



PROMOTING FINANCIAL INCLUSION THROUGH INNOVATIVE POLICIES

Compiled and Edited by
John D Conroy
Julius Caesar Parreñas
Worapot Manupipatpong

Report of a Workshop Jointly Organized by the Advisory Group on APEC Financial System Capacity-Building, the APEC Business Advisory Council, the Asian Development Bank Institute, and the Alliance for Financial Inclusion

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*In collaboration with the Foundation for Development Cooperation,
Inter-American Development Bank, and International Finance Corporation*

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Compiled and edited by
John D. Conroy
Julius Caesar Parreñas
Worapot Manupipatpong



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Kasumigaseki Building 8F
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6008, Japan

Tel: +81-(0)3-3593-5500
Fax: +81-3-3593-5571
Email: info@adbi.org

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Abbreviations

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank Institute
AFI	Alliance for Financial Inclusion
AML	anti-money laundering
ANZ	Australia and New Zealand Banking Group
APEC	Asia-Pacific Economic Cooperation
ATM	automated teller machine
BOJ	Bank of Japan
BSP	Bangko Sentral ng Pilipinas
CGAP	Consultative Group to Assist the Poor
e-banking	electronic banking
e-money	electronic money
FIN	financial identity number
ID	identification
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	international financial institution
IT	information technology
JFC	Japan Finance Corporation
JFC-Micro	JFC Micro Business and Individual Unit
KYC	know your customer
m-banking	mobile phone banking
MDI	microfinance deposit-taking institution
MFI	microfinance institution
MFRC	Microfinance Regulatory Council
NBC	National Bank of Cambodia
NCR	National Credit Regulator
NGO	nongovernmental organization
POS	point-of-sale
RBI	Reserve Bank of India
SACCO	savings and credit cooperative
SBS	Superintendencia de Banca, Seguros y Administradores de Fondos de Pensiones
SFI	specialized financial institution
SME	small- and medium-sized enterprise
SWIFT	Society for Worldwide Interbank Financial Telecommunication
US	United States
VPN	virtual private network
WSBI	World Savings Bank Institute

Workshop Organizers

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

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

The Alliance for Financial Inclusion (AFI) is a global network of central banks and other financial inclusion policymaking bodies in developing countries. AFI provides its members with the tools and resources to share, develop, and implement their knowledge of financial inclusion policies. The network connects policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances. AFI was established in September 2008 by the German Technical Cooperation with funding from the Bill & Melinda Gates Foundation. For more details, visit <http://www.afi-global.org>.

The Advisory Group on APEC Financial System Capacity Building is an informal grouping that was launched by ABAC and the Pacific Economic Cooperation Council in 2003. Its aim is to support the work of APEC finance ministers by promoting synergy and collaboration among public and private sector institutions and organizations engaged in strengthening and developing the region's financial systems. In addition to ABAC and the Pacific Economic Cooperation Council, participants include international financial and multilateral development institutions and agencies, as well as private sector organizations representing the region's financial industry. For more details, visit <https://www.abaconline.org/v4/content.php?ContentID=1304>.

Collaborators

The International Finance Corporation (IFC) was founded in 1956 to foster sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory and risk mitigation services to businesses and governments. As a member of the World Bank Group, IFC coordinates its activities with the International Bank for Reconstruction and Development, the International Development Association, and the Multilateral Investment Guarantee Agency, but it is legally and financially independent. Its 181 member countries provide its share capital and collectively determine its policies. For details, visit <http://www.ifc.org>.

The Inter-American Development Bank (IDB) was founded in 1959 and provides solutions to development challenges in Latin America and the Caribbean, partnering with governments, companies, and civil society organizations. It lends money, provides grants, and offers research, advice, and technical assistance to improve key areas such as education, poverty reduction, and agriculture. IDB also seeks to take a lead role on cross-border issues like aid for trade, climate change mitigation and adaptation, gender and diversity, infrastructure, and energy, among others. Its headquarters are located in Washington, DC, with regional offices in Tokyo and Paris, and country offices in 26 borrowing countries. For details, visit <http://www.iadb.org>.

The Foundation for Development Cooperation (FDC) is an independent, not-for-profit international development organization. Established in 1990, its mandate is to conduct policy-oriented research, foster public awareness, mobilize broader Australian and overseas development cooperation, and support nongovernmental development efforts. Through partnerships and alliances, FDC undertakes initiatives that aim to improve the lives of poor people in developing countries, foster innovative approaches to development, and connect policy work to self-help efforts at the grass roots level. FDC's headquarters are in Brisbane, Australia and it has an Asia regional office in Singapore and a Pacific regional office in the Fiji Islands. For details, visit <http://www.fdc.org.au>.

Executive Summary

In many developing economies, a majority of the adult population—especially those at the bottom of the economic pyramid, those living in rural areas, and women—remain without access to financial services. Microfinance has emerged as a potent tool to address this issue, and its ability to do so has grown in recent years with the adoption of new technologies and financial innovations, the increasing sophistication of microfinance institutions, and policy reforms. The development of microfinance remains uneven across the Asia and Pacific region, and regional cooperation has significant potential to assist economies in providing a favorable environment for promoting financial inclusion through innovative policies.

In 2009, the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council, Asian Development Bank Institute, Alliance for Financial Inclusion, and Advisory Group on APEC Financial System Capacity Building jointly organized a workshop on how APEC can help promote an enabling environment for financial inclusion in the region. The workshop, held from 31 March to 3 April at the Asian Development Bank Institute in Tokyo with the collaboration of the International Finance Corporation, Inter-American Development Bank, and Foundation for Development Cooperation, identified best practices in introducing innovative policies to promote financial inclusion. This report reflects the results of the workshop.

Workshop themes focused on creating an enabling policy environment for financial inclusion.

Greater financial inclusion leads to higher per capita income, increased personal investments in health, education, and small businesses, and deeper financial markets. This four-day workshop aimed to assist policymakers in creating an enabling policy environment for financial inclusion, particularly through microfinance. Recognizing the difference that smart policies can make, the workshop focused on developing innovative policies in six key areas that have been identified as crucial for financial inclusion, namely agent banking, mobile phone banking (m-banking), diversifying providers, reforming public banks, financial identity regulation, and consumer protection.

Technology and new delivery channels increase the potential of microfinance.

Microfinance has the potential to widen financial inclusion by bridging the needs and opportunities at the bottom of the economic pyramid and the resources of the financial sector. It can enrich capital markets, broaden economic development, and be a profitable line of business. Technological innovations in areas such as mobile technology, smart cards, and biometrics is allowing services to be delivered to more people in more places and at lower transaction cost, while the range of service providers has expanded to include loan service and lottery agents, retail stores, pharmacies, and post offices. Developing economies are pioneering solutions to particular problems in microfinance, but improved “South-South” collaboration is needed to bring together and disseminate this knowledge.

Regulation should strike a balance between innovation and consumer rights.

Microfinance regulation should be framed with an understanding of the particular realities and risk profiles of the sector. Regulators should focus on products rather than the institutions providing them, and avoid regulating what they cannot supervise. Proportionate and appropriate regulation and supervision should encourage innovation and market growth while ensuring transparency and protecting the rights of consumers. The convergence between financial services and telecommunications also requires financial regulators to become more comfortable dealing with mobile operators offering m-banking services. There is also a need to delineate between deposit-taking transactions and the receipt of funds for transfer purposes.

In the absence of a clear regulatory framework for agent banking, there is scope for developing this in stages, focusing on payments services first, and allowing deposit taking later on. Regulating microfinance institutions (MFIs) can improve service provision, increase competition, and bring more commercial banks into the microfinance sector, but compliance can also be time consuming and impose high costs on regulated institutions. Also of interest is the potential of the franchise banking model in allowing low-cost expansion of commercial bank outreach. The adoption of financial inclusion policies, such as capacity development, simplified documentation, and “know-your-customer” requirements, can also give a push to microinsurance and help provide a clear mandate to regulators and supervisors to support market development in this area.

Active and well-run public banks play a key role in rolling out financial services.

Public banks need good governance structures and sound commercial orientation. Restructuring a state bank requires independent management, strong international support, and an attitude of running a bank, not a project, starting with a clean balance sheet and adequate funds. With their long-term perspective, their ability to step in to assure the continued growth of microfinance, and their potential for promoting financial inclusion, public banks assume an even more important role in difficult economic times, when they may also have an advantage in retaining consumer trust.

Government programs can be helpful in channeling funds from commercial banks to MFIs, especially when they apply credit insurance and risk-weighting facilities. A more active role in microfinance for state institutions and commercial banks can contribute to rolling out financial services and increasing financial access, though the question remains whether state subsidies to support financial operations in rural areas can then be phased out.

Strengthening consumer protection is crucial for increasing financial access.

Financial education is crucial for empowering consumers and ensuring that they understand their rights and responsibilities as users of financial services. Market conduct regulation is a tool for reducing information asymmetry between consumer and service provider, with enhanced transparency requiring fair and easy-to-understand contracts, charges, and interest rates. Consumer protection rules must be reviewed as financial services are extended through non-traditional channels. There is also a need to establish effective systems for receiving complaints, resolving problems, and redressing grievances.

Involving the private sector can open new doors to widen financial inclusion.

Public-private partnerships can contribute to financial inclusion, with government offering the appropriate regulatory framework and incentives to service providers, and private operators increasing their institutional outreach and range of services. Models that the banking sector can use to expand financial access include retail banking, wholesale banking in partnership with MFIs, and franchise or agent banking. Microfinance “processing hubs” have the potential to provide “back-end” technology to the industry and assist service providers in overcoming cost hurdles that are holding back the advance of financial inclusion. There is also a need to develop partnerships, and to lower costs to increase the accessibility of certain services for particular groups, such as remittance services for migrant workers.

Conclusions

The workshop demonstrated the importance and effectiveness of providing expanded opportunities to learn from economies that are taking the lead on branchless banking, payment system regulation, mobile financial services, and other effective policy solutions for financial inclusion that can be tailored by others to fit their domestic contexts. The discussions also underscored the need to emphasize the implementation of innovative practices, regulations, and schemes, rather than focusing on theoretical approaches.

There is clearly a need for policymakers, regulators, and international organizations to have platforms where they can share the challenges they have faced, as well as success stories. They will need support in designing and implementing national strategies for financial inclusion, which will require good diagnostics to indicate where they are in terms of financial inclusion, common frameworks to design policies that promote access, better coordination among agencies and with the private sector, new products and services for those outside the mainstream, and effective methodologies to measure policy impact, including solid data.

APEC can play an important role in promoting financial inclusion. A regional initiative for widening financial access could address the following priorities:

- **Data and definitions:** Joint efforts are needed to formulate a definition of financial inclusion. The lack of data on financial inclusion is another major challenge, with more emphasis needed on the design of data collection methodologies and the definition of standards.
- **Regulation and reform:** There is no one-size-fits-all microfinance regulation, and economies must develop the regulations best suited to their individual contexts, focusing on regulating services rather than on the types of providers. Regulating *m-banking* presents particular challenges as it cuts across different regulatory domains. The *reform of public banks* to improve their governance and management can have a catalytic effect when these institutions then incorporate other policy innovations that facilitate financial inclusion.
- **Protection and identity:** The issue of *consumer protection* raises important questions regarding how to ensure the fair treatment of microfinance clients, the protection of their information, and the importance of campaigns for financial literacy. Reform in the area of *financial identity* can also increase access

to finance, but regulatory frameworks need the flexibility necessary to maintain privacy protection.

- **Diversification and agent banking:** *Diversification of financial products and providers* can bring new players into the sector and increase access to financial services. *Agent banking* requires initiatives to lower regulatory barriers to innovative start-ups, in particular know-your-customer, agency, and payment regulations for non-bank institutions.
- **Capacity building and partnerships:** Regulators need to communicate closely with industry players, for example with telecommunications firms in the field of m-banking, and promote the role of technology in financial inclusion. Regional capacity building, increased participation of the private sector, and public-private partnerships are also needed. To this end, an APEC initiative on financial inclusion should be promoted, in collaboration with the private sector.

The Asia and Pacific region needs continuing efforts to bridge the needs and opportunities at the bottom of the economic pyramid, especially in developing economies, and the resources of the banking sector and capital markets. Improving levels of financial inclusion will create a broader base for economic growth. Financial inclusion should therefore be a key component of any strategy to promote inclusive, balanced, and sustainable growth.

I. Introduction

In many developing economies, a majority of the adult population—especially those at the bottom of the economic pyramid, those living in rural areas, and women—remain without access to financial services. Microfinance has emerged as a potent tool to address this issue, and its ability to do so has grown in recent years with the adoption of new technologies and financial innovations, increasing sophistication of microfinance institutions, and policy reforms. The development of microfinance remains uneven across the Asia and Pacific region, and regional cooperation has significant potential to assist economies in providing a favorable environment for promoting financial inclusion through innovative policies.

In 2009, the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council (ABAC), Asian Development Bank Institute, Alliance for Financial Inclusion (AFI), and Advisory Group on APEC Financial System Capacity Building jointly organized a workshop on how APEC can help promote an enabling environment for financial inclusion in the region. The workshop was held from 31 March to 3 April at the Asian Development Bank Institute in Tokyo with the collaboration of the International Finance Corporation (IFC), Inter-American Development Bank (IDB), and Foundation for Development Cooperation.

This four-day workshop built on earlier discussions organized by ABAC and the Advisory Group on APEC Financial System Capacity Building in Jakarta in January 2008,¹ which were incorporated in a report published by AFI that has been widely distributed among policymakers in the region and made available on the APEC website.² The workshop aimed to assist policymakers in creating an enabling policy environment for financial inclusion, particularly through microfinance. Specifically, it focused on developing innovative policies in six key areas that have been identified as crucial for financial inclusion, namely:

¹ Promoting a Favorable Environment for Commercially Sustainable Microfinance, The Grand Hyatt Jakarta, 23 January 2008.

² Parreñas, J.C. (ed.). *Commercially Sustainable Microfinance—A Strategy for Promoting Financial Inclusion in APEC: Report of a Workshop Jointly Organized by the Advisory Group on APEC Financial System Capacity Building and the APEC Business Advisory Council*. Jakarta: Alliance for Financial Inclusion. [http://publications.apec.org/publication-detail.php?pub_id=1010]

- ***Agent banking:*** This refers to policies and regulations governing correspondent banking agents, including retailers from the non-bank sector such as lottery kiosks, pharmacies, and post offices, that establish partnerships with banks to provide distribution outlets for financial services.
- ***Mobile phone banking (m-banking):*** This involves policies that lower transaction costs and increase access to financial services through mobile technologies and services. Features include cash deposits and withdrawals, third-party deposits into user accounts, retail purchases, over-the-air prepaid top-ups using cash in user accounts, transfer of cash or airtime credits between user accounts, and bill payments.
- ***Diversifying providers:*** This deals with policies that lower the regulatory barriers for start-ups and to offering savings and insurance products for low-income clients.
- ***Reforming public banks:*** This relates to policies that improve the governance and management of state banks to help them provide more effective financial services, including commercially sustainable financial services.
- ***Financial identity regulations:*** This refers to policies for providing clients with financial identities—by transforming their transaction histories into reputational assets—that they can use to get access to credit and other banking services. For this type of policy to be effective, regulatory frameworks would need to adopt a flexible approach, facilitating information sharing in the initial stages of development and introducing protective measures that aim to reduce the risks of processing large-scale sensitive data.
- ***Consumer protection:*** This includes policy solutions that address technical and delivery security, reduce predatory lending, increase disclosure of information, and promote efficient dispute settlement, data protection, and enhanced comparability of offers.

While most participants came from the Asia and Pacific region, some economies beyond the region were chosen to participate because of their experience in “South-South” collaboration in the field of policy and regulation. For instance, Bolivia has provided sustained technical assistance to Uganda with such success that Uganda is now itself a “champion” of microfinance. Developing economies

have pioneered many solutions to problems associated with providing sustainable financial services to the excluded, which is why it is becoming increasingly important to facilitate technical exchanges among them.

Provided that the appropriate regulatory and policy environments are put in place, financial inclusion can contribute to greater economic opportunity and equity. This is particularly important in light of the current financial and economic crisis, which has affected global trade and credit flows, with particularly negative consequences for low-income population groups in developing economies. Apart from immediate measures needed to mitigate the impact of the crisis, there is a need for medium- and long-term measures to ensure stable and sustained growth in the Asia and Pacific region. Financial inclusion should be part of such a longer-term agenda.

Despite increasing financial cooperation among Asian economies and a number of APEC and other regional initiatives aimed at building more efficient and robust financial markets, the majority of people in the region still lack access to financial services. Unless capital markets and the banking sector are made accessible to all segments of the population, sustained economic growth and development will not be possible.

Microfinance has the potential to increase the level of financial inclusion by bridging the needs and opportunities at the base of the economic pyramid and the resources and appetites of the banking sector and capital markets. It can also deepen capital markets and broaden the base of economic development. For this reason, one of the aims of the workshop was to provide feedback on promoting microfinance as a tool for facilitating financial inclusion in APEC.

II. Overview

Key Points:

- Technological innovations and an expanded range of service providers have greatly increased the scope and profitability of microfinance, with microfinance portfolios showing consistently higher returns than more conventional portfolios.
- APEC should promote an enabling legal, policy, and regulatory environment for the development of commercially sustainable microfinance in collaboration with the private sector.
- Banks must overcome barriers to reach migrant workers and develop new partnerships to better serve this segment of the population. Costly and complex administrative impediments should be reviewed as they can hamper financial inclusion.

The past few years have seen a significant transformation of the landscape of financial inclusion, with growing interest on the part of the private sector in microfinance. Discussions have focused on the opportunities and challenges in the region for harnessing microfinance as a tool for promoting financial inclusion. The experiences of Latin America and Japan provide examples of these opportunities and challenges. The potential of regional cooperation under the APEC framework to provide a platform for capacity building to address obstacles, and the role that the private sector is playing are key issues that were considered in the workshop.

Focus on key policy solutions is needed to solve the global problem of financial exclusion.

There are three major obstacles to solving the worldwide problem of financial exclusion.

- First, local efforts to counter financial exclusion have resulted in a range of innovative solutions among developing countries, including in Mexico, Peru, Bolivia, and Brazil (in the Americas); Kenya, South Africa, and Uganda (in Africa); and India, Indonesia, Malaysia, and the Philippines (in Asia). Improved South-South collaboration and information exchange is needed to bring together and disseminate knowledge that is now scattered across the globe.
- Second, policymakers in economies suffering significant exclusion face a bewildering choice of potential development partners, with crucial implications for the path to be followed.
- Third, there is still a lack of evidence needed to address crucial questions asked by policymakers: What works and what does not? How are solutions put into action? How effective are the solutions, and who benefits? Do we have the data to judge impacts? How can the particular situations of different political economies be managed? How can lessons and policy insights best be exchanged? How can genuine and effective South-South collaboration occur?

AFI has identified six key policy areas that appear to offer the best prospects for answering such questions. These are: (i) agent banking, (ii) m-banking, (iii) diversification of savings and insurance providers, (iv) reform of public banks, (v) financial identity development for low-income clients, and (vi) consumer protection in financial services. These six areas of reform and action, which have been adopted by ABAC as the themes for its work in promoting microfinance, provide a template for work programs aimed at systematic and sustainable improvements in financial inclusion.

The rapid transformation of microfinance and its expanded linkages to banking systems and capital markets have changed the general view about the commercial viability of the sector.

- First, microfinance has proven to be profitable. Measured by return on assets, the growing number of microfinance institutions (MFIs) that have become regulated, deposit-taking institutions have outperformed commercial banks in much of the developing world and are serving as bridges between large investors and low-income borrowers.

- Second, microfinance has become very attractive to commercial banks, which are now using a range of options to engage in the sector. These include front- and back-office functions, wholesale lending, equity and loan service companies, and microfinance specialization. Microfinance investment vehicles are attracting a growing number of investors by offering geographic diversification with low volatility, low correlation, and high asset quality.
- Third, technology, innovation, evolution, and policy reforms have expanded the scope of microfinance. MFIs have been quick to take advantage of information technology (IT) connectivity, point-of-sale (POS) and mobile technology, smart cards, and biometric information to reach a wider clientele, and now offer a range of services, including consumer and housing loans, savings accounts, life and health insurance, utility bill payments, and international money transfers. The range of service providers has also expanded, with clients able to access financing through loan service and lottery agents, traders, processors, and POS networks (including retail stores, automated teller machines (ATMs), and mobile phones).
- Finally, policymakers now realize that an enabling environment is more effective than government credit and guarantee programs in promoting commercially sustainable microfinance. Specifically, the role of government should be to address legal, policy, and regulatory barriers to the development of microfinance and to increase its access to commercial funds.

Latin American microfinance leads the way in profitability and growth.

Work done by IDB³ suggests that there are some 67 million potential microborrowers in Latin America and the Caribbean. Worldwide, the number of potential microborrowers is estimated to be 1 billion and there is a 250 billion United States (US) dollar (US\$) “funding gap” (representing the unmet demand for financial services for enterprises). Private commercial banks are providing a growing share of microfinance services and regulated institutions now account for some 70% of loan portfolios across the region. These institutions include

³ Worldwide data based on: Deutsche Bank Research. 2007. Microfinance: An Emerging Investment Opportunity—Uniting Social Investment and Financial Returns. Current Issues 75. Frankfurt am Main, Germany: Deutsche Bank AG. [http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000219174.pdf]

Latin America and the Caribbean data based on: S. Navajas and L. Tejerina. 2006. Microfinance in Latin America and the Caribbean: How Large Is the Market? IDB Sustainable Development Department Best Practices Series. Washington, D.C.: IDB.

downscaled banking operations, upgraded MFIs, and greenfield operations created specifically for the sector.

Latin American microfinance is the most profitable, fastest growing, and least risky microfinance sector in the world and is well integrated with domestic financial sectors. Of the 100 top-ranked MFIs in the world, rated on criteria of outreach, efficiency, and transparency, 31 are in this region. Although there are substantial variations in performance across economies, in almost all of them bankers report higher returns on microfinance portfolios than on their more conventional portfolios.

Industry associations now acknowledge microfinance and small- and medium-sized enterprise (SME) lending as mainstream banking products. The interest of commercial bankers has been stimulated by the relatively good performance of these products in adverse economic conditions, as well as due to their potential to alleviate pressure on bank profits from competition in other segments, diversify portfolio risk, and improve utilization of banking capacity. Surveys⁴ suggest that 70% of commercial banks in the region expect to become involved in the sector within the short to medium term (compared with the 30% that are involved at present).

The global financial and economic crisis has led to reduced access to external credit lines, higher funding costs and reduced margins, some portfolio deterioration, greater focus on existing clients, and greater attention to domestic deposit mobilization. However, in cases where foreign sources of funding have diminished, microfinance institutions that are well connected locally are faring relatively well. Microenterprise clients, in turn, face higher interest rates and stricter criteria, shorter loan terms, lower loan amounts, and a more limited supply of financial services. IDB has been able to assist some MFIs by providing access to an emergency liquidity facility set up some years ago to support institutions suffering problems due to external shocks.

Japan faces challenges in creating an inclusive financial infrastructure.

The decline of Japan's working age population has significant implications for labor supply and demand for foreign workers. So far, migrant workers have been concentrated in the manufacturing sector, enjoy limited employment mobility, and

⁴ For example, the 2008 survey *Sobre la Predisposición de las Entidades Financieras de Latinoamérica y el Caribe para la Financiación de las Pequeña y Medianas Empresas*, conducted by the Latin American Federation of Banking Associations, IDB Multilateral Investment Fund, and Inter-American Investment Corporation.

return home after completion of their engagements. “Legitimate” migrants and their families account for less than 2% of the population, though these numbers are likely to increase.

In 2007, foreign workers were responsible for some 400 billion yen in officially recorded remittances (approximately US\$4 billion),⁵ but it is estimated that the total, including remittances sent via unofficial channels, is more than double that amount, suggesting a massive gap between the services provided by authorized financial institutions and the requirements of remitters.

Migrant workers are also inadequately provided with other financial services during their residence in Japan, with consumer loan, insurance, and investment options remaining underdeveloped and expensive. There is also a lack of services that would enable foreign workers resident in Japan to manage their financial affairs back home.

These deficiencies will only become more glaring as the numbers of affected workers increase, unless the Japanese financial system can meet the challenge of providing the needed services. While commercial banks alone cannot bridge the gap, banks must recognize resident foreigners as a market segment, overcome language and information issues, and develop relationships with correspondent banks and new non-bank partners to serve this segment, including by providing links to the many foreign recipients of workers’ remittances from Japan who do not have bank accounts.

There is now legislation in place to remove barriers; for instance, a variety of non-bank service providers can now provide payment and remittance services. However, administrative obstacles still exist, arising from official concerns regarding anti-money laundering (AML) and know-your-customer (KYC) considerations, the need for 100% security of funds transmitted, and identity verification standards, all of which impose layers of expense and complexity to procedures intended to facilitate the transmission of remittances. Authorities must review such issues to assure the financial inclusion of Japan’s migrant worker population.

⁵ D. Ratha, S. Mohapatra, and A. Silwal. 2009. Migration and Remittance Trends 2009. Data from World Bank Migration and Development Brief 11. Washington, D.C.: World Bank Migration and Remittances Team, Development Prospects Group. [[http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Nov09\(Public\).xls](http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/RemittancesData_Nov09(Public).xls)]

The private sector steps up efforts to incorporate financial inclusion in the APEC agenda.

An APEC microfinance initiative was undertaken in 2002, but as microfinance was seen at that time as a social welfare measure rather than as a policy tool to address financial exclusion, it failed to attract the right audience. Little progress was made on this issue until 2008, when ABAC and the Advisory Group on APEC Financial System Capacity Building held a workshop entitled Promoting a Favorable Environment for Commercially Sustainable Microfinance that focused on microfinance as a tool to reach the financially excluded.

Confirming that financial inclusion is an important issue for APEC, ABAC and the Advisory Group on APEC Financial System Capacity Building also endorsed the six policy solutions for financial inclusion that were chosen for discussion in greater detail in this workshop. The Jakarta workshop concluded with a number of recommendations.

- First, APEC should promote financial inclusion by incorporating it in its agenda. Financial inclusion is a central task in financial sector development and, given the role that financial regulation and financial institutions would have to play in this development, it should be addressed within the APEC finance ministers' process.
- Second, an APEC financial inclusion initiative should focus on providing an enabling legal, policy, and regulatory environment. Such an initiative should include a research component, policy dialogue, sharing of experiences, and capacity-building activities.
- Finally, private sector collaboration is important for the successful design and implementation of critical measures.

ABAC has offered to work with APEC officials and is collaborating with a number of institutions to realize a regional initiative that will add value to both global and domestic efforts. Other priorities for APEC include defining financial inclusion for its purposes; considering how the challenge of inadequate data might be addressed and standards for data collection agreed; examining the regulation of services, with particular attention to risk profiles; and accommodating the desire of regulators to communicate more closely with industry, including telecommunications companies.

III. Beyond Branches: Agent Banking and Financial Inclusion

Key Points:

- It is necessary to identify the legislative and regulatory changes required for effective agent banking. Achieving appropriate transparency, accountability, and customer protection will require a regulatory framework that is both proportional and balanced.
- In the absence of a clear legal framework, agent banking can be developed in stages, focusing on payment services first and allowing deposit taking later on.
- There is a need to improve the financial literacy of affected populations and to establish effective systems for receiving complaints, resolving problems, and redressing grievances.

Over the past few years, the adoption of new technologies and financial innovations has enhanced the potential of agent banking as a way of expanding access to financial services. This trend is causing significant changes in the financial landscapes of many developing economies and poses new challenges to financial regulators. The experiences of Russia, Mexico, and India provide important lessons for policymakers and regulators on how to harness the potential of agent banking as a tool for promoting financial inclusion.

Agent banking is moving beyond financial frontiers to reach excluded populations.

While the current economic crisis has had a negative impact on MFIs whose growth has been fuelled by cross-border capital flows, the crisis may also energize domestic banks to mobilize local deposits, including those from the lower-income segments of society. In this context, agent banking is of particular relevance as a means of extending services more widely and moving beyond the frontiers of traditional banking to reach excluded populations.

If banks attempt outreach by establishing “light” branches, they may incur high operating costs and reputational risk associated with the inability to honor commitments. Banks may prefer to externalize these costs and risks by appointing agents. However, as the outsourcing of bank functions may be forbidden or lack a clear legal framework within which to operate, it may be desirable for the regulation and practice of agent banking to be developed in stages.

Improved access to banking services could initially be limited to payment services and eventually be expanded to deposit taking. To offset cash balances and minimize cash-handling risks, permitted agency operations should be as broad as possible. Technologies employed should be appropriate to the agency role, with safety arrangements that are both adequate and realistic.

Regulations should be non-prescriptive but comprehensive, covering essential elements in the principal-agent relationship. “Tiered” relationships may offer administrative advantages to banks, by introducing an intermediate level of agents to deal with retail agents, though the bank, as principal, would still be responsible to clients for the integrity of the system and the handling of their cash.

AML and counter-terrorist financing regulations must be adapted to the circumstances of bank agencies with limited financial and technical capabilities, and must keep in mind the weak position of clients who lack financial literacy. Limits on transactions and balances should be realistic and financial identity requirements flexible. Achieving appropriate levels of transparency, accountability, and customer protection will require a regulatory framework that represents the constructive interaction of public and private sector interests.

There is a need to improve the financial literacy of affected populations and to establish effective systems for receiving complaints, resolving problems, and redressing grievances. Competition issues must also be addressed. Branchless banking models may be devised for both banks and non-bank institutions.

There is a need to ensure that technology, such as m-banking, POS devices, and plastic cards, allows data to be transmitted safely and cheaply so that branchless banking can be conducted within acceptable margins of risk. Regulation should be both proportional (i.e., facilitating progress toward profitable operations and permitting innovation) and balanced (i.e., resulting from coordination between all relevant authorities).

When developing regulatory frameworks for placing agency services in postal organizations, authorities should avoid putting “exclusivity” arrangements in place,

as these have been shown to reduce innovation and price competition. Their tremendous geographic reach in both urban and rural areas makes postal organizations well suited to offer remittances across international borders.

One example is the remittance service relationship between Korea Post and the National Savings Bank of Sri Lanka. The National Savings Bank of Sri Lanka operates via Sri Lanka Post and also provides other microfinance services to Sri Lankans, including account, credit, and insurance services. Another example is the financial services offered through Singapore Post to Singapore residents, including foreign workers. Singapore Post partners with banks and other financial, insurance, and investment service providers in a number of countries to offer remittances, consumer loan services, insurance, and investment products through agent relationships.

Russia expands agent banking to widen financial access.

The end of the Soviet era left Russia with an underdeveloped banking infrastructure.⁶ As of 2008, around half of Russia's economically active population lacked access to financial services. The current financial crisis has shown Russia's banking system to be excessively reliant on foreign funding and to have neglected domestic savings mobilization. It has also resulted in substantial branch closures. Agency facilities are widely spread and there are great regional disparities in coverage and in the availability of services. For example, as agencies cannot take deposits, few people have access to time deposits or consumer and mortgage loans, though the vast majority have access to payment services.

Available agency services include both bank and non-bank models, with services offered including payments and transfers as well as disbursements and repayments. In terms of modes of service, there are person-to-business services (e.g., via terminals), business-to-person services (e.g., collectors, credit brokers, and credit cards distributed via the postal service), person-to-person services (e.g., money transfers, including via post offices), and government-to-person services (e.g., cards for social entitlements and pension payments via post offices). ATMs and terminals sit in bank branches, while banks maintain POS networks.

Payments are made and received via post offices, with payment acceptance points found in both bank and non-bank environments. Web-based payment facilities are

⁶ National Partnership of Microfinance Market Stakeholders, Russian Microfinance Center, and Association of Russian Banks. 2008. *Greater Access to Retail Finance: Measures to Promote Microfinance in the Russian Federation, 2008–2012*. Moscow: National Partnership of Microfinance Market Stakeholders, Russian Microfinance Center, and Association of Russian Banks.

set up by non-bank institutions and bank-based “mobile wallets” are provided via mobile phone operators. Since 2003, both banks and non-bank institutions have expanded the availability of simple and inexpensive “cash-in, cash-out” terminals that can offer higher quality and convenience of service than physical agents.

The legal framework for agency transactions is a patchwork of laws and regulations. The boundaries between banking, post, agent, and communication services have become blurred with the advent of electronic money (e-money), though there are many legal restrictions and barriers, including inflexible application of identification rules, blurred division of responsibilities between banks and agents, inability of individuals to use electronic signatures, absence of a legal definition of e-money, and vague and incomplete provisions for consumer protection.

New initiatives in the regulation of branchless banking need to address a number of questions. These include transparency of pricing, how and to whom complaints should be directed, issues raised by the use of “surrogate e-money,” lack of a single authority to regulate agency services, and uniform national treatment of payment services. In the area of payment terminals, collection services, and consumer credit, policy has lagged behind market innovation and the government has had to accept these developments and regulate accordingly. By contrast, policy has led the market in providing privacy and consumer protection safeguards.

Agent banking regulations in Mexico have potential to serve the unbanked.

With an overall financial inclusion rate of 25%, Mexico has low penetration, a highly concentrated banking system, and high service costs,⁷ though new regulations for banking agents have the potential to increase competition to serve the unbanked. New banks tied to retail chains have emerged with a new banking model. Deposit transactions are conducted electronically in real time via agents and the banks assume responsibility for transactions, assuring consumer protection and trust.

Although most major retail chains are urban and have uneven geographic coverage, the potential for catalytic development exists, as service points multiply and more of the unbanked gain access to services in the familiar surroundings of retail stores. As this occurs, client transaction costs are reduced and competitive pressures in the banking industry increase. At the same time, banks find a wider client base and

⁷ A. Demirgüç-Kunt, T. Beck, and P. Honohan. 2008. *Finance for All? Policies and Pitfalls in Expanding Access*. Washington, DC: International Bank for Reconstruction and Development/World Bank.

face lower infrastructure costs of expansion, while retail premises attract customers by offering financial services.

Lessons emerging from this experience include the following. First, there is strong resistance to change, particularly on the part of dominant market players. Second, it has been necessary to clearly identify the objectives of the agency model and the necessary legislative and regulatory changes. Third, coordination with all relevant authorities is essential to ensure the effectiveness of regulations and education of legislators, and regulatory agencies may be required. Fourth, making regulation too complex may reduce the usefulness of the model in providing basic banking services. Finally, careful study of international experience and the application of this experience to local conditions are necessary to achieve a tailored solution.

India's banking sector scales up outreach to reach the unbanked.

In 2005, RBI (RBI), India's central bank, called on the banking sector to scale up its outreach to the unbanked. It also permitted banks to use field agents, including from the social sector, that are allowed to accept small deposits, make payments, and process loan applications, and that are encouraged to use technology, such as biometric smart cards. RBI has also asked banks to offer no frills accounts, of which there are now some 16 million, though surveys show a high rate of "dormancy" of these accounts.⁸ RBI encourages banks to use post office branches, of which there are more than 150,000, as agencies.

To realize the potential of reaching the economy's 360 million mobile phone subscribers, RBI has recently issued guidelines to banks on m-banking, though there is no law permitting RBI to regulate telecommunication firms should they decide to branch into financial services.

⁸ RBI. 2009. 100 Percent Financial Inclusion—Evaluation by External Agencies. [<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/IN357.pdf>]

IV. Access Calling: M-Banking and Financial Inclusion

Key Points:

- Proportionate and appropriate regulation and supervision are required to encourage innovation and market growth while ensuring the rights of consumers.
- There is a need to work with regulators to ensure that regulation follows the market, is “proportionate” in relation to risks, and offers maximum scope for outreach to the unbanked.
- The convergence between financial services and telecommunications requires financial regulators to become more comfortable dealing with mobile operators providing mobile money.

The revolution in information and communications technology is making itself felt in the financial industry, in particular through the expansion of m-banking. The convenience of using mobile phones and the technology’s impact on transaction costs have made it a favored tool for expanding access to financial services in many developing economies. Success in harnessing this tool depends on how regulators deal with convergence between finance and telecommunications in a way that allows innovation and market growth while maintaining soundness of the financial system and protecting consumers. The experiences of the Philippines, Cambodia, and Japan highlight the challenges that policymakers and regulators face, and indicate possible ways forward in using m-banking to promote financial inclusion.

Convergence between finance and telecommunications paves the way for mobile money.

Regulation is required to help mobile network operators reach the unbanked and to ensure that mobile money is made widely available and that the costs of formal savings, insurance, and credit services are reduced. Such regulation should help leverage non-bank distribution chains, enable easier registration of unbanked

customers (requiring proportionate KYC provisions), and regulate products rather than players.

The convergence between financial services and telecommunications requires financial regulators to become more comfortable dealing with mobile operators providing mobile money. This will flow from dialogue and the exchange of international experience, the study of success stories, and efforts to recognize risks and find ways to mitigate them. Payments can serve as a first step in exploring the capability of mobile money to serve the unbanked in an effective regulatory environment.

From there, a road map is needed to show regulators and operators how to move customers up the value chain of services in a market-led process, linking risks with proportionate regulation. Attention should focus on developing appropriate and proportionate regulation that offers the most scope for outreach to the unbanked (e.g., KYC, agency, and payment regulation for non-bank institutions). Industry-regulator dialogue should aim to build an understanding of the issues and trust between players.

The question of interoperability between service providers is a complex one. Without interoperability, market behavior may be very competitive, with benefits for consumers in terms of prices and services. This stimulus to competition is likely to be reduced if interoperability is introduced. Attitudes to interoperability are influenced by the size and strategic positioning of players.

In situations where “asymmetric” firms exist, there is typically a threshold market share for the larger firm, below which it will agree to interconnect and above which it will refuse. This means that there is no straightforward “template” solution, as the point at which a regulator can intervene most effectively will be different in start-up markets as opposed to in established markets with firms of similar market power.

The Philippines embraces m-banking to deepen financial inclusion.

Although there are almost 8,000 bank branch offices, some 6,000 financial cooperatives, and around 7,700 ATMs in the Philippines, facilities are concentrated in urban areas and a significant proportion of the low-income population remains unserved.⁹ In response, the Bangko Sentral ng Pilipinas (BSP), the central bank, is expanding multi-channel institutions to deliver a wider range of financial services to more people. Existing branch networks will be expanded, technology employed

⁹ Bangko Sentral ng Pilipinas (BSP). 2009. Annual Report 2009, Volume I. Manila: BSP.

to find new ways to deliver financial services, and non-bank retail institutions used to extend service networks.

BSP has sanctioned two e-money products. The first, “Smart Money,” was approved in 2004. It is the product of a major commercial bank and so did not require any new regulations. The second, “G-cash,” was approved in 2005, though it was not a bank product and thus posed a more difficult regulatory challenge. Following the examination of issues of consumer protection, money laundering, and the soundness of the product, the provider was licensed as a “remittance agent.”

BSP has since worked through a range of issues arising from the electronic banking (e-banking) phenomenon and has issued circulars on registration for AML compliance, technology risk management, and consumer protection, as well as comprehensive and generalized regulations for issuance of e-money. The impact of e-money has been substantial, with some eight million people using one of the two products and growing numbers of banks involved.¹⁰ Some banks have lowered interest rates on microfinance loans administered via the phone repayment platform, and lower-cost remittance channels have resulted in a marked fall in remittance costs.

These advances are opening the way for an integrated regulatory framework for e-money, which will require the convergence of mobile technology, e-money, and the traditional brick-and-mortar networks of financial institutions, and involve both bank and non-bank partnerships. The act of creating e-money will be decoupled from banking transactions and non-exclusive third party agent networks will be enabled to handle all transactions other than retail deposits, which will remain the province of regulated banks.

The Philippine experience shows that financial inclusion can be deepened by simple and convenient payment and fund-transfer products that can mature into more-value-generating relationships. The reach of banking services can be increased by the combination of a liberalized branching regime, m-banking technology, and strategic partnerships with non-bank agent networks.

Proportionate and appropriate regulation and supervision are required to encourage innovation and market growth while ensuring that e-banking does not challenge the integrity of the financial system or the rights of consumers. There is a

¹⁰ N. Espenilla, Jr. 2009. Financial Regulation and the Central Bank. In *Central Banking in Challenging Times: The Philippine Experience*, edited by V. B. Valdepeñas, Jr. Manila: BSP.

need for clear delineation between deposit-taking transactions and the receipt of funds for other purposes, each requiring proportionate regulation. Sound internal controls and governance arrangements for all players are also essential to maintain order and discipline. However, BSP has preferred to avoid heavy regulation for low-value payments, as these are not likely to be used for money laundering.¹¹

A Cambodian e-banking experiment shows promise in widening financial access.

Cambodia has low banking penetration (about 8.7%), a cash-based, highly dollarized economy, and 37.8% mobile phone penetration.¹² The National Bank of Cambodia (NBC), the central bank, sees m-banking as providing more widespread access than ATMs or internet banking. In this context, “Wing” is a mobile payments service provider and subsidiary of the Australia and New Zealand Banking Group (ANZ) that is now operating in an experimental and “pre-regulation” mode in Cambodia.

Since January 2009, Wing has enabled customers and businesses to transfer money within Cambodia and to make deposits, withdrawals, and payments using mobile phones. There is no monthly fee for holding a Wing “m-wallet” and customer funds are held in a regulated bank. Wing has an arrangement with an MFI for rural distribution, allowing people without mobile phones to use the service via agents.

Arrangements with garment factories permit workers’ pay to be credited directly to their m-wallets, where balances are measured in airtime. University students and convenience store owners are other market segments of immediate interest. The service is currently only available in Cambodian riel, which is the medium of exchange for only a small proportion of transactions in Cambodia, though authorities are receiving international technical assistance to consider the regulatory issues involved in US dollar transactions.

Wing has central bank permission to operate on an experimental basis, and there is close communication between Wing, ANZ, and the central bank on developing the

¹¹ Espenilla (2009).

¹² Consultative Group to Assist the Poor (CGAP). 2009. *Financial Access 2009: Measuring Access to Financial Services around the World*. Washington, D.C.: CGAP/The World Bank; International Telecommunication Union World Telecommunication/Information and Communication Technology Indicators Database [http://www.itu.int/ITU-D/icteye/Reporting/ShowReportFrame.aspx?ReportName=/WTI/CellularSubscribersPublic&ReportFormat=HTML4.0&RP_intYear=2009&RP_intLanguageID=1&RP_bitLiveData=False.]

regulatory framework. A work in progress, Wing already appears to be a promising experiment.

Technology allows Japanese consumers to use e-money.

Substantial public and commercial infrastructures exist to support e-money in Japan. E-money can be in stored-value form on integrated circuit cards (widely known as smart cards), including pre-paid “contactless” cards like the stored-value transport smart card. A post-pay form of e-money, based on credit cards, is also available and is regarded as e-money.

There are 80 million chip-based cards in Japan, with around 800 million transactions annually.¹³ A variety of bills can be paid using mobile phones or from bank counters or convenient stores, even for customers without bank accounts. Though Japanese service providers have yet to meet the challenges of international remittance and microfinance, the advanced technologies available have the potential to benefit more people.

Dialogue with regulators is necessary to reach agreement on the nature of particular risks and to ensure that regulation is proportionate to the risk involved. Regulators are often concerned with AML issues, agency risks, and how service providers manage their stored-value “float,” so it is necessary to work with regulators to examine each contingency and to see how risk may be mitigated.

However, it is important that regulation follows the market, rather than imposing regulatory frameworks on an immature industry. Regulation should allow for the possibility of bank vs. non-bank vs. “third-party player” competition, as focusing only on banks constrains competition and innovation.

¹³ Bank of Japan (BOJ), Payment and Settlement Systems Department. 2008. *Recent Developments in Electronic Money in Japan*. BOJ Reports and Research Papers. Tokyo: BOJ.

V. New Models, New Providers: Increasing the Diversity of Microfinance Service Provision

Key Points:

- Regulating MFIs can improve service provision, increase competition, and bring more commercial banks into the microfinance sector, but compliance can be time consuming and impose high costs on regulated institutions.
- Microfinance regulation should be an integral part of a coherent policy framework for financial inclusion. Legislation needs to be framed with an understanding of the realities of microfinance and the risk profile of the sector. Regulators should focus on products rather than the institutions providing them, and avoid regulating what they cannot supervise.
- Government programs targeting microfinance can be helpful in channeling funds from commercial banks to MFIs, especially when they apply credit insurance and risk-weighting facilities.
- The adoption of financial inclusion policies, such as capacity development and simplified documentation and KYC requirements, can also give a push to microinsurance and help provide a clear mandate to regulators and supervisors to support market development in this area.

An important development in microfinance is the expansion of its scope beyond providing credit to meet the various financial needs of low-income households, including savings and insurance. Another is the increasing number of providers that now include commercial banks, financial cooperatives, and insurers. These new developments require an updating of policies and regulations, which requires consideration of how to provide coherent policy frameworks that promote improved services, healthy competition, innovation, and soundness of financial institutions, while ensuring the viability of microfinance. Various experiences in

Uganda, Cambodia, Indonesia, and the Philippines provide insights into how policymakers and regulators are dealing with these issues.

Uganda sees challenges and opportunities in regulating financial institutions.

Uganda's financial sector legislation covers banks and regulated financial institutions, financial cooperatives, and moneylenders, while nongovernmental organizations (NGOs), MFIs, and other community-based entities are covered by an NGO statute and are not permitted to take deposits. In 2003, legislation created a new class of microfinance deposit-taking institutions (MDIs), regularizing the status of the large, informal institutions that had emerged to meet the demand for microfinance services.

Four such institutions now offer savings facilities, short-term loans, money transfers, and microinsurance. The legislation has strengthened public confidence in these institutions and improved their governance structures and human resources, while the discipline of standardized reporting has increased competition and improved services. Improved linkages between MDIs and commercial banks have also benefited the formal sector as a whole, with microfinance products now integrated into a wide range of financial institutions.

On the other hand, compliance imposes high costs and is time consuming, with relatively few institutions succeeding in attaining the required standards. MDIs also face stiff competition from non-deposit-taking institutions, which are more lightly regulated and among which malpractice is rife.

One challenge is that while existing MDIs now aspire to upgrade to commercial bank status, the best-qualified lower-level MFIs are reluctant to upgrade to MDI status. Perceiving MDIs as overregulated and with a constrained capacity to react to market opportunities, MFIs may even aspire to transform directly into commercial banks. This may lead to an institutional vacuum in the MDI "space" that could have broader significance for efforts to legislate for financial inclusion elsewhere; it also highlights the need for ongoing policy dialogue.

As most low-income clients in rural areas are still served by MFIs and savings and credit cooperatives (SACCOs), the government is now re-exerting control and addressing widespread institutional weaknesses at this level. Interest rate ceilings have been imposed, a "Prosperity for All" program led by financial extension workers has been put in place, and new legislation is planned for SACCOs and non-deposit-taking MFIs.

Microfinance regulation should be regarded as an integral part of a coherent policy framework for financial inclusion. Legislation should not “cut and paste” regulations drawn from other countries, but needs to be framed with an understanding of the realities of microfinance and the risk profile typical of the sector. Prior to drafting a law, concepts should be clarified and roles defined, following extensive stakeholder consultation.

Regulators should focus on products rather than the institutions providing them. To avoid premature prudential regulation, authorities should first ensure that there is a critical mass of “licensable” MFIs. They must take the time to get the framework right and avoid regulating what they cannot supervise.

Supervisors require strong technical capacity and in-depth knowledge of microfinance to be adequately equipped for their work. The supervision of SACCOs is a particular challenge as they typically have weak internal controls and involve large numbers of small institutions. Challenges for regulated MFIs include the high costs of opening branches and transforming themselves to meet the required standards.

Microfinance regulation in Cambodia speeds up industry development.

Since 2001, when the Cambodian *Law on Banking and Financial Institutions* came into effect, there has been rapid development in the industry, with borrower numbers more than doubling and outstanding loans growing nine-fold, though deposits are still insignificant.¹⁴ Microfinance services are provided by licensed MFIs, registered NGOs and/or rural credit operators, and unregistered rural NGOs, with the legal framework requiring microfinance providers to operate above certain thresholds to register with or become licensed by the NBC.

In 2007, the category of MDI was established to allow licensed MFIs to mobilize savings from the public. While the minimum paid-up capital is considerably higher than that for a licensed MFI, it is far below what is required for specialized and full-service commercial banks. Operating MDIs will be subject to prudential norms, including loan classification and provisioning norms, limits on large exposures, minimum liquidity and reserve requirements, and maximum net open currency positions.

¹⁴ CGAP. 2009. *CGAP Consumer Protection Policy Diagnostic Report: Cambodia 2009*. [http://www.cgap.org/gm/document-1.9.41345/Cambodia Consumer Protection Diagnostic Report.pdf](http://www.cgap.org/gm/document-1.9.41345/Cambodia_Consumer_Protection_Diagnostic_Report.pdf).

The reporting requirements are also more stringent than for MFIs. NBC is employing a flexible regulatory and supervisory regime that aims to: (i) diversify the range of institutions providing commercially sustainable microfinance, (ii) ensure similar treatment of entities offering similar financial services, (iii) increase linkages between banking and microfinance, and (iv) develop a wholesale national payments system and money and interbank markets.

Host of service providers support microfinance development in Indonesia.

In Indonesia, some 40 million micro and small enterprises are served by a range of financial institutions, including service providers regulated by the central bank (e.g., rural banks, Bank Rakyat Indonesia units, and the Badan Kredit Desa or village credit agencies), and other formally regulated institutions (e.g., conventional and Islamic financial cooperatives, pawnshops, and the locally-owned Lembaga Dana Kredit Pedesaan or village fund and credit institutions).

In addition, there is a host of non-formal financial service providers, including NGOs and self-help groups, many of them affiliated with one of numerous government credit programs. Non-bank entities are regulated and supervised by government agencies and deposits in commercial and rural banks are partially secured by deposit guarantees.

Credit insurance facilities also apply to certain government programs targeting microfinance and SMEs, such as the Kredit Usaha Rakyat, or credit for people's activities, administered by the central bank, which channels funds from commercial banks to MFIs for enterprise lending. Banks receive favorable treatment in terms of the risk weighting and credit insurance cover attached to such credits.

Bank Indonesia has devoted a lot of attention to its system of around 2,700 small rural banks, regulated local institutions that occupy a strategic position in relation to micro and small enterprise financing. Recognizing the diversity and range of capacities in this sector, it has adopted a stratified approach to these banks, with regulation and supervision levels based on the position of each bank. It plans to establish an apex institution to strengthen the capacity and stability of the system as a whole, and to develop a comprehensive microfinance law to deal with the host of institutions not regulated by Bank Indonesia.

Financial inclusion policies give push to microinsurance regulation.

Recognizing that poverty reduction requires not just the generation but also the protection of income, microinsurance consists of risk management products designed for low-income people in relation to cost, terms, coverage, and delivery mechanisms. Provided by a variety of institutions, funded by premiums, and run in

accordance with accepted insurance principles, it allows families to move beyond informal risk-sharing arrangements to transferring risks formally.

This may be done as policyholders of regulated insurers (a market-led approach) or as citizen members of government-financed social protection schemes (a social security approach). When low-income communities develop informal pooling mechanisms to cope with risk events, it suggests a demand that is not being satisfied by the formal market and possibly the existence of regulatory or other impediments to formalized insurance mechanisms.

The adoption of financial inclusion policies can give a “push” to microinsurance and help provide a clear mandate to regulators and supervisors to support market development, while demand provides a “pull” factor. Sound macroeconomic policies, robust market infrastructure, and a strong transparent legal framework are key to the broader participation of long-term social and commercial investors. Microinsurance can develop in the absence of regulation, but uncertainty will affect both providers and customers.

Where regulation exists, uncertainty as to its application also undermines microinsurance development. A high-burden regime, especially when combined with limited regulatory capacity, provides incentives for informality and can constrain market development, especially given the costs of compliance and the pressure for exclusions from regulation.

From a regulatory standpoint, consistent application of the principle of proportionality is crucial, based on the nature, scale, and complexity of risk an insurer may be exposed to. Most potential national insurance markets are in the early stages of development, which is also true of microinsurance. The external environment for market development may be deficient, for instance in terms of property rights or contract enforcement, or industry-specific building blocks may be inadequate, such as regulatory and supervisory frameworks, government capacity, or data collection.

Sound macroeconomic management, financially inclusive policies, adoption of international insurance principles and standards, and capacity development for local market participants and regulators will provide a launching pad for microinsurance market development. Access to insurance coverage must be guaranteed, as certain groups may otherwise be discriminated against. To this end, data on exclusion should be assembled and pilot programs conducted for trial products. Policyholder protection legislation may also be appropriate.

Microfinance strategy encourages growth of microinsurance in the Philippines.

The Philippines has an embryonic microinsurance sector covering little more than 5% of the adult population. Of those covered, about 60% have coverage from formal institutions, such as banks, mutual funds, and credit-associated life insurance providers, with the rest covered by informal sources, such as cooperatives and unincorporated mutual funds.^{15,16} The strong infrastructure of service providers and a conducive regulatory and political environment have supported the growth of microinsurance institutions and products, simplified documentation and KYC requirements, and permitted major banks to market insurance products on bank premises.

The national microfinance strategy has prompted the Insurance Commission of the Philippines to take a proactive stance in regard to microinsurance. The explicit inclusion of insurance in the regulatory regime has stirred awareness in the industry, and the successes of mainstream microfinance have encouraged operators to branch into insurance. Regulatory flexibility has also allowed space for innovation.

Remaining barriers include the absence of an effective regulatory environment for cooperatives, many of which have unregulated in-house insurance schemes and are prone to failure, and the regulatory ambiguity affecting pre-need and health care plans. There is also a lack of incentive to persuade large commercial insurers to offer microinsurance, and rural banks are still prohibited from selling microinsurance on their premises.

¹⁵ Genesis Analytics. 2008. Facilitating Inclusive Financial Markets: The Role of Regulation in the Development of Microinsurance—Focus Note: Philippines. Johannesburg, South Africa: FinMark Trust.

¹⁶ G. M. Llanto, M. P. Geron, and J. Almario. 2007. Developing Principles for the Regulation of Microinsurance (Philippine Case Study). Discussion Paper Series 2007-26. Manila: Philippine Institute for Development Studies.

VI. Rethinking Governance and Management of Public Banks to Promote Financial Inclusion

Key Points:

- Public banks need good governance structures and sound commercial orientation. Restructuring a state bank requires independent management, strong international support, and an attitude of running a bank, not a project, starting with a clean balance sheet and adequate funds.
- With their long-term perspective, their ability to step in to assure the continued growth of microfinance, and their potential for promoting financial inclusion, public banks assume an even more important role in difficult economic times, when they may also have an advantage in retaining consumer trust.
- State institutions and commercial banks can play a more active role in rolling out financial services and increasing financial access, though the question remains whether state subsidies to support financial operations in rural areas can then be phased out.

Well-governed and properly managed state-owned banks can make tremendous contributions to promoting financial inclusion. The experiences of India and Mongolia demonstrate how weak public banks can be reformed or restructured to become both commercially successful institutions and effective instruments for promoting greater access to financial services. The experience of Thailand illustrates the challenges and opportunities that regulators and policymakers must confront in utilizing specialized financial institutions to increase the level of financial inclusion.

Indian public banks reform their corporate governance and gain market share.

Of the total number of India's farmers, more than 50% are unable to obtain credit from either institutional or non-institutional sources of any kind. Despite several government initiatives aimed at providing access to services, 40% of the population remains unbanked.¹⁷

Following earlier bank nationalizations to assure provision of services to poor and rural populations in India, the banking liberalization of the 1990s led to the new private sector making substantial inroads into the market share of state-owned banks. This caused state-owned banks to commence new approaches to rural financial inclusion, increasingly influenced by microfinance principles.

State-owned banks are now reversing their loss of market share, following reforms in their corporate governance and incentive structures, greater operational autonomy, and introduction of new technologies. Union Bank of India was the first large public bank to network all of its 2,600 branches.

Branchless banking regulations have changed the banking landscape in rural areas by allowing the appointment of banking agents, ensuring extra reach and faster delivery. Banks have yielded to the government by opening millions of “no-frills” bank accounts for the poor, though so far with mixed results.

A target of establishing 100,000 “common service centers” (already one-third fulfilled) has been set to provide rural transaction services. The National Payments Corporation of India, set up as a public-private partnership in 2008, will provide a robust nation-wide retail payment infrastructure. A national identity card, expected to facilitate financial inclusion, is being rolled out for all citizens.¹⁸

More than a million cards have been issued to recipients of the National Rural Employment Guarantee Program. Union Bank of India has issued biometric financial identity cards to milk collection agents, with an aim of reaching more than 12 million retail “milk pourers,” using agents to handle payment and credit products. The bank has provided cards to 150,000 migrant laborers, who can now access savings, credit, remittance, and microinsurance products. It has also

¹⁷ D. Subbarao. 2009. Financial Inclusion: Challenges and Opportunities. Remarks given at the Bankers' Club, Kolkata, India, 9 December. <http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/IFFG091209.pdf>

¹⁸ Unique Identification Authority of India, Planning Commission. 2010. *From Exclusion to Inclusion with Micropayments*. New Delhi: Unique Identification Authority of India.

established 200 “village knowledge centers” that provide financial literacy training and counseling and facilitate self-help groups, and has partnered with a government agency to set up 250 training and incubation centers for rural youth.¹⁹

Suggestions for future government policies include: (i) placing land records onto a technology platform to simplify searches and create collateral for landholders, (ii) creating a unique and trackable identifier for every citizen to support the delivery of financial products, and (iii) administering all grants and social programs via chip-enabled cards.

From a regulatory perspective, consideration should be given to lifting interest rate caps on small loans, reviewing eligibility for “business correspondent” status to permit a wider field of recruitment, and easing restrictions on collaboration between banks and other industries to lower distribution costs. Finally, all players in the industry should be encouraged to spend more on promoting financial literacy.

Restructured state bank now the largest and most profitable in Mongolia.

Khan Bank was a failing state bank that turned around following a successful privatization and the injection of outside management. Separated from the state in 1991, the bank was notionally privatized and renamed the Agricultural Bank of Mongolia. It was recapitalized by donors after its failure in 1996, though operations continued until 1999, when it was placed in receivership. Closing the bank was considered, but was deemed politically impossible given that it was the only bank operating in rural Mongolia, had 70% of the economy’s bank offices, was essential for pension and budget payments, and had 400,000 customers.²⁰

As a compromise, a remediation program was devised, whereby the government reacquired 100% control and agreed to hire external management, to appoint an independent board, to refrain from operational interference, and to eventual privatization, in order to make the institution financially sound and restore rural financial services.

¹⁹ M. V. Nair. 2009. Governance and Management of Public Banks and Financial Inclusion: Case Study from India. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

²⁰ J. P. Morrow. 2009. Governance and Management of Public Banks and Financial Inclusion: Case Study from Mongolia. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

The critical challenge lay in reforming the branches, mostly in remote, rural areas lacking telephones, internet, or even roads. Most branches were losing money as no lending money was coming in. A simple pilot product—trader credit—was launched, presenting an attractive alternative to pawnshop lending, on which traders had been forced to rely. All policies and procedures were overhauled, rigorous training was done, and intensive monitoring accompanied the systematic introduction of the product.

The pilot has since broadened out to a successful portfolio with good repayment rates, showing that there was a huge pent-up demand for financial services. Bank employees were loyal and tactically excellent, but also strategically weak and had difficulties saying “no.” The staff was trained to enforce new policies, required to meet quantitative goals, and offered an incentive salary structure, proving incorrect the idea that an entrenched “state sector culture” would hold the bank back. The bank was rebranded as Khan Bank and a transparent privatization process was undertaken, in which a Japanese entity ended up the highest bidder and formed a consortium with IFC and local shareholders.

Today, Khan Bank is Mongolia’s largest and most profitable bank. It serves as banker to the government, is used by 80% of households and most corporations and international agencies, and has a credit rating higher than Mongolia’s own sovereign rating. It has entered urban and SME markets, and has ATMs, POS services, cards, and phone banking. Since 2007, it has been involved in investment banking and international capital markets.

Among the key lessons from this experience are that restructuring a state bank requires independent management, a strong measure of international support, and an attitude of running “a bank, not a project,” starting with a clean balance sheet and being adequately funded to the point of profitability.

State-owned financial institutions increase financial inclusion in Thailand.

Almost 84% of Thai households use formal sector financial services (including many rural people affiliated with government-funded “village funds”) as a result of requirements imposed on commercial banks and the active role of state institutions. However, 15% still lack access to formal credit services due to inadequate financial status, lack of collateral, or inadequate information or financial literacy.²¹

²¹ K. Ariyapruchya, W. Sinswat, and N. Chutchotitham. 2008. *The Wealth and Debt of Thai Households: Risk Management and Financial Access*. Bank of Thailand Discussion Paper DP/08/2007. Bangkok: Bank of Thailand.

A particular feature of the Thai banking landscape is the set of state-owned specialized financial institutions (SFIs), each with a mandate to serve a particular market segment that might otherwise be underbanked. SFIs were expanded to compensate for the decline in commercial bank presence that took place in rural areas after the Asian financial crisis of the late 1990s.

Two institutions, the Government Savings Bank and the Bank for Agriculture and Agricultural Cooperatives, are especially significant in promoting financial inclusion, in particular through their focus on national savings and community stability. They are not regulated by the central bank, but rather have their regulatory and supervisory authority spread among a number of agencies.

The SFIs are subject to performance evaluation by a government agency that sets performance criteria for these institutions in the areas of support for government policy, financial and non-financial performance, and governance. Ratings are published annually and incentives and bonuses are linked to outcomes. SFIs can promote transparency to avoid political interference in their operations by providing financial accounting that distinguishes clearly between public sector activities and normal business accounts. Accountability should be clearly defined for any losses arising from government projects carried on the balance sheets of SFIs.

It is likely that the SFIs will evolve toward wholesale dealings with community-based entities, such as village funds, savings groups, and cooperatives, which will require capacity building to provide financial services to people in rural areas. While the level of financial inclusion appears satisfactory, a third of Thai households save less than 5% of their earnings.²²

The government's Financial Sector Master Plan²³ aims to provide an enabling environment for a commercial banking presence in the countryside, as well as supporting infrastructure. It is unclear, however, whether subsidies that currently support the operations of SFIs in rural areas can be phased out or if commercial banks can be convinced to provide services in these areas.

²² K. Pootrakul et al. 2008. Savings and Future of Thai Households: Resolvable Problems. Paper presented at the Bank of Thailand Monthly Workshop, Bangkok, February. Note: publication only available in Thai.

²³ Bank of Thailand. 2006. *Thailand's Financial Sector Master Plan Handbook*. Bangkok: Bank of Thailand.

Greater efforts to increase financial literacy will be needed, while a credit guarantee scheme for small business loans may prove to be a model for public-private partnership in rural areas. However, the performance gap between state and private institutions is narrowing and there is increasing overlap between their respective target markets.

VII. Innovations in Building Inclusive Financial Identities

Key Points:

- The creation of financial identities contributes to financial inclusion and the increased financial status of individuals, especially assuming further innovations and wider use of biometrics or other reliable technologies.
- There is a need for flexible and simplified KYC requirements that are appropriate to the needs and realities of low-risk customers.
- Having one unique financial identifier for each person in an economy can help avoid inconsistencies in different types of identification (ID) documents and support financial inclusion.
- Infrastructure investments are needed to avoid technological problems in transmitting and storing biometric data. Privacy protocols and consumer education on privacy issues are required to prevent misuse of information.

Lack of financial identity is a key obstacle to increased financial inclusion. Advances in technology for the collection, transmission, and storage of data, such as in the case of biometrics, now provide opportunities to overcome this obstacle. However, efforts to create financial identity need to cover not just investment in infrastructure, but also a host of other issues, including the development of appropriate regulations, privacy protocols, and consumer education about privacy issues. This presents a challenge to many developing economies, and experiences need to be shared in order to identify best practices in creating financial identities.

Innovations in creating financial identities help widen financial access.

Mapping the financial transaction history of individuals, financial identities are crucial for engaging in financial matters related to transaction accounts, credit facilities, asset management, and insurance. Financial identities are built up from public and private information sources, and involve data aggregation, management, and analysis.

Technical documentation of identities can include official documents, such as passports, ID cards, and driving licenses, and non-official documents, such as workers' ID and utility records. Where civil registration is universal, ID documents are issued on the basis of civil registration. Where, as in much of the developing world, there are wide variations in registration rates, the establishment of identity is much more problematic.

International standards for KYC procedures include the requirement to verify clients' identity based on reliable independent source documents, data, or information that are difficult to counterfeit, with simplified procedures available for specific institutions and lower-risk transactions. However, grey areas remain in the implementation of these procedures.

A pragmatic approach involves risk adjusting ID requirements to particular bank products and circumstances, with data requirements increasing as a client passes over a series of "thresholds." At the level of informal reputational systems and social networks such as self-help groups, formal ID parameters are not required to permit customers to deal with institutions. A threshold must be crossed, requiring some minimal ID parameters, to permit low-risk customers to open a basic bank account. Further thresholds, with successively more rigorous parameters, must be crossed for higher-risk customers and services.

The creation of financial identity, reduced ID obligations, and a greater variety of service points at which identity may be established contribute to financial inclusion and increased financial status of individuals, especially assuming further innovations and wider use of biometrics or other reliable techniques. However, people need useful and sustainable entry-level products as incentives to apply for ID documents.

With an efficient system of financial identity in place, banks are able to price loans for risk more effectively. If private sector users, such as telecommunication firms, banks, and marketers are allowed to access the data, however, there is also a risk of information being collected for one purpose and being used for others without the consent of the people concerned.

For this reason, privacy protocols and consumer education about privacy issues are required, especially when databases are merged. For implementation to be efficient, there is a need for quality supervision of contractors, which may require improvements in the capacity of authorities. There may also be sociopolitical obstacles to address, with some populations resistant to certain technologies.

New technologies and simplified ID requirements help build financial identity.

Simplified KYC requirements introduced by RBI in 2008 allow customers to be “identified” for small savings and credit accounts, and allow already identified clients to introduce other clients. In this process, photos are required and client addresses are verified informally. In the Philippines, authorities now accept a variety of credentials, including school, voter, and municipal IDs.

In South Africa, a national ID card is required to open a basic bank account but informal address verification is acceptable and a standard “risk matrix” is applied to identify low-risk customers and transactions. Biometric cards are being issued in Uganda and Malawi, the first a private sector initiative and the second a World Bank field experiment, though the costs involved may be too expensive for some economies.

There is a need for a unique identifier to address inconsistencies in the use of IDs. For example, there are some 22 ID systems in Egypt, with no link between a person’s passport number and ID number. Without such cross-references, it is not possible to have a unique identifier and people may be inclined to use different identifiers for dealing with different banks.

Technology presents both opportunities and limitations, as seen with biometric IDs, which are effective in providing unique identification but vulnerable to technological problems that may occur in storing and transmitting data. This is illustrated by the experience of Bangladesh, where biometrics was used successfully for a national ID card for the December 2008 election.

However, overlaps between various databases raise the possibility of coordination failure. The state of infrastructure is also a concern, with investments needed in the platforms for transmission and storage of biometric data, especially given problems with electricity supply. Finally, biometrics is not necessarily the cheapest way to create unique identifiers, as illustrated by the Indian experience with smart cards.

Indonesia aims for one million new identities to increase financial inclusion.

Obstacles in compiling the necessary data and limited community awareness of the value of collecting and using data mean that there is often insufficient information available to permit identities to be constructed. Community-level data that has been compiled by Indonesian provincial and local authorities is not online and not easily compiled centrally, while there is a lack of coordination between agencies with access to various data.

A pilot project is to be conducted by Bank Indonesia and AFI to overcome these difficulties and create a financial identity database capable of supporting an increase in the level of financial inclusion from 42% to 65%.²⁴ Individuals will be given a financial identity number (FIN) by which they can be identified and their data accessed by authorized financial institutions.

In preparation for the construction of databases, preliminary surveys will be conducted for pilot projects dealing with particular segments of the unbanked. Bank Indonesia will work with commercial banks to persuade them to design and offer free basic bank accounts for people who acquire FIN identities.

The project aims to add a million identities to its database annually over five years, see those people graduate to entry-level bank accounts, and steadily increase the number of banks that offer such accounts. Bank Indonesia will create other financial identifiers for people already accessing the financial system. These databases will then be integrated with the FIN data to create a single ID number. This number will be the key to a unique financial identity for each person recorded in the system and could become a potent instrument for financial inclusion in Indonesia.

²⁴ H. Alamsyah. 2009. Innovations in Building Inclusive Financial Identities: Case Study from Indonesia. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

VIII. Innovations in Consumer Protection for the Bottom of the Pyramid

Key Points:

- Financial education is crucial for empowering consumers and ensuring that they understand the products presented to them and their responsibilities as users of financial services. The process requires partnership with educational authorities and mass media, with financial literacy the desired outcome.
- Market conduct regulation is a tool for reducing information asymmetry between consumer and service provider. Enhanced transparency requires fair and easy-to-understand contracts, charges, and interest rates. Mechanisms are also needed to redress consumer grievances.
- Regulation and oversight are key tools for consumer protection. Regulators must strike a balance between protecting consumers and allowing innovation, ensuring that regulation is appropriate, and avoiding imposing excessive costs. Consumer protection rules must be reviewed as financial services are extended through non-traditional channels.

Consumer protection, aimed to level the playing field between providers and consumers of financial services, is particularly important in providing improved financial access to people at the bottom of the pyramid. There is a need to identify and develop sound principles to guide regulation and oversight, so that they achieve the fine balance between the protection of financial consumers and the promotion of continued innovation and growth in microfinance. Experiences in Peru, Malaysia, and South Africa illustrate the challenges confronting policymakers and regulators in developing economies and the variety of approaches they are taking in dealing with this issue.

Education, transparency, and accountability are crucial for consumer protection.

Consumer protection at the bottom of the pyramid requires the following overarching set of principles:

- First, education and publicity are required to ensure that poor and marginalized consumers understand the financial products presented to them. For this reason, many organizations catering to the financial needs of the poor provide induction or education programs prior to offering services, especially loans. RBI has launched a mass financial literacy program with picture books in major Indian languages, mass media participation, and public events for consumer education.
- Second, there is a need for enhanced transparency in the financial sector, encompassing easy-to-understand contracts that bring the most important provisions to the attention of the customer. This could involve a “code of commitment” for banks that could then be monitored and enforced, either through self-regulation or by an enforcement agency.
- Third, contracts must be fair and not loaded against the consumer. Charges should not be excessive and should strike a reasonable balance between cost and profit. A transparent policy for interest rates should be non-discriminatory, and those at the bottom of the pyramid deserve some concessions. States could consider making subventions to reduce transaction costs and risk premiums applying to services for the poor.
- Fourth, banks should accept responsibility to compensate, fairly and transparently, customers who suffer due to the mistakes or misdeeds of agents or outsourced services, or the failures of IT systems. Added risks that must be addressed by banks arise in the case of branchless banking.
- Fifth, there is a need for fair recovery practices, as separating the functions of selling and recovery can create biases in favor of irresponsible marketing and harsh recovery. Regulators need to review the incentives offered to agents by banks and MFIs, with a case for a “code of commitment” to prevent any resort to violence in words or action or to other forms of harassment.
- Finally, internal or external machinery is needed to redress client complaints or grievances. In some economies, a banking ombudsman exists for redress of grievances not dealt with internally by banks, but considering the numbers of clients involved and their often limited levels of education and access to formal procedures, more innovative

approaches may be called for. This could include convening local “awareness camps,” to be attended by bank staff responsible for handling grievances, staff of the ombudsman, and customers wishing to air grievances. In-camera sittings might be arranged where reconciliation can be managed and rulings given in simpler matters. The ombudsman could hold question and answer sessions via newspaper columns, talkback radio, and/or television. These activities could also be valuable in tracking trends in bank practices and the management of customer grievances.

Regulation and oversight prove effective tools for consumer protection in Peru.

Transparency is often more powerful than regulation in securing consumer confidence. In Peru, the Superintendencia de Banca, Seguros y Administradores de Fondos de Pensiones (SBS), the financial regulatory authority, regulates the policies and procedures to be followed by financial institutions in receiving, managing, and resolving consumer complaints.

Other recourse mechanisms available to consumers unsatisfied by the responses of financial institutions include the courts, the banking association’s financial ombudsman, and a consumer protection agency. The better the management of complaints within the offending institutions, the fewer will be referred on to these third party agencies. In 2008, close to 400,000 complaints were directed to financial institutions, of which only a tiny proportion proceeded to the ombudsman or consumer agency.²⁵

Taking preventive measures to assure the resolution of difficulties, SBS drafts and approves appropriate regulation, carries out supervision, conducts information campaigns and financial literacy projects, and engages in consumer orientation and inquiry-solving processes. Institutions are required to provide all relevant information and to install an in-house user services system to assure consumer protection and information transparency. Institutions must calculate and publish comparison rates for credit and deposit products that show costs and yields after all charges are taken into account.

For branchless banking, regulations now prescribe the public disclosure required of agents when dealing with the public. With the growth of e-banking, internet

²⁵ F. A. Martínez. 2009. Consumer Protection Innovations: Case Study from Peru. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

services must be backed by institutional websites with full disclosure of necessary information. No special regulations exist for m-banking, though the operational risks and informational disclosures of these services are covered by general regulations. To ensure transparency, SBS has brought all regulations into one single document, and is required to pre-publish any new or amended regulations to permit comment.

Supervision is conducted both off-site and on-site, and is unannounced. For off-site supervision, SBS checks any information published by institutions to assure disclosure of relevant information. A consumer risk model, employing statistical scoring of compliance-related information, is used to identify financial institutions requiring guidance. SBS publishes market average interest rates and comparative information on other costs, for increased visibility and awareness.

Financial literacy is encouraged by integrating the issue into high school curricula and teacher training programs and by targeting various social groups. A “virtual classroom” compact disc is distributed to teachers for lesson preparation, and a financial literacy plan is being developed. SBS has opened three Offices for User Services to provide information and take part in campaigns and consumer protection fairs.

Lessons learned from these activities include the following: First, regulation and oversight are key tools for consumer protection, with *ex-ante* action a more cost-effective way of protecting consumers than attempting to resolve their problems directly. Second, extending financial services through non-traditional channels necessitates a review of consumer protection rules and operational procedures. Third, transparency in information is not a natural process but one that requires regulatory attention. Fourth, financial literacy is an efficient way of empowering consumers and increasing awareness of new service channels. Finally, partnership with educational authorities and mass media is essential.

Malaysia strikes a balance between consumer protection and innovation.

Having well-informed and empowered consumers of financial services who are treated fairly supports the broader stability of the financial system. Correcting information asymmetry and improving transparency are tasks that are complicated by the introduction of innovative and complex financial products, changing delivery channels, the trend toward growing consumer debt and lower household saving, and by attitudinal changes. Low levels of financial literacy and the prevalence of scams create problems, while extended life expectancies and higher expectations impact on financial needs and behavior.

Regulators operate in an arena of competing pressures and must strike a balance between protecting consumers and allowing innovation, while ensuring that regulation is appropriate and avoiding imposing excessive costs. Market conduct regulation is a tool for balancing the bargaining power between consumer and service provider by reducing information asymmetry between them, requiring plain language in contracts and other documentation and exerting market discipline on providers.

Surveillance of conduct and enforcement of breach remedies are part of the regulation package. Ensuring fair treatment of consumers and market integrity requires specific regulation, as well as intelligence gathering, “name and shame” publicity, and reprimands and penalties where appropriate. Close attention must be paid to assuring effective product disclosure, providing consumers with the information to make informed decisions, and facilitating the comparison of alternatives.

In regard to fees and charges, an effort must be made to take a balanced approach with due regard to market forces, but according to guiding principles and the requirement of a basic service framework. Institutions should be required to provide access to a minimum level of financial products and services at reasonable cost and with obligations clearly spelt out.

In addition to its core activities, the Malaysian Consumer and Market Conduct department develops and disseminates financial information via print and electronic media, schools, and community groups to enhance financial literacy. To assist consumers seeking help and redress, financial institutions must have a complaints unit, with specific services targeting youth, the involvement of the financial industry, credit counseling, and debt resolution.

The central bank has its own focal point for complaints management and advice. All banks have deposit insurance for improved consumer protection, and there is a Central Credit Reference Information System designed to facilitate credit risk management, promote a more efficient credit process, and avoid consumer over-indebtedness. Participating financial institutions report data to the system, and collaboration with national registration authorities assures the identities of individuals.

South Africa regulates microlending to protect borrowers.

South Africa has had a regulatory framework for microfinance since 1999, when commercial and NGO microlenders were exempted from existing interest rate caps. The Microfinance Regulatory Council (MFRC) was appointed the task of

regulating the microfinance industry and facilitating increased access to finance, and all microlender operations were required to register with the MFRC.

In 2002, it became compulsory for all suppliers of microfinance to register with the National Loans Register, a database that records all loans disbursed by lenders registered with the MFRC. To protect borrowers, lenders are obliged to comply with rules of disclosure under loan agreements, must make loan agreements in writing, may not use clients' bank cards or personal identification numbers to collect money, and must have complaints procedures in place.

Agents used by lenders are also managed in accordance with MFRC stipulations. Provisions designed to prevent reckless lending include requirements that lenders consider the ability of borrowers to repay and that they make enquiries on the National Loans Register before granting final approval.

In 2005, the National Credit Act was enacted to provide comprehensive legislation for microlending, regulating the granting of consumer credit by all credit providers, including microlenders, banks, and retailers. This new legislative framework created formal bodies—the National Credit Regulator (NCR) and the National Consumer Tribunal—to promote access to redress and ensure enforcement.

Credit providers, credit bureaus, and debt counseling services are obliged to register under the National Credit Act, though it applies irrespective of registration status. Credit providers under a certain threshold are exempt, but such providers are unable to advertise and their agreements are unenforceable.

If lenders are judged to have infringed reckless lending provisions, the courts may suspend enforcement and refer consumers to debt counselors. NCR aims to achieve fairness in credit marketing by prohibiting automatic increases in credit limits and requiring a standard pre-agreement quote on all agreements. It has prohibited “single premium” credit life insurance, required crucial disclosures, and created a register of credit agreements while regulating credit bureaus.

NCR monitors the conduct of all registered entities to ensure compliance with the National Credit Act. While consumers must accept responsibility for their actions, there is a need to develop a market where consumers can benefit from access to credit without being damaged by it. NCR's priority is to engage with banks to achieve constructive working relationships and to balance consumer rights with industry requirements to the benefit of all players.

Financial education raises awareness of consumer rights and responsibilities.

Financial education communicates the knowledge, skills, and attitudes that people need to adopt good financial management practices for earning, spending, saving, borrowing, and investing. A core curriculum for financial education would include budgeting, saving, debt management, bank services, and financial negotiation. It could be supplemented by specialized modules for topics such as risk management and insurance, remittances, consumer protection, m-banking, and youth and money management.

However, MFIs themselves also need education and attitudinal change. While MFIs may feel satisfied with their focus on quality of service, treatment of clients, avoidance of over-indebtedness, fair pricing, transparency, and appropriate debt collection practices, clients may place greater emphasis on respect, truthful information, and mechanisms for redressing grievances.

“Transparency” may have a different meaning for clients who have difficulty understanding material referring to financial transactions and who may not ask questions for fear of being denied a loan. When repayment terms are explained, such clients may focus only on the monthly cash obligation and be embarrassed to show their ignorance of interest rates. For this reason, it is necessary to present the material to these clients in a way they can understand.

Privacy is often cited as a primary concern of borrowers, but there are a number of other important issues. Borrowers tend to be unsure of what constitutes inappropriate collection behavior. Complaint mechanisms are also often a difficult area; the channels are not always obvious and few attempt to use them, often due to a fear of being blacklisted. Underlying these attitudes is a lack of confidence and the belief that lenders tend to hold all the cards.

Financial education can be seen as making customers aware of their rights and responsibilities as users of financial services. They have the right to be treated with respect, to make their own decisions, to receive information, and to be heard. They have the responsibility to treat others with respect, to conscientiously evaluate offers made to them, to comply with terms and conditions, and to provide true and timely information.

Customers are entitled to consumer protection, but also to understanding that this is a matter of balancing rights and responsibilities. They need some technical understanding to judge which financial product suits their needs, to grasp the concepts of flat and declining interest rates, and to have a sense of what debt level they can afford, whether debt collection practices are appropriate, and where and how to complain.

While everyone agrees that financial education is important, it can be argued that this function should be performed by central banks or regulatory agencies, MFI associations, individual MFIs, community or consumer organizations, the media, or training organizations. As all these candidates are likely to have biases, it is not desirable to give an exclusive franchise to any entity.

The modes for training delivery must also be determined, whether face to face or via the mass media, whether direct to consumers or via “training of trainers.” Whatever choices are made, financial education is a process, with financial literacy the desired outcome.

IX. The Role of Regional Capacity Building and Public-Private Partnership in Promoting Financial Inclusion

Key Points:

- Public-private alliances can contribute to financial inclusion, with government offering the appropriate regulatory framework and incentives to service providers, and private operators increasing their institutional outreach and range of services.
- Savings accounts are a key asset in financing productive activities, a safety net available in emergencies, and a resource for financial intermediation and long-term growth.
- An APEC initiative to support greater financial inclusion should focus on capacity building and technical assistance and will require the participation of both the public and private sectors.

Effective collaboration between the public and private sectors is important for the success of policy reform initiatives, especially where the desired outcome is to encourage increased private sector activity to benefit the entire society or economy. The growing international scope of private sector firms' and organizations' activities underscores the key role that international and regional cooperation can play in harnessing public-private partnership for greater financial inclusion. Innovative programs that combine capacity building with policy dialogue involving both sectors, such as those of the Banca de las Oportunidades in Colombia and the World Savings Bank Institute, can provide good examples for APEC to consider.

Public-private alliance brings financial services to excluded groups in Colombia.

The Banca de las Oportunidades in Columbia is a program designed to bring excluded populations within the net of financial services. It involves a public-private alliance, where the government offers an appropriate regulatory framework and incentives to service providers, while private operators increase their

institutional outreach and range of services. Regulatory reforms have included the promotion of agent banking, the development of electronic accounts for small balance savings, a product geared for low-income clients with lower entry barriers and costs, simplified procedures, and interest rate reforms.

The project supports financial education, provides support to NGOs that have business development programs, and has arranged a public guarantee program for credit to vulnerable populations. It has supported the development of new financial products, including m-banking and microinsurance, and is working to create an enabling legal, regulatory, and institutional environment for m-banking.

Following the creation of an action plan detailing the necessary legal and regulatory reforms, pilot projects were undertaken to test incentives for the participation of financial institutions, targeting poor families in marginal urban areas and in rural areas. After evaluation, lessons learned were applied on a larger scale. Microsavings and microinsurance facilities have also been developed for poor families receiving cash transfers under a government program, with the objective of extending the service to three million families.²⁶

When providing an enabling framework does not offer enough incentive to persuade institutions to expand into marginal areas, the government has offered monetary subsidies. “Dutch auctions” are conducted to determine acceptable subsidy levels for non-bank agencies, microcredit NGOs, financial cooperatives, or commercial finance companies to begin operating in particular areas. Incentives given to financial institutions to move into underserved territories can be vulnerable to politicization, but the Dutch auction procedure protects such schemes by making successful bidders accept an obligation to operate for at least two years and choose sites where institutions have the potential to break even in three years.

²⁶ C. Moya. 2009. Regional Capacity Building and Public-Private Partnership to Promote Financial Inclusion: A Latin American Perspective. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

Technical assistance has also been provided to: (i) the voluntary sector, to initiate self-help group banking models for low-income populations; (ii) to commercial banks, to facilitate the implementation of microcredit technologies; and (iii) to financial cooperatives and microcredit NGOs, for institutional strengthening. In the case of non-bank agents, results have been encouraging, with some 5,000 agencies established in an 18-month period,²⁷ located in a wide variety of commercial establishments, and offering deposits, withdrawals, collections, and transfers.

Over the two-year period from July 2006 to June 2008, the proportion of adults with banking relationships has risen from 47% to 55%. Substantial increases have been recorded in the numbers of microentrepreneurs accessing credit, the volume of credit advanced, and the value of other microfinance transactions.²⁸

World Savings Bank Institute (WSBI) enhances the potential of the private sector to promote financial inclusion.

WSBI includes 109 individual banks and banking associations from 92 economies and makes use of that wide reach to conduct comparative studies of various aspects of financial inclusion. Of the 1.4 billion institutional accounts in developing economies, some 1.1 billion are held in savings banks.²⁹ Indeed, savings banks have greater outreach among the poorest households than most other pro-poor institutions.

WSBI members have the mission to bank the unbanked and are typically “double bottom-line” institutions in terms of their accessibility, proximity, and capacity to adapt products to local needs. They have extensive distribution networks and accommodate the needs of low-income clients by offering basic products, such as passbook savings accounts and over-the-counter settlement of bills. They add competitive pressure to banking markets, are responsive to market conditions, and build on their banking relationships to offer multi-channel distribution of financial services.

The drive for institutional improvements in product design, delivery channels, operational procedures, and staff capacities must be continuous. Policy and regulatory barriers, such as restrictions on investment, stringent prudential

²⁷ Moya (2009).

²⁸ Moya (2009).

²⁹ A.-F. Lefèvre. 2009. Enhancing the Private Sector’s Potential to Promote Financial Inclusion: The Experience of the World Savings Bank Institute. Paper presented at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

requirements, and AML measures, must be removed. Market obstacles, including the lack of information and trust in banks, misconceptions regarding the role of financial institutions, and outdated views of the capacities of “proximity banks,” must be overcome.

Better data on the extent of exclusion and unmet demand for services would assist in making the business case for a pluralistic banking system. An enabling environment with proportionate and adapted rules is necessary for the continued growth of savings banks. The business case for institutions taking the “long view” should be documented; so far strategic alliances with public and voluntary agencies seem to hold promise.

WSBI contributes to these processes by providing a platform for information exchange, training, publication of findings, and dialogue with policymakers and stakeholders. Research done in collaboration with regional and international organizations can contribute to the policy and regulatory debate. WSBI focuses on savings accounts, as they are the key asset to financing productive activities, a safety net available in emergencies, and a resource for financial intermediation and long-term growth.

APEC can promote financial inclusion through capacity building and partnerships.

An effective partnership approach will be the key to success of an APEC initiative for financial inclusion. Also important will be an operational mechanism capable of convening high-level private sector interests in banking and technology to establish the business case for involvement. APEC can take advantage of existing expertise in economic development and assessment, policy analysis, and strategic research within the region. The organization can also draw on partnerships and networks that span the region and include significant public and private sector entities working to build capacity in microfinance and financial inclusion. Central banks and international financial institutions should also be drawn into activities mandated by APEC finance ministers.

APEC should initiate a set of activities to support greater financial inclusion in developing economies, focusing on capacity building and technical assistance. This will require the participation of both the public and the private sector and the dissemination of best practices in microfinance partnership building. Support can be tapped from a variety of private sector sources, especially in banking and information technology, with motives including commercial gain, corporate social responsibility, and philanthropy.

Public sector initiatives could deal with financial education, regulatory environments (e.g., for microfinance and IT), financial inclusion targets, and the role of public sector banks. Such an APEC initiative would benefit from broad-based ownership, good management, and a clear mandate. It will require measurable targets for its outputs, the identification of appropriate technical solutions, and the capacity to engender policy responses and achieve external recognition.

X. Promoting Financial Inclusion: Key Issues and Conclusions

Key Points:

- Six policy solutions that have been found to be of particular importance in financial inclusion are: (i) agent banking, (ii) m-banking, (iii) diversification of service providers, (iv) reform of public banks, (v) financial identity, and (vi) consumer protection.
- Technological advances allow services to be delivered to more people in more places and at lower transaction cost. Models that the banking sector can use to expand financial access include retail banking, wholesale banking in partnership with MFIs, and franchise or agent banking.
- If banks are able to lower costs and increase the accessibility of their services for migrants, they will capture a greater proportion of the large global flows of remittances, and migrants are likely to be better served.
- Microfinance “processing hubs” have the potential to provide “back-end” technology to the microfinance industry and to assist service providers in overcoming cost hurdles to the advance of financial inclusion.

Promoting financial inclusion will require approaches that address issues at various levels. The goal of these approaches will be: (i) to promote the progressive expansion of coverage to those who remain financially excluded, (ii) encourage the use of technology and continued innovation, and (iii) deepen the integration of microfinance into the formal financial sector through broader participation of commercial banks and expanded access to capital markets. In pursuing financial inclusion strategies, regional initiatives will need to identify priority areas for action, as well as effective ways to involve the financial industry, harness technological solutions developed by the private sector, and collaborate with international financial institutions in mobilizing private finance.

Focusing on six policy solutions can help expand access to financial services in APEC.

Access to financial services supports economic efficiency and distributional equity, but also contributes to financial stability and social cohesion. Within APEC, financial inclusion ranges from 98% in Singapore to 8% in Papua New Guinea.³⁰ Low-income households need access to deposit, remittance, payment, and credit services.

Many people working in the SME sector may have personal access to some financial services, but are often excluded from formal credit for working and investment capital. Significant differences in the financial service needs of households and SMEs suggest that the two should be analyzed and dealt with separately. The argument that those at the bottom of the economic pyramid will automatically benefit if the credit needs of SMEs are given priority fails to appreciate low-income households' needs for a range of financial services other than credit and undervalues the significance of savings mobilization.

The six policy solutions to expanding financial access (i.e., agent banking, m-banking, diversification of service providers, reform of public banks, financial identification, and consumer protection) are primarily supply-side initiatives, although at least one, the establishment of financial identity, has implications for both supply and demand sides of the industry.

Initiatives can be largely regulatory in nature or require technological or managerial "fixes." There is some element of each in every solution, but regulatory considerations are of primary importance overall. In only one case, reform of state banks, are management considerations of primary importance.

The six policy areas also offer a number of economy-wide benefits, or positive externalities: all solutions are judged to support financial deepening, one helps to create a regulatory public good, another an informational public good, while at least three support increased overall competitiveness. One initiative, the introduction of m-banking, has the potential for broad macroeconomic stimulus.

The menu of policy reforms offers insight into the creativity emerging in the microfinance industry due to the combination of regulatory innovation, technological change, and managerial advances. A striking feature of the industry is its internationalization, especially in the rapid diffusion of ideas and technology. An important issue is how to ensure that increased cross-border capital flows do not

³⁰ Demirgüç-Kunt, Beck, and Honohan (2008).

result in diminished incentives to mobilize domestic resources and discourage savings mobilization.

Other priorities for APEC include defining financial inclusion for its purposes; considering how the challenge of inadequate data might be addressed and standards for data collection agreed; examining the regulation of services, with particular attention to risk profiles; and accommodating the desire of regulators to communicate more closely with industry, especially telecommunications companies.

Commercial banks embrace the growth opportunities of microfinance.

After almost four decades of innovation, microfinance has matured significantly and there is greater awareness of the potential for the marginalized to become “banked.” Growing financial literacy among people at the bottom of the pyramid has made them more responsive to opportunities to promote their own economic wellbeing through access to microfinance services.

As traditional markets become more crowded, commercial bankers are realizing that growth opportunities are now found outside their comfort zones and that microentrepreneurs must be regarded as a bankable community. Technological advances make it possible to deliver services to more people in more places and at lower transaction cost. Banks will increase profitability by setting out to “graduate” microfinance customers to the next level of activity, while the growing importance of migrant labor and the increasing volume of remittances offer new business opportunities.

Many models now exist to guide commercial banks in downscaling operations: in retail banking, by reaching down to the level of the microentrepreneur; in wholesale banking, by partnering with MFIs; and through franchise or agent banking, by taking advantage of technology and managerial innovation. Commercial banks can facilitate four major microfinance products: microsavings, microcredit, remittance and/or microfinance linkages, and microinsurance.

Mobile phones have revolutionized communications in emerging economies and must now do the same for financial services by facilitating partnerships between banks and telecommunications operators. New regulatory and supervisory tools will enable traditional restrictions to be overcome.

A commercial bank may allow “owner-managed micro-banking units” to operate under its banner in a franchise banking model. Such a model may enable regulatory hurdles to be overcome, as commercial banks already have permission to operate in areas where franchising arrangements could be extended. Allowing a franchisee

to be treated as a bank branch, with the commercial license holder accepting responsibility for operations conducted under its franchise, could become a widely accepted model for low-cost expansion of commercial bank outreach.

The franchise model is effective in mobilizing savings, as deposits are backed by the name of the bank and depositors regard it as “safe.” Estimates of worldwide migrant worker remittance flows to developing economies suggest annual volumes of around US\$300 billion,³¹ perhaps half of which moves through informal channels. If banks are able to lower costs and increase the accessibility of their remittance services for migrants, they will capture a larger proportion of these flows and migrants are likely to be better served.

Moreover, despite the large funds at their disposal, in general, migrants have limited access to other formal financial services, either at home or in the economies where they work. International banking partnerships and cross-border collaboration on removing regulatory obstacles will help to improve this situation. There are numerous elements in the current regulatory arrangements, including Basel II risk weightings and AML requirements, that impede an efficient and profitable response to the opportunities represented by microfinance and financial inclusion. Because much of this is unintended, there are grounds for optimism that just and equitable solutions can be found to promote financial inclusion.

Managing technology is a principal challenge for the microfinance industry.

Today’s banks often have difficulties reaching the poor due to the high costs of distributing traditional banking services to remote locations, uncertainties linked to the lack of formal credit histories and the physical security of cash, and low literacy rates that place greater burdens on staff to educate consumers. Partnerships with MFIs might offer some solutions, but the limited transparency of MFI operations discourages banks from committing resources to them.

By contrast, today’s MFIs have innovative ways to reach the poor but face challenges in scaling up to supply the growing demand for microfinance services. The vast majority of MFIs do not have access to appropriate back-end technology. Cost control, management of technology, and product development are major challenges for the industry. Microfinance “processing hubs” thus have the potential to provide back-end technology to the microfinance industry and to assist service providers in overcoming cost hurdles to the advance of financial inclusion.

³¹ International Fund for Agricultural Development. 2006. Sending Money Home: Worldwide Remittance Flows to Developing Countries. <http://www.ifad.org/remittances/maps/index.htm>.

Processing hubs provide modern, economical, and appropriate “back office” services to MFIs, with the potential to overcome the high volume, low value drawback to processing MFI transactions. They provide an interface between the banking system and the MFI sector and give banks access to the networking and distribution possibilities of MFIs. They also assist in linking MFIs with other economic actors, including regulators, international payment networks, credit bureaus, telecommunications service providers, NGOs, and the donor community.

Based on its experience in India and Latin America, IBM is currently establishing microfinance processing hubs in five regions to meet the IT needs of financial institutions serving low-income markets. This will lower the processing costs of MFIs dramatically by offering them scale advantages enjoyed by traditional banks. These hubs will be accessed by various channels to permit “many-to-many” interactions.

Transactions of MFI clients will be transmitted to the hub from the MFI office, while larger MFIs will link in their branches by virtual private network (VPN) communications. Some end users, such as those using m-banking, will connect directly to the hub via VPN. However, physical access to MFIs by the customer remains the last link in the chain. The data generated will be transmitted to the hub for processing, with institutional users of hub services buying access to the system from resellers.

Mobilizing private finance is crucial for increasing financial inclusion.

Donors, international financial institutions (IFIs), and microfinance investment vehicles provide important sources of funding for microfinance today. IFIs are particularly active in providing finance to MFIs at the crucial stage when they transform themselves into financially self-sufficient and mature institutions. IFC provides an example of the important role that IFIs are playing today in mobilizing private finance.

IFC invests, advises private sector entities in developing economies, and mobilizes capital for investment. It also devises risk-sharing instruments to attract private capital resources for lending to priority sectors. Risk-sharing arrangements have been used for financing schools, loans to SMEs, student and health facilities, agricultural supply chains, and mobile phone distributors.

In 2008, IFC made 372 new investments in 85 countries, while providing advisory services for some 300 projects in 75 countries. It raised US\$16.2 billion in financing, including US\$4.8 billion in external resources, with International

Development Association countries accounting for 45% of investments.³² To address financial protectionism and the negative impact of the global financial and economic crisis on the availability of capital, IFC is also deploying a recapitalization fund to assist banks and is supporting trade finance in countries with threatened exports.

Conclusions

The workshop demonstrated the importance and effectiveness of providing expanded opportunities to learn from economies that are taking the lead on branchless banking, payment system regulation, mobile financial services, and other effective policy solutions for financial inclusion that can be tailored by others to fit their domestic contexts. The discussions also underscored the need to emphasize the implementation of innovative practices, regulations, and schemes, rather than focusing on theoretical approaches.

There is clearly a need for policymakers, regulators, and international organizations to have platforms where they can share the challenges they have faced, as well as success stories. They will need support in designing and implementing national strategies for financial inclusion, which will require good diagnostics to indicate where they are in terms of financial inclusion, common frameworks to design policies that promote access, better coordination among agencies and with the private sector, new products and services for those outside the mainstream, and effective methodologies to measure policy impact, including solid data.

APEC can play an important role in promoting financial inclusion. A regional initiative for widening financial access could address the following priorities:

- **Data and definitions:** Joint efforts are needed to formulate a definition of financial inclusion. The lack of data on financial inclusion is another major challenge, with more emphasis needed on the design of data collection methodologies and the definition of standards.
- **Regulation and reform:** There is no one-size-fits-all microfinance regulation, and economies must develop the regulations best suited to their individual contexts, focusing on regulating services rather than on the types of providers. Regulating *m-banking* presents particular challenges as it

³² M. Gamser. 2009. Key Issues: Facilitating Private Sector Investment. Presentation at the workshop on Promoting Financial Inclusion through Innovative Policies, organized by the Advisory Group on APEC Financial System Capacity Building, ABAC, ADBI, and AFI, Tokyo, 31 March–3 April.

cuts across different regulatory domains. The *reform of public banks* to improve their governance and management can have a catalytic effect when these institutions then incorporate other policy innovations that facilitate financial inclusion

- **Protection and identity:** The issue of *consumer protection* raises important questions regarding how to ensure the fair treatment of microfinance clients, the protection of their information, and the importance of campaigns for financial literacy. Reform in the area of *financial identity* can also increase access to finance, but regulatory frameworks need the flexibility necessary to maintain privacy protection.
- **Diversification and agent banking:** *Diversification of financial products and providers* can bring new players into the sector and increase access to financial services. *Agent banking* requires initiatives to lower regulatory barriers to innovative start-ups, in particular KYC, agency, and payment regulations for non-bank institutions.
- **Capacity building and partnerships:** Regulators need to communicate closely with industry players, for example with telecommunications firms in the field of m-banking, and promote the role of technology in financial inclusion. Regional capacity building, increased participation of the private sector, and public-private partnerships are also needed. To this end, an APEC initiative on financial inclusion should be promoted, in collaboration with the private sector.

The Asia and Pacific region needs continuing efforts to bridge the needs and opportunities at the bottom of the economic pyramid, especially in developing economies, and the resources of the banking sector and capital markets. Improving levels of financial inclusion will create a broader base for economic growth. Financial inclusion should therefore be a key component of any strategy to promote inclusive, balanced, and sustainable growth.

Appendix: Workshop Program



A WORKSHOP JOINTLY ORGANIZED BY
THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING,
APEC BUSINESS ADVISORY COUNCIL,
ASIAN DEVELOPMENT BANK INSTITUTE, AND
ALLIANCE FOR FINANCIAL INCLUSION

PROMOTING FINANCIAL INCLUSION THROUGH INNOVATIVE POLICIES

31 March–3 April 2009
Asian Development Bank Institute
Tokyo, Japan

In collaboration with



**A WORKSHOP JOINTLY ORGANIZED BY
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ASIAN DEVELOPMENT BANK INSTITUTE, AND
ALLIANCE FOR FINANCIAL INCLUSION**

IN COLLABORATION WITH THE FOUNDATION FOR DEVELOPMENT COOPERATION, INTER-AMERICAN DEVELOPMENT BANK, AND INTERNATIONAL FINANCE CORPORATION

**PROMOTING FINANCIAL INCLUSION
THROUGH INNOVATIVE POLICIES**

31 March–3 April 2009

**Asian Development Bank Institute
Tokyo, Japan**

With over three billion people worldwide lacking access to financial services, there is considerable demand from developing economies for a more inclusive financial sector. A recent German Technical Cooperation study on 10 economies^{33,34} clearly demonstrates that policies play an important role in enabling and expanding financial services to reach a wider cross section of the population.

This workshop on Promoting Financial Inclusion through Innovative Policies aims to provide a peer-to-peer learning and knowledge-sharing platform for policymakers that will enhance their capacity to develop an innovative and enabling policy environment for financial inclusion. The workshop also seeks to provide a basis for the design of a policy initiative on financial inclusion that will be proposed to the APEC finance ministers. The results of the workshop will be published in a report and distributed to relevant officials, particularly APEC finance ministers and senior finance officials, and to regulators and influential private sector organizations in the Asia and Pacific region.

Training materials based on the workshop presentations will be developed by ADBI for use in its capacity-building work. In addition, potential projects for individual economies (e.g., policy implementation for one of the six solutions) and exchange programs (e.g., study tours and a regional working group on a specific topic) will be identified during the workshop, and AFI will follow up on these for further discussion and possible support.

³³ German Technical Cooperation. 2007. *Inclusive Financial Systems Reforms: What Works, What Doesn't and Why?* Draft.

³⁴ The ten economies studied were Bangladesh, Bolivia, Brazil, Ghana, India, Indonesia, Jordan, Mexico, the Philippines, and Uganda.

The workshop will focus on the six key policy solutions identified by AFI and adopted by ABAC and the Advisory Group on APEC Financial System Capacity Building. The six solutions relate to (i) agent banking, (ii) m-banking, (iii) diversification of savings and insurance providers, (iv) reform of public banks, (v) financial identity development for low-income clients, and (vi) consumer protection in financial services. These solutions have proven to be successful in increasing access to financial services in a number of economies, including some APEC member economies, such as the Philippines, Indonesia, and Thailand.

Speakers and participants will include leading experts on each topic, senior government officials and regulators involved in microfinance in Asian and APEC developing economies (e.g., central bank officials, financial supervisory authorities, and finance ministry officials), government officials from relevant agencies, senior executives of relevant public sector firms (e.g., development banks), key policymakers and legislators, and private sector representatives.

PROMOTING FINANCIAL INCLUSION THROUGH INNOVATIVE POLICIES

PROGRAM

Tuesday, 31 March 2009

- 09:00 **Registration**
Asian Development Bank Institute (ADBI), 8th Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo
- 09:20–10:30 **OPENING SESSION**
Session Chair:
Dr. Worapot Manupipatpong, *Director, Capacity Building and Training, ADBI*
- 09:20 **Welcome Remarks**
Dr. Worapot Manupipatpong, *Director, Capacity Building and Training, ADBI*
Mr. Yoshihiro Watanabe, *Chair, Asia-Pacific Economic Cooperation (APEC) Business Advisory Council (ABAC) Finance and Economics Working Group; Advisor, The Bank of Tokyo Mitsubishi UFJ, Ltd.; Managing Director, Institute for International Monetary Affairs*
- 09:40 **Opening Remarks**
Mr. Gempachiro Aihara, *Co-Chair, ABAC; Counselor, Mitsui & Co., Ltd.*
Dr. Twatchai Yongkittikul, *Co-Chair, Advisory Group on APEC Financial System Capacity Building; Co-Chair, ABAC Finance Working Group; Secretary-General, Thai Bankers' Association*
Dr. Alfred Hannig, *Executive Director, Alliance for Financial Inclusion (AFI)*
- 10:10 **Keynote Address**
Mr. Nobumitsu Hayashi, *Deputy Vice Minister for International Affairs, Ministry of Finance, Government of Japan*
- 10:30 **End of Session**
- 10:30–10:45 **Coffee Break**

10:45–12:30

SESSION ONE**Overview***Questions and issues to be explored during this session include:*

- Recent developments in microfinance and their implications on policies, and the role of government in promoting financial inclusion.
- Challenges in identifying appropriate financial inclusion policies and policy tools to facilitate access to finance.
- Lessons from successful experiences in developing economies, particularly in Latin America.
- The development of microremittance, its potential for benefiting migrant workers in the Asia and Pacific region, and policy implications.
- Possible roles that APEC can play in promoting financial inclusion in the Asia and Pacific region.

Session Chair:

Mr. Yoshihiro Watanabe, *Chair, ABAC Finance and Economics Working Group; Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Managing Director, Institute for International Monetary Affairs*

10:45

Introduction by the Session Chair

10:50

Financial Inclusion: An Overview of Issues

Dr. Alfred Hannig, *Executive Director, AFI*

11:15

Microfinance: The Latin American Experience

Ms. Sandra H. Darville, *Senior Investment Officer, Multilateral Investment Fund, Inter-American Development Bank*

11:40

The Need for an Inclusive Financial Infrastructure—Challenges for Japan in the Coming Years

Mr. Hideo Kazusa, *General Manager, Transaction Services Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.; Board Member, Society for Worldwide Interbank Financial Telecommunication (SWIFT)*

11:55

Report of the ABAC/Advisory Group on Financial System Capacity Building Workshop on Commercially Sustainable Microfinance: A Strategy for Promoting Financial Inclusion in APEC

Dr. Julius Caesar Parreñas, *Coordinator, Advisory Group on APEC Financial System Capacity Building; Senior Advisor, Chinatrust Financial Holding Co., Ltd.*

- 12:05 **Brief Commentary**
Mr. Gary Judd Q.C., *Chairman, ASB Bank; Chairman, Ports of Auckland Ltd.*
- 12:10 **Open Forum**
- 12:25 **Closing Remarks by the Session Chair**
- 12:30 **End of Session**
- 12:30–13:30 **Lunch**
Venue: ADBI Library
- 13:30–15:40 **SESSION TWO**
Beyond Branches: Agent banking and Financial Inclusion
Questions and issues to be explored during this session include:
- Incorporating agent banking into policy and supervisory frameworks, such as rules for deposit taking, branching, cash handling, outsourcing, customer due diligence, and consumer protection.
 - Using agents to increase the functionality of mainstream bank accounts.
 - Expanding the range of agent services beyond pure payments.
 - Optimal contracts between banks and agents (i.e., risk-sharing arrangements between agents and banks that balance safety and service expansion).
 - Cooperation and communication between public and private partners.
- Session Chair:**
Mr. Hiroshi Toyoda, *Special Advisor for Asia, Inter-American Development Bank*
- 13:30 **Introduction by the Session Chair**
- 13:40 **Agent Banking: Overview of Developments and Policy and Regulatory Issues**
Dr. Ernesto Aguirre, *Financial System Advisor, Consultative Group to Assist the Poor (CGAP); former Superintendent, Banks of the Republic of Colombia*
- 14:10 **Agent Banking: Case Study from Russia**
Mr. Mikhail Mamuta, *President, Russian Microfinance Center*
- 14:40 **Brief Commentaries** (10 minutes each):
Mr. Raúl Hernández Coss, *Director General for Access to Finance, National Banking and Securities Commission (Mexico)*

Mr. Vishwavir Saran Das, *Executive Director, Reserve Bank of India*
 Ms. Juanita Woodward, *Director, Customer Relations for Asia Pacific, Eurogiro*

15:10

Open Forum

15:35

Closing Remarks by the Session Chair

15:40

End of Session

15:40–15:55

Coffee Break

15:55–17:55

SESSION THREE

Access Calling: Mobile Phone Banking (M-Banking) and Financial Inclusion

Questions and issues to be explored during this session include:

- Finding the appropriate regulatory space for m-banking activities (covering issues such as deposit taking, electronic money, payment systems, data privacy and security, consumer protection, and customer due diligence).
- Coordinating policy mandates at this unique intersection of financial services and telecommunications.
- Issue of competition and interoperability.
- Balancing protection with experimentation needed to get m-banking models off the ground.
- Expanding the range of applications used beyond payments.

Session Chair:

Mr. Craig Wilson, *Executive Director, Foundation for Development Cooperation*

15:55

Introduction by the Session Chair

16:05

Mobile Phone Banking: Case Study from the Philippines

Mr. Nestor Espenilla, *Deputy Governor, Bangko Sentral ng Pilipinas*

16:35

Mobile Phone Banking: Policy and Regulatory Issues

Ms. Marina Solin, *Program Director, GSM Association*

17:00

Brief Commentaries (10 minutes each):

Mr. Hounr Thy, *Project Manager, Access to Finance, International Finance Corporation (IFC)*

Dr. Taiji Inui, *Senior Manager, NTT Data Corporation; former Director and Head of Payments Policy, Payment And Settlement Systems Department, Bank of Japan*

17:20

Open Forum

17:50

Closing Remarks by the Session Chair

17:55 **End of Session**
 19:00–20:30 **Welcome Dinner**
Venue: l'Arche

Wednesday, 1 April 2009

09:00–11:50 **SESSION FOUR**

New Models, New Providers: Increasing the Diversity of Microfinance Service Provision

Questions and issues to be explored during this session include:

- Policy choices governing alternative providers of financial services, including tiered license regimes and proportionate regulation of lower-risk deposit takers and microinsurance providers.
- Balancing costs and benefits of regulation and supervision
- Regulatory requirements best suited to induce scale in microinsurance.
- Leveling the playing field in terms of subsidized funding to encourage deposit mobilization and commercially sustainable operations.
- Dealing with large groups of unregulated providers (e.g., burial societies and cooperative societies that take deposits).
- Fiscal policies that promote new entrants and models without distorting the market.
- Policy instruments that are most effective in crowding in private investment and market development.

Session Chair:

Mr. Eric Duflos, *Senior Microfinance Specialist, CGAP*

09:00 **Introduction by the Session Chair**

09:10 **Innovative Policy Choices Governing Pro-Poor Financial Service Providers: Case Study from Uganda**

Ms. Clare Wavamunno, *Microfinance Consultant and Special Education Management Agent, Aikan Uganda*

09:35 **Brief Commentaries (10 minutes each):**

Dr. Gabriela Braun, *Director, AFI*

Mr. Kim Vada, *Deputy Director General, National Bank of Cambodia*

Mr. Khairil Anwar, *Deputy Director, Directorate of Credit, Rural Banks, and Micro, Small, and Medium Enterprises, Bank Indonesia*

- 10:05 **Open Forum**
- 10:35–10:50 **Coffee Break**
- 10:50 **Microinsurance: Policy and Regulatory Issues**
Mr. Arup Chatterjee, *Principal Administrator, International Association of Insurance Supervisors*
- 11:15 **Brief Commentary**
Hon. Gil Beltran, *Undersecretary, Department of Finance; Chairman, National Credit Council, Republic of the Philippines*
- 11:25 **Open Forum**
- 11:45 **Closing Remarks by the Session Chair**
- 11:50 **End of Session**
- 11:50–13:00 **Lunch**
Venue: ADBI Library
- 13:00 **Assembly Time for Field Visit**
Assembly Place: ADBI Library
- 13:00–15:00 **Visit To Japan Finance Corporation, Micro Business and Individual Unit (JFC-Micro)**
Japan Finance Corporation (JFC) is a comprehensive, policy-based financial institution wholly owned by the Japanese government. It was established in October 2008 through the integration of four government institutions. JFC-Micro is one of the units of JFC that has succeeded the operations of the former National Life Finance Corporation. JFC-Micro has been making loans to micro and small enterprises and individuals, as the former National Life Finance Corporation had done since its establishment in 1949.
- 15:30–17:00 **Visit to Toyota Tsusho Corporation and Planet Finance Japan**
Toyota Tsusho Corporation is a trading company and a member of the Toyota Group. It is one of the largest trading companies in Japan. Toyota Tsusho has a worldwide presence through its many subsidiaries and operating divisions. Its main business is supporting Toyota Motor's automobile business and other Toyota Group companies. Toyota Tsusho Corporation strongly supports the work of PlaNet Finance Japan.
PlaNet Finance Japan is a Japanese nongovernmental organization established in 2006 with the goal of alleviating poverty by promoting Japan's understanding of and involvement in microfinance.

Thursday, 2 April 2009

09:30–11:45

SESSION FIVE**Rethinking Governance and Management of Public banks to Promote Financial Inclusion***Questions and issues to be explored during this session include:*

- Mitigating political influences that hinder sustainable operations and competition.
- Incentivizing and professionalizing management and governance of state banks.
- Managing the evolution of public banks: transitioning from first tier (i.e., retail) to second tier (i.e., wholesale) activities, market development strategies to attract private players, and decisions on reforming vs. closure.
- Phasing out subsidies, leaving fair and transparent market-based disclosure and pricing regimes in their place.
- Effective models of public-private partnerships to foster service expansion to the poor.

Session Chair:*Mr. Yo Takeuchi, Chief Financial Officer and Member of the Board, Development Bank of Japan, Inc.*

09:30

Introduction by the Session Chair

09:40

Governance and Management of Public Banks and Financial Inclusion: Case Study from India*Mr. M. V. Nair, Chairman and Managing Director, Union Bank of India*

10:10–10:30

Coffee Break

10:30

Governance and Management of Public Banks and Financial Inclusion: Case Study from Mongolia*Mr. Peter Morrow, Chief Executive Officer, Khan Bank*

11:00

Brief Commentary (10 minutes):*Ms. Wajeethip Pongpech, Division Executive, Bank of Thailand*

11:10

Open Forum

11:40

Closing Remarks by the Session Chair

11:45

End of Session

11:45–13:00

Lunch*Venue: ADBI Library*

13:00–15:30

SESSION SIX

Innovations in Building Inclusive Financial Identities

Questions and issues to be explored during this session include:

- Using identification technology, including biometrics, to build inclusive financial identities in unconventional ways.
- Balancing innovation in identification techniques with data privacy protection and security.
- Education and awareness raising so that new identity tools, including customer data, are both trusted and protected.
- Risk-based adjustment of know-your-customer rules to create affordable basic financial services.
- Proactive measures for reducing identity fraud and improving the quality of personal information in credit registers.
- Public-private partnerships to implement and scale up systems of identification, and to share customer transaction records.

Session Chair:

Dr. Twatchai Yongkittikul, *Co-Chair, Advisory Group on APEC Financial System Capacity Building; Co-Chair, ABAC Finance Working Group; Secretary-General, Thai Bankers' Association*

13:00

Introduction by the Session Chair

13:10

Building Inclusive Financial Identities

Dr. Nicola Jentzsch, *Senior Research Fellow, Technical University of Berlin*

13:40

Innovations in Building Inclusive Financial Identities: Case Study from Indonesia

Mr. Halim Alamsyah, *Director, Research and Banking, Bank Indonesia*

14:20

Brief Commentaries (10 minutes each):

Mr. Tony Lythgoe, *Principal Financial Specialist, Global Credit Bureau Program, IFC*

Mr. Khandakar Muzharul Haque, *Executive Director, Bangladesh Bank*

14:40

Open Forum

15:15

Closing Remarks by the Session Chair

15:25

End of Session

15:25–15:45

Coffee Break

15:45–18:00

SESSION SEVEN**Consumer Protection Innovations for Consumers at the Bottom of the Pyramid***Questions and issues to be explored during this session include:*

- Balancing protection and access through simple, basic rules and principles that keep costs manageable and legal uncertainty to a minimum.
- Translating consumer protection codes into concrete changes in microfinance providers' policies, procedures, and interactions with customers.
- Fair and accessible recourse and redress, especially when judicial options are limited. What is the most suitable and effective enforcement model?
- Technology solutions for improving consumer protection and informed choice.
- Using credit information and other data sources to monitor indebtedness trends and abuse in credit markets.
- Policies that are effective in preventing excessive lending to poor customers resulting in over-indebtedness.
- Financial education programs to inform inexperienced customers of new ways of saving money and managing risks.
- Detection and prevention of common financial fraud schemes and consumer education on the warning signs of fraud (e.g., financial pyramids)

Session Chair:Dr. Yashwant Thorat, *Regional Associate, AFI*

15:45

Introduction by the Session Chair

15:55

Consumer Protection Innovations: Case Study from PeruDr. Fernando Arrunategui Martinez, *General Manager for Products and Services, Superintendency of Banks, Insurance and Private Pension Funds Administrators, Peru*

16:20

Consumer Protection Innovations: Case Study from MalaysiaMs. Koid Swee Lian, *Director, Consumer and Market Conduct Department, Bank Negara Malaysia*

16:45

Consumer Protection Innovations: Case Study from South AfricaMs. Nomsa Motshegare, *Chief Operations Officer, National Credit Regulator, South Africa*

17:10	Financial Education and Consumer Protection Dr. Monique Cohen, <i>President, Microfinance Opportunities</i>
17:30	Open Forum
17:55	Closing Remarks by the Session Chair
18:00	End of Session

Friday, 3 April 2009

09:30–12:30 **SESSION EIGHT**

The Role of Regional Capacity Building and Public-Private partnership in Promoting Financial Inclusion

Questions and issues to be explored during this session include:

- The role of regional cooperation in capacity building and the involvement of the private sector in promoting financial inclusion in Asia and in Latin America.
- Effective strategies for extending the reach of microfinance to population segments that remain financially excluded and for strengthening microfinance institutions.
- Policies and regulations that facilitate the banking sector's participation in microfinance.
- Strategies to promote private sector investment in microfinance and financing through capital markets.
- The role of technology in the development of microfinance and its implications for policies to promote financial inclusion.

Session Chair:

Dr. Matthew Gamser, *Principal, Advisory Services, East Asia and the Pacific, IFC*

09:30 **Introduction by the Session Chair**

09:35 **Regional Capacity Building and Public-Private Partnership to Promote Financial Inclusion: An Asian Perspective**

Mr. Craig Wilson, *Executive Director, Foundation for Development Cooperation*

10:55 **Regional Capacity Building and Public-Private Partnership to Promote Financial Inclusion: A Latin American Perspective**

Dr. Carlos Moya, *President, Banca de las Oportunidades (Colombia)*

- 10:15 **Enhancing the Private Sector’s Potential to Promote Financial Inclusion: The Experience of the World Savings Bank Institute**
Ms. Anne-Françoise Lefèvre, *Head, Institutional Relations, World Savings Bank Institute*
- 10:35 **Open Forum**
- 10:50–11:05 **Coffee Break**
- 11:05 **Key Issues: Expanding Access**
Dr. John Conroy, *Consultant, AFI*
- 11:20 **Key Issues: Facilitating Banking Sector Participation**
Mr. Chandula Abeywickrema, *Chairman, Banking with the Poor Network; Deputy General Manager, Hatton National Bank*
- 11:35 **Key Issues: Promoting the Use of Technology in Microfinance**
Mr. Alberto J. Jimenez, *Global Business Advisor, Financial Services Sector, IBM Global Services*
- 11:50 **Key Issues: Facilitating Private Sector Investment**
Dr. Matthew Gamser, *Principal, Advisory Services, East Asia and the Pacific, IFC*
- 12:05 **Open Forum**
- 12:25 **Closing Remarks by the Session Chair**
- 12:30 **End of Session**
- 12:30–12:50 **Closing Session**
Session Chair:
Dr. Masahiro Kawai, *Dean, ADBI*
- 12:30 **Closing Remarks**
Mr. Yoshihiro Watanabe, *Chair, ABAC Finance and Economics Working Group; Managing Director, Institute for International Monetary Affairs*
Dr. Twatchai Yongkittikul, *Co-Chair, Advisory Group on APEC Financial System Capacity Building; Co-Chair, ABAC Finance Working Group; Secretary-General, Thai Bankers’ Association*
Dr. Alfred Hannig, *Executive Director, AFI*
- 12:45 **Closing Remarks by the Session Chair**
- 12:50 **End of Session**
- 13:00 **Lunch**
Venue: ADBI Library

PROMOTING FINANCIAL INCLUSION THROUGH INNOVATIVE POLICIES

The Promoting Financial Inclusion workshop provided a peer-to-peer learning and knowledge-sharing platform among policymakers to enhance their capacity to develop an innovative and enabling policy environment for financial inclusion. Senior government officials and regulators involved in microfinance in Asian and APEC developing economies, senior executives of relevant public sector firms, and private sector representatives shared their views and experiences in six key areas that have been identified as crucial for financial inclusion, namely, agent banking, mobile phone banking, diversifying providers, reforming public banks, financial identity regulation, and consumer protection. This workshop report highlights the best practices for introducing innovative policies these key areas.

The practices noted here have been proven successful in increasing access to financial services in a number of economies, such as India, Indonesia, Malaysia, Mongolia, Peru, Philippines, Russia, South Africa, Thailand, and Uganda. To further identify and promote wider adoption of these best practices, regional cooperation and initiatives need to facilitate the sharing of country experiences to design and implement national strategies for financial inclusion, including effective ways to involve the financial industry, harness technological solutions developed by the private sector, and collaborate with international financial institutions in mobilizing private finance.

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