DRIVING IMPACT IN THE INCLUSIVE FINANCE ECOSYSTEM

Report on the 2019 Asia-Pacific Financial Inclusion Forum

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EXECUTIVE SUMMARY

The Asia-Pacific Financial Inclusion Forum (APFIF) was established in 2010 as a policy initiative of the APEC Finance Ministers' Process. The primary objective of the initiative, which is led by The Foundation for Development Cooperation (FDC), is to identify concrete actions that financial policy makers can take to expand the reach of financial services to the underserved. This year's annual APFIF policy dialogue was hosted by the Asian Development Bank Institute (ADBI) in Tokyo, Japan.

The dialogue addressed two themes - the opportunity and challenges surrounding the creation of digital ecosystems within economies and building an understanding of what makes financial inclusion an important driver of inclusive growth and development. The dialogue identified a number of strategies that have been used successfully in some economies and that may be able to be replicated more broadly, with appropriate modifications to suit local circumstances. For instance:

- The establishment of Aadhaar, the national digital identification system in India has been a key driver of very rapid growth in the number of adults with bank accounts.
- A number of economies have established regulatory sandboxes as an effective means of providing a safe environment to test innovative financial services in the real market and enabling appropriate regulatory frameworks to be developed.
- In Indonesia, a partnership between Mercy Corps and the state-owned Bank Mandiri has enabled farmers to access new forms of credit bundled with agricultural services.
- The central bank in the Philippines, through its flagship Economic and Financial Learning Program is implementing a variety of initiatives to equip the public with the knowledge and skills needed to make well-informed financial decisions.

In addition, six recommendations were developed during the Forum which are summarised below:

#1 Establish proactive regulatory practices supporting innovation and consumer protection. Governments can maintain active engagement with the private sector to monitor digital technology advancements and trends, while also engaging with key stakeholders to evaluate current laws, regulations and supervision.

#2 Evaluate current infrastructure and prioritise investments in areas yielding the greatest impact for financial inclusion. Working with key stakeholders including the private sector, establish a sustainable commercial environment to strengthen the development of infrastructure components, including broadband, needed to enable digital finance solutions for the excluded.

#3 Progress reforms to enable appropriate and effective use of data for financial inclusion. While recognising the importance of data protection and privacy, governments can identify areas where regulations or infrastructure limitations may be restricting the potential for data to play a greater role in progressing financial inclusion.

#4 Enact regulations and reforms prioritising the development and consumer uptake of financial products and services having the greatest potential to deliver positive impact. Governments can utilise community organisations, which work directly with the poor and underserved, to develop new business models that produce both financial and social returns.

#5 Identify a clear role for government in supporting client learning and informed decision-making, and consumer demand for financial products and services in order to achieve desired development and economic impacts. Governments can promote financial education and encourage key stakeholders to develop innovative methods to promote consumer learning including through consumer reward schemes or gamification.

#6 Facilitate the flow of capital to support the income generating activities of the poor through their national financial inclusion strategies or by supporting the development of a social impact investing market.

INTRODUCTION

The Asia-Pacific Financial Inclusion Forum (APFIF) is a multilateral policy initiative of the APEC Finance Ministers' Process (FMP), housed within the APEC Business Advisory Council (ABAC) and entrusted to the Foundation for Development Cooperation (FDC) since the Forum's inception in 2010. Comprised of multiple programs run over the APEC calendar year, the Forum provides a unique platform for senior government officials, policy makers and industry experts to formulate policy recommendations relevant to achieving inclusive growth and development outcomes. Its focus is to deliver the objectives of the FMP relevant to financial inclusion by supporting the initiatives and deliverables of the Cebu Action Plan (CAP) in alignment with the specific priorities of the APEC Host Economy and the objectives of the relevant Sustainable Development Goals. The Forum achieves this by facilitating the identification and development of concrete actions policy makers and regulators can take to expand the reach of financial services to the underserved.

With contributions from development and industry experts the Forum provides a platform for stakeholders to take an active role in identifying recommendations for policy reform and strengthening and achieving consensus for effective pathways for progress.

The 2019 APFIF policy dialogue was held from 4-5 September in Tokyo, Japan. Convened by FDC in partnership with the Asian Development Bank Institute (ADBI), Banking with the Poor (BWTP) and ABAC, the Forum assembled over 50 delegates including senior government officials, international executives and industry experts representing 19 Asia-Pacific economies.

The dialogue addressed two themes - the opportunity and challenges surrounding the creation of digital ecosystems within economies and building an understanding of what makes financial inclusion an important driver of inclusive growth and development.

This report summarises a series of recommendations for policy makers and regulators which were developed as a result of the 2019 APFIF policy dialogue.

“By seeking to understand the ‘unknowns’ and taking steps to prepare for them, governments can establish bridges for innovation.”

Tom Jones, Executive Vice President and Chief Operating Officer, Women's World Banking

"How do we link more technology providers and sources of financing to grassroots institutions which work directly with the poor? How do we get them to understand the poor and work together respond to their needs? Governments can examine existing case studies to identify opportunities for replication and expansion."

Julius Caesar (JC) Parrenas, Senior Advisor, Mizuho Bank Ltd.

KEEPING FINANCIAL INCLUSION IN PERSPECTIVE

When institutions such as the Grameen Bank, BRAC and ASA began offering micro loans to the poor in the 1970s, the logic was that microfinance could be used as a tool to help poor people generate incomes through micro-entrepreneurial endeavour, and in doing so alleviate poverty. To many, microfinance was viewed as "the silver bullet" which would eradicate poverty once and for all. Over time, however, research into what quickly became a flourishing global industry found that the provision of microcredit was providing modest gains towards creating enhanced wellbeing and opportunity, but that it was falling short of achieving the transformative impact which it was hoped would be achieved (Roodman, 2012, Banerjee et al. 2015).

These findings provoked a global discourse on the microfinance industry involving industry leaders, governments, academics and development institutions. Recognising the value of the microfinance model as a mechanism to provide services to the poor, the discourse focused on defining a system that could support the financial needs of poor citizens and in doing so deliver better, more sustainable and more inclusive outcomes.

In 2006 the UN published a report titled "Building Inclusive Finance Sectors for Development" which noted that the industry was "*in the midst of a paradigm shift from microfinance to inclusive finance*" (United Nations 2006, 5). The inclusive finance agenda acknowledges that a focus on microfinance institutions (MFIs) in isolation was an insufficient response and that focus needed to broaden towards building inclusive finance sectors. By adopting a more holistic approach the various service providers, including MFIs, would be supported to enhance their capabilities based upon their respective comparative advantages and serve the poor more effectively as part of a broader inclusive finance ecosystem.

The UN report also recognized that inclusion goes beyond *access* to financial products and services and therefore triggered a renewed focus on establishing inclusive finance sectors which support appropriate *usage* of quality products as well. Inclusive finance, or financial inclusion, has since become a priority for governments and international development agencies globally and has been promoted extensively by experts and world leaders.

The rise of digital technologies in recent years has brought a renewed excitement to the financial inclusion debate and case studies from around the world are highlighting the unparalleled advantages it offers to solve persistent challenges. While these efforts represent an important stage in the evolution of the industry, there is a growing risk of technology being viewed as the new "silver bullet". Technology represents just one component in the necessary broader program of initiatives and support mechanisms required to achieve a level of financial inclusion which is defined not just by access, usage and quality, but by how it translates into enhanced empowerment and opportunities for the poor and underserved.

DEVELOPING AN ECOSYSTEM FOR DIGITAL FINANCIAL SERVICES

The proliferation of digital technologies such as the mobile phone and internet is considered to be one of the major drivers behind much of the recent gains in financial inclusion, including the 1.2 billion adults globally who have obtained an account with a financial institution since 2011 (Demirgüç-Kunt et al. 2018). While traditional financial systems and infrastructure generally struggle to serve the poor and remote populations, digital financial services (DFS) provides potential new models and opportunities to extend a broad range of financial products and services to the excluded. However, development of the technology alone is not enough to achieve the desired impacts of financial inclusion. In Asia there are estimated to be over 4.1 billion mobile phone subscribers and 1.7 million internet users, but despite this high level of access to technology over 1 billion adults in the region still have no access to financial services (ADB 2018). This situation highlights how the aggregate impact of technology is falling short and is distributed unevenly (The World Bank 2016). In order to achieve the full benefits of the digital revolution governments must apply greater attention to not just closing the digital divide, but also to the importance of understanding and developing the broader DFS ecosystem which is necessary to enable financial inclusion to deliver meaningful impact.

The potential benefits of digital technology on financial inclusion go well beyond simply enabling alternative methods to access financial products and services and include several other factors which can have a significant impact on a person's financial health and wellbeing (See Box 1). One of the most compelling aspects of technology-driven financial inclusion is the prospect to bring the poor and underserved into the formal financial system, and importantly, to enhance their ability to use these products in services in ways which benefit them. With as many as 1.7 billion adults still excluded from formal financial services globally, the majority being women, digital solutions have the potential to significantly increase access to a broad range of formal products and services (e.g. savings, credit, payments, insurance, securities, etc.) while also boosting effective usage through innovative awareness raising and financial education initiatives tied to technology. In doing so, technology-driven financial inclusion can be a major vehicle of inclusive economic development. On a macro level, the growth achieved through DFS could add as much as $3.7 trillion to the gross domestic product (GDP) of emerging economies within a decade (Goosen 2017).

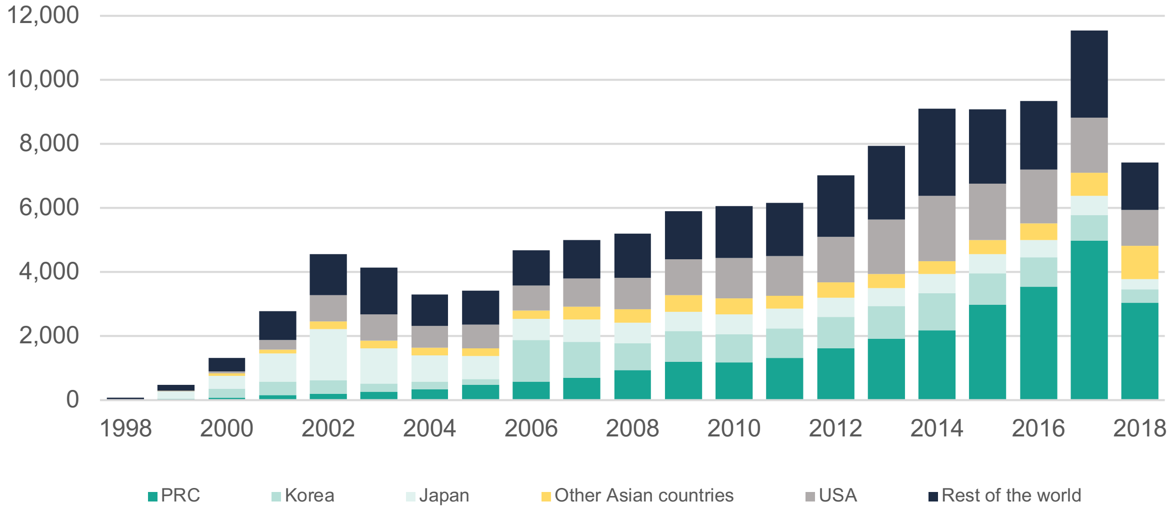
Box 1: The benefits of digital financial inclusion

- **Access to formal financial services** such as payments, transfers, savings, credit, insurance, securities, etc.
- **Potential for lower transaction costs** to enable low income customers to manage more effectively small and irregular income and expenses.
- **More effective tailoring of financial services** to meet the needs of customers through digital transaction platforms and the data generated within these platforms.
- **Reduced risks** to customers posed by cash-based transactions (i.e. loss or theft).
- **Promoting economic empowerment** by enabling asset accumulation and increasing economic participation, especially for women.

Source: The World Bank 2019

Fintech, which refers to innovative financial services or products delivered through digital technologies, leverages a wide range of technology components including big data, artificial intelligence and mobile internet to bring new applications to financial services such as savings, lending, risk management and financial advice. Asia has experienced especially rapid advancements in technology with the People's Republic of China, Japan and the Republic of Korea emerging as global leaders in fintech innovation as represented by the number of fintech patent applications filed annually (See Table 1). Even after decades of development the fintech industry continues to grow and transform the traditional banking sector.

Table 1: Fintech patent applications by jurisdictions (January 1998 – August 2018)



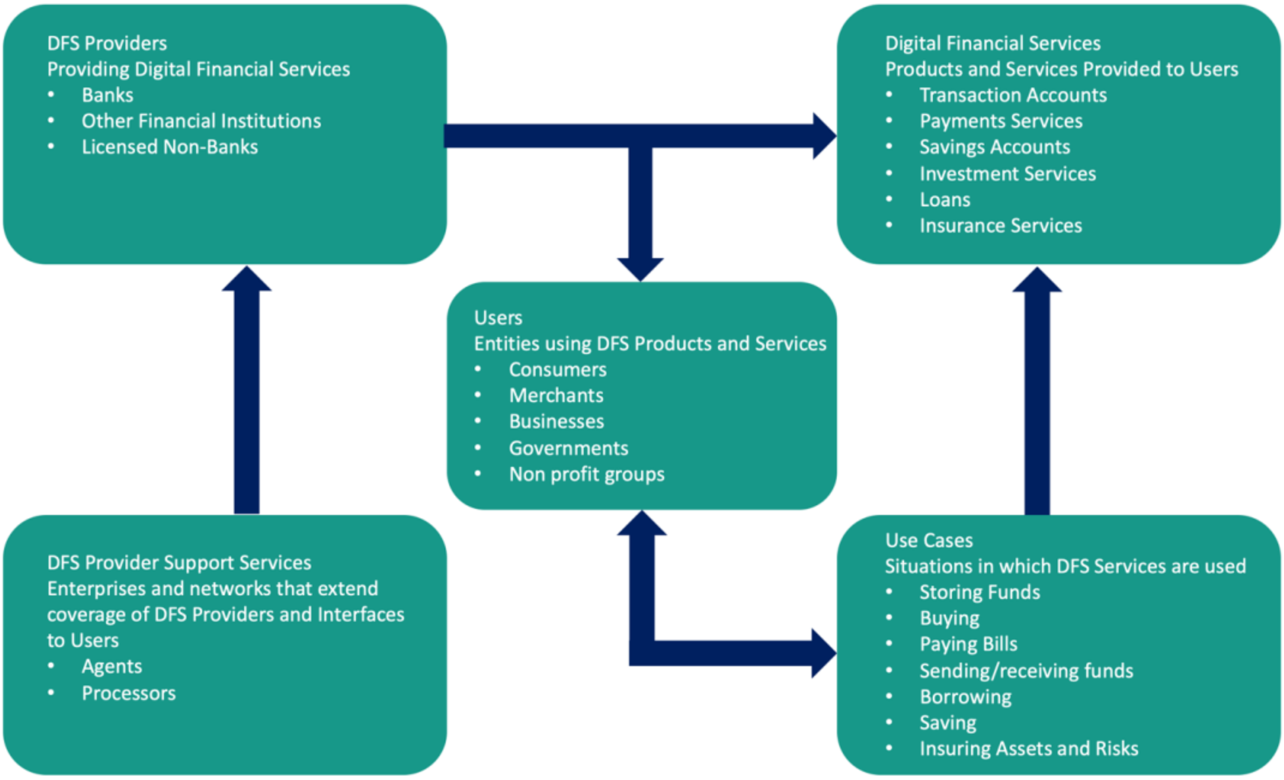
Source: ADB 2018

To ensure that the growing fintech industry and the provision of DFS are safe, reliable and low-cost, governments need to consider how policies and regulation impact the various elements of the digital ecosystem upon which these services rely. As outlined by The International Telecommunication Union (ITU), the United Nation's specialised agency on telecommunications and information and communication technologies (ICT), an *enabling environment* and *infrastructure readiness* represent the two foundational components critical to the health and effectiveness of a DFS ecosystem (See Figure 1). While governments should play a role in the development of the entire ecosystem including the participants and services it comprises, these foundational components are of particular importance as they play a major role in the ecosystem's overall viability and effectiveness.

> *"The quality and speed of digital connectivity are increasingly important beyond simple access. Many developing economies have basic internet infrastructure, but few are capable of providing high-speed internet, which needs to be a focus of public investment to enable affordable and reliable mobile banking."*
>
> Cyn-Young Park, Director for Regional Cooperation and Integration, Economic Research and Regional Cooperation Department, Asian Development Bank

Figure 1: The digital financial services ecosystem

Enabling Financial Inclusion and Building the Digital Economy through Affordability, Convenience and Quality



Infrastructure Readiness Technical Systems to Enable Digital Financial Services	Payment Systems Voice and Data Communication Networks	Energy Availability Identitiy Systems
Enabling Environment Regulatory, Supervision and Standard Setting Enabling Environment (National, Regional and International	Regulators Financial Inclusion Policies	Standards Bodies Industry Groups

Source: ITU 2016

The enabling environment refers to the laws, regulations, national policies, standards, industry groups and development organisations which all play a role in the functionality and implementation of the DFS ecosystem. An inadequate enabling environment can thwart financial inclusion by limiting the growth potential of fintechs or deter customers from trying new technology. The promotion of financial literacy, user awareness and consumer protection measures are also critical elements for establishing a suitable enabling environment; a responsibility which should rest upon both governments and the private sector as part of their commitments to advancing financial inclusion (Goosen 2017).

Infrastructure readiness represents one of the most crucial barriers for financial inclusion. Components such as broadband access, digital identity, communications networks, energy systems and digital payment infrastructure play a major role in making the DFS value chain economically viable. For example, as many as 1 billion people globally (mostly women and children) struggle to identify themselves and are thus significantly limited in their ability to access and use financial services (ADB 2018). The establishment of a national digital identification system could represent a crucial infrastructure component of an economy's DFS ecosystem which could be integrated across a wide range of systems and services to enable greater inclusion. As an example, India's biometric identification system, Aadhaar, has been linked to digital payment systems providing cheaper and more convenient ways to conduct social and financial transfers. The implementation of the Aadhaar program is often credited as one of the key drivers behind the significant increase in the number Indian adults gaining a bank account – 40% in 2011 to nearly 80% in 2018 (Iyer 2019). The ability to establish unique identities of citizens, implement digital payment systems and open formal bank accounts all represent important foundational elements of financial inclusion but which all rely on key infrastructure components.

Box 2: Enabling micro-pensions through the digital ecosystem

Pension exclusion has significant implications on poverty and macro-economic growth. Across Asia, Africa and Latin America and the Caribbean (LAC) an estimated 1.7 billion non-salaried workers are excluded from formal pension arrangements. Without pensions these people face heightened risk of living in extreme poverty after they are too old to continue working.

By 2050, it is estimated that 8 in every 10 elderly in the world will live in Asia, Africa or LAC and that as many as 80% of them will not receive a pension. A tax-funded pension is unlikely to be economically viable, especially for developing economies. Supporting young citizens to save for their own retirement with the aid of digital technology represents a feasible and sustainable solution to the region’s imminent poverty crises caused by aging populations.

Micro-pension inclusion offers a new business opportunity for formal finance which can also help drive economic growth, infrastructure development and higher employment rates in emerging economies. However, governments, pension funds and insurers continue to struggle with responding to this issue and meeting the huge unmet demand for micro-pensions. Three main challenges have been identified as major barriers to progress which can be supported greatly through the development of robust digital ecosystems. These challenges, with potential solutions, are summarised as follows:

1 - Fragmented Ecosystem

The ecosystem pieces needed for comprehensive pension inclusion already exist in most developing economies. These include digital national ID, digital payments, high mobile penetration, credible community and agency networks, strong policy commitment and an enabling legal/regulatory environment. However, in most economies this ecosystem remains fragmented and fails to enable a viable pension or insurance inclusion solution for low income informal sector workers.

The combination of pension services and technology (pensionTech) and the implementation of a digital micro-pension marketplace can be used as a “glue” to integrate more effectively the components of the financial inclusion ecosystem. As a result, universal, single-window access to a simple, convenient and affordable micro-pension system can be made available to excluded citizens.

2 – Disaggregated Demand

The large latent micro-pension demand should be of significant interest to governments and pension funds. However, traditional pension and insurance distribution models and sales costs are not designed to target or service small intermittent contributions at an individual, disaggregated level.

Through pensionTech and open APIs retail demand can be aggregated. This could be achieved by enabling and encouraging aggregators (i.e. gig-economy employers, banks, MNOs, MFIs, MSMEs, cooperatives, etc.) to easily embed the digital micro-pension marketplace onto their own apps. This would enable them to instantly offer a regulated micro-pension solution to clients, employees or service partners without the need to build new capacity.

3 – Inadequate IT Capacity

Pension funds are facing increasing regulatory and business compulsions to target the larger excluded non-salaried workforce. A key challenge they face is that platforms for mandatory occupational pensions are not designed or geared to administer voluntary micro-pension schemes. Furthermore, building a proprietary micro-pension platform from scratch can be hugely expensive and time consuming.

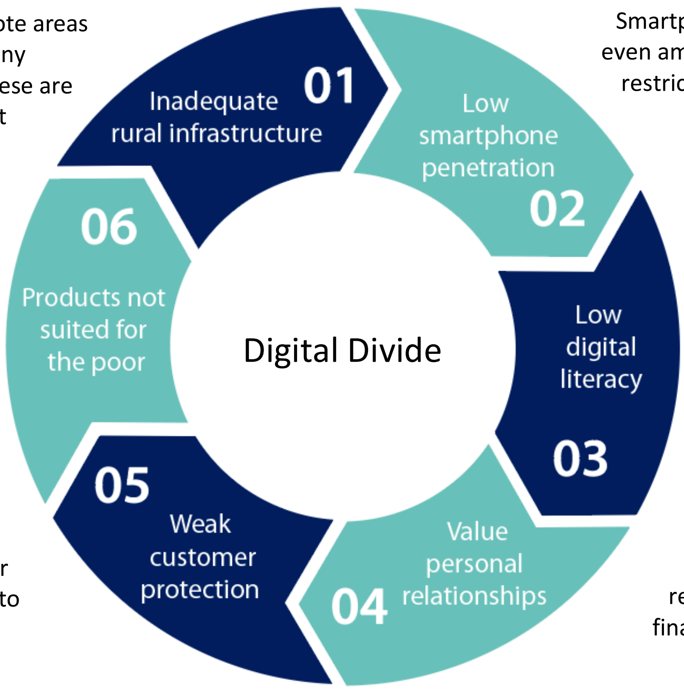
Governments and pension funds can address this, and at near-zero start-up costs, by implementing an agile, white-labelled, ready-to-deploy pensionTech platform built explicitly to deliver voluntary micro-pension products and services to self-employed individuals. In doing so, governments and pension funds would not need to develop their own retail capacity or be faced with managing millions of tiny contributions. Instead, they would only need to deal with aggregate contributions and manage wholesale assets.

Source: pinBox Solutions 2019

> *"PensionTech can make retirement savings more inclusive, simple, affordable and secure for the self-employed, and make micro-pensions commercially attractive for mainstream pension funds and insurers."*
>
> Gautam Bhardwaj, Co-founder and Director, pinBox Solutions

As the DFS ecosystem develops it is important for governments to recognise the risk of inadvertently exacerbating the impacts of exclusion through the growing digital divide. This means ensuring that the ecosystem does not disproportionately benefit suppliers but that it is equally effective in meeting the needs of customers; particularly the poor and underserved. As highlighted in Figure 2, there are several specific issues related to the expansion of DFS which can result in certain groups becoming further marginalised. Closing the digital divide should be addressed within national financial inclusion and digital strategies including appropriate measures of success in relation to the objective of creating more inclusive societies and economies.

Figure 2: The digital divide



Source: MicroSave 2019

> The poorest need to be taken care of by governments. But now even governments are going digital. If we are moving towards digital economies, we can't leave this segment behind.

Manoj Sharma, Director, Asia, MicroSave

RECOMMENDATIONS FOR POLICY MAKERS AND REGULATORS

1. Establish proactive regulatory practices supporting innovation and consumer protection

An enabling regulatory environment is crucial to the ability of innovators and entrepreneurs to provide appropriate, affordable and safe financial products and services through the DFS ecosystem. By working closely with key stakeholders including the private sector and taking a proactive regulatory approach policy makers and regulators can address more effectively issues impacting the overall health and effectiveness of the ecosystem such as protecting personal data and privacy, protecting consumers against low quality and unaffordable products and cyber-crimes, monitoring over indebtedness or encouraging innovation. Some specific examples of ways by which government stakeholders can strengthen the regulatory environment include:

- Actively engaging with the private sector to keep abreast of technology advancements and trends. The rate at which digital technology is developing can make it difficult for governments to keep up, with some reactionary regulation practices inadvertently hindering innovation. By maintaining active engagement with the private sector, governments can monitor technology advancements and trends more effectively, while also engaging with key stakeholders to evaluate current laws, regulations and arrangements for supervision to ensure appropriate levels of oversight and consumer protection are being met. Regulatory sandboxes are an effective way for governments to achieve this level of engagement by providing the private sector with a safe environment to test innovative solutions in the real market and enabling appropriate regulatory frameworks to be developed.

- Assessing laws and regulations which allow the overlapping of financial services and technologies and determining if current financial regulation is adequate to oversee and monitor technology companies which also offer financial services. Regulation should define clearly what financial services can be provided by technology companies and when regulation is needed to avoid systemic risk. This issue is expected to increase in importance as the fintech industry continues to grow.

Case study: China's proactive approach to financial inclusion

People's Republic of China is regarded as one of the region's greatest financial inclusion success stories characterised by massive scaling of fintech companies, significant increase in account ownership and one of the world's largest agent banking networks; all built upon an extensive financial infrastructure. The economy's fintech industry has experienced exceptional growth and now reaches millions of previously unbanked customers with a wide range of digitally-enabled formal financial products and services. A crucial element of success in developing the economy's DFS ecosystem has been the establishment of a regulatory environment in which the government views itself as an "enabler" of financial inclusion rather than simply a "promoter." In doing so, regulation has been structured to allow the entry of new innovative providers, products and business models. This has included network-based business models which have successfully integrated into existing social media or e-commerce platforms such as Alipay, Tenpay or Ant Financial.

However, China's success story has also highlighted some of the potential risks associated with the rise of fintech and digital solutions being used to reach the poor and underserved. While opportunities to access innovative, low-cost and convenient financial products and services has risen across the economy significantly, so to have instances of consumers being harmed by fintech due to fraud. China's experience demonstrates the challenge of achieving an appropriate balance between innovation and consumer protection. Furthermore, it highlights the importance of approaches such as regulatory sandboxes and the need for more active engagement and monitoring of innovative providers and products.

Source: Chien and Randall 2018

1. Evaluate current infrastructure and prioritise investments for greater inclusion

The potential of the digital revolution and what technology can offer as part of new solutions for inclusive growth and development cannot be realised fully without the public and private sectors and community organisations aligning common interests and working together to understand customer needs. This level of cooperation is especially important to ensure that the ecosystem can enable enhanced services to all segments of society, including the poor and other vulnerable groups. Issues such as consumer trust in technology, literacy, or infrastructure constraints often pose significant barriers for many developing economies. It is important for governments to consider their investments into infrastructure carefully to ensure that these actions yield the greatest impact for inclusive growth. Some examples of areas where governments could focus their efforts in relation to infrastructure to support the digital ecosystem and realise the benefits of technology for inclusive development include:

- Working with the private sector and other stakeholders as key partners in the development and maintenance of both hard and soft digital infrastructure. Public-private collaboration is crucial for establishing a sustainable commercial environment which will strengthen the development of infrastructure components needed to enable digital finance solutions for the excluded. This includes imposing regulations which consider both the short term and long-term interests of consumers as well as promoting healthy competition to help drive investment and innovation.

- Prioritising support for the development of core ICT infrastructure, including broadband. A broad range of studies have found that increasing broadband penetration has a positive impact on GDP in both developed and developing economies (Minges 2015). Providing access to basic digital infrastructure is crucial for enabling affordable and safe mobile internet that can support low cost financial services to all population segments, including distant rural areas or across national boundaries. Increasing access to internet services is not only crucial for decreasing the digital divide, but also supports a wide range of development needs such as health, education and economic opportunity.

Case study: Brazil's flexible KYC regulations

Adhering to specific Know Your Customer (KYC) processes to verify client identity during account registration is a requirement for all banks in Brazil. However, the requirement for face-to-face meetings for account openings has been relaxed to allow new customers to submit "selfies" of themselves along with digital photographs of other required documentation to verify their identity. By relaxing this regulation, the government hopes to increase financial inclusion by limiting cumbersome administrative processes during both account openings and account activity. Brazilian banks can now offer a variety of options for customers to access digital financial services through biometric technology.

While Brazil's change in regulation has helped to make the authentication and identification process more convenient and digital financial products more accessible, high levels of fraud persist. Brazil's experience highlights the need for governments to work closely with the private sector to strike the right balance between flexibility and tightening regulations and supervision.

Source: AFI 2019b

2. Progress reforms to enable appropriate and effective use of data

As the DFS ecosystem is developed the use of data and its significance for the efficiency of financial markets will increase. Infrastructure enabling information sharing can assist financial service providers in developing a deeper understanding of consumers and facilitate the development of products and services which are more responsive to their needs. For governments, the use of data can assist regulators with monitoring the market to enable greater transparency and competition. However, there are also multiple risks associated with data such as improper usage leading to consumers losing trust in the system, the commercialisation of data (i.e. sales to 3rd parties) resulting in abusive marketing practices or challenges associated with data storage, usage, or protection. Some examples of actions governments can take to enable the benefits of data sharing for financial inclusion while also enhancing data protection and privacy include:

- Evaluating current laws and regulations to determine what constitutes data protection and privacy vs restrictive regulation. Working with the private sector and consumers, review and develop models which enable more effective and appropriate protection and privacy. For example, "notice and consent" regulations are relatively ineffective in economies with low levels of literacy and financial education. In such cases new and innovative regulatory models are needed to enable service providers to utilise data for the benefit of the poor and underserved while still ensuring appropriate levels of protection and privacy.

- Developing digital infrastructure that enables consumers to have greater control over how their personal data is shared with businesses. This could be in the form of digital platforms which enable consumers to safely store important information and control which businesses or institutions are granted access

- Continuing to explore and progress reforms enabling the safe and secure free flow of data across borders to support free and open trade and financial flows between economies. Data localisation laws have the potential to reduce competition and increase costs to consumers. To address this governments can support and engage in multilateral discussions with the aim of establishing a regional agreement and protocols for secure and trusted data sharing.

Case study: India's DigiLocker

Formal documentation for personal information has always been an important barrier for opportunity. Documents such as birth certificates, medical information, drivers' licence or academic records are typically used for a variety of verification purposes to enable access to services. In most cases, individuals are required to carry original or certified copies of these documents for them to be considered valid. There are several problems with this traditional system including the usage and availability of documents creating significant administrative overheads, difficulties in submitting multiple copies of physical documents or chances of loss, theft or damage.

As part of India's broader digitisation strategy, and its attempt to move towards a paperless economy, the government has initiated several digitally enabled welfare schemes which are linked to the national digital ID system, Aadhaar, to ensure security. To solve the issues surrounding physical documentation, the government launched Digilocker in 2015. This online service, available both through websites and mobile apps, provides a private space on a public "cloud" for citizens to store electronic copies of their personal documents. Through the platform users are also able to share their documents, giving them control over who has access to their information. The validity of these digital documents has also become accepted through regulatory reforms.

While DigiLocker has provided a solution to several of the common problems associated with document verification and usage, it also presents important new risks. The DigiLocker system generates an enormous amount of personal data which is susceptible to misuse. Managing and securing such a large amount of data, and gaining consumer trust, is a major challenge and requires continuous review and maintenance of the system.

Source: Kumar et al. 2018

STIMULATING DEMAND FOR EFFECTIVE FINANCIAL INCLUSION

Frameworks for measuring financial inclusion often focus on indicators which are used to observe and quantify aspects relating to access, usage or quality of formal financial products and services. While such measurements are useful for understanding important dimensions of financial inclusion, governments and practitioners need to ensure that the deeper potential for financial inclusion to impact the lives of the poor and underserved is not overlooked. In their reference framework for financial inclusion, the World Bank notes the importance of including measures that don't only account for access, usage and quality, but also indicators which examine the impact of financial inclusion on firms and households (The World Bank 2012). The Alliance for Financial Inclusion (AFI) has taken this further by establishing a measurement framework which takes a customer centric perspective based upon universal financial needs (See Box 3). Through this approach, measurement indicators can be developed to evaluate more effectively the extent to which financial inclusion is impacting the financial wellbeing of the poor. There is also a growing body of literature measuring the impact of financial inclusion on individuals and households through randomised controlled trials. While often complex and difficult to implement, such indicators and evaluations are critical to ensuring that policies, regulations and other interventions can be designed to maximise the potential for financial inclusion to result in positive development outcomes.

Box 3: Universal financial needs

1. **Transfer of value** – to make or receive a payment or transfer
2. **Liquidity** – to be able to meet expenses within an income cycle
3. **Resilience** – to be able to meet large expenses that have resulted from an unexpected financial shock
4. **Meeting goals** – to provide for larger life or work goals that cannot be funded from a single income cycle

Source: AFI 2019a

Delivering financial inclusion with too narrow a focus on aspects such as access and usage has the potential to result in negative impacts, especially on the poor and most vulnerable segments of society. Cases of poor people taking microfinance loans which they do not have the capacity to repay, or even the mortgage crises in the U.S. and its global ramifications have highlighted the potential negative impact of proliferating access to financial products and services without adequate attention paid to ensuring that services are high quality and affordable and that consumers use them in appropriate ways through, for example, effective financial education programs (Ramakrishnan 2011). Furthermore, many proponents of financial inclusion have focused too heavily on promoting the expansion of specific products such as credit. In order for financial inclusion to successfully produce social and economic benefits it needs to be capable of satisfying a broader set of consumer needs. This is best achieved by governments working with the private sector and other key stakeholders to identify the particular types of products and services (both financial and non-financial) that would be of most value to consumers, ensuring appropriate consumer protections and also providing adequate levels of financial education to help consumers understand how and why they should use them.

> *“Microfinance institutions may find a business case in introducing new products and services, but they also need to consider whether these products and services represent a development case and what they, as practitioners, can do to help ensure that those development outcomes are achieved.”*
>
> Kamrul Tarafder, CEO, ASA Philippines Foundation

As governments across the world continue to make financial inclusion a priority, hoping to bring about the economic and social benefits a financially included society can enable, many strategies and interventions still focus too heavily on solving supply-side issues. Multiple studies conclude that demand-side factors have just as much, if not more, influence on achieving financial inclusion (Ramakrishna and Trivedi 2018). Addressing demand-side factors requires a different set of interventions which help the excluded realise and understand the opportunities available to those that are financially included (i.e. enabling productive asset accumulation including land title, home ownership, business assets for micro small and medium enterprises (MSMEs) or access to affordable credit).

Strengthening financial education and promoting greater awareness has been identified as one of the most crucial aspects of increasing demand for financial products and services, as well as a key component of financial consumer protection. Importantly, financial education and awareness impact a person's ability to make informed decisions, and thus increase the potential for their usage of financial products and services to result in positive development outcomes. The primary objective of financial education is to support the behaviour changes needed for consumers to adopt and use financial products and services appropriately. MFIs have spent decades developing practices which enable them to support behavioural changes with their clients to achieve high repayment rates. But as the industry is now shifting to support the provision of a broader suite of financial products and services, practitioners are looking for ways by which their traditional methods of behavioural training can be applied to other potentially valuable services such as how to save, engage in micro-pension schemes, insure assets or conduct market assessments.

The increase in technology solutions being introduced into the finance sector also brings new ways to increase and deepen the impact of financial inclusion by stimulating demand and appropriate usage. One area which is growing in interest is for practitioners to apply technology in ways which help consumers develop healthy financial behaviours. For example, gamification, or the process of integrating game mechanics into everyday tasks for the purpose of motivating engagement or participation, is an innovative method with which multiple businesses and financial services providers are now experimenting. The basic principles of gamification focus on solving a problem by designing a "user journey" which is fun, engaging and influences consumer actions towards a specific goal. The applications of gamification range widely within the business sector in areas such as training employees, engaging customers or inspiring loyalty, and there is potential for greater use by other stakeholders such as government and community organisations. One of the most promising aspects of gamification as it relates to financial inclusion is its potential to increase financial literacy and motivate customers to achieve their financial goals through motivation and habit formation.

"Governments need to think of financial inclusion as not an end, but a critical component to support the resilience of the most vulnerable to achieve sustainable development."

Yoko Okura, Regional Program and Advocacy Manager, Zurich Flood Resilience Alliance, Mercy Corps

Box 4: Case study: how Absa bank empowered its customers through games

Absa Bank in South Africa wanted to find a way to assist their low-income customers do their banking in ways that would save the customers both time and money. One of the major issues identified by Absa was the weekend and month-end crunch at their branches as many of their low-income customers would come to check their account balances. Despite over 50% of Absa's low-income customers registered for their mobile banking service, which makes it possible for customers to check their account balances remotely, usage of the electronic service remained low. To help their customers save money in transportation costs and benefit from the more convenient service available, Absa's challenge was not only to empower their customers with the awareness of the functionality of mobile banking, but also to get them to use it effectively.

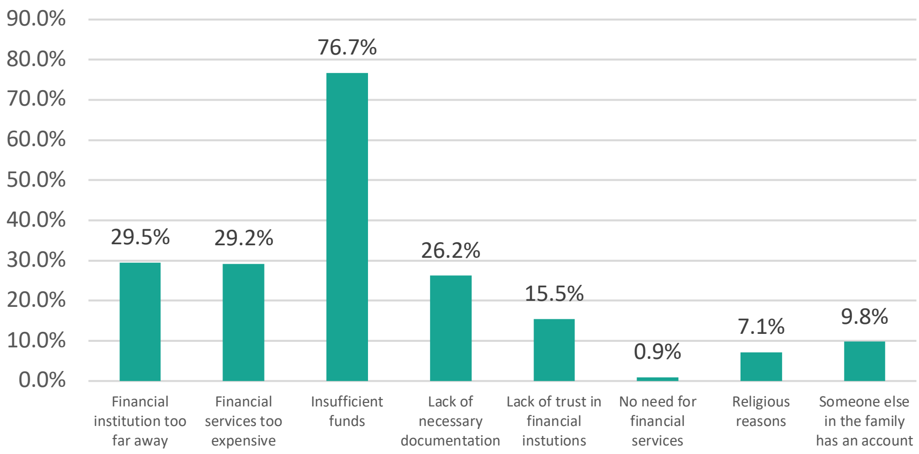
As a solution, Absa developed Shesha Game. Through the game, the bank is able to interact with its customers using text messages and inviting them to play. The game featured two parts: the first being a quiz which would ask the customer to answer questions about how they could check account balances through mobile banking and an airtime prize awarded for correct answers. The second part of the game focused on challenging the customer to put their new knowledge into practice by using their phone to check their account balance. Completing this action was incentivised by awarding customers with an entry into a draw for a large cash prize.

Results of the game were positive with the balance check activity of participants increasing from 0 to 54% two months after completing the game, and 61% after six months. By "gamifying" the banking activity, Absa was able to engage with their customers in a new way and facilitate "learning by doing." This interactive approach not only helped to build trust and confidence between Absa and its customers, but it also has the potential to lead to more empowered customers who are more capable of making informed choices, use services that are of value to them and have greater control over their financial lives.

Source: Coetzee 2015

While enabling access to financial products and services and supporting their appropriate use may be beneficial for many, the 2017 Global Findex Database revealed several reasons why adults remain financially excluded such as distance to financial institutions or lack of required documents. However, by far the most prominent issue preventing people from having formal accounts is that they simply lack the funds to use them (see Table 2). The data highlights the importance of not only addressing inclusion barriers but designing and implementing financial inclusion strategies that support income generating activities and the development of MSMEs. Driving capital towards MSME development will enable more low-income consumers to invest effectively in financial products and services as a means to enhance their financial health.

Table 2: Reasons for not having an account (low-income, age 15+)



Source: Global Findex Database 2017

RECOMMENDATIONS FOR POLICY MAKERS AND REGULATORS

4. Support the delivery of financial products and services which have the greatest potential to deliver positive social and economic impact

To ensure that financial inclusion results in meaningful impact on the lives of the poor and underserved, greater focus is needed on understanding user perspectives and needs and ensuring that financial products and services introduced to the low-income market do not just satisfy a business case, but that they also support a development case. Enabling the provision of high-quality and affordable products and services tailored to meet the unique needs can assist the poor to develop greater empowerment and financial security. To achieve this, specific reforms or initiatives might focus on areas such as:

- Utilising community organisations such as microfinance institutions, religious groups or NGOs. These institutions have a distinct advantage in working with the poor and underserved due to their direct relationships with communities. If leveraged properly, these groups can act as powerful channels to gain valuable insights into the needs of customers as well as playing an active role in raising awareness, building capacity and promoting positive financial behaviours.
- Testing and developing through collaboration with the private sector, new sustainable business models which are effective in producing both financial and social returns.
- Consideration by regulators of methods and policies to encourage the creation and use of savings products that allow people to build assets and resilience. The lack of disposable incomes makes it difficult for the poor to absorb shocks which often makes them more reliant on credit and susceptible to over indebtedness. Products which mix long-term saving with the ability to access in the event of emergencies can be particularly effective in helping the poor build assets.

> *“Greater efforts are needed to identify ways for MFIs and other local institutions to support the development of microenterprises and drive incomes. The poor can’t make savings without adequate income.”*
>
> Naoyuki Yoshino, Dean, Asian Development Bank Institute

Case study: Building resilience among Indonesia's smallholders

Lack of access to markets, technology and financing are some of the major challenges the more than 500 million smallholder farmers face to enable adequate production of their crops. To address this, Mercy Corps launched the AgriFin Mobile program in Indonesia to assist the private sector in developing affordable, demand driven, digital products and services that would significantly increase farmer yields and incomes. Through a partnership with Bank Mandiri the program enabled farmers to access new forms of credit bundled with agricultural services through a combination of mobile banking and expanded village agent networks.

The AgriFin Mobile program assists smallholders by conducting an initial market assessment before then bringing together the necessary partners to develop the products and services which best meet their needs. These products and services are then bundled with a range of value-added components such as e-learning platforms on the best farming practices, market assessments to assist with pricing or digital literacy to support farmers' use of technology.

Indonesian farmers participating in the program experienced up to an 11% increase in farm yield and as much as a 17% increase in income each year. Key factors of program success included assisting with the initial market assessment and researching the needs of farmers, implementing a user-centric approach in product design and maintaining a strong human interface when introducing new products and utilising existing NGO networks to expand partnership opportunities with the public and private sectors.

Source: Mercy Corps 2019

5. Establish a clear role for government involvement in influencing positive financial behaviours and demand

The ability of governments to deliver on policy outcomes relies largely on the active involvement and cooperation of its citizens. This applies greatly to financial inclusion as without the right motivations and behaviours of individuals interventions are likely to fail in achieving a meaningful and sustainable impact. As both a social and economic issue, governments should take a lead role in promoting financial inclusion including building awareness and influencing positive financial behaviours. There are a number of ways which governments can influence the behaviours of citizens. Some examples of specific ways governments can take the lead in relation to financial inclusion include:

- Promoting financial education, and its role in developing financial health, among the poor and underserved to increase pull from the demand side and creating incentives, or a more enabling regulatory environment, to encourage greater private sector investment into the supply of a broader range of financial products and services.

- Encouraging and working with the private sector and key stakeholders to test and develop innovative technology-based methods such as consumer reward schemes or gamification to forge positive financial behaviours. These initiatives should focus not only on promoting usage of financial products and services, but also on supporting the development of knowledge and behaviours enabling users to utilise these products and services in ways that maximise their potential impact.

Case study: The Banko Sentral ng Pilipinas economic and financial learning program

The Economic and Financial Learning Program (EFLP) is the flagship program for the Bangko Sentral ng Pilipinas (BSP). Through the program the Philippines government promotes greater awareness and understanding of essential economic and financial issues. Its objective is to build the capacity of the public and equip them with the knowledge and skills needed to make well-informed economic and financial decisions.

The EFLP is used to bring BSP's key economic and financial learning activities under a single program. It consists of a variety of initiatives implemented each year with learning sessions designed for different target audiences including students, teachers, banking and business communities, government agencies, members of the media, employees and professionals, vulnerable clientele of banks with microfinance operations, overseas Filipinos and their beneficiaries at home. Major components of the program include:

- A public campaign to inform citizens of the role of BSP in the economy including its core functions and responsibilities and recent economic developments.
- A Financial Education Expo which aims to instil awareness about the availability and accessibility of financial education programs and available tools that can help in the promotion of financial wellbeing.
- The Financial Learning Campaign which aims to educate overseas Filipinos and their beneficiaries on the importance of using remittances to build savings and directing these into worthy investments.

The Philippines' EFLP program provides an example of a government-led effort to take a strategic and practical approach to influencing the behaviours of citizens and promoting greater financial wellbeing. Through collaboration with various industry players and government departments the program utilises the collective expertise and resources of a variety of stakeholders to provide a targeted response to the economy's financial education needs.

Source: BSP 2019

6. Enact reforms which enable and facilitate the flow of capital to support income generating activities of the poor and underserved

Lack of available funds is the main reason why people in low income countries do not have a bank or similar formal account. This impediment needs greater recognition among stakeholders and steps taken to enable greater opportunities for income generating activities, including capacity building support and capital investment for MSMEs. Specific actions governments can take to address this include:

- Ensuring that adequate attention is given to addressing income generating mechanisms for the poor in national financial inclusion strategies. The implementation frameworks for policy goals relating to financial inclusion need to also address the fact that the majority of poor and underserved individuals currently generate income through informal economic activity or agriculture.
- Evaluating current laws and regulations to identify potential barriers to social impact investing. Impact investing markets are increasing in activity globally as governments and the private sector become more interested in finding innovative solutions for inclusive growth and development. However, a number of barriers (both real and perceived) commonly restrict potential such as unclear legal or fiduciary responsibilities, concerns with measuring financial or social returns, lack of efficient investment infrastructure or investment capital being "locked up" with limited liquidity. Governments can help to stimulate activity in this market by working with stakeholders to understand these barriers, provide greater clarity on potential regulatory restrictions and identify areas for potential structural reforms. Governments might also consider developing a dedicated policy to stimulate social impact investing and programs to develop investment pipelines.

- Exploring the potential for government to take a risk-sharing role in the creation of social impact bonds. Social impact bonds pay investors based on savings generated through a specific development impact. Although still a relatively new concept in most economies, and considered difficult to implement due to their complexity, successful social impact bonds have been credited with producing significant development outcomes.

- Support the development of MSMEs. MSMEs play a major role in job creation, economic development and innovation in developing economies. Aside from enacting structural reforms enabling greater finance to the MSME sector or prioritising infrastructure investments which can enable new opportunities for growth, governments can assist with organising trade fairs, the delivery of business advice or resources, direct public sector procurement to the MSME sector, or measures to increase the ease of doing business. Such measures should include pathways for informal enterprises to become participants of the formal economy.

Case study: Papua New Guinea SME accelerator program

SMEs are widely recognised as important catalysts for economic growth and critical drivers of employment, entrepreneurship and innovation. However, their potential for growth and development is often limited due to market failures and imperfections.

The PNG government has recognised the SME sector as one of the major potential contributors towards becoming a middle-income economy by 2030. In its SME Policy 2016 – 2030 the government has set a target for the establishment of 500,000 new SMEs by 2030 which it estimates will generate up to 2 million employment opportunities and reduce the unbanked population from 85% to 40%.

To support its strategy for SME development, the PNG government has launched the SME Accelerator Program. The Program aims to address the key constraints limiting SME growth and development such as access to finance, advisory services and innovation through the establishment of strategic partnerships. Key features of the program include:

- Creating or promoting innovation hubs, social platforms and challenge funds to generate new and innovative business solutions.

- Establishing strategic partnerships between SMEs and government agencies, financial institutions and development organisations to initiate innovative products and services into the market.

- The provision of debt restructuring and counselling services to support SMEs in distress.

The expected development impacts of the program include diversifying the risk for lenders and increased lending to SMEs, accelerated growth and development of SMEs, greater levels of financial inclusion and innovation, the creation of alternative SME financing products, increased employment opportunities and greater women's empowerment based upon opportunities for SME employment or ownership.

Source: BPNG 2019

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ANNEX: ASIA-PACIFIC FINANCIAL INCLUSION FORUM PARTNERS

FDC
The Foundation for Development Cooperation

The Foundation for Development Cooperation

The Foundation for Development Cooperation (FDC) is an independent Australian foundation established in 1990. FDC is committed to building prosperity and inclusion across developing countries in the Asia-Pacific region by pursuing initiatives that reduce poverty and promote inclusive growth. It achieves this by researching, piloting and promoting development initiatives that are market-based and innovative. A key feature of FDC's work is its focus on enhancing levels of stakeholder collaboration. Drawing upon its extensive networks from across the public, private, NGO and academic sectors, FDC assembles the collective skills, knowledge and resources of relevant organisations to strengthen the sustainability and impact of development initiatives. www.fdc.org.au

ADBInstitute

The Asian Development Bank Institute

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

ABAC

The APEC Business Advisory Council

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. www.abaconline.org

Banking with the Poor

The BWTP network is a unique platform comprised of a variety of inclusive growth stakeholders across 17 Asian economies including some of the region's most prominent financial inclusion practitioners and thought leaders. Working in close partnership with its members, BWTP's work consists of exploring, demonstrating and publicising the scope for increased access to financial services for the poor on a sound commercial basis. This includes conducting research and facilitating peer learning to improve practice and policy in the region. Since its establishment in 1991, BWTP has emerged as Asia's largest regional inclusive finance network. www.bwtp.org

The Inclusive Growth and Development Caucus

Additional support for APFIF is provided by the Inclusive Growth and Development (IGD) Caucus. The IGD Caucus, which includes senior representatives from various private sector and development agencies, works to ensure consistent alignment with regional trends and priorities. The Caucus also plays an important role in progressing the APFIF initiatives by supporting the various activities and assisting with the formation of recommendations for policy makers and regulators.