Developing the Lending Infrastructure for Financial Inclusion

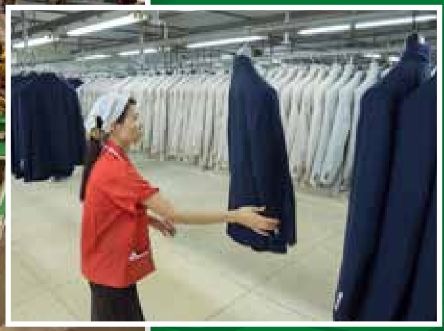

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Photo descriptions

Analyzing microfinance loans is one way to collect “alternative data” on consumer debt levels and ability to repay in Uzbekistan. Photo by Eric Sales.

A factory in Myanmar makes garments for export to Japan. Small and medium-sized enterprises must have a steady flow of working capital to continue production and help ensure stability in the supply chain. Photo by Gerhard Jörén.

An Indonesian street-side vendor displays his merchandise at a sidewalk in Jakarta’s central business district. Photo by Lester Ledesma.

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Abbreviations

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AMK	AMK Microfinance Institution Plc.
AML	Anti-Money Laundering
APEC	Asia-Pacific Economic Commission
APFF	Asia-Pacific Financial Forum
ATM	Automated Teller Machine
BOL	Bank of Lao
BOP	Bottom of the Pyramid
BSP	Bangko Sentral ng Pilipinas
CAWS	China Association of Warehouses and Storage
CBA	China Banking Association
CBC	Credit Bureau Cambodia
CCU	Central Compliance Unit
CEFI	Center for Excellence in Financial Inclusion
CGAP	The Consultative Group to Assist the Poor
CGC	Credit Guarantee Corporation
CIB	Credit Information Bureau (Lao PDR)
CIC	Credit Information Center (Cambodia)
CIC	Credit Information Corporation (Philippines)
CIMC	Consultative Implementation and Monitoring Council
CMA	Collateral Management Agreement
CMC	Collateral Management Company
CRS	Credit Reporting System
CRSP	Credit Reporting Services Provider
DOF	Department of Finance (Philippines)
EAP	East Asia Pacific
EU	European Union
FDC	The Foundation for Development Cooperation
FMP	APEC Finance Ministers' Process
GMSA	Groupe Speciale Mobile Association
GPFI	Global Partnership for Financial Inclusion

IFC	International Finance Corporation
IFG	International Factoring Group
JICA	Japan International Cooperation Agency
LRA	Land Registration Authority (Philippines)
LTV	Loan-to-Value Ratio
MEP	Microfinance Expansion Project
METI	Ministry of Economy, Trade and Industry (Japan)
MFI	Microfinance Institution
MFO	Microfinance Organization
MNO	Mobile Network Operator
MSME	Micro-Small and Medium Enterprise
M-POS	Mobile Point of Sale
NRAST	National Registration Agency for Secured Transactions (Viet Nam)
NSDC	National SME Development Council (Malaysia)
P2B	Peer-to-Business
PCB	Private Credit Bureau
PCF	People's Credit Fund
PCR	Public Credit Registry
PERC	The Policy and Economic Research Council
PFI	Participating Financial Institution
PIN	Personal Identification Number
PNG	Papua New Guinea
RFSP	Receivables Finance Service Platform
SCORE - SME	Competitiveness Rating for Enhancement
SMA	Stock Monitoring Agreement
SME	Small and Medium Enterprise
SPC	Supreme People's Court (China)
UK	United Kingdom
UN	United Nations
UNCITRAL	The United Nations Commission on International Trade Law
VBARD	Viet Nam Bank for Agriculture and Rural Development
VBSP	Viet Nam Bank of Social Policies
VNBA	Viet Nam Banks' Association
WR	Warehouse Receipt

Forum Host

The Philippines Department of Finance (DOF) is the government's steward of sound fiscal policy and capital market development and spearheads the setting up of a conducive enabling environment for financial inclusion. It formulates revenue policies that will ensure funding of critical government programs that promote welfare among our people and accelerate economic growth and stability. The Department envisions that the effective and efficient pursuit of the critical tasks under its wings: revenue generation, resource mobilization, debt management, capital market development and financial inclusion, shall provide the solid foundation for a Philippine economy that is one of the most active and dynamic in the world. For more details, visit **www.dof.gov.ph**

Forum Organizers

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

The Foundation for Development Cooperation (FDC) is an independent Australian foundation committed to building prosperity in developing countries in the Asia Pacific region by pursuing initiatives that reduce poverty and promote equitable growth. We achieve this by researching, piloting and promoting development initiatives that are market-based and innovative, drawing on the collective skills, knowledge and resources of organisations from across the public, private, NGO and academic sectors. Established in 1990, FDC has its head office in Brisbane and a Pacific regional office in Fiji. For more details, visit **www.fdc.org.au**

The Asian Development Bank (ADB), based in Manila, is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, it is owned by 67 members - 48 from the region. For more information about ADB, visit **www.adb.org**

Forum Partner

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. We invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill our mission and drive thought leadership and innovation. For more information, visit **www.citifoundation.com**

Forum Collaborators

The International Finance Corporation (IFC), a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in about 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and boost shared prosperity. In FY14, we provided more than $22 billion in financing to improve lives in developing countries and tackle the most urgent challenges of development. For more information, visit **www.ifc.org**

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

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

GE Capital is an extension of GE's rich heritage of building and supporting growth. For over one million businesses, large and small, GE Capital provides financing to purchase, lease and distribute equipment, as well as capital for real estate and corporate acquisitions, refinancings and restructurings. GE Capital is experienced working with a number of industries, from aviation, healthcare, and energy financing to fleet, franchise, and middle market corporate finance. More information about GE Capital is available at: **http://www.ge.com/news/company-information/ge-capital**

The Policy and Economic Research Council (PERC) is a non-profit research and education organization, classified as a tax-exempt 501 (c) 3 in the United States. Now in our ninth year of operation, we are an NGO dedicated to finding information solutions for the challenges of economic development and inclusive growth in developed and emerging markets. Towards this end, PERC has been active in developing policy through research in a number of economies, working with various government agencies, central banks, development banks and multilateral organizations, as well as foundation and private sector actors. More information about PERC is available at: **www.perc.net**

Executive Summary

The 2015 Asia-Pacific Forum on Financial Inclusion, hosted by the Philippine Government, was organized by the APEC Business Advisory Council (ABAC), the Foundation for Development Cooperation (FDC) and the Asian Development Bank (ADB) in partnership with Citi Foundation and with support from the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC) and GE Capital. Through the collaboration of each of these partners the Forum contents were designed with the aim to review APEC's priorities for financial inclusion and facilitate high-level discussion that would result in action amongst stakeholders to address key issues.

The Forum has occurred annually since 2010 and is a policy initiative under the APEC Finance Ministers' Process (FMP). It provides an opportunity for policy makers and regulators to engage in high-level dialogue with representatives of the private sector to review the current trends, challenges and achievements in the region and provide recommendations to enhance regulatory frameworks in support of financial inclusion.

The Forum, now in its 5th year, was designed to review the financial inclusion activities supported under APEC and prioritize new financial inclusion activities including those which will address new challenges and opportunities for future interventions. The 2015 Forum consisted of 10 sessions that addressed a range of topics including the: (i) recent achievements and challenges for financial inclusion in the region, (ii) overview of the state of financial inclusion in specific APEC economies (Mexico, Viet Nam and Papua New Guinea (PNG)), (iii) importance of applying a customer-centric approach to digital finance for both increasing financial inclusion and protecting customers, (iv) issues relating to credit information systems and (v) legal and institutional frameworks for secured transactions. In total, the Forum was attended by 129 participants of which 60 were government representatives including officials from the APEC Finance and Central Banks Deputies Meeting. The other 69 participants included representatives of the private sector, academic institutions and civic organizations. The Forum was officially opened with remarks from:

- Dr. JC Parrenas, ABAC Delegate to the APEC Finance and Central Bank Deputies' Meeting and Senior Advisor, Nomura Securities Co., Ltd.
- Mr. Stephen Groff, Vice President (Operations 2), Asian Development Bank (ADB)
- Mr. Batara Sianturi, Chief Executive Officer, Citi Philippines
- Undersecretary Gil Beltran, Policy Development & MGT Services Group, Department of Finance, Philippines

Forum participants were asked to evaluate the progress that has been made within their member economies on financial inclusion over the last five years, including on the specific recommendations for action that were identified by the Forum in 2010. Discussion and feedback gathered from Forum participants indicated broad consensus that much has been achieved, and that the advent of the Forum itself has created a powerful platform for knowledge sharing and spread of best practice in key areas. The results from this discussion will be used as part of a larger review currently being undertaken to evaluate APEC's impact on financial inclusion and provide priority recommendations for future initiatives. The results of this review are expected to be published later in the year.

Another major focus of the 2015 Forum was to examine specific issues relating to the development of credit bureaus, credit information and reporting systems and enabling small and medium enterprise (SME) access to finance through improved secured transactions systems. These two issues have been prioritized by the APEC FMP and are the focus of two key work streams within APEC that have been underway since 2010. These work streams are considered by APEC Finance Ministers as optimal ways to expand financial inclusion by increasing the quantity and quality of financial products and services available for MSMEs and SMEs. In order to progress this work the 2015 Forum sought to identify specific recommendations for pathfinder initiatives in the areas of credit reporting and secured transactions to support the FMP.

The key recommendations in respect of credit reporting and secured transactions are outlined as follows:

Credit Bureaus and Reporting

- It is recommended that APEC continue to work on implementation of recommendations with regard to credit bureaus and reporting, including by building upon the work already being done by other organisations such as CGAP and the Alliance for Financial Inclusion (AFI). Within the region much progress can be seen with regard to credit bureaus, and successful implementation has seen an increase in both the availability and quality of credit. At the same time, progress across APEC is uneven and a continued effort is needed to educate regulators, policymakers and industry on a whole-of-economy approach to credit reporting. Best practice indicates a need for cooperation between the public and private sectors on data sharing and use, as well as appropriate models for oversight and regulatory enforcement. Case studies can show the viable business case for information sharing and value added services, and help lenders understand how information sharing can be leveraged to extend into new markets.
- It is recommended that APEC be utilised as a forum under which member economies could work toward the standardization of data and formats for use within credit bureaus across the APEC region. The potential gains from standardisation have increased with the move toward paperless, online and digital access for reporting institutions and data users. For economies with limited capacity, standard data and formats would provide easier access to best practice techniques and procedures for high quality data reporting and dissemination. Standardization would also help service providers to develop new products and tools for lenders. As there are capacity challenges in many emerging economies, the standardization of data and data management practices and services could lead to economies of scale for delivery of lower-cost credit information and reporting systems.

- It is recommended that the International Credit Reporting Committee guidelines issued in November 2013 be used as guidance for APEC policymakers and regulators, particularly with regard to full file credit reporting. Full file credit reporting represents best practice in credit reporting, but this remains a challenge for many APEC member economies. One particular issue on which the public and private sectors could work together is utilising public data, such as data from any publicly-owned utilities and telecom providers, national identity databases, and wage and employment databases. Customers' digital footprints can also be useful for data reporting, particularly in economies where mobile penetration is greater than that of banking penetration. Full file credit reporting is shown to support evaluation of customers with no borrowing record, thereby promoting access to lending products. It also can help lenders assess "ability to pay," potentially reducing the risk of over borrowing. In contrast, thin-file that focuses on a customer's credit record primarily measures current indebtedness.

Infrastructure for Secured Lending

- APEC member economies continue to progress on legal frameworks that will support secured lending transactions, including through enabling infrastructure such as collateral registries. Emerging economies such as Viet Nam have implemented an online registry for moveable assets with an approach that represents a useful case study for other emerging APEC economies. Experience indicates comprehensive reforms is necessary to support all elements of the infrastructure that enables the movable assets and credit reporting markets to work.
- It is recommended that APEC support member economies incorporate *Elements of an APEC Model Code of Security Interest Creation, Perfection and Enforcement*[1] into secured transaction law within their economies. This will help align APEC with best practice efforts within the global market. As reforms are implemented, there is also a need to help socialise these reforms so that practitioners and SMEs can leverage new opportunities in access to credit. A pathfinder initiative may see 3 or 4 economies commit to adopting the model code, implementing reforms and looking at adjacencies.

Additional Recommendations

Recognizing that progress towards financial inclusion involves several elements beyond credit information and secured transactions reforms, the Forum also provided the following recommendations for consideration by regulators and policymakers in additional issues that are growing in importance:

- APEC is recommended to consider adopting a formal definition of financial inclusion, such as the definition developed by the Global Partnership for Financial Inclusion (GPFI)[2], which would cover specific parameters and help determine and compare

1 See: https://www.abaconline.org/v4/download.php?ContentID=22611282.

2 See: GPFI White Paper (2011) http://www.gpfi.org/sites/default/files/documents/White-Paper-Global-Standard-Setting-Bodies-Oct-2011.pdf

the level of inclusivity of the financial sector across economies. There is significant diversity across APEC on financial inclusion, with huge variance in financial inclusion outcomes for households and firms. An APEC-supported definition could serve as a useful guide for APEC economies as well as better enable policymakers to align their financial inclusion goals.

- Governments may consider adopting a national financial inclusion strategy, as has already been done successfully in some APEC member economies. APEC could consider developing an APEC model framework for financial inclusion strategies that can be utilised and adopted by member economies to suit local needs and conditions. In addition, member economies may consider appointing a single organization such as the central bank or relevant government ministry to take overall responsibility for the development of the financial infrastructure, potentially including financial inclusion. While elements of the overall work could be delegated to other government bodies, member economies may consider mandating the leadership, coordination and responsibility to a single organization. This approach would increase the overall effectiveness and efficiency of financial infrastructure development and necessary reforms.
- Digital technology and digital-based services providers are bringing rapid change across all areas touching financial inclusion and the financial services industry. Digital and mobile providers have deeper penetration than financial services providers in many APEC member economies, and some may be able to offer financial access and services at lower cost. The business models of digital finance are changing the environment for lending, savings, insurance and payments in a way that warrants more attention by policymakers. Specific issues include: resetting oversight of customer data, privacy and protection practices for the digital economy; setting regulatory practice and oversight for digital financial service providers that may be non-bank providers and therefore subject to the financial regulatory framework; and increasing financial literacy training in the areas of e-money, digital wallets, mobile payments, digital data gathering and sharing, and cyber security. To progress this it is proposed that ABAC and the Financial Inclusion Caucus create a new working group to specifically address digital finance issues and align with other existing working groups within APEC as well as other knowledge sharing organizations such as the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the Global Partnership for Financial Inclusion (GPFI), which have been working on these.

Introduction

The lending infrastructure plays a very important role in promoting inclusive financial systems. Where this is not well-developed, access to finance is constrained. Most affected are those who need finance but have neither the physical nor reputational collateral typically required to access loans. The experience of microfinance in many emerging markets demonstrates the effectiveness of extending credit to the excluded from an economic perspective. A number of commercial organizations across the APEC economies have also demonstrated success in well-managed lending programs to the poor and small enterprises. Operational costs involved in making large numbers of small transactions have been significantly reduced through new technologies, such as digital finance. However, the lack of tools for financial institutions to properly serve broad segments of the population, especially the urban and rural poor, minorities, women and young people, has resulted in still-high levels of financial exclusion.

A major contributor to the lack of financial access for low-income and vulnerable households and micro-small and medium enterprises (MSMEs) has been the inadequacy of legal, policy and regulatory frameworks in enabling the use of a wider range of physical and reputational collateral that they can use to obtain financial services. While governments will still need to play a major role, especially in caring for those in the lowest-income segments of the population, the private sector can contribute much more, given an enabling environment that can facilitate the effective use of risk management tools for financial institutions to expand services to these households and enterprises.

This year, the Asia-Pacific Forum on Financial Inclusion sought to bring to the next level work that has been done on a number of issues in previous years' Forums and discussions under the APEC Finance Ministers' Process (FMP). The Forum was hosted by the Philippine Government and organized by the APEC Business Advisory Council (ABAC), the Foundation for Development Cooperation (FDC) and the Asian Development Bank (ADB) in partnership with Citi Foundation and with support from the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP), Japan International Cooperation Agency (JICA), the Policy and Economic Research Council (PERC) and GE Capital.

Participants in the Forum included experts from international organizations, capacity-building agencies, leading representatives from the banking, consumer finance, microfinance, credit bureaus and credit reference centers, and legal experts. Valuable contributions were received from experts in the Asia-Pacific Financial Forum (APFF) Lending Infrastructure and Trade and Supply Chain Finance Work Streams. Most importantly, resources were mobilized to enable the participation of relevant officials from interested APEC economies who are directly responsible for introducing and adopting legal, policy and regulatory reforms and potential participants in proposed pathfinder initiatives.

The Forum provided a review of what has been learned and proposed from past discussions in the Forum and the FMP. Participants also completed this review by discussing the financial inclusion situation in three emerging APEC economies (Mexico, Viet Nam and Papua New Guinea (PNG)) that were not assessed in last year's Forum. Discussion also included digital finance, specifically regarding the opportunities it presents and its implications for the provision of financial services and regulations.

Further sessions of the Forum focused on advancing discussions in two important priority issues that have been identified by the Finance Ministers and where the foundations for action have been laid through various discussions in past Forums and FMP workshops and seminars. In these sessions, participants sought to develop pathfinder initiatives to be submitted to APEC Finance Ministers for their endorsement. The focus of these pathfinder initiatives are:

- the development of credit information systems to facilitate full file credit reporting by including a wider range of consumer data (including both positive and negative data and both financial and non-financial data, e.g., utilities payments) through a pathfinder initiative among interested economies; and
- the development of the legal and institutional frameworks to enable wider use of secured lending by more participants in the system, particularly SMEs and MSMEs (including the introduction of reforms to enable the wider use of movable assets as security, improvement of perfection laws to clarify seniority of claims to collateral and development of user-friendly collateral registries).

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- Mr. Batara Sianturi, Chief Executive Officer, Citi Philippines
- Undersecretary Gil Beltran, Policy Development & MGT Services Group, Department of Finance, Philippines

The Forum emphasized the importance of ensuring the region's continued economic expansion proceeds in a way that extends prosperity to the poor and disadvantaged. By developing the financial services sector so that services and products can be accessed both "readily and cheaply" is of critical importance. To achieve this, there are certain crucial reforms that are needed to promote and progress financial inclusion.

First, in order to increase the availability of credit to eligible consumers and firms there is a need to move toward full file credit reporting, by expanding credit information to include both the traditional and alternative information such as educational loans, rental and utility payments and microfinance loans. Having an expanded consumer credit reporting system may also lead to better risk assessment, thereby promoting a sounder financial system.

Second, to improve access to finance of SMEs and MSMEs, legal reforms should be enacted to expand the range of collaterals that can be utilized to secure loans. Infrastructure to support adequate reporting of collateral through collateral registries is also important.

Third, to make access to finance easier and cheaper, use of digital financial services should be promoted. Innovative products which take advantage of and incorporate digital financial services have been introduced successfully in several economies, including Indonesia and the Philippines. To pursue these financial inclusion reforms and innovations, the role of technology and financial literacy are critical and should be pursued by financial regulators and supervisors to promote consumer protection and mitigate the risks associated to these reforms and innovations.

The Forum concluded with reports on the outcomes of the various sessions and agreement among participants to progress initiatives and proposals to the APEC Finance Ministers. This report provides a full summary of the Forum proceedings.

Chapter 1: Financial Inclusion: Achievements and Future Challenges

Session Chair:

- Ms. Amy Auster, Principal Consultant, The Foundation for Development Cooperation (FDC)

Speakers:

- Sir Sherard Cowper-Coles, Chairman, UK Financial Inclusion Commission
- Mr. Ed Jimenez, Microfinance Expert
- Mr. Kazuto Tsuji, Visiting Senior Advisor, Japan International Cooperation Agency (JICA)/ Professor, Saitama University, Japan/The Executive Committee Chair, CGAP
- Mr. Arup Chatterjee, Principal Financial Sector Specialist, Asian Development Bank (ADB)
- Mr. Batara Sianturi, Chief Executive Officer, Citi Philippines

The Asian region is home to an estimated 1.2 billion people that do not have access to a bank account or formal financial services. Although much has been achieved in expanding financial inclusion, significant work remains. To more effectively address financial inclusion a clear understanding of the perspectives across disadvantaged communities is required, and efforts should be focused on developing innovative products and services that appropriately address the needs of customers. This includes elements such as product range, cost, accessibility, financial capability and regulation to ensure customer protection.

The Asia Pacific Forum on Financial Inclusion is one of several regional initiatives aimed at achieving greater financial inclusion by advocating for good practice approaches and building the capacity of financial services providers, customers, policymakers and regulators. The Forum acts as a catalyst for knowledge sharing, and over the past five years has been working to develop greater understanding amongst stakeholders as well as the work of APEC more broadly. The outcomes of the Forum are currently being reviewed to ensure goals are being met, and that the go-forward strategy will lead to enhanced effectiveness and results for financial inclusion within APEC member economies.

Reviewing ABAC's Progress

The first Asia-Pacific Forum on Financial Inclusion was held in Sapporo, Japan in 2010. This Forum resulted in an endorsement by the APEC Finance Ministers to continue hosting the meeting annually in recognition of the need for APEC to actively address the issue of access to finance, and to financial services. The Forum is a policy initiative under the APEC Finance Ministers' Process (FMP) that is entrusted to the APEC Business Advisory Council (ABAC). Participants of the annual Forum include representatives from the public and private sectors, including financial regulators and policy makers, multilateral institutions, financial institutions and related market players, microfinance institutions, financial inclusion experts, industry organizations and private and public foundations. The Forum provides an opportunity for participants to review the current trends, recent achievements, ongoing challenges and opportunities relative to financial inclusion in the region. By providing this platform for high-level dialogue amongst policy makers and regulators across the region, the Forum aims to strengthen their capacity as well as provide priority recommendations for policy related issues impacting financial inclusion.

The Financial Inclusion Caucus was formed to lead ABAC's financial inclusion agenda. This Caucus, which is made up of experts representing a range of stakeholder groups, provides the necessary leadership and coordination to develop and host the annual Forum, and documents and disseminate its key outcomes. One of the primary objectives of the annual Forum is to provide priority recommendations for policy makers and regulators in relation to financial inclusion. With the Forum in its 5th year, the Financial Inclusion Caucus is now conducting a review of these policy recommendations with the aim of assessing the extent to which they have been adopted by APEC economies and identify what challenges remain for their implementation.

A desktop study of the Forum outcomes, including other outputs as a result of the work carried out by other ABAC work streams since 2011, has been able to document substantial progress on key issues pertaining to financial inclusion. The four original objectives of the Financial Inclusion Caucus were to:

1. Provide an avenue for APEC policy dialogue on new channels to serve the financial needs of the unbanked;
2. Provide a platform for capacity building regarding credit information and a legal framework for secured lending;
3. Increase the visibility / focus within ABAC on access to finance, relative to an historic focus on trade and investment; and
4. Enhance the understanding of approaches to financial literacy, including outcomes-based research into effective programs and policies.

Five years later, there is documented evidence of substantial progress on three out of four of these agenda items. This consensus on progress among key stakeholders is evident and backed up by the results of a survey given to participants of the 2015 Asia-Pacific Forum on Financial Inclusion. Over the coming weeks ABAC's Financial Inclusion Caucus will seek further feedback from APEC member economies and utilize this for a final report to be submitted to the FMP. This report will summarize the overall progress within APEC member economies and provide recommendations for next steps.

ABAC's Role to Continue Progressing Financial Inclusion

In order to effectively progress ABAC's financial inclusion agenda, the Financial Inclusion Caucus has endeavored over the years to capture the most important elements that make financial inclusion initiatives and policies most effective. Some examples of such elements include the importance of a customer-centric approach that takes into account the needs of the customers including suitable product development and consumer protection, the importance of technology development and digitization and the need for financial inclusion to be measured not just by access to products but also by usage. In addition, there is the need for policy makers and regulators to adopt a graduated or proportional approach to filling policy and regulatory gaps so as to balance competition and innovation against the needs of consumer protection.

In each case, measures to address financial inclusion within an economy must be mindful of the local context and adapted accordingly. The accumulation of case studies can help policy makers and regulators better understand their application as well as flag "unintended consequences" of policy implementation prior to mistakes being made. This is particularly the case in emerging areas such as the rollout of mobile or cashless payment systems.

Within the APEC process, the work on financial inclusion has tended to focus on "pro-growth" issues - such as credit reporting and lending infrastructure for SMEs and MSMEs. These are issues that are relevant to all APEC member economies across the development spectrum, and are aligned with the focus within ABAC on supporting SMEs and MSMEs as the primary generators of employment and growth within member economies. Relatively less work has been undertaken within the Forum on "pro-access" policies, particularly relating to poor households lacking basic access to reliable and affordable financial services. The range of outcomes across the APEC member economies on financial inclusion for households suggest the ongoing need to focus on this issue.

In addition, it has been recognized that since 2011, digital finance, mobile money and e-money have emerged as areas for growth in the financial system globally, with important implications for financial inclusion. This merits greater attention by the ABAC Financial Inclusion Caucus so as to ensure that policy makers and regulators understand these implications.

To bring about a renewed focus on the pro-access issues it is recommended that a pathfinder initiative be undertaken in 2015 that would to develop "model elements" of a financial inclusion strategy to:

- Ensure a strong focus remains on the core issue of access to financial products and services by poor households and micro firms, which may include for example the adoption of a framework financial inclusion strategy covering clients' centricity, financial institutions' social performance management and facilitation for responsible market development;

- Refocus energies on remittance payments and systems, with remittances representing an important financial product for many poor households in the region; and
- Recognize financial technology - through either mobile or digital access to finance - for reducing costs and expanding to remote areas and engage in further dialogue on how emerging technologies and innovation may be considered within national financial inclusion strategies.

Recognizing and Addressing Global Trends

ABAC's ability to identify and assess global trends and how they impact financial inclusion is crucial to its ability to address its challenges. The Asia Pacific Forum on Financial Inclusion is one of its primary methods for facilitating this by gathering together global experts to discuss, debate and share insights on good practice and analyze current trends. One important trend that has been identified is the growing recognition of the role financial awareness can play in emerging markets which lack access to formal financial services. In these markets informal and unregulated financial services may be common. Many economies have sought measures to formalize these financial services so as to provide better regulation and customer protection. However, policy makers and regulators must be careful that their efforts to do so do not lead to negative unintended consequences, especially with digitization.

For example, a recent case study in an emerging economy found that by introducing an electronic payment system for teachers' salaries into their bank accounts led to many teachers taking a day off in order to travel to the bank and collect their salary in cash. Another example of an unintended consequence of formalizing financial services can be seen in the case of an insurance company using customer mobile phones to verify data by text messages. Such a system could be problematic in places where there might be as many as five households sharing a single mobile phone. These types of issues must be assessed in order to ensure that policies and practices which facilitate the formalization and digitization of financial services appropriately meet the needs of customers.

As the perspectives of financial inclusion evolve, seemingly simple aspects such as financial education have evolved into complex issues impacting the financial system and how service providers engage with poor and disadvantaged customers. This trend has resulted in a strong case for economies to develop individual strategies for financial education; however, currently very few economies have such a strategy.

Lastly, three critical trends which are impacting the financial services environment are globalization, urbanization and digitization. Traditional methods for developing financial services have generally subscribed to the notion that customers only want three things with their services: faster, better and cheaper. This method is flawed as it does not adequately recognize the deeper needs of customers by considering how their interaction with the environment is impacted by the connection of markets with trade, financial and information flows; good practice methods for offering products and services in both rural and urban settings including the recognition of how cities are connected globally; and the need for innovative products, particularly those which are made possible through digital technologies.

More work is needed to translate these trends into data so that they can be properly assessed and used to influence both product development and regulation. Creating a society which is 100% cashless would be very difficult, however, a society which relies on “less cash” is possible through innovation and the development of digital technologies and can play a major role in accelerating financial inclusion.

Financial Inclusion in Developed Economies - Experience of the United Kingdom

The degree of financial inclusion varies greatly across APEC’s member economies. ADB and World Bank data indicate that low inclusion APEC economies have less than 1/4 the population with access to financial services when compared with high inclusion APEC economies. At the same time, it is recognized that even the most advanced APEC economies struggle with issues of financial inclusion. One example is the United States, where it is estimated that up to 50 million residents lack sufficient access to the formal financial system. In the United Kingdom (UK), the Financial Inclusion Commission - an independent body, which included representatives of the largest three political parties - was established to increase the focus on financial inclusion ahead of the General Election in May. On March 12, 2015 the Commission released a report entitled *Financial Inclusion: Improving the financial health of the nation*[3]. The report identified the progress made in delivering financial inclusion in the UK and assessed the remaining challenges.

The Commission’s report highlighted the need for financial inclusion to be a higher priority for policy makers. According to the report there are still significant levels of financial exclusion in the UK and many households and individuals lack the necessary resilience to cope with financial shocks. Some of the findings from the report include an estimated two million adults without a bank account, 50% of lower-income households without home and contents insurance and 15 million (31% of the population) reporting one or more signs of financial distress (i.e. making minimum payments on credit cards, receiving overdraft charges or using credit to cover basic necessities).

To address these and other financial inclusion issues the Commission’s report made recommendations covering six core areas: leadership, banking and payments, credit and debt, savings and pensions, insurance and financial capability. Some examples of these recommendations include:

- The appointment of a Minister for Financial Health to provide political leadership on financial inclusion within the UK Government. This is an approach not yet seen amongst APEC members.

3 http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

- Better access to, and intelligent use of, data (including non-traditional data) that will better enable individuals with thin credit files to gain access to financial services.
- The establishment of an independent, expert group that will inform the Minister for Financial Health on key trends, emerging issues and promote innovation to help deliver financial inclusion.
- A statutory duty to be placed on the UK's Financial Conduct Authority to promote financial inclusion as one of its core objectives.
- Increased focus on financial capability. This needs to go beyond management of money and should also include cultural factors, such as learning about the importance of savings from a young age.

Despite the level of progress the UK has achieved towards financial inclusion, significant gaps and challenges remain. This experience shows that even financially advanced economies struggle with financial inclusion and in many cases these challenges are not dissimilar to those experienced by less developed economies. Furthermore, the recommended actions to be taken in order to overcome these challenges are often similar as well. At the core of these recommendations is the need for greater cooperation between the public and private sectors to improve the financial services sector - a principle which all economies should adhere to in order to improve financial inclusion.

Key Points

- ABAC has made good progress in meeting its aims for financial inclusion over the past five years. However, more work is needed on "pro-access/pro-poor" issues such as financial inclusion strategies, remittances and financial education. Furthermore, new financial inclusion issues that have arisen in recent years, such as the development of digital financial services, provide opportunities for ABAC to increase its aims to ensure that these new critical issues are being adequately addressed in the light of clients' centricity.
- Measures to address financial inclusion must be mindful of the local context and adapt accordingly. The accumulation of case studies which highlight good practice can help build the capacity of policy makers and regulators as well as flag "unintended consequences" of policy implementation prior to mistakes being made.
- The formalization of unregulated informal financial services is an important step to ensure adequate regulations, customer protection measures and social performance management are in place. However, policy makers and regulators must be careful that their efforts to do so do not lead to negative unintended consequences by applying comprehensive assessments as part of their overall strategy which includes engagement with customers to gather their feedback as a critical component.

- The financial services environment is heavily impacted by trends in globalization, urbanization and digitization. Service providers need to recognize and understand the implications of these issues so that they can better understand the needs of their customers. Furthermore, more work is needed to translate these trends into data so that they can be properly assessed and used to influence both product development and regulation
- Economies with advanced financial services sectors also share many similar challenges for financial inclusion with developing economies. Many strategies which would be considered good practice, such as effective and efficient engagement between public and private sectors, are applicable to all economies. Furthermore, the experiences of developed economies can provide useful road-maps for developing economies to avoid common mistakes and accelerate their responsible financial market development and financial inclusion efforts.

Chapter 2: Financial Inclusion: Economy Experiences - Mexico, Viet Nam and PNG

Session Chair:

- Ms. Rachel Freeman, Manager, Financial Institutions Group Advisory, Asia-Pacific, International Finance Corporation (IFC)

Speakers:

- Mr. Javier Suarez, Director for Studies on Savings, Mexican Ministry of Finance
- Ms. Tam Le Thanh, Microfinance Expert, Viet Nam
- Mr. Benny Popoitai, Deputy Governor, Bank of Papua New Guinea

The trends, achievements, challenges and opportunities for financial inclusion within each economy are unique. APEC's member economies represent varying levels of development for financial inclusion, providing an important opportunity to examine and share the experiences to improve results and promote best practice. Examining the cases of Mexico, Viet Nam and Papua New Guinea (PNG) highlighted several challenges emerging economies face in achieving financial inclusion and also provided examples of innovative solutions.

These three economies represent very different situations. Mexico has a relatively advanced and structured institutional and regulatory system that prioritizes consumer protection. Viet Nam employs a dual approach that utilizes a dominant state-driven role and growing market-based framework, and is working to create a more enabling and responsive regulatory environment to boost access to financial services. In the case of PNG, a financial system is being built from the ground up, with ongoing challenges such as the provision of basic financial education in remote areas where most of the population resides; and developing a financial infrastructure that can adopt digital technology to widen access and lower costs. The examples these three economies provide illustrate the need to approach financial inclusion alongside specific economy-level goals and priorities.

Mexico

Financial inclusion in Mexico is not regarded as a standalone initiative but includes financial education and consumer protection. Mexico's government is guided by the principle that by reducing the risk to the client and the financial system, the overall wellbeing of household and the economy can be enhanced. In order to better understand the state of financial inclusion, the Mexican government conducted a survey in 2012 to assess the level of access and usage of financial products and services. The results of this survey have indicated that there is a low level of comprehension of financial products, including knowledge of commissions and interest rates. Usage of financial products and services is also an issue. As of 2012 it has been estimated that up to 97% of Mexico's population had access to at least one point of contact with a formal financial institution, but only about 60% of the population was actively using a formal financial service or product.

To progress its financial inclusion agenda Mexico's government institutions have been assigned different roles with the aim of fully integrating all initiatives and strategies on financial education, access and use. A National Commission for Financial Inclusion was established and is currently drafting a formal policy for financial inclusion. Mexico's Ministry of Finance and Public Credit is responsible for coordinating policies on financial inclusion and Mexico's development banks provide and foster credit to both investors and the general population with a particular focus on women and youth. Within this framework each institution has various roles to play, however, the responsibility of coordinating on financial education issues is shared by all of them.

In 2014 Mexico enacted financial reforms with the aim of broadening the mandate and extend focus beyond individuals to also include SMEs. Some of the recent actions and initiatives being undertaken as part of these reforms include:

- Integrating savings and loan cooperatives into part of the financial system and allowing them to use corresponding agencies such as convenience stores to provide financial services to customers such as topping up credit or paying bills;
- Expanding the mandate of government-owned development banks to include women and youth, MSMEs and small agriculture producers;
- Establishing a bureau of financial institutions, including a website that includes over 4,000 financial institutions. The website provides features that allow customers to issue complaints against specific financial institutions and users can more easily track the progress and status of resolutions, sanctions, availability of financial education and reports of abusive clauses enabling customers to make more informed financial decisions;
- Initiating a program for 15-30 year olds by the Finance Ministry for young entrepreneurs without a credit score to be eligible for credit by demonstrating a viable business case for their business;
- Creating new savings products that allow deposits with agents such as convenience stores for customers to save for retirement; and
- Implementing new requirements on remittances, which is a very important part of Mexico's economy, that require all remittance recipients to have a formal financial account so that they can be included in the financial system.

Viet Nam

Viet Nam has a population of over 90 million, with two thirds estimated to be living in rural areas. The economy has seen a rapid reduction in poverty in recent years, with the estimated poverty rate falling from 53% in 1992 to 7.6% in 2014. Since 2002, Viet Nam has been officially recognized as a low/middle income economy rather than a poor economy. Efforts to increase financial inclusion have been recognized as a key factor in reducing poverty and supporting economic growth.

Despite the success in efforts to raise income levels and reduce poverty, Viet Nam's level of financial inclusion is still low in comparison with many other APEC economies. Only 21% of the population has an account at a formal financial institution in comparison to 55% across all of East Asia Pacific (EAP), and below 27% in Philippines and Laos. When only the bottom 40% of the population by income is considered, 11% have an account at a formal financial institution which is below Laos at 20% and about the same as the Philippines. On other metrics, 15% of population has a debit card; 1% a credit card; 16% a loan from a financial institution; and 31% a loan from family or friends within the past year (EAP average is 27%).

Financial Inclusion Overview in EAP and Selected Economies - 2012 (% +15 age)[4]

Item	EAP (developing only)	China	Malaysia	Philippines	Viet Nam	Laos
Account at a formal financial institution	55	64	66	27	21	27
Account at a formal financial institutions, income, bottom 40%	39	47	50	10	11	20
Debit card	35	41	23	13	15	6
Credit Card	7	8	12	3	1	3
Loan from a financial institution, past year	9	7	11	11	16	18
Loan from family and friends, past year	27	25	20	39	31	16

Viet Nam's financial inclusion efforts can be categorized into three environment levels: micro, meso and macro. Within the micro environment the Viet Nam Bank of Social Policies (VBSP) is the dominant market leader with more than 7 million loan

4 Source: Demirguc-Kunt and Klapper, 2012, FINDEX Database, Washington D.C., World Bank. http://datatopics.worldbank.org/financialinclusion/country/vietnam

customers; the majority are microfinance borrowers. As a state-owned bank VBSP is subsidized by the government. It also has significant outreach capabilities and is currently providing services within 99% of Viet Nam's communes. The Viet Nam Bank for Agriculture and Rural Development (VBARD), another state-owned bank, is the 2nd market leader and has approximately 1.4 million clients.

Other players in the sector include 3 licensed microfinance institutions (MFIs) and 30 semi-formal MFIs or microfinance organizations (MFOs) which consist of a mix of public and private sector entities but are small, have low outreach and are generally underdeveloped. These organizations provide a very small percentage of loans in the financial system and also have low levels of equity. The lack of influence and development of private sector players has resulted in a situation in Viet Nam where overall outreach of financial products and services is high, but the quality of these products and services is considered to be low.

The mesa environment is made up of support institutions that provide capacity building and credit information. Training programs are often scattered and underdeveloped, however, the commercial banking community has substantially improved its training capacity in recent years. There is concern that the private sector expertise has not yet filtered down to the MFI community. Technical support has also traditionally focused on the formal banking system with limited extension to other service providers, particularly MFIs.

The lack of holistic credit information is another challenge Viet Nam is working to overcome. The Credit Information Center (CIC), which is part of the State Bank of Viet Nam (central bank) is still working to collect information from the People's Credit Funds (PCFs) (rural savings and credit co-operatives) and MFIs. Community and mass organizations also play an important role in informal information on credit to help reduce overindebtedness, but this information has not been linked with CIC. VBSP has provided information to the CIC but not necessarily full disclosure.

Viet Nam's macro environment for financial inclusion encompasses the economy's regulatory and legal framework. The Credit Institution Law (CIL 2010) was a particularly landmark legislation as it fully integrated Viet Nam's licensed MFIs into the formal credit institution system. However, implementing rules and regulations have not yet been fully promulgated as part of this legislation so the process of integration has not yet commenced. Another important regulatory development was the National Microfinance Development Proposal for 2011-2020 which provided a roadmap for microfinance development in Viet Nam.

There are several main causes that have resulted in Viet Nam's relatively low level of financial inclusion and each of these have important policy implications. These causes and their policy implications can be summarized as follows:

- Both public and privately owned microfinance providers suffer from low financial and technical capacity. Policies or programs for capacity building are needed to enhance existing ability to provide quality services and expand outreach;

- VBSP is very large and has significant outreach, but relies on government subsidies. It is not applying prudential regulation or offering deposit insurance. Reforms within VBSP are needed to correct these issues and bring it toward self-sufficiency;
- There is a very low degree of private sector involvement in microfinance, which is viewed to be hindering competition and product innovation. The level of private sector involvement needs to increase, including from foreign investors. A particularly significant opportunity exists for the private sector with the development of digital financial services;
- The lack of support from the meso environment is significantly hindering progress towards financial inclusion. By creating a more enabling meso environment more support from local authorities, on-lending funds to expand outreach, information sharing and technical experts can be achieved;
- The lack of rules and regulations within the Credit Institutions Law and National Microfinance Development Proposal make it difficult for non-licensed MFIs/MFOs into the formal system. Tailor-made implementing rules and regulations should be developed and issued for these laws to better support the MFIs/MFOs to become part of the formal financial system; and
- There is no national approach to financial inclusion in relation to underdeveloped knowledge and understanding of financial inclusion and financial literacy. An economy-wide financial literacy program is perceived as a desirable step forward to fill this need.

Papua New Guinea

Eighty-seven per cent (87%) of PNG's population of 7 million live in rural areas, many of them in very remote areas. It is estimated that up to 6 million of the total population are currently unbanked. Financial inclusion is considered to be PNG's biggest development challenge and the government has recognized that the majority of the population are rural subsistence farmers with no access to financial services, leaving them disadvantaged and non-active participants in the economy's development. The government's ultimate goal for financial inclusion is to enable people to have more choices and opportunities about how they develop their livelihoods and increase their personal wellbeing. The current lack of access to financial services significantly limits their choices and opportunities.

To ensure inclusive growth the government has developed two major policy initiatives. The Vision 2050 Policy Statement stressed wealth creation to empower people, especially youth, so that they can become active partners in the development of the economy. A critical component of this vision is the need to increase the level of financial literacy amongst the population. The initiative has been further boosted by a second initiative - The National Informal Economy Policy 2011-2015.

The Bank of PNG (central bank) believes that the lack of financial inclusion limits its ability to carry out effective monetary policy and adequately monitor the whole economy in order to understand the risks that may be in the informal sector. This ultimately impinges upon economic stability and good management. To address this the Bank of PNG has formally adopted financial inclusion as part of its strategic plan and aims to undertake a systematic approach to financial inclusion through financial literacy and banking the unbanked.

PNG's National Strategy for Financial Inclusion and Literacy 2014-2015 was developed with the vision to have all Papua New Guineans be financially competent and have access to a diverse range of financial services. This is to be supported by creating an enabling regulatory environment that promotes and nurtures technological innovations in product and service delivery channels while also facilitating financial education. The Strategy identifies a number of key strategic objectives which are outlined below:

- To increase the number of new clients by 1 million, including MSMEs, through the provision of a diverse range of financial services. 50% of the people reached are to be women.
- To expand financial education, particularly towards youth, to create a generation of financially competent Papua New Guineans.
- To provide support for innovative technology to be used for scaling-up access to financial services and financial literacy.
- To strengthen consumer protection by issuing prudential guidelines and the creation of a platform for various national regulators and industry networks to monitor consumer protection.
- To integrate financial inclusion strategies within local and economy-wide government efforts.
- To promote regular collection and use of financial access data to inform policy making and help identify key dimensions of financial inclusion in PNG.
- To optimize these results through knowledge sharing and effective coordination of stakeholders, including development partners, by the newly established Center for Excellence in Financial Inclusion (CEFI).

Implementation of the National Strategy for Financial Inclusion and Literacy 2014-2015 is being coordinated and monitored by CEFI. In 2013 PNG's National Executive Council endorsed that CEFI would be responsible for coordinating all initiatives relating to financial inclusion. As part of its coordinating efforts CEFI works closely with the Sub-committee on Financial inclusion of the multi-stakeholder Consultative Implementation and Monitoring Council (CIMC), which is responsible for overseeing the implementation of PNG's National Informal Economy Policy.

In 2012 the PNG government, in partnership with the ADB, Australian Government and Participating Financial Institutions (PFIs), launched the Microfinance Expansion Project (MEP). The Bank of PNG is the executing agent for this initiative and funding of USD 24 million has been secured for its implementation. The PFIs consist of five microbanks and five savings and loans societies which were selected following a rapid institutional assessment. Through the MEP a number of new initiatives are made possible focusing on five core areas: strengthening partner financial institutions, financial education, industry standards, supervision and regulation and the development of a risk share facility.

For the strengthening partner financial institutions output, as of 2014 the MEP has conducted 1,748 person days of training on topics such as market research, product development and compliance of regulation requirements. To support product innovation and market development the MEP has produced 10 market research reports, developed 24 new financial products including 8 which specifically target women. Other mentoring activities have been implemented focusing on topics such as delinquency management, performance monitoring tools, marketing of loan and deposit products and strengthening operational systems.

Financial education initiatives under the MEP cover topics such as savings, budgeting and use of mobile money. Faith-based organizations such as local churches have been important partners for the financial education initiatives as they have proven to have exceptional outreach to the more remote communities and also benefit from greater trust from these communities. Other important financial education partners include formal training institutions, financial institutions and cooperative societies. Through its financial education initiatives the MEP has so far reached 34,860 people of which more than 17,000 have been women.

To help promote and establish industry standards the MEP established CEFI. CEFI has been put into a formal stakeholder model including relationships with government committees and runs a series of working groups to address topics such as consumer protection, financial education and literacy, electronic banking, data and measurement, inclusive insurance and government coordination. Examples of some of the industry standards which CEFI is aiming to establish include performance ratios covering asset quality, productivity and efficiency and outreach, provision of financial data to the MIX Market, adopting consumer protection principals and using a credit and data bureau for credit assessments and improvement in lending portfolio. Even though CEFI was formally launched two years ago it is still in the process of being completely rolled out as a program.

To support the regulatory environment the MEP aims to review the regulatory framework for MFIs, assess the impact of the new Savings and Loan Society Bill and provide recommendations for regulation and supervision principles for MFIs. In terms of supervision the MEP is working to produce an offsite supervision manual and examination process, develop a data management tool and offsite reporting template. The MEP is also working to develop a data management tool kit specifically for MFIs.

Progress under the MEP on the risk sharing facility is currently well underway. AFC Germany has been appointed as the manager of the facility and the initial inception report has been finalized. A trust account has also been finalized with trustees appointed to manage the funds. The first trustee meeting was held on 25 November 2014 which led to the formal operational documents being finalized.

PNG's National Financial Inclusion Strategy and the MEP have faced a number of significant challenges. In implementing the Strategy, PNG's diverse and difficult geography, the lack of financial resources and coordination challenges within the government have been cited as major issues which have on occasion stalled progress. For the MEP, some of the main challenges have included contracting the right partners, reluctance of partners to share technical resources, ensuring quality assurance for financial education initiatives and retaining new customers (i.e. account openings vs. active account users).

Key Points

- The Mexican government has defined financial inclusion as representing access to a formal financial institution and the responsible use of financial products and services. A 2012 survey showed 97% of the population has access, but only 60% hold a financial product. There is a challenge around consumers understanding products and their costs; the government continues to work on best practice in financial literacy. Recent reforms have focused on better alignment of agencies that impact financial inclusion and adopting policies for its promotion.
- Viet Nam has a low level of financial inclusion within APEC and relative to East Asia peers despite increased efforts on outreach. Changes to the legal and regulatory framework in Viet Nam over the past five years has greatly improved environment for financial inclusion but progress is slow. The microfinance industry is seen as fragmented and small, with only US$5mn in loans outstanding from the largest and most dominant microfinance provider, the Viet Nam Bank for Social Policies. Digital finance is seen as the best opportunity for expanding financial inclusion, but this needs to occur within a national financial literacy program.
- The Bank of Papua New Guinea has adopted a National Financial Inclusion Strategy into its strategic plan with a target of having one million new clients banked (out of population of 7 million) by the end of 2015. Of this, the target is for 50% of new customers to be women. Financial inclusion is challenged in PNG by its terrain, spread of communities and diversity in language and culture. PNG has adopted a whole-of-government structure to support implementation. Within this, PNG has been implementing the Microfinance Expansion Project which has focused on strengthening partner financial institutions, financial literacy training, supervision and risk sharing.

Chapter 3: Digital Finance: Promoting Customer Centricity and Protecting Customers

Session Chair:

- Mr. Eric Duflos, East Asia and the Pacific Regional Representative, Consultative Group to Assist the Poor (CGAP)

Speakers:

- Mr. John Rubio, CEO, BanKO, Philippines
- Mr. Sheikh Md Monirul Islam, Chief External & Corporate Affairs Officer, bKash, Bangladesh
- Ms. Prudence Angelita Kasala, Head, Financial Consumer Protection Department, Bangko Sentral ng Pilipinas (BSP)
- Mr. Sokha Huot, Chief Business Officer, AMK, Cambodia

A large number of institutions that provide financial services at the base of the pyramid, whether banks or mobile network operators (MNOs), realize that giving access to previously unbanked populations is much easier than ensuring usage. For example, for mobile banking, in 2013 the Groupe Speciale Mobile Association (GSMA) estimated that less than 30% of subscribers were active (transacted once within 90 days). The same applies to many banks that provide large numbers of simplified savings accounts.

With digital financial services becoming increasingly popular, more attention is being drawn to the variety of issues which providers face in making these services effective as well as discussions on appropriate regulatory frameworks. The grass-roots examples provided by bKash, BanKO and AMK Microfinance Institution Plc. (AMK), including evidence from their actual data and statistical models, provide a useful illustration of both the complexity of digital financial services and the innovation these enterprises develop to better deal with emerging problems; while also building sufficient transaction velocity and fee generation to achieve profitability. Additional perspectives from the Bangko Sentral ng Pilipinas (BSP) provide insights into the regulatory challenges in this area. Some of the most prominent challenges that service providers nominate include methods for widening access, low levels of actual usage of services offered, high costs of providing services to remote areas, building consumer trust, building the capacity of agents to handle transactions, educating consumers about products and cyber-safety issues such as password protection and mitigating against fraud and other consumer risks.

Amongst these various challenges, improving levels of usage, addressing customer risks and ensuring appropriate education around suitability for previously unbanked customers are likely to be the most critical for digital finance to play a major and effective role in advancing financial inclusion. By increasing and sustaining high levels of usage, service providers are able to develop new products and expand outreach. Effective dialogue and cooperation between service providers and regulators is important to address customer risks and develop appropriate regulatory frameworks. At the core of these two issues is the need for both practitioners and regulators to become more customer-centric to create a better value proposition and increase protection for customers.

Tracking and Increasing Usage

Tracking usage of digital financial products is important as it provides an indicator of the appropriateness of the product. Each service provider employs their own methods to track and monitor the usage of their customers. To increase activity, providers need to provide a diversity of products. By offering a variety of products, a cascading effect is created whereby more customers are able to integrate these products into their daily lives.

In the case of AMK, which is based in Cambodia and has about 400,000 customers (about 100,000 of which are savers), the rate of customer transactions are tracked over three time periods: 90 days, 180 days and 360 days. Their recorded rates of usage vary with the 90 day period being the lowest. AMK's main driver for increasing activity is to better understand customer barriers. The main customer barriers are language constraints (i.e. customers not being able to read English language on mobile phones), limited knowledge regarding mobile phone functions and internet usage and low levels of financial literacy; particularly in digital banking among the poor who may be used to operating in a cash-based economy. Recognizing these concerns AMK uses an agent banking model to extend outreach and provide products and training to the poor. By conducting trend analysis of their customers AMK is able to enhance its services. For example, AMK has estimated that 33% of its customers own smart phones and 40% are internet users. Based on this data they are aiming to develop specific product offerings that will influence usage behavior according to their needs and capacity.

Philippines-based BanKO, which has 1 million customers, takes a different approach to tracking activity. For BanKO, activity is defined as anything that impacts the customer's wallet. 25% of their customers have some sort of wallet impact every 90 days and 5-6% have an impact weekly. BanKO aims to increase account velocity so that it is not only used but it also generates a profit. Because the mobile money margin is very thin, it requires scale and velocity in order to be profitable. Pricing is also key and BanKO has managed to increase activity significantly by dropping prices on some products and cross-selling.

In Bangladesh, bKash strives to offer convenience, affordability and reliability to its 5 million active customers which accounts for 40% of their registered customers. These principles are particularly important to attract and retain customers by offering low charges on products and services that develop trust towards the institution and encourage activity. To increase activity, bKash has encouraged clients to allow more payments to be made through ecommerce such as payroll, utility bills and rent making it possible for these to be paid out of mobile accounts. As an example, bKash successfully convinced factory owners to pay salaries through mobile financial accounts. Each worker uses a mobile account and the transaction time of paying salaries, which used to take a full day, can now be completed in just a few minutes. The factory workers can then use the money for themselves or easily send it to family members living in other areas.

Customer Centricity

The majority of bKash's clients are low income individuals, 20% of which are female. Many of them work in urban environments and need to send money back to their families living in rural areas. These clients depend on the mobile financial service provided by bKash to make these transactions as well as others through the same platform. bKash builds trust, awareness and knowledge among customers about their mobile financial services through active advertising campaigns and promotions. bKash also employs a large customer care team with 160 staff to attend to client queries. This customer care center provides a dedicated facility to provide support to customers, primarily through a dedicated call center. The call center is very important since it is estimated that up to 50% of bKash's clients are illiterate, so the ability to speak directly with bKash representatives for support enables them to more easily express their issues and receive the necessary support. The most frequent issues reported to representatives through the customer care center are clients who have forgotten their PIN, sent money to the wrong account or have been the victim of fraud.

BanKO takes a different approach to listening to their customers. Most of BanKO's clients are part of the underserved and unbanked population, with about 90% of BanKO's customers having never had an account at a financial institution. To learn more about their customers and their needs BanKO uses surveys or focus group discussions to gather feedback on specific issues. Social networks are also leveraged for additional insight. In most cases customer complaints will first be displayed on social media, so this has become an important tool for BanKO staff to identify and respond to issues very efficiently. By actively engaging with their clients in these ways BanKO is able to better shape their product offerings and improve their services to make them more appropriate for their customers.

Risks and Mitigation

Customers face unique risks with digital financial services including PIN protection, fake agents, "ghost clients" and scams. To mitigate risks with their products AMK has developed a toolkit for AMK staff to train their agents and a second toolkit for the agents to then train customers. Personal identification number (PIN) security and management are a major issue for customers and so the toolkit specifically aims to train clients during the account opening process to protect their PIN. Notices are also placed on the front of agent counters to remind customers of the importance of protecting their PIN.

BanKO has adopted a similar method and provide regular reminders to their customers about the importance of receiving confirmation via text message of their transactions. Fraudulent transactions is another major risk which BanKO faces and is being addressed through financial education regarding safety nets and technological controls that limit agent primary access by adding customer supplied information to better protect the transactions. Following the principle that “education without practice does not work”; BanKO strives to lead their customers through the experience of the service to ensure that adequate education is provided.

Major risks that bKash faces with its mobile financial services include financial crimes such as fraud, money laundering and the financing of terrorism. These risks are mitigated by limiting the amount of transactions that can be done both by volume and by value. For example, the maximum a customer can have on deposit at any one time is US $2,000. Transaction values are limited to up to USD 125 and USD 315 per day and per month, respectively. bKash also employs an anti-money laundering (AML) compliance officer to monitor suspicious transactions through a Central Compliance Unit (CCU).

From the regulator perspective, BSP, the Philippine’s central bank, has created a department specifically to address concerns and complaints from customers. This department also aims to provide financial education and ensure that while the supply of financial services is addressed, usage and consumer protection are equally important. To empower customers BSP implements a number of activities including financial education programs that are tailor-made to suit different audiences. These activities include the development of a consumer protection framework with an assessment of financial institutions. Among the financial education initiatives are the Financial Education Expo targeted for those about to graduate from college and those who are just starting to work, “Money Matter for Kids” an inter-active exhibit aimed at youth and the Alerto Ako campaign which is designed to fight scams and frauds. Furthermore, customers can also escalate concerns regarding the practices of financial services providers to BSP through a designated hotline as part of a quality assurance process. The most frequent concerns relating to digital financial services that are raised by customers to BSP include automated teller machine (ATM) skimming and phishing and non-compliance to disclosure in product features and offerings.

It is important that regulators work closely with providers to develop regulations which provide a balanced environment that does not restrict product innovation while also providing the necessary protection for customers. Building trust amongst consumers by applying and enforcing appropriate regulation is an important element of this balancing act. To achieve this, regulators and providers of digital financial services need to take appropriate measures to ensure a customer-centric approach including effective methods of communication with digital finance customers to better understand their needs.

Key Points

- In order for providers to increase their accounts and usage they must invest in a customer-centric approach whereby they facilitate simple and effective platforms to engage directly with customers to better understand them and their needs. This can include a mix of solutions including the use of customer care centers or leveraging social media to communicate and receive feedback from customers. Most importantly, this type of approach will better enable providers to balance their social and financial returns. The challenge may be the costs involved as most of the bottom of the pyramid (BOP) clients need a personal interface to express their concerns.
- Increasing the levels of product usage is still an important issue and providers are working on improving this in their own ways. However, by monitoring usage on a regular basis, changing the price to improve activity, diversifying products and utilizing agents to expand outreach and service capability, new risks emerge such as PIN theft and various forms of fraud and scams. To effectively address and mitigate these risks it is important for providers to improve financial education to ensure customers learn through actions rather than simply informing and at the same time enhance their ability to listen to their customers by having strong customer care centers or similar initiatives that facilitate effective customer-provider engagement.
- With digital financial services growing at such a rapid pace, regulators risk falling behind in providing adequate regulations and enforcement to ensure that customers are protected. To address this, regulators could appoint a specific department to monitor the digital finance market and particularly to focus on creating an environment which enables providers to be innovative and builds trust amongst customers.

Chapter 4: How Can Public and Private Credit Reporting Services Providers Work Together?

Session Chair:

- Dr. Robin Varghese, Senior Fellow and Vice President of International Operations, Policy and Economic Research Council (PERC)

Speakers:

- Ms. Khaikeo Luangsivilay, Deputy Director, IT Department, Bank of the Lao PDR
- Hung Hoang Ngovandan, Principal Specialist, International Finance Corporation (IFC), World Bank Group
- Mr. Anthony Hadley, Senior Vice President of Government Affairs, Experian
- Mr. Jaime Garchitorena, President and CEO, Credit Information Corporation (CIC), Philippines -
- Mr. Humberto Daniel Pánuco Laguette, Senior Economist, Financial Sector Analysis Directorate, Banco de Mexico
- Mr. Lawrence Tsong, President, Asia Pacific, TransUnion

Several economies in the Asia-Pacific support both a private credit bureau (PCB) and a public credit registry (PCR). While in theory each can play a distinct and complementary role, how PCBs work along (and with) the central bank's PCR is a challenge for many economies. Specific issues include: determining how PCRs should, if at all, engage the market; how PCBs can work with central banks to ensure commercial sustainability, financial inclusion and economic growth; the role of hybrid models and how governments can effectively use PCRs to promote competition in the market.

The experiences of global credit bureaus such as Experian and TransUnion, which have hands-on experience compiling credit scores in various regulatory environments, provide useful insights into the implications of these issues and how they might be addressed. In identifying potential solutions there are several elements of credit reporting which need to be examined:

- Full-file (positive & negative) data versus negative-only data;
- How to structure the relationship between private credit bureaus and public credit registries where both exist;
- How to balance data sharing and consumer protections, including privacy rights; and
- How to accommodate non-financial as well as "Big Data," large unstructured data sets ranging from mobile phone records to social media (such as Facebook, LinkedIn and twitter).

Central banks can also play an important role in the credit reporting industry by undertaking assessments on regulatory trends in information disclosure by banks as well as addressing data quality as a system-wide regulatory issue rather than limiting this to credit bureaus or registries.

Negative-Only vs. Full-file Data

In many economies, banks rely on negative credit bureau data only for underwriting. While negative data is useful, credit bureaus can increase their predictive power by also using positive data. The structure of credit reporting shapes whether and to what extent the macroeconomic effects such as lending to the private sector, economic growth, and safety and soundness in lending are realized. Research and experience to date provides extensive evidence showing that:

- full-file and comprehensive credit reporting, i.e., credit reporting that includes positive and negative data from across a number of financial and non-financial sectors, increases lending to the private sector more than other credit reporting regimes;
- full-file and comprehensive reporting results in better loan performance than negative-only and fragmented reporting; and
- full-file and comprehensive reporting enables a wider range of value-added products that can serve to help lenders expanding lending.

A regulatory framework that enables full-file, comprehensive credit reporting and allows private credit bureaus to operate, alongside public credit registries where they exist, and serve the lending market produces greater market efficiencies than other systems. This robust system of information sharing needs to be complemented by a well-balanced system of consumer protections that effectively prevents misuse of data and clearly spells out the rights and obligations of consumers, credit bureaus, lenders and other participants in the process.

Experiences from other Economies

Across APEC member economies, there is no best practice model in place for public credit registries or public credit bureaus. Some economies, such as Indonesia, do not yet have a fully functioning credit bureau, while in others, such as Hong Kong, TransUnion, which is a global credit information company, is the only credit bureau in the market. In this case, the Hong Kong Monetary Authority provides guidelines to all banks to contribute their data to TransUnion which allows some collection of data.

In the case of Mexico, there are currently two credit bureaus. Because both bureaus are owned largely by the banking sector this has generated some conflicts of interest regarding the sharing of data between credit bureaus, even though current law has mandated this sharing of data. To resolve this issue the Mexican government has recently introduced banking reforms including the proposal for the establishment of a public credit bureau which would not be controlled by the banks.

The Philippines Credit Information Corporation (CIC) is not the first credit bureau in the Philippines. The first credit bureau failed and the reason for this is believed to be that banks were not obliged to report. In 2008 the Philippines established a new law that required banks to report; however, this process took three years and by then most of the financial institutions had created their own models for credit scoring. CIC has since created a credit registry, but has had to leverage off the provision that requires institutions to report their data. CIC is now collaborating with other institutions that keep data to help them aggregate it and make it available for use. By promoting such collaboration CIC is trying to be an integral part of the data sharing culture rather than act as a dominant player.

The Role of the Public Sector

Governments have an important role to play in the development of their economy's credit information sector. Finance ministers and central banks are very powerful institutions and an economy cannot function without them. Therefore, they should take the lead role in actively promoting a culture of financial information sharing. Governments can also set precedents by sharing useful public and publically controlled data such as from public telecoms and utilities with credit bureaus.

Since the provision of loans depends upon data and data analytics as well as the fair use of this information to assess risks, the government has an important role to play in order to ensure that the right environment exists for this. However, a key challenge that governments face in achieving this is balancing privacy needs within the data sharing environment for the greater good.

Governments can also provide assistance to credit bureaus to help them develop in ways that will enable them to more effectively predict outcomes. A credit bureau can achieve this by investing their funds, often sizable amounts, into data security, information technology and other platforms. The request for these investments needs to be undergirded by a policy environment that enables and supports this.

The growing global trend of central banks and finance ministers to force financial institutions to examining over indebtedness, particularly the ability to repay, is an important aspect that can help push for increased data sharing. Ability to pay requirements are emerging in many developed and developing economies and this trend represents an important opportunity that can be taken advantage of.

In economies with public registries that operate alongside private bureaus, governments must take the lead in establishing a level playing field in the acquisition of/access to data and engagement with lenders. The CIC of the Philippines will make data reported by lenders to CIC available to a set of licensed private bureaus in the Philippines, ensuring that for data that is mandated to be reported, all players in the market will have equal access.

The Need for a Second Generation Credit Reporting System: The Case of Lao PDR

Lao PDR is a landlocked economy with a population of 6.8 million; 63% of which live in rural areas. According to United Nations (UN) statistics, Lao PDR has made significant progress in poverty alleviation over the past two decades with poverty rates declining from 46% in 1992 to 27.6% in 2008. With this level of progress the economy is expected to achieve its Millennium Development Goal target of halving poverty by 2015.

Lao PDR began an economic reform process in 1986 which has resulted in the shift from a centralized, planned economy towards an open, liberalized market-oriented system. More receptive policies towards global markets have also been implemented to promote and attract more foreign direct investment. These changes have proven very beneficial to the development of Lao PDR's economy and have resulted in a substantial growth rate of about 8.5% in recent years.

Much of this economic growth has come from increased foreign investment flows, particularly in the industrial and agricultural sectors such as hydropower, mining, forestry, crop plantations and tourism. Due to the level of foreign aid and investment Lao PDR's economy is expected to continue growing and result in an improved business environment. The economy's first stock market, a joint venture between the government and the Korean Stock Exchange, was opened in 2010 and provides a valuable source of long-term funding for investment and businesses.

In 2013, commercial credit in Lao PDR experienced significant growth expanding by 38.56% and accounting for 42.82% of GDP. The majority of this credit was for the commerce and construction industries, each accounting for about 20%. Throughout 2013 Lao PDR's banking sector experienced steady increases in their loans portfolios and for the first time the value of loans was greater than that of deposits. By the second quarter of 2013 the total loans distributed by the commercial banking sector amounted to KIP 30,293.43 billion, representing a 7.12% increase from the previous quarter of 2013.

This growth in credit lending activities brought with it several new challenges for Lao PDR's central bank, the Bank of Lao (BOL). BOL's most important challenge was to establish a platform to facilitate the exchange of credit information between regulated lenders. To address this a credit information bureau (CIB) was established in 2001. However, the CIB had many challenges of its own. At that time banks were using faxes to request credit information from the CIB. The CIB would then need to pass on this request to all other banks to gather the necessary credit information in order to prepare the credit report. The entire process would typically take between 3 days to 2 weeks. Not only was this process inefficient and time consuming but it also often led to errors in the reporting system. Recognizing these problems, and with the assistance of the European Union (EU), International Finance Corporation (IFC), BOL launched its first online CIB in 2011. This new system aims to provide a centralized credit information resource for all banks in Lao PDR.

Lao PDR's online CIB represents an important step in modernizing credit information exchange for the lending community. However, in its current state the online CIB only provides basic functionality when compared to other modern credit bureaus. It also only caters to commercial banks and lacks the capacity to accommodate additional data providers such as MFIs, leasing companies or business registration agencies. The online CIB is considered a "1st phase" system and BOL is currently examining ways to expand the CIB; particularly since the number of commercial banks has risen since its inception from 25 to 36. As a result of the increase in banks the number of inquiries to the CIB has also increased significantly.

To progress this expansion BOL is currently receiving assistance from the IFC. As a first step, the IFC is assisting BOL to search for an international Credit Reporting System Provider (CRSP) that can provide a robust credit bureau solution that meets international standards based on the World Bank's *General Principals of Credit Reporting*[5]. The CRSP will transfer knowledge to the CIB team to help them operate a sustainable credit reporting system based on best practice. The IFC is also assisting BOL to build an awareness campaign to help educate the general public on their rights and responsibilities. Lastly, the IFC is conducting a review of the current legal framework to enable non-regulated credit lenders to also participate in the CIB.

The BOL understands that an effective and efficient credit reporting system is critical to support the growth of the economy by facilitating better access to finance for consumers and MSMEs. By progressing their current credit reporting system (CRS) into a second phase, BOL aims to join other economies in the region in cross-border credit information sharing activities which will enable Lao PDR to attract more foreign direct investment.

Lessons from a Joint Venture Approach

Credit bureaus, operated by an individual business, or as a joint venture, each have their advantages and disadvantages. As an example of some potential disadvantages the current experience of data sharing through joint venture in India is concerning. India's government requires that banks contribute data to the credit bureau but they are unable to enforce this. At the same time, banks are reluctant to share their customer data with their competitors. In order to solve this more evidence is needed to effectively demonstrate that sharing data and getting a 360 degree view of customers, rather than just a single perspective, will help grow the economy through increased private lending. The main challenge with joint ventures is to convince banks that they are better off sharing their data which will lead to overall credit growth and improved data quality.

The Impact of Big Data

The emergence of "Big Data" has the potential to alter the role of public registries or private bureaus in the way they have traditionally acted. There is currently much

5 See: http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Credit_Reporting_text.pdf

discussion and debate around Big Data but what is most needed is a clear definition of what it actually means. Within the scope of Big Data lies traditional alternative data such as utilities and rental payments. However, Big Data can also include alternative unstructured data such as social media or YouTube hits. This type of data is less verifiable but companies such as Experian are experimenting with it to see if it can be used for credit underwriting. But there are still many questions about it which need to be answered before it can be effectively used as viable data for credit scoring. For data to be used as a credit metric it needs to be verifiable, non-discriminatory, confidential, have integrity/accuracy, and produce proxy scores that are repeatable over time. Data scores should also be validated to create value for the end user so that it can be predictive and establish credit stability. Finally, consumer protection frameworks in terms of access, dispute and redress must be developed with respect to Big Data.

In the Philippines the value of a stable database makes it possible to take any other database and compare it with the stable, or fresh database. CIC is now trying to encourage all institutions that maintain a database with information to share it so that it can be used to inspire innovation and create an intrinsic value with all databases within the Philippine economy to increase the overall value of databases. In the case of Lao PDR, the general practice is to request information from the banks and alternative providers (e.g. rental, utilities, and telecom). However, a significant challenge with collecting the alternative data is that it is often not computerized making it much more difficult to assess/share.

Key Points

- Lao PDR has come a long way in the development of its credit industry and reporting standards. However, the CIB still lacks many of the modern tools and functionalities that will fully enable it to provide the necessary support the sector needs to sustain the development of the economy. The BOL is currently progressing their CRS into a new phase that will bring it up to speed with many other economies in the region and better enable it to facilitate access to finance for consumers and MSMEs as well as participate in cross-border credit information sharing activities that it hopes will help attract more foreign direct investment.
- Each APEC member economy is at a different stage in the development of public credit registries and public credit bureaus. This presents opportunities for collaboration between economies to share knowledge and learn from each other's experiences. To support this process a best practice model should be developed to provide useful guidance for each economy.
- Negative credit bureau data is the most common form of data used by banks to assess credit worthiness. But by also including positive data from a wide set of lending sectors in their process, a person's risk profile can be better assessed and the banks overall predictive ability can be enhanced.

- In order to get banks to fully support a joint venture approach for credit bureaus more evidence is needed that demonstrates the value in sharing customer data amongst competitors such as improved data quality and enabling them to get a much more in-depth profile of their customers without relying completely on their own perspective.
- There is potential within the use of Big Data public registries or private bureaus to enhance their abilities, however a clearer definition is needed to fully understand it and its potential. Additional unstructured alternative data such as information taken from social media are also being explored as a type of big data that might prove to be viable for assessing a person's credit worthiness. But before this happens more research and experimentation is needed to ensure the viability of such data and that it meets the necessary quality standards for underwriting credit.
- Governments play an important role in the development of their economy's credit information sector. One particularly important role that governments should play is to take a lead role in actively promoting a culture of financial information sharing without compromising privacy needs. Another key role for governments is to provide assistance to credit bureaus by creating a policy environment that enables and supports credit bureaus to invest in building their own platforms and consequently enhance their predictive ability. Finally, governments can set examples by sharing data under their control, notably data from publically owned telecoms and utilities.

Chapter 5: Developing More Credit Reporting Products Targeted for SME Credit

Session Chair:

- Mr. Anthony Hadley, Senior Vice President of Government Affairs and Public Policy, Experian

Speakers:

- Dr. Matt Gamser, CEO, SME Finance Forum, International Finance Corporation (IFC)
- Mr. Mohd Rithaudden Makip, Director, Business Advisory and Support Division, SME Corp Malaysia
- Mr. Sothearoath Oeur, Head of Business Development, Credit Bureau Cambodia
- Mr. Daigo Minoshima, Deputy Director, Finance Division, Small and Medium Enterprises Agency, Ministry of Economy, Trade and Industry (METI), Government of Japan
- Discussion Leader:
- Mr. Rath Sovannorak, Deputy Director General, Banking Supervision, National Bank of Cambodia

International experience has shown that SME financing is better promoted when lenders use consumer credit reports in conjunction with commercial ones. Buttressing commercial reports with the consumer reports of owners and principals helps to fill in missing or inadequate financial statements. Moreover, the addition of consumer reports can enhance the power of commercial credit report based value added services such as small business credit scores. However, the lack of commercial credit reports available on SMEs makes this approach difficult. To address this many financial institutions are now examining the potential of using alternative data, both on the entrepreneur and on the company's transactions, to fill this gap. To better understand these issues there are important lessons which can be learned from both developed and developing markets. These examples can also highlight effective value-added services for SME financing as well as important considerations for regulatory frameworks that promote the use of consumer credit reports and new alternative data for SME financing.

Alternative Data and SME Finance

Most financial institutions do not like dealing with SMEs because they are both expensive to acquire and expensive to serve. They are expensive to acquire due to their usually limited data footprint which are available for banks to access. Serving SMEs with finance is problematic as it often requires high labor costs due to loan officers typically needing to travel long distances to reach the markets to assess the environment. By transitioning to a data-driven market the process is much more efficient and thus allows for greater investment in SMEs.

The use of alternative data to extend credit to the financially excluded is an important approach that will enable greater access to unserved markets and support economic development. Using alternative data for credit scoring is particularly important to SMEs since most do not have a borrowing record from the formal financial sector. Furthermore, bridging this information gap through traditional methods is too expensive for the SME market; however, electronic footprints for SMEs is growing rapidly and other data, such as ecommerce, is valuable for assessing capacity and willingness to pay.

The predictive value of data is dependent on its volume, variety, velocity and speed in which it can be analyzed. In today's market there are several potential data sources, both diverse and real-time, such as electronic payments and social media. These new data sources are leading to lower transaction costs and provide opportunities to enhance predictability, but issues remain about how to access and effectively use this data. Emerging markets currently comprise about 40% of the "digital universe" and are expected to surpass mature markets by 2017. It is estimated that less than 1% of the data in emerging markets has been analyzed and so the opportunity to successfully use this data for greater financial inclusion is significant.

In many cases the data of SMEs can be found hidden within consumer online data. MSMEs with business products typically buy more products than firms that use consumer products only. It is estimated that 13-25% of consumer portfolios are SMEs and their behavior is indicative of this. By failing to identify and commit to MSMEs by delivering innovative products and services banks risk becoming vulnerable to new digital competitors along the credit and payments value chains such as online supply chain finance, invoice financing and mobile point of sale (M-POS) acceptance/ value add. These alternative lending models such as peer-to-business (P2B), "Best fit" MSME-lender matching or online direct lending are having a significant impact on the MSME credit sector and have several competitive advantages over traditional bank lenders including greater convenience, lower cost, faster speeds and the use of new data.

There are important opportunities which can be pursued to more effectively build on data-driven lending and strengthen the ability of financial institutions to support SMEs. Risk sharing facilities are a particularly effective vehicle for reaching underserved communities including start-ups and small firms. The main objective of a risk sharing facility is to guarantee loans offered by financial institutions to a borrower with the loans being subject to payment of a premium as well as a range of rules and conditions. Risk sharing facilities are useful as they can be organized as mutual guarantee institutions, credit guarantee banks or credit guarantee funds owned and operated entirely by the public sector or by a combination of both public and private. By establishing risk sharing facilities banks can be further encouraged to enter the SME market and improve their lending and risk management systems.

Securitization is another important opportunity and represents the systemic solution to strengthen financial institutions' capabilities to supply long-term funding to SMEs. While securitization of individual loans does not necessarily improve access to finance for SMEs, on a portfolio level financial institutions are better able to expand SME lending. This leads to a positive impact on the overall availability and conditions of loans.

Lastly, domestic corporate bond markets where financial institutions issue bonds to SMEs to develop alternative sources of capital for longer-term lending provide a number of benefits and help to diversify economies, reduce systemic risk and mitigate exposure to currency swings. Local companies grow larger as economies evolve and with this growth they also often develop more complex funding needs in relation to issues such as handling larger investments and managing liquidity and risks associated with interest rates and foreign currency. Capital and bond markets also result in more efficient distribution of resources, greater transparency and more efficient risk pricing.

A key challenge for policy makers in emerging markets in comparison to developed markets is how to make sure that the potential of information and protection of privacy are in the correct balance. Finding this balance can be a complicated task but it is of significant importance. If policy makers are too strict on privacy controls this will ultimately limit the amount of data available for financial providers to access and use to support SMEs.

Malaysia's Experience of Applying the SME Competitiveness Rating for Enhancement (SCORE)

Worldwide SMEs are the key generators of employment and income as well as drivers of innovation and economic growth. In the case of Malaysia the challenge of charting the future direction of SMEs is significant and there are several factors currently constraining their growth. In terms of innovation and technology SMEs suffer from low product commercialization and poor technology uptake. Human capital issues include a workforce that lacks job readiness, low utilization of existing training and non-competitive rewards and benefits. Poor credit worthiness and lack of know-how and resources limit SME's access to financing and market access is hindered by their low bargaining power and limited focus on marketing and branding. Within the legal and regulatory framework, issues relating to obtaining licenses, bankruptcy laws and SME taxation cause further constraints. Lastly, infrastructure and security issues are created by way of the low and infrequent trade volume of SMEs and the inefficient trade facilitation system.

In order to develop resilient, competitive and innovative SMEs capacity building is essential to improve their viability and enhance their ability to withstand foreign competition. Expanding the marketing channels for SMEs is also important as it enables them to become regional/global players and formalizing micro enterprises to bring them into the mainstream can lead to increased profits, investments and worker conditions. Underpinning all of this is the need for SMEs to be able to access financing which is essential for them to develop.

Due to inadequate access to financing many SMEs struggle to survive. The challenges SME face accessing finance are largely the same globally and there is a need for more research in this area to help policy makers craft policies for SMEs that will better enable them to access financial services and in turn have a more positive impact on economic development. To achieve this some suggested guidelines that policymakers should consider for SMEs include reducing entry barriers (and thus costs) for new businesses, understanding the importance of cash flow to SMEs, strengthening entrepreneurship through training and education and strengthening networking and information dissemination as a way to support the deployment of new technologies and business development services.

Ninety-seven per cent (97%) of establishments in Malaysia are classified as SMEs or MSMEs. These SMEs make up a significant part of the economy contributing 19% of exports, 57% of employment and 32% of GDP. To progress the growth of the SME sector in Malaysia the National SME Development Council (NSDC), which is the highest policy making authority on SMEs, formally endorsed a new SME definition in 2013. This definition is used to identify SMEs based on their type of business, number of employees and annual sales turnover.

SME Corp Malaysia provides several functions to support the growth of Malaysia's SME sector including policy coordination, implementing programs, conducting economic assessments, and engaging in business development and support programs. SME Corp Malaysia also manages the secretariat of the NSDC. A number of strategies and initiatives have been implemented by SME Corp Malaysia since its establishment. These initiatives have focused on six core areas: ratings, certifications and awards; industrial linkages and showcases; building capacity and capability; access to financing; access to information; and international cooperation. One of the more important initiatives SME Corp has undertaken is the development of a SME diagnostic tool called SME Competitiveness Rating for Enhancement (SCORE).

SCORE is a diagnostic tool developed in 2007 which is used to rate and enhance the competitiveness of SMEs based on their performance and capabilities including the identification of facilities linkages, opportunities for business improvement and the development of vendors. SCORE provides a comprehensive competitor analysis which is categorized according to different business models. The specific attributes of SCORE include a framework developed internally with industry experts, it is multidimensional, caters to seven different industries and can be used for auditor training. Further functionalities of SCORE including a website and the ability to facilitate online assessments will be available in the near future.

The SCORE rating system focuses on seven core parameters of the SME business, namely: management capability; business performance; financial capability; technical capability; production capacity; innovation; and system quality. By using SCORE SME Corp Malaysia is able to develop and provide targeted assistance to SMEs to help them develop their priority needs and enhance their competitiveness. The SCORE process is generally completed in three steps. First, the SME completes and submits the SCORE evaluation form and prepares any other necessary supporting documents. Following this SME Corp Malaysia provides on-site visits to interview representatives of the company and observe the business operations. As the final step the business is presented with a SCORE rating which provides a snapshot of their strengths and weaknesses in relation to seven parameters noted above as well as specific recommendations on how the business can improve.

SME Corp Malaysia's experience with the SCORE diagnostic tool has led them to conclude that SME's can benefit significantly through business related training programs; particularly in the areas of accounting and finance. Furthermore, these business development services should be offered with capital flows. The SCORE tool has also highlighted many examples of good practice in financing SMEs which policy makers can consider as case studies to better craft policies for their own circumstances. These case studies include potentially useful insights on issues such as bank-borrower relationships, different financing mechanisms at different stages of the businesses life-cycle and developing and balancing both debt and equity markets.

Credit Reporting Services for SME Finance in Cambodia

Cambodia currently has a high performing and healthy financial market. With regard to SME finance there is a currently a clear trend with banks trying to scale down to access the SME sector while the MFIs are trying to scale up to reach the SMEs. At the center of this activity is Credit Bureau Cambodia (CBC) which has a strong focus on SMEs. CBC originally began as a program in 2009 and was formally established as a credit bureau in March 2012 with strong support from National Bank, Banking and Microfinance communities and other stakeholders.

When CBC first started it was processing approximately 6,000 credit reports per month. The growth rate of CBC has exceeded expectations and today processes an average of 230,000 credit reports per month. Cambodia's SME sector is one of the fastest growing sectors in the economy and currently contributes 1.8 million enquiries equivalent in currency of USD 92 billion. MSME loan accounts increase by about 20% annually and make up to 1.1 million accounts which share 49% of all banks and MFIs loan accounts. In terms of outstanding balance, the MSME sector shares 76% of Cambodia's total loan balance.

Before the CBC was implemented, an SME would need to have a relationship with a bank in order to obtain a loan and the approval process could take weeks. In some instances, a loan decision would be based on inaccurate past performance data. Today, just a few years after the CBC was first implemented, a loan can be secured on accurate industry data ensuring that SMEs requiring capital could access finance which reflects their risk of the loan. CBC operates with a mandate to reduce the risk of over indebtedness for all of Cambodia's citizens and to ensure that no Cambodian enters into a spiral of continued debt by taking on more loans to repay existing debt. Since the establishment of CBC, Cambodia has experienced a significant drop in its non-performing loan rate. This has been a result of better, smarter wiser allocation of credit. These results are also creating a better environment for banks and MFIs as they are now benefiting from significantly lower non-performing loan rates.

Perspectives from the Credit Guarantee System in Japan

Credit information systems are very important in the case of SMEs. In Japan, SMEs play a very important role within the economy, especially for employment. Of the 3.86 million enterprises in Japan, 99.7% are classified as SMEs. These SMEs comprise nearly 70% of number of employees and 50% of value add in manufacturing.

In terms of debt structures, SME's have 42% of total funding as debt of which 30% is from financial institutions and 12% from other sources. Large enterprises on the other hand have a much greater share of equity funding so only 22% of funding is from debt and of that 17% is from financial institutions, 6.3% from corporate bonds and only 5% from other sources.

Japan features a credit guarantee sector. This sector is made up of 51 credit guarantee corporations (CGCs) that guarantee the borrowings from private sector financial institutions to facilitate lending to SMEs that lack collateral. In cases where an SME defaults, repayments are made by the CGC in subrogation. Currently, CGCs have outstanding balance of guarantees totaling Y30 trillion. They are subsidized by local governments with oversight provided by the central government. All loans are entered into a central credit risk database for transparency throughout the entire system. CGCs can access the credit risk database to obtain both financial and non-financial data. Upon doing so, the CGCs clean and consolidate the data prior to using it to provide services for financial institutions such as scoring, sample data provision or statistical data provision. The guarantee fee rate charged by the CGCs is variable with a sliding scale based on a risk assessment.

Key Points

- It is understandable why most banks are reluctant to deal with SMEs as they are expensive and to acquire and serve. However, this situation is changing with the emergence of several new digital data sources and the potential for banks to now have greater opportunities to access and use alternative data which can enable them to extend credit and better serve SME clients. In light of the emergence of these new data trends financial institutions need to rethink SME payments and credit or risk becoming vulnerable to a new breed of digital competitors offering financial services. There are also important implications for policy makers, particularly in developing economies, to ensure that the potential of information and the protection of privacy are appropriately balanced.
- SMEs are critical for the generation of employment and income. They also play an important role in driving innovation and economic growth. In order to effectively sustain and develop them there are significant challenges which SME face and that must be addressed. The use of diagnostic tools to rate the competitiveness of SMEs can be an effective method for addressing SME constraints by identifying key

strengths and weaknesses. Business development service providers can then more effectively develop tailor-made training and capacity building programs to best meet the needs of the business. The examples of good practice that emerge from these exercises can provide useful case studies for policy makers in the region to better understand the needs and constraints of SMEs.

- The establishment of Cambodia's credit bureau (the CBC) has paved the way for significant developments within the economy's credit information industry. The results of this are evident with far more SMEs now able to access finance due to the services provided by the CBC. These developments have also led to significant drops in non-performing loan rates as well as helped lending institutions to pay closer attention to over indebtedness.
- Japan's mechanism for guaranteeing credit through CGCs makes it easier for SMEs to borrow money from banks. The system involves multiple players including the SMEs, the private sector banks, the CGC and the Japan Finance Corporation. As such, close cooperation is required amongst each player for the system to work effectively.

Chapter 6: Making Public and Non-Bank Data More Accessible for Economic Growth and Financial Inclusion

Session Chair:

- Mr. Lawrence Tsong, President, Asia Pacific, TransUnion

Speakers:

- Dr. Robin Varghese, Vice President of Int'l Operations, Policy and Economic Research Council (PERC)
- Mr. Tony Lythgoe, Practice Manager (Acting), Financial Infrastructure and Access, Finance & Markets, World Bank Group
- Mr. Burton Crapps, Country Director, Philippines, FICO

Credit reporting service providers (CRSPs), particularly private bureaus, perform better when they have access to public data (business registration, national identification databases, judgments, liens, bankruptcies, etc.) and non-bank credit data (utility payments, telecom payments, trade credit, retail credit, even supply chain data, turnover data). This information helps to complete the credit profiles of their data subjects and, more importantly, extend credit to those outside the financial mainstream for whom there is no other information. Non-bank data offers great promise for establishing financial identities and promoting financial inclusion. Access to these data sources has been a challenge in many economies, including regional emerging economies in the Asia-Pacific. To address these challenges consideration must be given to how CRSPs pursue these data sources, given that understanding, regulations and incentives may be very different than in the case of banks as well as how governments can more effectively promote the collection and use of non-financial data.

Non-Financial Data and Financial Inclusion

Traditional credit reporting data such as bank loans (i.e. mortgages, automobiles, revolving credit, installment loans, personal loans, etc.) and retail credit can be used to build customer reputation as a substitute for collateral as well as help to overcome basic asymmetries of lending. However, using this data is also problematic for financial inclusion as it only works for borrowers already in the formal financial system. Providing access to those in the informal sector, which in developing markets usually include the majority of the population, requires a different approach.

One promising solution to this issue is the use of "alternative" or "non-traditional" data. This type of data represents non-financial information which can also be used to assess reputation. It includes many forms of post-payment (i.e. energy and water utility payments, landline and wireless phone bills, auto liability insurance payments and rental payments), but it can also include additional payment data such as remittance payments and stored value cards and prepayment (i.e. cell phones or educational expenses). Alternative data can be used to predict the probability of a serious delinquency on a loan as well as creditworthiness, credit capacity and credit risk.

In most cases, utilities, telecommunications providers and other non-financial service providers only report negative data such as very late payments, charge-offs or collections, which does not create positive incentives for payment. The potential for these providers to support financial inclusion could be increased significantly if they would also report positive data such as on-time payments, account open status, age of accounts, or mildly late payments. This broader collection of data would help lenders get a clearer perspective of customers and provide opportunities for more customers to be eligible to receive their services.

The Policy and Economic Research Council's (PERC) Alternative Data Initiative (ADI) promotes the inclusion of alternative data for use in credit granting in the USA. This initiative targets the economy's "credit-underserved" which includes an estimated 54-70 million "credit invisible" and underserved individuals such as immigrants, students and young adults, elderly, consumers operating on a cash basis, disadvantaged minorities and consumers trying to establish a good credit rating without new debt. The results of research carried out as part of the ADI have shown that using alternative data for credit granting results in increased, safer, sounder, fairer and broader lending.

Applying alternative data to results to "thick" (full file) reporting does not provide great change or benefits, meaning those inside the system face very little risk that the inclusion of alternative data will have adverse effects. However, by including alternative data in a "thin" (negative data only) file credit report the difference can be significant. Results of the ADI show that, in the case of the USA, including alternative data for thin file reporting can enable 20-25% more households with less than USD 25,000 annual income gain access credit. The ADI has also concluded that the use of alternative credit can help households that have been damaged by the global financial crisis recover more quickly.

PERC's ADI as well as other efforts is also testing the potential uses of additional forms of alternative data such information from mobile and mobile finance. Digital data is particularly promising as a solution for improving access to credit in both urban and rural environments in poor emerging economies. As an example, mobile microfinance, such as the development of a mobile-based interface for financial services, offers new opportunities for risk assessment. It also provides a unified platform for application and distribution. In terms of data, elements that can be examined include payment and prepayment patterns as well as social collateral from call log data. The use of such data is currently being experimented with by a number of providers including Smart (Philippines), M-Shwari (Kenya) and Cignifi (Brazil).

The approach to using alternative data needs to take into account that the incentives for using such data is different than those for traditional providers. Traditional data providers such as banks, as users of the data, get something in return for what they share. In contrast, non-financial data furnishers may be reluctant to share their customer data as it may not be clear what they receive in return. Their concerns for confidentiality are also different as banks are backed by specific regulation which may not include non-financial service providers. Lastly, there is an issue of fairness—the credit bureau or data company will be making money from the sale of the data—which needs to be addressed to ensure that any shared data is being used fairly and with integrity.

Enabling Greater Access to Public Data and Non-Bank Data

Governments capture large quantities of data, but it is often inaccessible. In the case of many governments, particularly in developing economies, much of this data is collected through paper-based systems. In order to allow this data to be put to effective use, the first step a government must take is to get rid of any paper-based systems for data collection and introduce electronic formats so that it can be more effectively stored, analyzed and protected. But even when public data is stored in an electronic format, it is still often inaccessible which makes data verification difficult.

Another common issue which constrains the potential use of public data is that government ministries often do not communicate well with each other which can lead to the collection of overlapping information. At the heart of this issue is the common perception of information being an asset and therefore holding information is a form of power. Due to this perception a typical behavioral trait of people/institutions which collect information is that they are reluctant to share it as they fear losing the value which holding this information provides them. To overcome this hurdle, governments need to take an active approach to encourage ministries to freely share data for the collective benefit of all. The creation of a separate ministry or directorate (i.e. senior official for Financial Inclusion) might also help by enabling more coordination across ministries and central bank on issues relating to financial inclusion.

Governments also play a vital role in making sure that appropriate data privacy regulations are in place to protect people. But the danger is that they may over react with regulation for privacy protection becoming too strict and creating an environment that is not conducive to information sharing. Rather than consult with the financial sector to work out the best solutions, governments often make their own rules which create difficult environments for financial institutions to operate in with regard to credit reporting. A fair and balanced view of what is in the public interest and personal interest is needed and effective public-private consultation can help to determine how much information is needed in the system and how much do we not.

Finally, governments have control over data in publicly owned services such as utilities and telecoms. They can set a precedent for private sector service providers of non-financial services but sharing data with a bureau for underwriting and monitoring. By becoming the first mover, governments can set in motion a process that helps through demonstration to reassure private sector telecoms and utilities that the risks of sharing data with bureaus are smaller than they imagine.

Non-Bank and Alternative Data Enabled Value Added Products

Value added products have the potential to increase the quality of a lending decision; especially to emerging credit populations. The basic premise behind this is to add value to traditional credit information systems with other non-traditional bank data. Recent research has shown that household credit ratings can increase by 12-15% through the use of value added products. However, before introducing any advanced tools or analytics that can be used to better predict consumer behavior more accurately it is important to ensure that they are effective, transparent and socially acceptable. The use of social media by the increasing volumes of consumers provide an excellent medium for collecting and analyzing trends, needs, desires and capabilities of persons who are marginalized in the credit mainstream. Value added products in this area will include such innovative solutions as social lending sites, global score standards and peer to peer lending platforms.

The appearance and easy acceptance of these and other platforms in the emerging markets among the credit marginalized populations is a good indicator of the possibilities. Further, the eagerness of lenders to embrace these new products in this market show that the need and the solution can be put together to create financial inclusion. The use of national and hopefully regional deployment of similar new products will provide lenders with greater confidence in lending, as well as serve to maintain low non-performing loan rates. The quick growth being seen for this approach in markets like Mexico and Russia and even now in the Philippines has sparked a real need to move quickly to provide solid, transparent and easily accessible products to the marketplace.

The value added products that we refer to and need are "Usable analytics or tools which increase the quality of a lending decision to emerging credit populations - the so-called thin file population." The thin file population - the marginalized credit population - represents as much as 85% of the global population, and thus represents a massive opportunity to develop and distribute these tools. The "thin file" characteristic of this populations is defined as that population whose credit or payment history or activity has not been documented, but nonetheless can be developed and expanded using the smallest of data such as trade lines in local stores, community peer to peer lending events and contractual or employments agreements as samples.

There are different approaches which can be used to create additional value to existing data. By adding technology new tools can be developed that will enable better decision solutions for populations. For example, machine learning tools such as Tree Ensemble can be used to aggregate predictions from many earlier example decisions. Technology can also be applied to historic experiences to better harness the power of earlier decisions. This approach is particularly useful as it enables ways to find previously unknown value and generate scores which are easy to automate. However, using technology instead of traditional analytics can also create problems such as non-intuitive correlations which can lead to unjustifiable decisions. These types of issues can be addressed by adding domain expertise and interpretation technology.

Another approach to value add products is to add new data. Any legally available data should be used regardless if it is structured or unstructured. By applying new techniques to analyze and model it the data can be turned into useable analytics. There are many text data sources available that could be utilized with this approach, such as call center records, claims, reports, notes, emails, blogs, social data, freeform comments, webpage contents, product descriptions, etc. In order to derive value from text data and turn it into actionable information semantic scorecards and topic modeling can be used to integrate palatable scorecards with advanced text analytics, add predictive features derived from text to traditional numeric variables and potentially increase predictive power of scores and improve decisions. The use of new tools can enable the use of data which has previously been considered too difficult to utilize. By introducing new techniques to extract the value from the data new models can be built which will enable this data to be used with existing analytics.

A third approach to value added products is to add new analytics. New modeling techniques such as Action Effect Models can be used that combine predictive characteristics with a particular action variable which, unlike a traditional score, provides a fixed output based on static data. These models provide a dynamic output contingent on input value. Models can be tailor-made to best suit the offer to a consumer and ensure that it is more efficient, more likely to be taken up and better match risk to the individual.

Key Points

- The use of alternative data can have significant a significant impact on financial inclusion by enabling a large portion of the credit-underserved to have access to credit opportunities. Regulators can play an important role in supporting this by helping the credit information sharing stakeholders develop trust. Furthermore, regulators can assist by promoting an environment in which data collectors are encouraged to share as a way to increase benefits for all that participate. Regulatory frameworks must also consider ways to ensure that all data providers are subject to the same regulations to protect customer privacy and other issues such as data is being used fairly and with integrity.
- The inaccessibility of public data is a major constraint and an issue which governments can play an important role in addressing. As a first step, governments need to ensure that traditional paper-based systems are replaced with electronic systems where all data can be easily and safely stored and accessed. Governments can also play an important role by encouraging ministries and many public enterprises to share data with credit bureaus, within the framework of consumer protection, and communicate more effectively to reduce cases of overlap and create an overall more efficient system. Finding the right balance between information sharing and privacy is also important and governments should aim to cooperate with the private sector to ensure that information can be shared without compromising customers.

- The use of non-bank and alternative data for value added provides an opportunity to enable credit to thin file individuals. This presents an important opportunity, particularly for emerging economies where the number of thin file individuals is significant. To make the best use of value added products there are three main approaches which can be adopted. Through the use of technology data can be more effectively aggregated and automated. The inclusion of additional data, such as text data, can be used to create semantic scorecards and topic modeling to enable advanced text analytics and potentially increase the predictive power of scores. Lastly, the use of new modeling techniques can provide a fixed output based on static data to provide more dynamic analysis.

Chapter 7: Enabling SME Access to Finance through Improved Secured Transactions Systems (Part 1): Reforms of the Legal and Regulatory Regime

Session Chair:

- Ms. Elaine MacEachern, Senior Specialist, International Finance Corporation (IFC)

Speakers:

- Mr. Ronald Ortile, Deputy Administrator for Operations, Land Registration Authority (LRA), Philippines
- Mr. Haiquan Lin, Assistant Judge, The Second Civil Division of Supreme People's Court of China
- Ms. Van Thi Khanh Thu, Deputy Director General, National Registration Agency for Secured Transactions, Ministry of Justice, Vietnam
- Ms. Dondogmaa Chuluunbaatar, Senior Officer, Policy Reform Department, Ministry of Justice, Mongolia
- Mr. Chris Wohlert, Leader, Commercial Distribution Finance, Asia, GE Capital

There is great potential for regional collaboration toward the adoption of relevant commercial law reforms in the region's economies. Through the experiences of the Philippines, China, Viet Nam and Mongolia issues regarding the introduction of commercial law reforms and other relevant and related authorities, examples of success and challenges provide opportunities for knowledge sharing and cross-border cooperation. Furthermore, these case studies highlight how the views and experiences of experts from the private sector, law firms, academic and multilateral institutions as well as representatives from financial (lenders) and enterprise (borrowers) sectors, including MSMEs, can provide valuable insights into best practice legal frameworks for secured transactions.

Electronic Movable Collateral Registry - Its Relevance to the Secured Transactions Reforms in the Philippines

In the Philippines, Chattel Mortgage Laws are used to govern the use of personal property as collateral for loans. A particularly important law that was made to address this issue is the Presidential Decree No. 1529 (June 11, 1978). The provisions of this law include recording chattel mortgages in the office of the Register of Deeds (164 in total) within the province or city where the mortgager resides as well as where the property is situated or ordinarily kept. The manner in which these recordings are made is that every Register of Deeds must keep a Primary Entry Book and Registration

Book for chattel mortgages. The recordings of these mortgages are then given a correlative number and the following details are included in the record:

- The names of the mortgagee and the mortgagor;
- The sum or obligation guaranteed;
- Date of the instrument;
- Name of the notary before whom it was sworn to or acknowledged; and
- A note the property mortgaged, as well as the terms of the mortgage, is mentioned in detail in the instrument filed along with the assigned file number.

In order to better update and progress regulation in relation to the issue of movable collateral in the Philippines, the Philippine Department of Finance (DOF) entered into a partnership with the International Finance Corporation (IFC) to develop a framework document for a movable collateral registry. As an outcome of this initiative three key recommendations were made; namely: to adopt a unified movable collateral system, enhance the legal and regulatory environment and establish an appropriate web-based registry system.

In response to these recommendations, the Philippine Land Registration Authority (LRA) is now seeking to develop a self-service chattel mortgage registration system that will allow financial institutions to register their own chattel mortgage transactions. This system will be implemented in two phases, with the first phase to focus on making the registry available through the existing LRA Extension Offices at several major banks. The second phase will take this further by making the registry more widely available through the internet.

A second initiative of the LRA which is being implemented in response to the recommendations of the DOF-IFC framework is the development of an enhanced chattel mortgage query system. This system will also be developed in two stages with the first stage set to enhance the existing system to allow queries at kiosks and LRA Extension Offices. A web application will also be developed along with the self-service registration feature as part of the second phase of this initiative.

The Philippine government hopes that by enhancing these systems for movable collateral registry that they will provide a useful tool for potential lenders to use as part of their due diligence processes. However, more needs to be done in order to better accommodate the needs of SMEs so that they can more easily participate in the financial system. The most critical issue for this is the acceptability of the kinds of collaterals being offered by SMEs to lenders as they are often not attractive to lenders. So despite any technological advancements in the movable collateral registry, it will likely remain inadequate for SMEs due to current behavior of lenders refusing to accept collateral from SMEs. This defeats the essence of inclusion and more must be done to help convince lenders to accept non-traditional collaterals offered by SMEs.

Strengthening Enforcement Mechanisms for Secured Transactions in China

Under China's General Principals of Civil Law (1989) a debtor or third party may offer a specific property as a mortgage. In cases where the debtor defaults, the creditor is entitled to keep the collateral to offset the debt or have priority in satisfying any claims from the proceeds of any sale of the collateral in accordance with relevant legal provisions. Through this law China was able to first establish legal rights for security; however, it does not offer any provisions on the methods of realization.

In 1995 the Security Law was established in order to further clarify these methods by stating that when a debt obligation is not paid, the mortgagee is entitled to, upon agreement with the mortgager, take the mortgaged property at its value to satisfy the debt obligation or have priority of payment in the event that the mortgaged property is sold or auctioned. If the mortgagee and mortgager fail to reach an agreement, the mortgagee may file a lawsuit in the People's Court. This law enables self-help by agreement between the relevant parties as well as the provision for judicial intervention through litigation if necessary.

To progress the development of China's enforcement mechanisms for secured transactions the Property Law was established in 2007. This law builds further on the Security Law by stipulating that in the case where an agreement between mortgagor and mortgagee to settle a debt has injured the interests of other creditors, these creditors have the right to apply to the People's Court to declare the agreement null and void. Creditors have one year to make this application from the time that they first knew, or should have known, the grounds for making the application. The law further stipulates that in cases where no agreement is made between the mortgager and mortgagee, the mortgagee has the right to apply to the People's Court to auction or sell the property. The proceeds from any such sale would be used to satisfy the debt. Through this law China's legislatures have attempted to establish a non-contentious procedure; however, in practice it is rarely applied by the court.

The Civil Procedure Law (2012) clarifies that cases of security right realization are to be tried under a special procedure within 30 days. Detailed provisions of the law are provided by the latest Judicial Interpretations of the Law on Civil Procedure which was issued in January 2015.

To ensure speedy resolution of any enforcement issues a mechanism has been developed that includes:

- Cases can be tried without a court hearing;
- Rulings cannot be appealed;
- The statutory period of trials is short (6 months);
- Objection of Jurisdiction is not applied; and
- Public announcements for services are not necessary.

This mechanism has been a crucial part of China's progress on secured transactions reform. However, work is still needed to further progress these reforms and enable greater financial inclusion. From the perspective of China's Supreme People's Court (SPC) the three main areas in which further improvements are needed are: (1) expanding party autonomy; (2) protecting the interest of the third party; and (3) regulating new types of security.

Strengthening the Legal Framework for Secured Transactions in Viet Nam

Legal frameworks for secured transactions need to be regularly reviewed and improved upon in order to ensure that they (i) comply with international best practice; (ii) enable the development of the credit market; (iii) support increased access to credit for underserved and unserved population segments; and (iv) create a transparent database on security interests over movable assets which help lenders to reduce operational costs, mitigate credit risks and have easier and more effective secured transactions enforcements thus supporting liquidity.

In the case of Viet Nam, much has been done since 2005 to develop and strengthen its legal framework for secured transactions. Prior to this, the framework was limited by some crucial shortcomings including a lack of concrete regulations on secured transactions and an existence of two different sets of regulations being applied to credit institutions and other institution types respectively. Between 2007 and 2012, several new regulations were introduced to address these shortcomings and further strengthen the framework. Some of the key advantages that were obtained for the framework during this period included: (i) enactment of more concrete regulations on secured transactions; (ii) creation of the unitary regulation which would be applied to all relevant organizations and individuals; (iii) issuance of a regulation on secured transactions enforcement by which provides secured creditors a better proactive positions in enforcement; and (iv) the operations of the web-based registration system for secured transactions which is accessible for searches and notice registration by the public.

Viet Nam's legal framework for secured transactions including Civil Code 2005, Decree 163/2006/ND-CP on Secured Transactions and Decree 11/2012/ND-CP allows parties to have more freedom to negotiate and sign contracts and provides a simplified process for security agreements' creation and implementation. More specifically, the decree 163/2006/ND-CP allows debtors to leverage their available broader type of assets including tangible, quasi-tangible and intangible as collateral. The Decree 11/2012/ND-CP also provides favorable conditions for secured creditors to conduct their secured transactions enforcement with more support provided by government agencies. In addition, detailed articles on priority rules among secured creditors are also regulated in the Decree 83/2010/ND-CP.

The National Registration Agency for Secured Transactions (NRAST), under the Ministry of Justice of Viet Nam was set up in 2001 and run their paper-based registration system from 2002 to March 2012 of which all registrations and searches were made based on requests sent to NRAST's centers via post office, fax, email or walk-in methods. To make the registry more available to the public, NRAST, with support from IFC, developed then launched their on-line registration system for secured transactions on March 19, 2012. Since the launch, the system has created a transparent security interest database, helped lenders to reduce their operational costs and facilitated easy access to the web-based system for registration and searches. The operations of the system is supported by the Decree 83/2010/ND-CP which provides the foundations for the on-line registration of secured transactions. Since the launch of the system (in March 2012), the public can now check security interests over movable assets in just few seconds and register their notices on security interests over movables in just few minutes. The system is currently being studied with the possibility of it being replicated in other developing economies.

Since introducing the above advanced matters, the movables financing in Viet Nam has seen a steady increase. While reaching the Government target to reform secured transactions and bringing the legal framework for secured transactions in Viet Nam closer to international best practices, there are still a number of areas where further progress is needed. For example, recognition of the principles of "Property Rights" or specification of the notion of "Contractual Rights." Despite Viet Nam's significant efforts to develop a unitary legal framework for secured transactions, there is still fragmentation and inconsistency in the current legal framework. The lack of concrete regulations on different priority rules and the weak enforcement mechanism are other key remaining challenges.

To overcome these challenges, Viet Nam is currently undertaking a range of actions including: (i) considering to develop a unitary law on secured transactions; (ii) enhancing the online registration system to make it more transparent and user-friendly; (iii) further collaborating and working with donors and other related agencies to facilitate secured transaction reforms; and (iv) promoting movables financing to support the development of Viet Nam's MSMEs.

Challenges and Successes of Making a Secured Transactions Law in Mongolia

Current regulation for secured transactions in Mongolia is characterized by fragmented, overlapping and unclear legislative provisions to regulate the movable asset pledge process. Under the current legislation movable property and other related rights should be registered with the State register. However, due to the current state of the regulatory environment, as of 2014 only about 37 registrations have been made relating to movable property over the past decade.

SMEs lack real estate property assets to declare as collateral and banks do not lend to SME's secured by movable collateral due to the high risk and lack of assurance of priority against other interests as well as the unreliable and slow enforcement against collateral. With the exception of motor vehicles, the current scenario lacks comprehensive legal support to enable the acceptance of all movable assets as collateral.

In an effort to rectify these issues the Mongolian government entered into a partnership with the IFC in 2012 to develop a movable asset finance market as part of a program called the Secured Transactions Reform Project. Mongolia's government has identified regulatory reform that will enable SME development and job creation as a key priority for economic development. In June 2013 a Working Group on the Law of Pledge over Movable Property was formed to support the proposed reforms. The working group consists of over 10 representatives from Mongolia's Ministry of Justice, various government agencies, the Bank of Mongolia, the Banking Association and academic institutions. The main challenges that have been encountered in the drafting process for these reforms is that for many stakeholders the concept is new and so to adequately understand it requires substantial amounts of time for learning. The concepts of secured transactions are also not easy to explain to relevant officials which further hinders efforts to gain support.

Through a technical assistance program provided by the IFC, Mongolia's Ministry of Justice has been drafting a new Pledge law and other important legal changes for secured transactions. Together with the Working Group, IFC experts have developed and submitted a draft law on Pledge over Movable Property to the Parliament of Mongolia. The IFC is also providing assistance to develop an electronic based registration system of notice of pledge over movable property.

Development of Collateral Registries - Problems and Solutions

The most critical collateral registry issues for a secured creditor are transparency, enforceability and efficiency. In terms of transparency, the registry needs to be readily accessible to all interested parties and not restricted to bank entities only. Lack of centralization and requirements for in-person visits for filing/searching are other examples of constraints causing lack of access. Solutions for access issues can include not limiting filing to banks, but instead making the process open to any secured creditor, and making databases publicly searchable for debtors.

Ensuring that registries are up to date is another important factor of collateral registry transparency. This means ensuring that searches don't contain gaps in effective through dates or include hidden creation dates. These issues can be addressed through the creation of an online registration and search that provides capability for real-time access and accuracy. Secured interest should also be perfected as of date of filing rather than date of creation.

The ability to provide accurate information is also critical for transparency. Common issues impacting accuracy include local filing offices using different filing systems, a lack of defined search metrics or a lack of certified search records. To overcome this a centralized filing system can be established. Furthermore, establishing clearly defined search metrics, preferably by entity registration number rather than name, and court recognized certified search records for evidence of interest can also help to ensure the accuracy of registry information.

To address enforceability the judicial system needs to provide sufficient support to secured creditors and this support needs to be quick, efficient and reliable. Judicial processes with too many options for debtors as well as lack of pre-judgement remedies to secure collateral can cause delays in the enforcement process. To enhance the speed of enforcement provisions can be updated at the same time as the collateral registry is developed. The use of pre-judgment remedies can also allow for more rapid recovery.

To increase efficiency of the enforcement process, collateral recovery orders should favor secured creditors upon showing debtor default and defenses and higher levels of proof be necessary to liquidate collateral. These steps would help to overcome what can commonly be a cumbersome process which can be exacerbated due to limited capacity to enforce.

Making sure that enforcement processes are reliable is of equal importance and common issues impacting reliability include the use of non-independent court systems, the enforcement process being interfered with (i.e. public policy or corruption) or the lack of clear priority amongst competing creditors. The issue of court independence and integrity is linked to much broader issues, but ensuring that there is a clear priority rule (i.e. first to file), can help to increase the reliability of credit registries.

Efficiency within collateral registries can be achieved by ensuring that filing processes are clear, simple, cost-efficient and cover all interests. Filing processes for security interest within collateral registries are often subjected to local office approval of underlying documents which creates unnecessary complications. This can be simplified by transferring the responsibility of reviewing the accuracy of the documents to the debtor, with appropriate remedies in place to ensure compliance. If there are multiple places to file this can cause further unnecessary complications and this is best corrected by establishing a centralized, or online, filing location.

Another issue with filing at local offices or filing in person is that it drives up costs. The cost efficiency of collateral registries can be greatly increased by providing free online registration and search functions. Such a function would provide greater access for SMEs and better enable them to obtain secured credit and leverage their balance sheets.

Lastly, in order to increase efficiency by covering all interest, a single registry should be used to cover all feasible liens and interests rather than the use of multiple locations to file security interest based upon usage, type of collateral, hidden liens (i.e. employee, tax, mechanics', etc.). Registration of accounts receivable should also cover both security interest and ownership.

In order to maximize access to secured credit for SMEs secured creditors must have confidence in the value of the collateral and have the ability to perfect and enforce quickly and efficiently. Collateral registries can support this by ensuring that they are transparent by providing accessible security interest and easy access for creditors to view all competing interests; are enforceable as proven by the judicial system's ability to secure collateral quickly in the event of debtor default, including for movables and rapidly depreciating assets; and efficient by providing a registration process that is simple, fast and cheap.

Key Points

- The Philippine government has developed a self-service chattel mortgage registration system to help SMEs and lenders, open to financial institutions only; however, the success of this is limited so long as lenders continue to refuse non-traditional collateral from SMEs. More efforts are needed to address this issue and change the behavior of lenders so that SMEs can be more broadly accepted into the formal financial system.
- By reviewing China's legal framework and history on security rights a useful case study can be found. China's major advancements on clarification of enforcement rights and ability to take action if plaintiffs don't appear in court provides examples of how enforcement mechanisms for secured transactions can be developed and strengthened. The three key areas for improvement from the SPC's perspective are (1) expanding party autonomy; (2) protecting the interest of the third party; and (3) regulating new types of security.
- Viet Nam's experience developing its legal framework for secured transaction highlights important challenges and opportunities. While work is still needed to create a more unified regulatory environment for secured transactions and strengthen the economy's enforcement mechanism, the establishment of the online registry for movable assets has been a great success. Synergies between Viet Nam, Cambodia and Lao exist due similar legal framework and technology platform currently in place over the last three years.
- Getting the necessary stakeholder support for secured transactions legal reforms can be a challenging process; particularly in cases where the concepts are relatively new and thus require significant time to study, learn and pass this information on to the public through awareness raising activities. The challenge of explaining these concepts to the relevant officials and decision makers in order to gain their support can also be a crucial constraint for progress. In the case of Mongolia, the benefits of forming a dedicated working group and accepting international assistance to address these challenges provides a useful case study for how legal reforms can be effectively approached.
- Access to secured credit for SMEs depends on the confidence of the creditor in the value of the collateral that can be acted and enforced efficiently. The most critical collateral registry issues for a secured creditor are transparency, enforceability and efficiency. Collateral registries should be transparent by being accessible, accurate and updated as well as efficient by providing clear and simple processes, being cost efficient and be able to cover all interest types. Judicial systems also need to provide sufficient enforcement in a quick, efficient and reliable way to build the confidence of creditors.

Chapter 8: Enabling SME Access to Finance through Improved Secured Transactions Systems (Part 2): Building Supportive Operational Infrastructure for Secured Finance

Session Chair:

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Speakers:

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- Ms. Emily Chin, Banking Professional
- Ms. Tran Thi Hong Hanh, Secretary General, Vietnam Banks Association

It is important to consider the practical infrastructure needs of the secured lending industry and how these needs relate to the enabling of the prudent extension of secured financing to SMEs. Among others, these include accurate and accessible collateral interests registration systems, a developed supporting industry such as warehousing, collateral management and credit enhancement services, internal and external training capacities and efficient enforcement regimes to support and incentivize the use of movable assets as collateral as well as risk-based credit decisions and pricing.

Warehouse Finance - A Background

Warehouse finance is a form of inventory financing which is extended to borrowers on the back of goods or commodities held as collateral and stored in warehouses. These financed inventory are either maintained in public warehouses or lender-approved private warehouses. In most cases, the lender will also appoint a collateral manager under a tripartite agreement. It can be a Collateral Management Agreement (CMA), whereby the collateral management company (CMC) will typically issue a Warehouse Receipt (WR) to the lender that certifies the quantity and quality of the stored goods or commodities. The lender will have exclusive control and access to the inventory collateral. It can also be a Stock Monitoring Agreement (SMA), under which the CMC will only report to the lender the outstanding inventory collateral in the warehouse periodically.

The availability of warehouse finance is vital for many businesses. For the trading and manufacturing enterprises, for example, it is necessary in order for them to complete the operating cycle (i.e. cash-inventory-receivables-cash). Within this cycle, inventory is farther away from cash, and also carries casualty risk, which make it riskier to finance. For the agri-business operators, warehouse finance will allow them to hold the commodities until the right market timing instead of selling their produce immediately after harvest. This helps to stabilize their incomes. With the growth of e-commerce, warehousing business is expanding; and the demand for warehouse finance is increasing. In some economies, the development of e-commerce and the associated warehousing, logistics management and financial services have become a leading engine for economic growth and employment generation.

Loans can be secured with goods or commodities stored in one or more warehouses directly or by Warehouse Receipts (WRs). WR is a title document, and often negotiable. Holding the document gives the lender title to the underlying goods or commodities. A WR provides the holder with superior rights against third parties. For example, the goods under the WRs are usually not subject to judicial attachment by other creditors or title claimants. Lenders should be aware that, whenever warranted and possible, inventory finance or warehouse finance can best be combined with accounts receivable finance. This is because accounts receivable is the next step in the operating cycle. There are different types of warehouse financing products that can be designed. One way to develop and organize such products is to work out the different “levels of control” over the collateral and the borrower. For instance, a loan product under CMA obviously carries a higher degree of control than that of SMA. CMA is a custodial form of collateral management; and the designated CMC takes full responsibilities for the control of the quantity of collateral.

Developing the Warehouse Finance Infrastructure

In order to have a successful warehouse finance market, there are a number of essential elements that must be present in an economy. First of all, a good secured transactions legal framework is an indispensable foundation. This includes a modern secured transactions law; a single, central and notice-based online registry; and an effective judiciary. Secondly, an efficient and reliable collateral management industry, which can provide services for the identification, evaluation, monitoring, control and liquidation of inventory collateral as well as quality inspections when needed. Thirdly, a good network of physical warehouse facilities spaced out appropriately throughout an economy. Fourthly, affordable insurance services (mainly property and liability insurance). Fifthly, open-minded and diligent lenders as well as supportive banking regulators.

A Case in Point - China

As a market example, in the case of China, the authorities have made the decision to intervene in the development of the operational infrastructure for warehouse finance. This decision was due to a number of issues which had arisen such as major cases of multiple warehouse receipts frauds, collateral management contracts being signed arbitrarily, lack of the concepts of SMA and CMA, lenders not being diligent as well as having difficulties in trusting CMCs and confusions over a broad range of legal and technical matters. Some specific examples of confusions concern the use of two types of warehouse receipts (standard and non-standard), whether or not WRs should include the name of the bearer and/or the lender, the rights and responsibilities of CMCs, whether or not WRs need to be registered in a collateral registry, what will constitute an effective possessory pledge, etc. Under this context, in recent years the authorities have issued several policies and guidelines to promote the development of distribution, trade, logistics and the related warehouse finance services.

In response to this situation and with the support of the Chinese authorities, the IFC, the China Banking Association (CBA) and the China Association of Warehouses and Storage (CAWS) have been collaborating to formalize the warehouse finance operating infrastructure. Two national standards have been promulgated, i.e. Key Elements and Format of Warehouse Receipts and Standards for Third Party Inventory Collateral Management. Other activities undertaken as part of this collaboration include the hosting of several conferences and roundtables, disseminating a series of materials and technical notes, conducting advocacy through news media, developing sample text for SMAs and CMAs, etc. Also, a Collateral Management Chapter under CAWS was set up in May 2014, which has been carrying out various capacity building activities from time to time.

Currently, the annual cumulative transaction volume of inventory finance in China is about USD 800 billion - 1.6 trillion. In order to increase the quality of warehousing services, among others, the authorities and CAWS have issued a number of new standards and guidelines, such as:

- Parameters for Warehouse Zoning and Design
- Standards for Warehousing Services
- Qualification Requirements for Warehousing Professionals and Workers
- Guidelines on Warehousing Operations
- Guidelines on Low Temperature Warehousing Operations
- Guidelines on Warehousing Operations for Online Retailing

The case of China and its efforts to develop its warehouse finance market provide useful lessons for other APEC economies. One important lesson for the governments is that, after putting in place a secured transactions law and a collateral registry, it is often necessary to build up the operating infrastructure for accounts receivable and inventory finance. These efforts should be undertaken in collaboration with the industry organizations, the leading operators in the sector, and multilateral institutions.

China's case also highlights that the subject of warehouse finance is relatively new in most APEC economies. As a sub-set of the financial infrastructure development work, there is generally a lack of experience amongst the development workers and stakeholders which can hinder progress. Furthermore, engaging with both the financial and real sectors can be challenging, but this should be addressed by providing key roles to the various industry associations to facilitate their leadership of the sectors and support their engagement with the relevant government Ministries which are either responsible for the oversight of warehousing and logistics industry or have mandates to develop SMEs, agri-businesses and domestic and international trades.

Warehouse Finance and Financial Inclusion

There are several factors of warehouse financing which make it an important part of financial inclusion. First of all, it is most commonly used in financing commodities. In most cases commodities such as energy and metals are the most common types for warehouse or inventory, finance. However, agriculture is fast becoming a more important commodity in developing economies; particularly due to its strategic importance to food and energy stability. This creates a direct link to a number of entrepreneurs (i.e. farmers or agriculture business ventures) who are most in many cases underserved financially in developing economies. This demonstrates another important factor of why warehouse finance is important for financial inclusion as it provides a means to empower smallholders.

Because warehouse financing does not rely on balance sheet strength, it enables more borrowers (i.e. smallholders) to access finance by focusing on underlying collateral strength. This allows farmers, for example, to obtain working capital financing through the use of warehouse finance, where they can store their crops to be sold at a better price without the need to sell products immediately to meet cash flow needs. Warehouse financing can also be an effective financing approach for SMEs with limited credit history since the company's assets (i.e. inventory) could be more effectively used as collateral.

While warehouse financing provides many potential opportunities for financial inclusion, in practice its scope is limited in most developing economies as they lack the necessary institutional and structural developments. Examples of some of the common shortcomings in developing economies include:

- Lack of an appropriate legal, regulatory and institutional environment;
- Lack of incentives for the development of an efficient (cost) and effective warehousing industry consisting of warehouses, collateral managers and certification service providers; and
- Limited familiarity within both an economy's public and private sector, including its banking community.

Overcoming each of these challenges is important because a well-functioning ecosystem of warehouse financing can lead to significant economic benefits. With regards to how warehouse finance is use for financing commodities there are two key perspectives which are integral to each other. The first is the supply chain finance view which is typically a transactional flow view between the key parties of the physical and financial value chain. The other perspective is the ecosystem view which relates to the parties involved/impacting a typical warehouse finance structure both directly and indirectly.

For the supply chain finance view there are both internal and external influencing factors. One of the internal factors is the borrower needs and profile. It is important for lenders to provide a structure which fits the borrowers profile and needs (i.e. tailored to specific inventory types or large vs. small trader). The risk view is another important internal influencing factor. This directly relates to a bank's most critical factor with regards to their credit decisions, which is the bank's security position on stored collateral. This puts additional importance on the need for a secured lending framework especially since credit approvals will depend on the value and control of collateral. Furthermore, banks must ensure that the appropriate systems and controls are in place to manage all aspects of a warehouse receipt financing program. The last major internal influencing factor is returns. Since warehouse financing has a lower level of risk in comparison to regular trade financing or clean loans, it typically attracts a lower risk weight for the purpose of capital management. Lenders can then pass this benefit on to the borrowers and subsequently reduce financing cost.

In terms of external influencing factors, regulation, including enforceability and legal infrastructure, is an important one. Lenders need to first be assured of their rights to collateral before they will be willing to offer warehouse finance. Also, by making the warehouse receipt a fully negotiable instrument it will enhance the liquidity of the product and help to mitigate the risk of counter-party default. Another external factor to note is the local environment. Both political and environmental risks can impact loan-to-value ratios (LTV) and lenders are most likely to be reluctant to provide financing if it is difficult to dispose, liquidate or access the collateral in case of default. In some cases governments have introduced a stamp duty on pledge/hypothecation which has an adverse impact on the viability of warehouse financing due to increased transactional costs. The final important external factor is the physical infrastructure such as warehouse location, CMC costs, port accessibility, road systems or security liability. Lenders need to be confident that the underlying goods they are financing are stored appropriately with guaranteed quality and quantity maintained. To achieve this, the operational conditions must include reliable warehouse certification and the existence of independent determination and verification of the quantity and quality of stored commodities, based on a standardized grading system. In some cases lenders might also require a performance bond or guarantee from a warehouse and collateral management services.

Within the warehouse finance space there are some notable developments and trends including alternative forms of warehouse finance such as Islamic inventory finance, structured inventory purchase, re-po structures and the increasing popularity of vendor-managed inventory finance in Asia. Some key developments in relation to warehouse finance include the expanded value chain with logistics companies providing value added services such as collateral/stock monitoring; digitization and how this impacts risks, collateral management systems, electronic receipts and mobile money disbursements and; alternative sources of capital such as large international traders and fund houses.

Training Bankers on Movables Finance

The Viet Nam Banks' Association (VNBA) was established in May 1994. It is the first professional association approved by the Prime Minister of Viet Nam and a pioneer in the economies reform era. VNBA's membership composition consists of joint-stock commercial banks (57%), state-owned commercial banks (9%), joint-venture banks (4%), finance companies (17%), associated members (9%) and other institutions (4%). Its main functions include:

- Act as a link between its members and regulatory authorities;
- Provide hands-on support to members for further development;
- Support members in implementing policies of Government and State Bank;
- Provide support for information dissemination among the banking sector;
- Provide support in capacity building for its members;
- Establish relationships with international organizations;
- Build VNBA's code of conduct.

Viet Nam's banking sector consists of 124 credit institutions with total assets of USD 286.8 billion and total mobilized capital of USD 232.5 billion. With regard to the composition of outstanding loans, the majority sits within immovable lending (43%) with the remainder comprising of movables lending (28%) and unsecured lending (29%). This composition has remained mostly stagnant over the last three years, however, movables lending has seen a slight increase (from 25% in 2012).

Recognizing the importance of movables financing VNBA has taken a lead role in promoting it. The rationale behind their efforts stems from a range of issues such as enterprises having limited equity while their capital demand for business retention and expansion is high and the high risks of lending secured by real estate due to low liquidity and foreclosure difficulties. To improve the market place, VNBA is promoting stronger support for movables finance because it is easier to use, has lower risk including better risk management and greater control, can help increase access to credit for underserved and unserved MSMEs and it will help develop MSMEs and thus create more jobs. On a more practical level, the more specific roles which VNBA has taken as part of this effort include cooperating with international organizations to organize workshops that build capacity within the banking sector, working closely with Viet Nam's central bank on law and policy issues, providing comments on behalf of its members on draft policies and regulations for secured transactions, assisting its members to develop their own banking services and products and conducting training and roundtable discussions on asset based lending and collateral management.

In partnership with the IFC, VNBA has worked to jointly train bankers in Viet Nam. As an example, in August 2013 they organized the International Symposium on Movables Lending. This conference provided an important opportunity for Viet Nam's stakeholders to examine and discuss issues relating to asset based lending philosophy, accounts receivables and inventory financing practices, distress and bankruptcy, how to finance medium sized enterprises, management of distressed credits and fraud. Another example of VNBA and the IFC's cooperation is the workshop on movables financing which was held in February 2014. This workshop looked specifically at more practical issues to assist bankers such as how to obtain clients, underwriting, field audits, documentation, cross border financing, loan monitoring, delinquent management, risk management and organizational structure. Several other capacity building workshops have been organized and have focused on a range of different topics including secured transactions, collateral management and intellectual property. To-date nearly 600 bankers have been trained through these workshops with 95% of the feedback from participants being positive.

As part of their efforts to promote movables finance n Viet Nam, VNBA has identified a number of key challenges. Some examples of these challenges include:

- Lack of unitary regulation for secured transactions;
- Lack of enabling policies to support SME finance;
- Insufficient coordination among authorities in secured transactions enforcement;
- Lack of experience and skills amongst bankers in movables financing;
- Lack of transparency in corporates' accounting data;
- Lack of independent collateral management in the market;
- Lack of skills to value inventory; and
- No training for SMEs on movables financing and responsible finance.

To overcome these challenges VNBA is adopting a range of approaches. They are working closely with Viet Nam's central bank to promote movables financing through a marketing campaign and are also assisting with the drafting of official guidelines and policies. VNBA is also working with relevant authorities to provide assistance in the development of unitary regulations on secured transactions. Organizing a range of training and knowledge sharing workshops and other activities has been a key focus of VNBA with the aim of to build the capacity of bank staff and promote international best practices in lending. Other activities being undertaken by VNBA to address the challenges in developing Viet Nam's movables finance market include mobilizing funding resources from donors, improving and developing credit supporting services such as collateral management, credit enhancers and electronic platforms for asset based lending, training legal authorities, including judges, on secured transactions and providing training for MSMEs.

Key Points

- Warehouse finance is vital for many businesses, particularly SMEs and agri-businesses. The development of the warehouse finance infrastructure is a relatively new concept for many economies, but of growing importance as warehousing businesses are expanding. The combination of good warehouse facilities, good CMCs and good availability of warehouse finance can increase the competitiveness of an economy. Less-developed APEC economies can learn from the more advanced markets on how to develop this market.

- Warehouse finance is a specialized type of banking that requires expertise in a number of areas to be successful for lenders, borrowers and other parties of the value chain. For lenders in the developing markets, key challenges include the issues of managing a warehouse financing program in a difficult market where public service and business ethics are sometimes questionable, markets are thin and illiquid, pricing can be erratic and perfecting security interests in collateral is not always easy. Furthermore, especially in the case of agribusiness, limited financial information on the borrowers, small transactions size, collateral security issues, inadequate price discovery mechanisms and the high costs of administering a warehouse financing program create challenges. The key to overcoming these challenges is public-private partnership and maintaining a practical view of the market.
- Through Viet Nam's experience in developing its movables finance market, a number of key lessons can be shared. For the government authorities, Viet Nam's experience has highlighted the importance of setting up a unitary legal framework for secured transactions, strengthening policies relating to SME finance, improving trade promotion and market information, etc. For the financial institutions, it is important that they diversify their products and services, participate in learning and knowledge sharing events, actively support secured transactions reforms, and approach donors who could provide technical assistance when required. As for the SMEs, it is suggested that they provide transparency to the lenders in business and financial conducts via the movables financing mechanisms, organize their operations to fit with the requirements of movables lenders, and increase their understanding of movables finance methodologies as a way to better leverage their assets.

Chapter 9: Enabling SME Access to Finance through Improved Secured Transactions Systems

Session Chair:

- Mr. Tom Clark, Executive Council, Government Relations, GE Capital

Speakers:

- Ms. Yuan Lin, Assistant General Manager, Credit Reference Center, People's Bank of China
- Mr. Mikhail Treyvish, Member of the Board and Chairman, Asian Chapter, International Factors Group; President, OmniGrade Rating Monitoring Agency
- Mr. Kazumi Nishikawa, Special Advisor to the Minister, Ministry of Economy, Trade and Industry, Government of Japan, Executive Director, JETRO Singapore

Accounts receivables financing, or "factoring", provides important opportunities for SMEs to access finance, expand their businesses and support the growth of the economy. Understanding the implications of accounts receivables finance and how it can best be incorporated within an economy's financial infrastructure can help to accelerate reforms for secured transactions systems. This is best achieved by building on recent lessons and experiences from economies where reforms have been introduced or discussions are underway, and to promote technical support from private stakeholders and multilateral institutions.

Developing a Receivables Financing Service Platform in China

China has experienced significant growth in accounts receivable financing in recent years. In 2007 there were less than 10,000 accounts receivable financing registrations and in 2014 the number of registrations had grown to nearly 300,000. By the end of 2014, a total of 1.3 million accounts receivable financing registrations were completed and over 140,000 SMEs were funded through accounts receivable financing. This represents enormous potential for this market and China is currently taking steps to further develop it. From their experience, the main constraints for developing this market are the effective delivery of pledge/transfer notices, validation of accounts receivables and China's modern credit culture which is still developing.

Recognizing these challenges, China has been implementing various measures to promote accounts receivables finance. One important approach to developing this market has been the creation of a financial infrastructure Receivables Finance Service Platform (RFSP). The RFSP is an internet based non-profit public service which is used to enhance communication on accounts receivables financing information. It encourages participation in accounts receivables financing as well as broadens the financing channels available to SMEs. More specifically, the platform operates in four steps. The first step is the user registration which is done online. Through this step the user agrees to the standard agreement and also has their identification verified. The next step is for the financing information to be communicated. This is also done online and involves uploading the accounts receivable for validation, sending financial demands and receiving lending intention feedback. Following this the credit terms are negotiated including the completion of due diligence. This step is undertaken offline and ends with the transaction being concluded. The final step in the platform is to register the lender's security interest in the accounts receivable as collateral. This is because the financing platform is connected with the Movables Security Interest Registry, which is also being operated by the central bank's Credit Reference Center.

The application of the RFSP provides several benefits for the borrowers, account debtors and lenders. For the borrowers, the platform improves the overall efficiency of the accounts receivables financing, improves capital utilization and increases transparency to prevent account debtors from default. Benefits for the account debtors include increased proportion of credit sales, consolidation of the supply chain and accumulating a credit history through the platform. As for the lenders, the platform leads to high-quality potential clients, validation for accounts receivables and a more effective and efficient notice delivery method for pledges/transfers.

The implementation of China's RFSP has been very successful and by the end of 2014 it had attracted a total of 31,721 active users. The RFSP provides coverage across the entire economy and includes a diverse range of lenders including national commercial banks (55%), local commercial banks (14%) rural credit cooperatives (10%) and others (21%). In terms of enterprise users of the platform, SMEs are the major borrowers making up 86% of the total. These SMEs have benefited significantly from the RFSP. By the end of 2014, 3,014 transactions totaling CNY 92.1 billion had been completed and 80% of these transactions were for SME financing totaling CNY 53.5 billion.

Going forward China plans to continue promoting the use of the RFSP, optimizing the functions of the RFSP according to the market demand, seeking further support from the government and advocating for the improvement the legal environment for factoring. Meeting each of these goals will help the RFSP achieve its ultimate aim which is to promote greater accounts receivables financing in China and better serve the needs of SME financing.

Factoring and Trade Finance Infrastructure

Factoring gives opportunities for SMEs to export or sell goods in a wider scope. Through this development the SMEs are also able to expand creating additional employment. Evolution of the global factoring industry has grown faster than the world economy. In 1980 it was estimated to be worth approximately EUR 50 billion and has grown to EUR 2.181 billion by 2013 (which represented a 3.2% increase in turnover from 2012). It is estimated that there are currently about 530,000 factoring clients globally and that has an average penetration of 4.9% of the world GDP. 35% of the factoring industry's growth has been in Asia. Today there are approximately 3,000 factoring companies globally; however, nearly 50% of these are located in USA and Brazil. Legal limitations are the main cause of this as different markets requiring specific mandates for licenses.

The International Factoring Group (IFG) was established in 1963 with the initial aim to support the "two-factor system" where an exporter and importer are located far from each other and thus need the support of two factors (export and import factors). This system has existed for nearly 50 years and IFG provides an IT framework as well as a legal framework to support it. IFG currently has members in over 60 economies representing the commercial finance industry globally. Today, IFG has many other important activities, the most important of which is providing education through its Developing Talent in Factoring Industry tool. This tool has been developed as an electronic learning resource and is available in several languages including English, French, Spanish, Russian and Chinese. Other educational services which IFG provides include a university certified course on Finance International Trade and Commercial Finance, a Leadership Business game and mentoring and counseling. IFG has also established a Research and Statistics Center to provide further access to networking and learning.

Influencing policy makers on various issues is also an important role of IFC such as co-founding the European Union (EU) Federation for Factoring and Commercial Finance and the development of a Model Law on Factoring. The terms of reference for this Model Law include:

- Legal environments for factoring are not uniform;
- In emerging markets (i.e. Africa) there is a need for guidance;
- Important to start with a legal environment based on best practices;
- Model Law is based on principles of the United Nations Commission on International Trade Law (UNCITRAL) Convention which is important for future harmonization; and
- Reduces scope to cover factoring transactions.

The Model Law includes several key elements which address a range of issues such as the scope to include all types of factoring (with or without recourse, invoice discounting and reverse factoring), the possibility to assign future receivables, the inclusion of electronic assignments, assignee payment entitlements, competing laws and the use of a registry system.

Secured Transactions Reforms that Should be Supported

There are three main bottlenecks which are constraining SME access to financing. The first is that private banks typically prioritize lending to larger companies. This is due to the high costs associated with examining new loans and monitoring. The second major constraint is that private banks are hesitant to take risks in SME finance. A key cause of this is issues with information asymmetry which make it difficult to assess the financial condition of SMEs. The last major constraint comes from the common practice of private banks aiming to maintain the capital adequacy ratio resulting in reduced lending to SMEs. In times of economic crisis, this trend is accelerated.

In the case of Japan, governmental financial institutions show inverse correlation with the private financial institutions. By working together they create a safety net in case of tightened lending from private financial institutions and the occurrence of major economic shocks. Not only do they create liquidity, but they also support SMEs to craft and realize their business plans. This system has been very successful for Japan and was instrumental in assisting many SMEs successfully recover from significant shocks such as the “Lehman Shock” or major earthquakes.

In real business, SMEs rely not only on equity and bank lending, but also inter-company credit. Due to the importance of inter-company credit to SMEs it is critical for this aspect to also be adequately understood at a policy level. Solutions for SMEs to utilize secured transactions for inter-company credit differs according to the development stage of the economy, availability of financial services and local business customs. As such these solutions should be prioritized differently per each respective group. By examining Japan’s historical SME fund-raising structure it can be seen that in the 1960s the majority of SME finance came from inter-company credit. This was due to the easy nature of the inter-company credit system which was more suitable for the SME market; however, overtime as Japan’s financial system matured there was a considerable decrease in inter-company credit. Today, the majority of SME finance in Japan is being provided by financial institutions. This example highlights that an important solution for access to finance for SMEs in developing economies is to create new or more effective systems for SMEs to receive inter-company credit.

Many SME policy makers in the region have struggled to enact reforms and form legal structures that are more conducive for the development of SMEs. To increase APEC’s effectiveness in influencing policy in the region as it relates to access to finance more attention should be given to making policy recommendations easier to access and understand. One potential solution for this could be to categorize the recommendations (i.e. basic recommendations, advanced recommendations and regional recommendations). Furthermore, APEC should aim to facilitate greater cooperation between financial experts, government ministries and other stakeholders that can affect civil codes and appropriate registries.

To achieve best practice in SME finance, an institutional approach should be used to guarantee a financial institution to support SMEs so as to improve the local economy and lead to stable profit gains for the financial institution. This cycle should also be supported by regulation. For the SMEs, the formation of a union or alliance can increase credibility. By enhancing SME accounting systems information asymmetry can also be reduced. In Japan a General Accounting Standard was developed to support SME accounting. This standard helps SME owners and operators to better understand their financial conditions, provides SME stakeholders with necessary accounting information and help SMEs conform to fair and reasonable accounting practices. Furthermore, the standard takes into consideration the accounting practice followed by SMEs and harmonizes their system with existing tax laws.

In Japan, public financing is provided as a compliment private financing. Financial arrangement is a key business priority for Japan's 3.85 million SMEs and government-affiliated financial institutions provide about 10% of all loans to SMEs. If credit guarantees are included this ratio increases to about 20%. Public SME financing includes policy financing (i.e. finance for entrepreneurship) and safety net financing (i.e. finance for enterprises whose business operations are temporarily deteriorating or which are affected by natural disasters). Japan's 52 credit guarantee corporations are also an important part of the system as guarantee borrowings from private sector financial institutions to enable financing to SMEs that lack credit or collateral. In cases where an SME defaults, repayments are made by the credit guarantee corporation in subrogation. SME agencies are also used in Japan to support and strengthen SMEs including policy advocacy. Financial policy can be utilized to implement other policy goals such as management improvement, business matching and SME globalization. In this regard financial institutions are a key resource to implement SME policy.

Key Points

- For the past seven years China has had significant growth in accounts receivables financing. To break through the main constraints for further development of the accounts receivables financing market, RFSP has been established and continuously optimized. The platform has proved to be highly beneficial to the borrowers, account debtors and lenders through its simple and effective online system and has resulted in a significant number of SMEs being able to access financing. Recognizing the potential of this platform China continues to develop the RSFP to utilize it for further opportunities and enhance its impacts.
- While receivables finance, or factoring, has the potential to provide wider financing access to SMEs and increase their scope to sell or export goods, many economies lack the necessary understanding to take advantage of the opportunity this method of finance presents. Support groups such as the IFG have been established to assist governments and stakeholders better understand the implications of factoring and how to take full advantage of its potential benefits. With the factoring industry growing significantly each year these support organizations are increasing in importance to help ensure that legal frameworks and financial infrastructures are capable of supporting this industry.
- Japan's experience with SME's reliance on inter-company credit in the 1960s highlights the need for policy makers to be aware of the changes of the financial system as it matures over time and how these changes impact the needs of SMEs with regard to access to finance. Japan's approach to utilizing public finance as a safety net also highlights a successful method of protecting SMEs in cases of severe shock to the financial system.

Chapter 10: Conclusions and Policy Recommendations

Discussion and feedback gathered from the Forum participants indicated broad consensus that much has been achieved for financial inclusion over the past five years, and that the Asia-Pacific Forum on Financial Inclusion has created a powerful platform for knowledge sharing and spread of best practice in key areas. Responding to the priorities identified by the APEC FMP, the 2015 Forum aimed to specifically examine issues relating to the development of credit bureaus, credit information and reporting systems and enabling SME access to finance through improved secured transactions systems. These two issues are the focus of two key work streams within APEC that have been underway since 2010 and are considered by APEC Finance Ministers as optimal ways to expand financial inclusion by increasing the quantity and quality of financial products and services available for MSMEs and SMEs. In order to progress this work the 2015 Forum sought to identify specific recommendations for pathfinder initiatives in the areas of credit reporting and secured transactions to support the FMP.

The key recommendations in respect of credit reporting and secured transactions are outlined as follows:

Credit Bureaus and Reporting

- It is recommended that APEC continue to work on implementation of recommendations with regard to credit bureaus and reporting, including by building upon the work already being done by other organisations such as CGAP and the Alliance for Financial Inclusion (AFI). Within the region much progress can be seen with regard to credit bureaus, and successful implementation has seen an increase in both the availability and quality of credit. At the same time, progress across APEC is uneven and a continued effort is needed to educate regulators, policymakers and industry on a whole-of-economy approach to credit reporting. Best practice indicates a need for cooperation between the public and private sectors on data sharing and use, as well as appropriate models for oversight and regulatory enforcement. Case studies can show the viable business case for information sharing and value added services, and help lenders understand how information sharing can be leveraged to extend into new markets.
- It is recommended that APEC be utilised as a forum under which member economies could work toward the standardization of data and formats for use within credit bureaus across the APEC region. The potential gains from standardisation have increased with the move toward paperless, online and digital access for reporting institutions and data users. For economies with limited capacity, standard data and formats would provide easier access to best practice techniques and procedures for high quality data reporting and dissemination. Standardization would also help service providers to develop new products and tools for lenders. As there are capacity challenges in many emerging economies, the standardization of data

and data management practices and services could lead to economies of scale for delivery of lower-cost credit information and reporting systems.

- It is recommended that the International Credit Reporting Committee guidelines issued in November 2013 be used as guidance for APEC policymakers and regulators, particularly with regard to full file credit reporting. Full file credit reporting represents best practice in credit reporting, but this remains a challenge for many APEC member economies. One particular issue on which the public and private sectors could work together is utilising public data, such as data from any publicly-owned utilities and telecom providers, national identity databases, and wage and employment databases. Customers' digital footprints can also be useful for data reporting, particularly in economies where mobile penetration is greater than that of banking penetration. Full file credit reporting is shown to support evaluation of customers with no borrowing record, thereby promoting access to lending products. It also can help lenders assess "ability to pay," potentially reducing the risk of over borrowing. In contrast, thin-file that focuses on a customer's credit record primarily measures current indebtedness.

Infrastructure for Secured Lending

- APEC member economies continue to progress on legal frameworks that will support secured lending transactions, including through enabling infrastructure such as collateral registries. Emerging economies such as Viet Nam have implemented an online registry for moveable assets with an approach that represents a useful case study for other emerging APEC economies. Experience indicates comprehensive reforms is necessary to support all elements of the infrastructure that enables the movable assets and credit reporting markets to work.
- It is recommended that APEC support member economies incorporate *Elements of an APEC Model Code of Security Interest Creation, Perfection and Enforcement*[6] into secured transaction law within their economies. This will help align APEC with best practice efforts within the global market. As reforms are implemented, there is also a need to help socialise these reforms so that practitioners and SMEs can leverage new opportunities in access to credit. A pathfinder initiative may see 3 or 4 economies commit to adopting the model code, implementing reforms and looking at adjacencies.

Additional Recommendations

Recognizing that progress towards financial inclusion involves several elements beyond credit information and secured transactions reforms, the Forum also provided the following recommendations for consideration by regulators and policymakers in additional issues that are growing in importance:

- APEC is recommended to consider adopting a formal definition of financial inclusion, such as the definition developed by the Global Partnership for Financial Inclusion

6 See: https://www.abaconline.org/v4/download.php?ContentID=22611282.

(GPFI)[7], which would cover specific parameters and help determine and compare the level of inclusivity of the financial sector across economies. There is significant diversity across APEC on financial inclusion, with huge variance in financial inclusion outcomes for households and firms. An APEC-supported definition could serve as a useful guide for APEC economies as well as better enable policymakers to align their financial inclusion goals.

- Governments may consider adopting a national financial inclusion strategy, as has already been done successfully in some APEC member economies. APEC could consider developing an APEC model framework for financial inclusion strategies that can be utilised and adopted by member economies to suit local needs and conditions. In addition, member economies may consider appointing a single organization such as the central bank or relevant government ministry to take overall responsibility for the development of the financial infrastructure, potentially including financial inclusion. While elements of the overall work could be delegated to other government bodies, member economies may consider mandating the leadership, coordination and responsibility to a single organization. This approach would increase the overall effectiveness and efficiency of financial infrastructure development and necessary reforms.
- Digital technology and digital-based services providers are bringing rapid change across all areas touching financial inclusion and the financial services industry. Digital and mobile providers have deeper penetration than financial services providers in many APEC member economies, and some may be able to offer financial access and services at lower cost. The business models of digital finance are changing the environment for lending, savings, insurance and payments in a way that warrants more attention by policymakers. Specific issues include: resetting oversight of customer data, privacy and protection practices for the digital economy; setting regulatory practice and oversight for digital financial service providers that may be non-bank providers and therefore subject to the financial regulatory framework; and increasing financial literacy training in the areas of e-money, digital wallets, mobile payments, digital data gathering and sharing, and cyber security. To progress this it is proposed that ABAC and the Financial Inclusion Caucus create a new working group to specifically address digital finance issues and align with other existing working groups within APEC as well as other knowledge sharing organizations such as the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP) and the Global Partnership for Financial Inclusion (GPFI), which have been working on these.

7 See: GPFI White Paper (2011) http://www.gpfi.org/sites/default/files/documents/White-Paper-Global-Standard-Setting-Bodies-Oct-2011.pdf

Appendix: Forum Program

DAY ONE	
08:00 - 08:30	**WELCOME AND OPENING SESSION**
	▪ Dr. JC Parrenas, ABAC Delegate to the APEC Finance and Central Bank Deputies' Meeting and Senior Advisor, Nomura Securities Co., Ltd. ▪ Mr. Stephen Groff, Vice President (Operations 2), Asian Development Bank (ADB) ▪ Mr. Batara Sianturi, Chief Executive Officer, Citi Philippines **Keynote Address** ▪ Undersecretary Gil Beltran, Policy Development & MGT Services Group, Department of Finance, Philippines
08:30 - 10:00	**SESSION 1: Financial Inclusion: Achievements and Future Challenges**
	Session Chair: ▪ Ms. Amy Auster, Principal Consultant, The Foundation for Development Cooperation (FDC) **Speakers:** ▪ Sir Sherard Cowper-Coles, Chairman, UK Financial Inclusion Commission ▪ Mr. Ed Jimenez, Microfinance Expert ▪ Mr. Kazuto Tsuji, Visiting Senior Advisor, Japan International Cooperation Agency (JICA)/ Professor, Saitama University, Japan/The Executive Committee Chair, CGAP ▪ Mr. Arup Chatterjee, Principal Financial Sector Specialist, Asian Development Bank (ADB) ▪ Mr. Batara Sianturi, Chief Executive Officer, Citi Philippines
10:00 - 10:30	**Photo Session and Coffee Break**
10:30 - 12:00	**SESSION 2: Financial Inclusion: Economy Experiences - Mexico, Viet Nam and PNG**
	Session Chair: ▪ Ms. Rachel Freeman, Manager, Financial Institutions Group Advisory, Asia-Pacific, International Finance Corporation (IFC) **Speakers:** ▪ Mr. Javier Suarez, Director for Studies on Savings, Mexican Ministry of Finance ▪ Ms. Tam Le Thanh, Microfinance Expert, Viet Nam ▪ Mr. Benny Popoitai, Deputy Governor, Bank of Papua New Guinea

12:00 - 13:30	**Lunch**
13:30 - 15:00	**SESSION 3: Digital Finance: Promoting Customer Centricity and Protecting Customers**
	Session Chair: ▪ Mr. Eric Duflos, East Asia and the Pacific Regional Representative, Consultative Group to Assist the Poor (CGAP) **Speakers:** ▪ Mr. John Rubio, CEO, BanKO, Philippines ▪ Mr. Sheikh Md Monirul Islam, Chief External & Corporate Affairs Officer, bKash, Bangladesh ▪ Ms. Prudence Angelita Kasala, Head, Financial Consumer Protection Department, Bangko Sentral ng Pilipinas (BSP) ▪ Mr. Sokha Huot, Chief Business Officer, AMK, Cambodia
15:00 - 15:30	**Coffee Break**
15:30 - 17:00	**SESSION 4: Credit Information Systems (Part 1): How Can Public and Private Credit Reporting Services Providers (CRSPs) Work Together?**
	Session Chair: ▪ Dr. Robin Varghese, Senior Fellow and Vice President of International Operations, Policy and Economic Research Council (PERC) **Speakers:** ▪ Ms. Khaikeo Luangsivilay, Deputy Director, IT Department, Bank of the Lao PDR and Hung Hoang Ngovandan, Principal Specialist, International Finance Corporation (IFC), World Bank Group - *Why We Need a Second Generation Credit Reporting System?* ▪ Mr. Anthony Hadley, Senior Vice President of Government Affairs, Experian - *A Private Bureau Global Perspective* ▪ Mr. Jaime Garchitorena, President and CEO, Credit Information Corporation (CIC), Philippines - *Public Registries and Financial Inclusion* ▪ Mr. Humberto Daniel Pánuco Laguette, Senior Economist, Financial Sector Analysis Directorate, Banco de Mexico - *What Regulators Can do to Make Private Bureaus More Responsive to Financial Inclusion* ▪ Mr. Lawrence Tsong, President, Asia Pacific, TransUnion - *Private Bureaus Relations with Public Registries, Lessons from Asia*

17:00 - 18:30	**SESSION 5: Credit Information Systems (Part 2): How to Develop More Credit Reporting Products Targeted for SME Credit?**
	Session Chair: ▪ Mr. Anthony Hadley, Senior Vice President of Government Affairs and Public Policy, Experian **Speakers:** ▪ Dr. Matt Gamser, CEO, SME Finance Forum, International Finance Corporation (IFC) - *Credit Reporting and Informal SMEs—Enabling Financial Inclusion* ▪ Mr. Mohd Rithaudden Makip, Director, Business Advisory and Support Division, SME Corp Malaysia - *Malaysia's experience of applying the SME Competitive Rating for Enhancement (SCORE)* ▪ Mr. Sothearoath Oeur, Head of Business Development, Credit Bureau Cambodia - *Credit Reporting Services for SME Financing in Cambodia* ▪ Mr. Daigo Minoshima, Deputy Director, Finance Division, Small and Medium Enterprises Agency, Ministry of Economy, Trade and Industry (METI), Government of Japan - *Current perspectives from the credit guarantee system in Japan* **Discussion Leader:** ▪ Mr. Rath Sovannorak, Deputy Director General, Banking Supervision, National Bank of Cambodia
DAY TWO	
08:30 - 10:00	**SESSION 6: Credit Information Systems (Part 3): Making Public and Non-Bank Data More Accessible for Economic Growth and Financial Inclusion**
	Session Chair: ▪ Mr. Lawrence Tsong, President, Asia Pacific, TransUnion **Speakers:** ▪ Dr. Robin Varghese, Vice President of Int'l Operations, Policy and Economic Research Council (PERC) - *Non-Financial Data and Financial Inclusion* ▪ Mr. Tony Lythgoe, Practice Manager (Acting), Financial Infrastructure and Access, Finance & Markets, World Bank Group - *Enabling Greater Access to Public Data and Non-Bank Data* ▪ Mr. Burton Crapps, Country Director, Philippines, FICO - *Non-Bank and Alternative Data Enabled Value Added Products*
10:00 - 10:30	**Coffee Break**

10:30 - 12:00	**SESSION 7: Enabling SME Access to Finance through Improved Secured Transactions Systems (Part 1): Reforms of the Legal and Regulatory Regime**
	Session Chair: ▪ Ms. Elaine MacEachern, Senior Specialist, International Finance Corporation (IFC) **Speakers:** ▪ Mr. Ronald Ortile, Deputy Administrator for Operations, Land Registration Authority (LRA), Philippines - *Secured Transactions Reforms in the Philippines* ▪ Mr. Haiquan Lin, Assistant Judge, The Second Civil Division of Supreme People's Court of China - *Strengthening Enforcement Mechanisms for secured Transactions in China* ▪ Ms. Van Thi Khanh Thu, Deputy Director General, National Registration Agency for Secured Transactions, Ministry of Justice, Viet Nam - *Strengthening Secured Transactions Legal Framework* ▪ Ms. Dondogmaa Chuluunbaatar, Senior Officer, Policy Reform Department, Ministry of Justice, Mongolia - *Challenges and Successes of Making a Secured Transactions Law* ▪ Mr. Chris Wohlert, Leader, Commercial Distribution Finance, Asia, GE Capital - *Development of collateral registries - problems and solutions*
12:00 - 13:30	**Lunch**
13:30 - 15:00	**SESSION 8: Enabling SME Access to Finance through Improved Secured Transactions Systems (Part 2): Building Supportive Operational Infrastructure for Secured Finance**
	Session Chair: ▪ Director Joselito Almario, Fiscal Policy and Planning Office, Department of Finance, Philippines **Speakers:** ▪ Mr. Jinchang Lai, Principal Operations Officer and Lead for Financial Infrastructure, Finance and Markets, East Asia and Pacific, World Bank Group - *Developing the Warehouse Finance Infrastructure* ▪ Ms. Emily Chin, Banking Professional - *Commodity finance* ▪ Ms. Tran Thi Hong Hanh, Secretary General, Viet Nam Banks Association - *Training bankers on movables finance*
15:00 - 15:30	**Coffee Break**

15:30 - 17:00	**SESSION 9: Enabling SME Access to Finance through Improved Secured Transactions Systems (Part 3): Identifying features of a Pathfinder Initiative**
	Session Chair: ▪ Mr. Tom Clark, Executive Council, Government Relations, GE Capital **Speakers:** ▪ Ms. Yuan Lin, Assistant General Manager, Credit Reference Center, People's Bank of China - *Developing Accounts Receivable Finance Platform: Initial Experience* ▪ Mr. Mikhail Treyvish, Member of the Board and Chairman, Asian Chapter, International Factors Group; President, OmniGrade Rating Monitoring Agency - *Factoring and Trade Finance Infrastructure* ▪ Mr. Kazumi Nishikawa, Special Advisor to the Minister, Ministry of Economy, Trade and Industry, Government of Japan, Executive Director, JETRO Singapore - *What Kinds of Secured Transactions Reforms We Should Support*
17:00 - 18:15	**SESSION 10: Conclusions and Way Forward**
	Session Chair: ▪ Dr. JC Parrenas, ABAC Delegate to the APEC Finance and Central Bank Deputies' Meeting and Senior Advisor, Nomura Securities Co., Ltd. **Speakers:** ▪ Dr. Robin Varghese, Vice President of Int'l Operations, Policy and Economic Research Council (PERC) ▪ Mr. Jinchang Lai, Principal Operations Officer and Lead for Financial Infrastructure, Finance and Markets, East Asia and Pacific, World Bank Group ▪ Mr. Tom Clark, Vice President, Government Relations, GE Money Asia ▪ Ms. Amy Auster, Principal Consultant, The Foundation for Development Cooperation (FDC) ▪ Mr. Haruya Koide, Principal Regional Cooperation Specialist, Asian Development Bank (ADB) ▪ Ma. Teresa Habitan, Assistant Secretary, Department of Finance, Philippines