowering the customer and instilling the right mindset and discipline around finance. It is critical for promoting access to finance by creating incentives and environments that promote desired financial behaviors such as borrowing, saving, investing, or using credit wisely.”

Dr. Seeku Jaabi, Deputy Governor, Central Bank of The Gambia



FINTECH FOR FINANCIAL INCLUSION

THEME SETTER

Dr. Daniel Schydlosky, Associate, David Rockefeller Center for Latin American Studies, Harvard University

MODERATOR

Mr. Norbert Mumba, Deputy Executive Director, Alliance for Financial Inclusion (AFI)

PANELISTS

Mrs. Elsie Addo Awadzi, Deputy Governor, Bank of Ghana

Ms. Olga Skorobogatova, First Deputy Governor, Bank of Russia

Dr. Douglas Arner, Professor of Finance, Hong Kong University

Ms. Smita Aggarwal, Director Investments, Omidyar Network, India

In the last eight years (2010-17), 1.1 billion more adults across the globe have entered the formal financial system. This translates into 3.8 billion people, or 69 percent of adults globally, who now have access to a formal account. This is remarkable progress, but there is still a long way to go, both in terms of access and use. Financial technology, or FinTech, has the potential to scale up financial access and usage quickly and these innovations are already in action with alternative credit assessment models, smartphone-based payments and biometric IDs. In this plenary session, panelists provided guidance for regulators on these new technologies and identified a range of ways to leverage them to advance financial inclusion.



The rise of digital technology is transforming our personal relationships, the way we pay for goods and services, and how we save, borrow and send money. Disruptive innovations like artificial intelligence, machine learning, blockchain technology, biometric identification, cloud computing and the use of big data are revolutionizing how financial information is collected and processed, and are making it easier, more affordable and convenient for consumers to access tailored financial products and services.

There is strong appetite among AFI members to understand the nature and potential of these FinTech innovations and how they can be leveraged to dramatically scale up financial access and use. There is an equally strong appetite to understand, anticipate and manage the new risks these technologies pose to cybersecurity, personal data and consumer protection, and ensure consumer trust and a safe and sound financial system.

FOUR PILLARS OF FINTECH FOR FINANCIAL INCLUSION

For regulators, facilitating FinTech for financial inclusion rests on four key pillars:

- > Digital identification and e-KYC;
- > Open and interoperable payment systems to encourage scale;
- > Access to transaction accounts with added value (key to enhancing usage); and
- > Use of diverse financial services.

GUIDANCE FOR REGULATORS

Panelists had a range of recommendations for regulators. First, they encouraged regulators to devise appropriate enabling regulatory environments, including effective risk mitigation. Such environments would allow regulators to address the new risks and challenges of FinTech while empowering consumers to provide consent on the use of their personal data, for example.



Regulatory sandboxes were held up as a useful tool for testing ideas before introducing changes to regulations, and regulators were encouraged to develop roadmaps to ensure regulatory reforms protect consumers but do not stifle innovation. In the FinTech space, peer learning is key, and regulators were urged to draw on the policy lessons of experienced peers or advanced economies. As Deputy Governor Elsie Addo Awadzi of Bank of Ghana advised, it is important to “form strategic alliances with a wide range of financial service providers, banks, non-banks and FinTechs to drive FinTech for financial inclusion.”

Panelists also pointed to the importance of devising and promoting programs that facilitate person-to-business (P2B) payments to make e-commerce ubiquitous and reduce reliance on cash. As Dr. Daniel Schydrowsky pointed out, “The ecosystem of FinTech will not be complete unless the citizens at the bottom of the pyramid are able to easily transact without cash... person to business payments are still an impeding challenge”. It was recommended that policies support greater use of financial technologies throughout the supply and distribution chain to lower the costs of digital payments and ultimately boost user uptake.

NEXT STEPS

The Sochi Accord on FinTech for Financial Inclusion adopted at this year’s GPF will help AFI members ensure that FinTech is truly transformative. AFI is concentrating its immediate efforts on compiling experiences with FinTech innovations that help to include the unbanked, close the gender gap in financial inclusion, manage the financial risks of climate change, mitigate the challenges of de-risking and lower the costs of cross-border remittances.

A recent AFI report elaborates these four pillars in more detail and provides guidance in this emerging area:

- > **FinTech for Financial Inclusion: A Framework for Digital Financial Transformation.**



THE FINANCIAL INCLUSION LANDSCAPE OF INNOVATION

THEME SETTER

Dr. Davaasuren Sodnomdarjaa, Chair, Financial Regulatory Commission of Mongolia

MODERATOR

Dr. Stefan Staschen, CGAP

PANELISTS

John Mwaka, CEO, Sacco Societies Regulatory Authority, Kenya

Mr. Vladimir Tamozhnikov, Director Financial Market Strategy Department, Bank of Russia

Mr. Chen Leiming, Senior Vice-President, Ant Financial

Mr. James Wainaina, Group Head of Access and Sales, Letshego Group

Digital financial inclusion and FinTech innovations are distinguishing themselves from traditional brick-and-mortar financial services by allowing new providers, such as electronic money issuers, to provide an array of tailored, low-cost offerings through broad agent networks that reach first-time customers. This session heard about financial, technological and regulatory innovations in AFI member countries that are helping to spur economic growth, reduce income inequality, and ensure financial stability and consumer protection.

FINANCIAL INNOVATIONS IN MONGOLIA

In Mongolia, financial innovation has been spearheaded by non-bank institutions offering digital financial services. 83.8 percent of the population now use DFS and mobile lending has captured more than a quarter of the adult population. These untraditional financial services have helped to promote more gender balance - Mongolia’s gender gap is statistically insignificant - and allowed providers to target underserved populations, especially rural residents and youth.



TECHNOLOGICAL INNOVATIONS IN ASIA

The meteoric rise of technology company Ant Financial, formerly Alipay, has seen 15 million SMEs in China and other South and Southeast Asian markets generate over USD 146 billion. Thanks to the use of blockchain technology, Ant Financial's microloan applications can be completed in a record three minutes and loan decisions are made and funds are transferred within one second, reaching borrowers' accounts with no human intervention.

Another example of FinTech innovation is YuEbao, the largest global money market fund built on micro-investments. With a subscription of just 1 RMB, YuEbao's more than 300 million investors have seen over RMB 150 billion in daily interest and cumulative value. Innovative, yet sound and transparent, distributed ledgers and artificial intelligence have enabled billions of marginal transactions to become an attractive and sustainable business case.

REGULATORY INNOVATIONS IN RUSSIA, KENYA AND BOTSWANA

RUSSIA

Bank of Russia has been playing a proactive role in enabling innovation in financial infrastructure and payment systems, including digital identity, to strengthen the digital ecosystem. A regulatory sandbox approach is in place to test new business models and alternative regulatory approaches, and the Bank is taking a strategic approach to the potential risks of artificial intelligence, distributed ledgers, cryptocurrencies and other innovations.

KENYA

As DFS pioneers, Kenyan regulators do not tend to stand in the way of innovation. Today, the regulator of Kenya's financial cooperatives, the Sacco Societies Regulatory Authority (SASRA), is improving the effectiveness of services with a bank sheet approach that classifies an institution's risk level by size and enables a proportionate approach.

According to John Mwaka, CEO of SASRA, an innovative regulatory environment requires capacity building to understand the market, effective coordination between different regulators, and striking the right balance between addressing risks and enabling an innovative and growing environment.

BOTSWANA

Over the last 20 years, Letshego has evolved from a traditional microfinance institution to a FinTech company offering digital financial services in 11 markets in Africa and Asia. From peer-to-peer lending to savings and microinsurance, Letshego has been innovative not only in digitizing its financial services, but in its approach to regulatory compliance. In five of its East African markets, it has adopted regulatory technology to comply with requirements, and has collaborated with financial authorities in Mozambique to pilot new products in a regulatory sandbox.

CONCLUSIONS

The session concluded with a discussion of three issues needing additional attention:

- > **Segmentation of technology:** As technology evolves it is becoming increasingly segmented. For example, there are currently discussions among regulators and service providers about the jurisdictional concerns and regulatory processes for hosting platforms on the cloud and the types of software to be used.
- > **Commercialization:** As the number of service providers increases across markets, the risk and profit of new business models are shared more broadly, making it increasingly difficult to untangle the relationships between different technology service providers. This will require innovative regulation.
- > **Market leaders, not monopolies:** The rise of new market leaders could give rise to competition policy issues and the need to avoid monopolies developing, which would be harmful to consumers' interests.



GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION: A DIALOGUE WITH THE G20

MODERATOR

Mr. Robin Newnham, Alliance for Financial Inclusion (AFI)

PANELISTS

Mr. Lazarus Kamanga, Director, Banking, Currency and Payment Systems, Bank of Zambia

Mr. Gabriel Bizama, Director of Financial Inclusion, Ministry of Finance, Argentina

Mr. Wolfgang Buecker, Head of Financial Sector Development, GIZ, Germany

Ms. Zaira Viviana Badillo Luna, Deputy General Director, Access to Finance, CNBV Mexico

The Global Partnership for Financial Inclusion (GPF) was established in 2010 at the G20 Leaders' Summit in Seoul, Republic of Korea. The GPF is an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders, to advance financial inclusion globally. The GPF is the chief implementing mechanism for the G20's Financial Inclusion Action Plan (FIAP).

The Alliance for Financial Inclusion (AFI) has served as a key implementing partner of the GPF since its inception in 2010, supporting technical work in each of the GPF subgroups and with a special mandate to raise the views and perspectives of non-G20 developing and emerging countries. This session highlighted this work and looked at how the GPF's priorities are aligned with and relevant to the AFI network, providing practical examples of collaboration in Mexico and Zambia. The session called for greater collaboration of international and national stakeholders to tackle the complex factors contributing to financial exclusion.

AFI'S WORK WITH THE ARGENTINIAN PRESIDENCY

Informality, explained Gabriel Bizama of Argentina's Ministry of Finance, is a key driver of financial exclusion, especially for MSMEs that lack the documentation, eligibility and qualifications to enter the formal economy. The Argentinian Presidency has identified informality as a complex challenge requiring certain policy interventions and provides guidance in four areas: identity, payments, credit reporting, and consumer protection and financial literacy. Digital approaches combined with effective regulation and supervision can address these challenges, and in 2018, AFI facilitated inputs from G20 and non-G20 countries for a GPF Policy Guide on Digitization and Informality.

AFI'S WORK WITH THE GERMAN PRESIDENCY

As of 2017, there were close to 69 million forcibly displaced persons in the world, 85 percent of whom are living in developing countries. The German Presidency saw this as an urgent and widespread issue and made it a priority for the GPF. AFI served as an Implementing Partner of the Temporary Steering Committee on the Financial Inclusion of Forcibly Displaced Persons, which developed a G20 Roadmap on the Inclusion of FDPs. Financial instruments and tools need to be developed for FDPs to better manage their livelihoods and deal with emergencies, and they would be better served if they could store funds, send and receive remittances safely and even access credit. This work is ongoing at the international and national level.

COLLABORATIONS IN ZAMBIA AND MEXICO

Bank of Zambia has conducted a successful pilot project with the GPF to improve identification systems using digital technology, and is now reviewing various policies and regulations with other regulators and government departments to convert identification systems from paper to digital and align KYC requirements with the new system. Zambia is expected to issue digital identities by 2020.

"We have a digital on-boarding pilot project aimed at improving the identification of both individuals and small businesses to enable them access and use financial services. With technical support from Argentina, we hope to start issuing digital identity cards by the end of 2020."

Lazarus Kamanga, Bank of Zambia

Digitization is a key priority for Mexico, and the country's new FinTech law passed in March 2018 is intended to increase the use of technology to advance financial inclusion. The law covers electronic payments, the establishment of a Fintech Sandbox, a consumer protection scheme and a crowdfunding mechanism to increase access to credit for MSMEs. Some progress has already been made, including full G2P payments at the federal level and the establishment of basic accounts, seven million of which have already been opened.

CONCLUSION

The objectives and priorities of AFI and the GPF have been closely aligned over the years, and the topics they have covered have been extremely relevant to AFI members. This collaboration has yielded positive results and there was consensus that it should be continued and enhanced.

PAYMENT SYSTEMS AND FINANCIAL INCLUSION: INNOVATIONS TO ACCELERATE ACCESS AND USAGE

THEME SETTER

Mr. Tiémoko Meyliet Koné, Governor, BCEAO

MODERATOR

Prof. Njuguna S. Ndung'u, Executive Director, African Economic Research Consortium (AERC)

PANELISTS

Dr. Grant Kabango, Deputy Governor, Reserve Bank of Malawi

Ms. Alla Bakina, Director, National Payment System, Bank of Russia

Mr. Sosthenes Kewe, Executive Director, Financial Sector Deeping Trust, Tanzania

Mr. Vladimir Komlev, Chair, National Payment Card System Russia

Mr. Alexey Malinovskiy, Head of Mastercard Russia, Kazakhstan, Belarus and Armenia

Payment systems that are accessible, safe, efficient, robust and affordable play an enormous role in facilitating financial inclusion. Strong digital payment systems must be built on sustainable business models and require policy and regulatory support, primarily from central banks, to strike a balance between enabling fair market access and a level playing field for providers, and ensuring a broad population of users trust and embrace digital payments.

MOVING FROM CASH TO PAYMENTS

Cash is expensive, both in terms of printing and management costs (in some developed countries it accounts for as much as 0.78 percent of GDP) and the security risks it poses for merchants and consumers.

Shifting from cash to digital payments is not only an opportunity to save money and improve security, but to provide an entry point for the unbanked to access financial services.

Regulators are keen to facilitate the development of scalable and resilient payment systems for financial inclusion, which universally depend on: 1) connectivity; 2) interoperability; 3) electronic identification systems or biometric IDs; 4) secure payment systems; and 5) state and institutional capacity to cope with changing market dynamics.

“Payment systems are the entry point for financial services, and in countries where they are scalable, they enable expansion of financial inclusion.”

Prof. Njuguna Ndungu, African Economic Research Consortium

“We have moved from digital payment services to digitization which cuts across different sectors of the economy. It is now fast moving into other areas: government payments, fiscal policy design, tax payment platforms and revenue administration are all being digitized. The payment infrastructure is helping to build a sustainable business model across different sectors of the economy.”

Prof. Njuguna Ndungu, African Economic Research Consortium (AERC)

Most payment system solutions address the issue of access effectively, but from the perspective of consumers, there are still usage and quality issues. Panelists emphasized that regulators and policymakers consider incentives that not only promote access to digital payment services, but also lower costs and enhance the value of payments for consumers, business and government. This involves thinking beyond person-to-person (P2P) and mobile money to drive more use cases in an enhanced digitized ecosystem.

“Consumers are not interested in payments for the sake of payments. They need more use value, therefore, we need to develop a holistic approach to market development.”

Ms. Alla Bakina, Bank of Russia



Panelists had other recommendations for regulators and policymakers to support the shift from cash to payments and encourage usage:

- > Build consumer trust: Regulators should work closely with service providers to ensure consumer trust is not lost due to services not being compliant with security standards, as loss of trust leads to less usage.
- > Use existing technologies: Policymakers should take advantage of market opportunities for technologies that are already widely used by consumers, such as mobile and internet, to encourage the use of appropriate financial services and facilitate safe and fast payments.
- > Expand e-payments: Regulators need to facilitate the market to make e-payments widely accessible and secure. As Mr. Komlev pointed out, “If you receive your payment in cash, there is a high probability that use of cash will follow. It’s therefore important to facilitate receipt of payment in e-money and create corresponding e-payment ecosystems.”
- > Create more use cases for payment cards: The more the use value on a card, the more consumers will use it for payments and non-payment transactions, such as identification.
- > Financial literacy is key to driving usage.

UNDERSTANDING MARKET DYNAMICS AND BUILDING CAPACITY

To improve payment systems, it is important that regulators and policymakers understand the latest market research on the daily payment needs of consumers, the business needs of merchants and the dynamics of the payments ecosystem. They should be guided by evidence when devising appropriate policy solutions and risk mitigation measures in the context of new innovations and technologies. They should also build their capacity to address the risks of cybersecurity and consumer protection, and find appropriate policies and incentives to close the rural-urban divide in access and usage of financial services.



REGULATORY APPROACHES TO FINTECH: BALANCING INCLUSION, INTEGRITY AND STABILITY

THEME SETTER

Mr. Rogério Lucas Zandamela, Governor, Banco de Moçambique

MODERATOR

Prof. Dirk Andreas Zetsche, Professor of Law, University of Luxembourg

PANELISTS

Ms. Pia Roman, Managing Director, Bangko Sentral ng Pilipinas

Mr. Artem Sychev, First Deputy Director of the Information Security Department, Bank of Russia

Mr. Philip Rowan, Cambridge Center for Alternative Finance

Mr. Anatoliy Aksakov, Head of the Financial Market Committee, the State Duma of the Russian Federation

Early examples of regulatory innovations include the “test and learn” approaches of regulators like the central banks of Kenya and the Philippines, which facilitated the growth of mobile money in a controlled environment, with proportionate regulation, and extended access to financial services to those who had been previously excluded. This session highlighted approaches regulators have taken to facilitate technological innovation with the potential to advance financial inclusion within their jurisdictions, while safeguarding against potential risks to financial stability, consumer protection and financial integrity.



MOZAMBIQUE: STAYING AHEAD OF THE CURVE

In setting the scene for the session, Governor Zandamela pointed to technological innovation as a prerequisite for financial inclusion. Mozambique has sought to develop the role of FinTech players in enhancing financial inclusion by establishing a regulatory sandbox regime and by recruiting tech-savvy millennials into the central bank. So far, payments and money transfer have been the focus of FinTechs in the country, but this is fast evolving. Unlike financial stability and financial integrity, financial inclusion does not have a standard setter as such, which means peer learning through the AFI platform will be critical to achieve progress in this area.

RUSSIA: SECURITY BY DESIGN

In the Russian context, digital technology has been a fast-growing sector, with new laws to regulate cryptocurrencies being adopted soon and the implications of digital ledger technology under active review by the central bank. Mr. Aksakov stressed that it was important to avoid excessive regulations that could impede the potential of the technology: “Big data, automation technology will contribute to explosive growth”. A single biometric platform developed with the banking community provides a foundation for all FinTech developments in Russia, and consumer protection has been built into product development, delivering “security by design” rather than reacting to security issues once products are already in the marketplace.

THE PHILIPPINES: FINDING THE RIGHT BALANCE

The Philippines is experienced in test-and-learn regulation as Bangko Sentral ng Pilipinas uses the ISIP Framework (Integrity, Stability, Inclusion, Protection) to balance policy and new technologies effectively. Proportionality in regulation is critical; although the financial integrity risks of new cryptocurrencies require regulation, sufficient room needs to be given for business models to evolve.



CONCLUSION

The pace of FinTech developments creates substantial challenges for regulators to steer the right course between financial inclusion, consumer protection, financial stability and financial integrity. There is no single answer to achieving the ideal regulatory balance, but panelists all pointed to openness, engagement and dialogue with the industry as critical to establishing proportionate regimes that embrace the promise of FinTech while protecting consumers against exploitation.

REGULATORY SANDBOXES: ONE TOOL AMONG MANY

There has been an explosion of interest by regulators in the sandbox approach, but as Philip Rowan of the Cambridge Center pointed out, emerging evidence suggests that forward-thinking regulators and high-quality dialogue between regulators and innovators are more important; a sandbox is just one tool to achieve this.



INNOVATIONS TO CLOSE THE MSME CREDIT GAP

THEME SETTER

Mr. Esala Masitabua, Deputy Governor, Reserve Bank of Fiji

MODERATOR

Mr. David Myeni, CEO, Ministry of Finance, Swaziland

PANELISTS

Ms. Daranee Saeju, Senior Director, Bank of Thailand

Mr. Ahmad Haniff Jamaludin, Manager, Bank Negara Malaysia

Mr. Jeff Stewart, Co-Founder and Chair, LenddoEFL

Mr. Hemant Baijal, Vice President, Global Public Policy, Mastercard

Micro, small and medium enterprises (MSMEs) are the global engine of economic growth, accounting for nine out of 10 businesses, half of GDP and two-thirds of jobs worldwide. However, access to financing is a major impediment to their survival, growth and productivity. This session examined the current financing landscape for MSMEs, ways to close the \$5.5 trillion credit gap, and the roles of regulators and financial players in facilitating access to credit via innovation and FinTech.

Credit infrastructure, which includes credit reporting, secured transactions, collateral registries, and insolvency and debt resolution, not only enables access to financing, it also promotes financial stability and sustainable economic growth. For MSMEs, lack of collateral, financial information and advice, high interest rates and fees, and complex loan applications have made traditional lending a challenge. For financial institutions, the costs of financing MSMEs are higher as the risk and complexity outweigh the ticket size. However, innovative technologies are providing new ways to assess the creditworthiness of MSMEs and mitigate credit risks, opening doors to financing for millions of MSMEs.

CREATING A FINANCING ECOSYSTEM FOR SMES: THE EXPERIENCE OF THAILAND AND MALAYSIA

In Thailand, SMEs account for over 80 percent of employment, but a significant number have no access to financing. Bank of Thailand aims to create an environment that facilitates competition among banks, promotes the commercial credit system and reduces costs and waiting times for customers. SME 1 is an online, information-based lending platform that contains both financial and non-financial data on companies, making it easier for credit institutions to evaluate risk and ease the ability of SMEs to pay. However, increasing access to credit for SMEs is not

only about quantity, but also quality and use, so loan processes need to become more efficient, costs need to come down, and financial and business information need to be provided to SMEs to help them survive and grow sustainably.

In Malaysia, the central bank is also strengthening the financing ecosystem for SMEs, working closely with relevant organizations to create a digital platform for SMEs to access financial services such as credit. The platform allows SMEs to connect with credit bureaus and financial entities to apply for credit, and financial advisors provide feedback to SMEs that are denied. The technology is creating efficiencies and lowering costs for SMEs, as business owners no longer have to spend time gathering information and applying for loans from several different financial institutions. Now, with the new platform, they spend no more than a few hours on this task, freeing up time for their business instead.

Bank Negara Malaysia reports that although the system is not perfect, it is being improved through cooperation with financial entities and supply and demand-side studies. Positive changes are evident, however, as SMEs are beginning to access more financial services and become a value sector for financial institutions.

REACHING 40 MILLION MSMEs

Despite the persistent credit gap, MasterCard reports steady progress is being made toward its commitment to bring approximately 40 million MSMEs into the formal economy by 2021 (it is about 25 percent complete). The supply chain, said Mr. Baijal, is the best vehicle to interact with MSMEs, since it provides channels to reach businesses that the formal sector has not reached or is not interested in.

CONCLUSIONS

Panelists agreed that innovation is opening new opportunities for unbanked groups that have traditionally been considered high-risk customers, particularly startups and MSMEs in early stages.



CLIMATE CHANGE AND INNOVATIONS FOR GREENING FINANCIAL INCLUSION

THEME SETTER

Mr. Allah Malik Kazemi, Change Management Advisor, Bangladesh Bank

MODERATOR

Mr. Nik Mohd Zainul Kamarun, Alliance for Financial Inclusion

PANELISTS

Mrs. Hakima El Alami, Deputy Director, Payment Systems Supervision & Financial Inclusion, Bank al-Maghrib

Mr. Momoh Sesay, Senior Manager, Bank of Sierra Leone

Mr. Anton Galenovich, Chair Council, Russian Carbon Fund

Mr. Leiming Chen, Senior Vice President and Member of Globalization Steering Committee, Ant Financial Service Group

With the world on track to experience greater climate fluctuations, extreme weather, pollution, and threats to lives and livelihoods, the development gains from financial inclusion are at risk. However, financial services can play a vital role in enabling the poor and vulnerable to cope with financial losses related to climate change. This panel discussion explored innovations and best practices in FinTech that could support climate action and access to clean energy in developing and emerging economies. The role of regulators in using disruptive financial technology to address climate change and financial inclusion was also addressed.

Financial services can help to build resilience in the face of shocks related to climate change. Research shows that having access to formal financial services can help the poor smooth consumption when they face unexpected setbacks.

Digital financial systems, mobile money and FinTech innovations have great potential to improve access to climate finance, allow the poor to make affordable investments in environmentally friendly practices, and build momentum for the use of cleaner technology, such as farmers who purchase crop insurance through their mobile phones, solar-powered villages that buy and trade renewable electricity revenues, or carbon credits offered through the REDD+ scheme and other mobile payment-based initiatives.

Prototyping and scaling these technologies require a range of actors, including government, telecom and insurance regulators, agricultural input providers, smallholder farmer extension services and startups. Regulators and the global Standard-Setting Bodies also play a key role in creating conducive environments for FinTech innovations in sustainability. The following are examples of initiatives that AFI members have undertaken to support sustainable development and climate action.

“Central bank regulators are obliged to consider climate change as a relevant and pertinent issue in the stability of the financial system, and should explore methods and tools to ensure that they are prepared.”

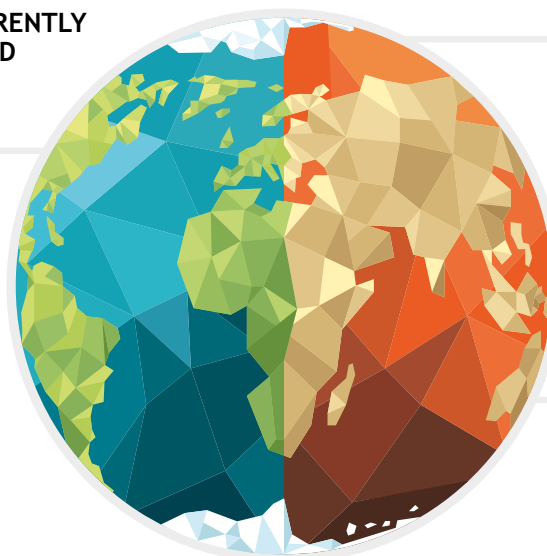
Allah Malik Kazemi, Change Management Advisor, Bangladesh Bank

MILLIONS OF PEOPLE ARE CURRENTLY AFFECTED BY CLIMATE RELATED DISASTERS GLOBALLY



2017 ENDORSEMENT

The launch of the Sharm El Sheikh Accord on Financial Inclusion, Climate Change and Green Finance, endorsed by an overwhelming 94% of the AFI membership.



Supported by:



based on a decision of the German Bundestag

AFI Financial Inclusion and Climate Change (FICC) program is part of the International Climate Initiative (IKI) supported by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.



GDP ANNUAL LOSS

The economies of the Pacific Islands are losing 2% of GDP annually as a result of natural disasters caused by climate change.

MOROCCO'S ROADMAP FOR SUSTAINABLE DEVELOPMENT

Bank al-Maghrib is a leader in green finance that is creating an enabling environment for sustainable development and financial inclusion through innovation. Its Roadmap for Aligning the Moroccan Financial Sector with Sustainable Development (2016) identifies three priority areas for the banking sector: governing socio-economic risk, sustainable development and financial inclusion (including digital financial inclusion).

SIERRA LEONE'S FINTECH CHALLENGE

Bank of Sierra Leone has been working on several fronts to promote financial inclusion through FinTech, including creating an enabling regulatory environment to develop and amend legislation; promoting and motivating FinTech startups through sandboxes and the Sierra Leone Fintech Challenge; leading large financial literacy campaigns for DFS and MSMEs; and supporting interoperability. These interventions are supporting innovative mechanisms, such as Azuri Technologies' PayGo, a solar home system for rural off-grid communities.

BLOCKCHAIN FOR CARBON CREDITS

Blockchain applications can scale financial services infrastructure and lower the costs of DLT transactions to verify and transfer carbon credits. In Chile, EnergyLab has successfully tested an IoT data-based Module for Renewable Energy Microgeneration, which registers reductions based on solar energy production data received from IoT sensors.

ANT FOREST APP: VIRTUAL TREES TO REAL FORESTS

The Ant Forest App encourages users to reduce their carbon footprint by tracking low-carbon activities through user behavior and payments. Users are rewarded in virtual trees that represent actual reforestation initiatives. This initiative is now expanding beyond individuals to a 'green rating' system for SMEs.



ENHANCING REGULATORY PROCESSES THROUGH REGTECH

THEME SETTER

Mr. Vladimír Tomsík, Deputy Governor, Czech National Bank

MODERATOR

Mr. Chris Calabia, Senior Advisor, Supervisory and Regulatory Policy, Financial Services for the Poor, Bill & Melinda Gates Foundation

PANELISTS

Dr. Monique Nsanzabaganwa, Deputy Governor, National Bank of Rwanda

Dr. Settór Amediku, Head of Payment Systems Department, Bank of Ghana

Ms. Rochelle Tomas, Acting Deputy Director, Policy and Literacy Group, Bangko Sentral ng Pilipinas

Mr. Simone di Castri, Director, BFA and Regtech for Regulators Accelerator

Rapidly evolving DFS and the rise of FinTech have the potential to accelerate financial inclusion like never before. However, as new FinTechs enter markets, financial regulators must develop or update their monitoring and supervisory systems to address new risks and regulatory requirements. This session explored how various RegTech applications have improved reporting, compliance, and consumer protection.

To keep up with this rapid evolution, financial regulators and supervisors can leverage technology to save time and compliance costs and invest their efforts in better analytics for policymaking. RegTech and SupTech allow many different data sets to be collected from new sources, and these can be used to assess risk and take a risk-based approach to implementing global AML/CFT standards.



Data and analytics are at the core of evidence-based policymaking and effective supervision, and regulators and supervisors are now faced with collecting, collating and analyzing data on FinTechs as well as traditional market players. This can be a challenge, as initial coin offerings (ICOs), for example, are becoming common in many jurisdictions but data on them is difficult to collect and monitor.

RegTech may change the way supervision is performed, but financial regulators and supervisors still need to build internal competencies and capabilities, be more effective in data assessment and be less tied to formal procedures for addressing new technological risks (data security, privacy, AML/CFT).

GHANA

In response to substantial growth in the use of DFS in Ghana, the Bank of Ghana enhanced and then leveraged its own IT department to develop a web-based data warehouse or portal that gathers data from the financial services providers it supervises. This has allowed its staff to focus on data analytics for effective financial monitoring and compliance, rather than on collecting data using a time-consuming, paper-based system. The Bank has also set up an agent registry that is accessible to the public and through which consumers can lodge complaints online.

PHILIPPINES

Given the size of the country's financial sector, which consists of 600 banks, Bangko Sentral ng Pilipinas (BSP) is confronted with the challenge of effectively supervising them. This is exacerbated by the entrance of virtual currency exchangers in the market. BSP has forged a partnership with the Regtech for Regulators Accelerator (R2A) to develop an Application Programming Interface (API) and back office reporting and visualization app to allow financial services providers to submit data digitally and automatically to the financial authority. This gives staff more time and opportunity to use the collected data to inform policymaking and supervisory activities.

RWANDA

Although the National Bank of Rwanda recognized the importance of data for evidence-based policymaking, it also realized that its data was outdated and a "smarter" way of regulating and supervising financial services providers was needed. In response, it has implemented an Electronic Data Warehouse (EDW) system that automates and streamlines the reporting process, which in turn informs and facilitates supervision.

CONCLUSIONS

Using technology for supervision and monitoring regulatory compliance introduces certain challenges for regulatory institutions, including the need to bring on experts and other skilled workers to address lack of capacity. For example, APIs have always been applied in industry, but regulators are only now beginning to look at them for regulation and supervision. Even IT specialists admit not fully understanding the applications of technology in this context.

It is therefore crucial to foster dialogue and collaboration between regulators, financial services providers and technology firms to apply RegTech and SupTech in a meaningful way. However, even with the use of technology and increasingly automated regulation and supervision, regulators need to be careful to manually verify data and ensure its integrity. They must also be aware of data protection issues and cybersecurity risks.



INNOVATIVE SOLUTIONS FOR MOVING BEYOND CORRESPONDENT BANKING RELATIONSHIPS

THEME SETTER

Mrs. Maiava Atalina, Governor, Central Bank of Samoa

MODERATOR

Mr. Ahmed Dermish, Policy and Ecosystem Specialist, Digital Finance, UNCDF

PANELISTS

Mrs. Maiava Atalina, Governor, Central Bank of Samoa

Ms. Georgette Jean-Louis, Directeur Général, Banque de la République d’Haiti

Dr. Victor Dostov, Russian Microfinance Center, Russian E-Money Association

Mr. Adrien Antoni, Director, TransferTo

De-risking has been an important issue for the AFI network for several years, and members have played an important role in raising awareness within global bodies of the impact of de-risking on financial inclusion objectives and overall economic development of developing countries. In this session, panelists discussed options for moving beyond correspondent banking relationships and how FinTech can help regulators and financial services providers alleviate or reduce the effects of de-risking.

De-risking is having a major impact on payment systems for remittances. It is estimated that about 25 percent of all global corresponding banking relationships have declined since 2009.² Twenty-eight percent of money transfer operators (MTOs) around the world can no longer operate,³ and the number of cross-border payments for countries identified as high-risk jurisdictions has declined by 10 percent.⁴

De-risking can involve:

- > unilateral termination of contracts;
- > imposition of special tariffs;
- > disconnection from remote banking;
- > refusal to enter into a contract; or
- > refusal to carry out a client’s instructions.

In Haiti and Samoa, where remittances represent a quarter of GDP, the closure of correspondent banking accounts of MTOs has had devastating consequences for families who rely heavily on remittances for their household income. For MSMEs, financing of working capital has been demonstrably curtailed, as has life-saving aid to island populations following natural

disasters. By driving transactions to the informal market, de-risking is actually encouraging the spread of the informal economy, increasing financial exclusion, slowing or halting innovation, and ultimately increasing the risks of money laundering and terrorism financing that it was meant to mitigate.

Regulatory authorities in many countries, including Samoa and Haiti, face a constant threat of account closures for MTOs and other financial institutions. Samoa has been addressing the decline of correspondent banking relationships by collecting and analyzing data, clarifying regulatory expectations, building the capacity of financial services providers and strengthening tools for customer due diligence and KYC.

Innovations in big data and machine learning have the potential to facilitate the customer due diligence process, and both technical and regulatory solutions are beginning to alleviate the effects of de-risking, including more automated processes and improved standardization and accessibility. Central identification databases and systems have been set up in Ghana and West African Economic and Monetary Union countries, and biometric IDs have been introduced to compensate for weaknesses in national civil registers. Regulatory solutions include important clarification on KYC in the FATF Guidance on Correspondent Banking Services released in October 2016, and the creation of common payment information protocol in the EU Wire Transfer Regulation.

Major challenges remain, including the compatibility of proprietary software for the interoperability of KYC technologies, lack of coordination and collaboration between stakeholders in a common KYC framework model, the high cost of these technologies and competing regulation, including for data protection.

CONCLUSIONS

Panelists agreed that more research and new collaborations, both technological and regulatory, are needed to enable constructive solutions to the risks of ML/FT while ensuring financial services providers can provide services across borders securely and effectively.



2 Source: Accuity

3 Source: World Bank

4 Haley study, 2017

RENEWED EFFORTS TO CLOSE THE GENDER GAP

THEME SETTER

Dr. Louncény Nabe, Governor, Banque Centrale de la République de Guinée

MODERATOR

Ms. Inez Murray, Chief Executive Officer, Global Banking Alliance for Women

PANELISTS

Dr. Tukiya Kankasa-Mabula, Deputy Governor, Bank of Zambia

Ms. Julia Constanze Braunmiller, Women Business & the Law

Mr. Nathan Naidoo, Director, Policy and Advocacy, GSMA

Ms. Helen Walbey, Women's Economic Imperative (WEI), T20 Argentina, Welsh Government

Greater access to quality and affordable financial services for women is recognized as a key enabler of Gender Equality and Women Empowerment, one of the 17 SDGs. However, globally, women are still disproportionately excluded from the formal financial system. This session highlighted the key factors responsible for the global gender gap in financial inclusion, which remains stubborn at nine percent in developing and emerging countries.

WHY ARE 980 MILLION WOMEN WORLDWIDE STILL UNBANKED?

Panelists discussed the cultural and legal barriers to women's economic empowerment, pointing to lower levels of literacy, restrictive social norms and laws related to women's mobility and access to bank accounts, and unequal property and inheritance rights as some of the reasons for the gender gap. Ms. Julia Constanze Braunmiller highlighted the recent Women, Business and the Law report on financial inclusion, which identifies 39 economies where there is a correlation between restrictive inheritance laws and a wide financial inclusion gap.

PROGRESS IN CLOSING THE GENDER GAP

Progress is being made, however, and there was optimism on the panel for the future. Countries that have reformed inheritance laws and introduced non-discrimination acts are seeing the gender gap narrow, and recent Global Findex data shows no gender gap in usage among mobile money account holders. Ms. Walbey outlined the global advocacy efforts of Think-20 (T20) and Women-20 (W20) – AFI and GBA chaired the W20 financial inclusion workstream in 2018 – and Dr. Kankasa-Mabula, Chair of AFI's Gender and Women's Financial Inclusion Committee

(GWFI), highlighted the momentum in the AFI network to advance women's financial inclusion and gender diversity. Since the adoption of the Denarau Action Plan (DAP) in 2016, 28 AFI members have made at least one Maya Declaration commitment related to gender and women's financial inclusion.

Since last year's GPF, the GWFI has conducted training on a range of women's financial inclusion issues and strengthened collaborations, including with Women's World Banking, which has signed an MoU with AFI to conduct training in gender diversity. AFI's Articles of Association were also amended at this year's AGM to include diversity at the board and other levels of AFI.

THE ROLE OF FINTECH AND MALE CHAMPIONS

Finally, the panel highlighted the need for FinTechs and DFS providers to actively address barriers for women, and for men to act as champions for women's financial inclusion. Nathan Naidoo of GSMA challenged men in the room to ask what they are doing personally to advance women's financial inclusion, which "is not just a women's issue... it is about living in a prosperous society that is in the interest of everyone." In the Q&A session following the panel discussion, a member from the Central Bank of Afghanistan proposed forming a regional initiative to address women's financial inclusion challenges in Muslim countries that are part of the AFI network.

CONCLUSIONS

No single policy reform can narrow the gender gap. A comprehensive set of policy reforms is needed, and panelists agreed that collaboration with a wider range of stakeholders and sectors is critical, as is the collection and usage of quality sex-disaggregated data, which will be bolstered by AFI's new sex-disaggregated data training and pilot grants. "We need a multi-pronged approach," said Dr. Kankasa-Mabula, "Different stakeholders - regulators, government, private sector, international organizations, NGOs, academia - all have a role to play."

"Women's empowerment is a key condition for sustainable development. The economic development of women will accelerate the inclusion of women in [all aspects of] financial and economic life."

Governor Louncény Nabe, Banque Centrale de la République de Guinée



ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS THROUGH FINANCIAL INCLUSION

MODERATOR

Mr. Michael Tarazi, Lead Financial Sector Specialist, CGAP

PANELISTS

Mr. Jean Baden Dubois, Governor, Banque de la République d’Haiti

Mr. Azzam Al Shawwa, Governor, Palestine Monetary Authority

Mr. Andreas Proksch, Head of Sector and Global Programmes, GIZ

Mr. Leo Gaborit, Task Team Leader, Financial Inclusion, Agence Française de Développement

There is broad recognition in the international development community that financial inclusion is a key enabler of many of the SDGs. The Addis Ababa Action Agenda highlights the importance of financial access and the need to support financial inclusion efforts, noting its positive impact on the poor, women, rural communities, marginalized communities and persons with disabilities. This session looked at how financial inclusion initiatives are helping to achieve the SDGs and how AFI can collaborate with global development partners and funders to leverage the extensive expertise and knowledge within the AFI network.

FINANCIAL SERVICES CAN HELP TO BUILD RESILIENCE IN THE HOW IS FINANCIAL INCLUSION HELPING TO ACHIEVE THE SDGS?

There is real and growing evidence that financial inclusion is an enabler for many of the SDGs. Research has shown that the prevalence of mobile money in Kenya, for example, has lifted one million people out of extreme poverty. A recent study by AFI shows that 634 million adults worldwide have accessed finance as a result of AFI policy reforms, with the number of unbanked adults dropping from 2.5 billion 10 years ago to 1.7 billion today.

Research also shows that SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry Innovation and Infrastructure) face obstacles with financial inclusion, but identifying areas where the priorities of global development partners intersect with AFI’s mandate, and harmonizing financial inclusion efforts with central banks, government and a range of other stakeholders, will be key to fostering an ecosystem for financial inclusion and demonstrating the impact on underserved populations.

Panelists agreed that research on the tangible impact of financial inclusion should continue and that existing evidence needs to be communicated more clearly at the national level to harness more support for financial inclusion initiatives.

THE IMPORTANCE OF COLLABORATION

AFI members do not operate in a vacuum, and have critical roles as champions of broader development goals and the SDGs. Panelists did not consider it a problem that financial inclusion was not a specific SDG, as AFI members are already prioritizing key policy areas, such as women’s financial inclusion, climate change, and financial inclusion of FDPs, that will enhance financial inclusion and simultaneously contribute to the broader development goals captured by the SDGs.

“We should rethink our approach to SDGs and financial inclusion. SDGs should be seen as an urgent call for an integrated approach... and focusing on financial inclusion helps us in doing exactly that.”

Andreas Proksch, GIZ

AFI’s peer learning approach and technical work in these areas have contributed to policy and regulatory reforms that are addressing gaps in financial inclusion, achieving inclusive economic growth and advancing the SDGs. In Haiti, the National Financial Inclusion Strategy is aligned with economic growth at the ground level, such as opening access to credit for individuals and SMEs and an agriculture housing program that has been designed specifically to align with the implementation of the SDGs. As Governor Jean Baden Dubois of Banque de la République d’Haiti explained, “Financial inclusion fits very well with the objective of the SDGs... The number one goal is the reduction of poverty, which is one of the main points of financial inclusion.”

NEXT STEPS

What can AFI do as a network to promote financial inclusion in service of the SDGs? Panelists recommended that AFI should continue to focus on gender equality, support assurance systems for agricultural workers and SMEs and financing programs for youth and technology initiatives, continue working on climate change and green lending and increase involvement in insurance.



CONCLUSIONS AND POLICY OUTCOMES OF THE 2018 GPF

The 2018 GPF showcased the impressive impact that close to 400 policy changes have had in creating an enabling environment for financial inclusion. However, reaching the 1.7 billion adults still excluded from the formal financial system is a major challenge, and there are no guarantees that the same policies that have driven financial inclusion in the last decade will be sufficient to deliver universal financial inclusion globally. Rather, continuous innovation, both in the private sector and in policymaking, will be critical to maintain, and even accelerate, momentum.

The GPF also revealed vital insights into the potential of new and emerging technologies. Technological innovation is driving new partnerships and business models that could be gamechangers in addressing the most intractable challenges, such as providing financial services to refugees, bringing down the costs of cross-border payments, and financing small businesses operating in the informal economy. While it is too early to ‘pick winners’ among these new technologies, the key will be developing strategies and policy frameworks that can balance the benefits of innovation with the risks to consumer protection, financial integrity and stability.

To this end, the four-pillar policy framework set out in an AFI Special Report launched at the GPF, FinTech for Financial Inclusion: A Framework for Digital Financial Transformation, and the adoption of the Sochi Accord by the AFI membership, together provide a secure foundation to take up this work at the regional level.

The GPF deliberations also highlighted the risks of technology and a detrimental effect they could have on gains made in global financial inclusion. As these gains are largely a result of digital innovations, AFI members expressed the need for a holistic framework on market conduct regulation that would allow them to continue directing their attention towards quality and usage as key components for sustaining financial inclusion gains.

The future framework on market conduct should provide more insight into growing demand-side interventions that would enable regulators to understand consumers better, particularly in markets where consumers are unsophisticated, possess low financial literacy and lack of experience with advanced technological solutions. The framework should also give regulators better understanding of new risks and enhanced focus on demand-side issue to help build the defense against the potential backlash to financial inclusion.

In terms of gender and women’s financial inclusion, the GPF highlighted not only the impressive response of AFI members to the Denarau Action Plan, 30 of which have made specific Maya Declaration commitments on gender, but the challenge of the persistent gender gap, which remains at nine percent on average for developing economies. Since regulations alone will not solve this challenge, effective partnerships will be key to realizing the network’s ambitious target to halve the gender gap in all AFI member countries by 2021. Here too, technology and fully leveraging the benefits of digital financial services for women’s inclusion, will have a vital role to play.

After a decade of building the AFI network, AFI celebrated its 10th anniversary as the leading global organization in financial inclusion policy and regulation. New members are continuing to join the network, regional offices and initiatives are expanding to more parts of the world and pressing global issues instead of challenges like financial technology, climate change and gender equality have inspired new commitments from members to build more inclusive and resilient economies.

This was evident at this year’s GPF, which strengthened the AFI network’s commitment to complementing global initiatives with regional peer learning. The Eastern Europe Central Asia Policy Initiative (ECAPI) launched at this year’s GPF joins AFI’s other regional initiatives in Africa, Latin America and the Caribbean, the Arab Region and the Pacific Islands. The GPF also showcased that a year after the adoption of the Sharm El Sheikh Accord on Financial Inclusion, Climate Change and Green Finance, AFI members are beginning to develop tangible policies in this new area. Enhancing sustainability and financial inclusion in tandem is expected to be a growing area of focus for AFI members moving forward.

The reach and experience of the AFI network have made AFI both a household name in developing countries and a valuable partner on the global stage. The accumulated knowledge, policies and regulatory frameworks developed and tested by AFI members will continue to spread around the world, delivering the benefits of financial inclusion to all. As AFI embarks on its second decade, this maturity and diversity will continue to be its strength.

CLOSING CEREMONY

The 2018 Global Policy Forum concluded with the announcement that National Bank of Rwanda will host the 11th annual GPF in Kigali in 2019.

“As we all look forward to promote financial inclusion in our respective communities, I hope that this forum will be successful in bringing together diverse ideas on how we can do this better as a global community. To all of you who can travel to Rwanda, it is our pleasure to have you.”

Governor John Rwangombwa, National Bank of Rwanda

See you in 2019 in Kigali, Rwanda!



Alliance for Financial Inclusion

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