EXECUTIVE SUMMARY

Recent innovations in technology, along with the development of digital financial products and services, have created significant opportunities to provide greater access to, and higher quality of, these products and services to many of the 1.5 billion people in the Asia-Pacific region who remain unbanked or underserved. The high rate of mobile-phone ownership—even among people with low incomes—creates the possibility to reach not just individuals, but also agents who can serve entire neighbourhoods with a single device. However, access to financial services is not the end goal of financial inclusion. Rather, it should be viewed as part of overall development, which helps people improve other aspects of their lives, including employment, housing, health and education.

Different groups have distinct needs in the areas of product design, marketing strategy and training methods. Even within groups, people prefer to use different delivery channels for various types of transactions. People who are not using financial services at all may not have been offered what they need; for example, a grace period on an initial loan repayment, a repayment schedule that meshes with harvest cycles, or savings deposits that are automatically deducted from an income stream such as remittances.

If they are to adopt digital financial services, many people need a motivating value proposition and significant hand-holding to learn to use each product. Maintaining this type of customer contact is one way that microfinance institutions (MFIs) will stay relevant even as financial technology (fintech) firms disrupt the marketplace. Indeed, the rise of digital financial services is driving MFIs to collaborate more closely with regulators, mobile-network operators, fintech companies and others. However, the varied missions of these organisations make it even more important to stay focused on client needs and outcomes. Success is best measured in terms of end goals such as poverty reduction rather than immediate goals such as delivering financial services.

Vietnam’s ongoing development of a national financial-inclusion strategy is a good example of coordination among industry, government and donors. India’s Aadhaar biometric identification system shows how government can enable private innovation. As the demands on regulators increase, regulation technology (regtech) can help automate monitoring and other tasks. Tiered requirements based on risk are a powerful way to simplify processes such as compliance reporting and know your customer (KYC). Meanwhile, some regulators have yet to make basic shifts, such as allowing non-banks into the market and financial institutions to serve customers through agents.
In many communities, women are less well served than men. Some providers find that women are more responsive to services that “make their lives easier”, such as remittance-linked savings and the provision of services at the home or workplace. Women also can benefit greatly from non-financial services like networking and empowerment support. Another example is solar-device firms, which are bringing women products that improve their health and safety, sometimes bypassing lenders by offering in-house financing or pay-as-you-go models.

Organisations that serve young people also have had success pairing financial services with other benefits such as financial education, consumer education, health services and leadership development. For young people who are slow to grasp the importance of financial education, peer learning and mentorships can be highly motivating. Other MFIs have found that working with children can be a robust way to engage unbanked parents.

Increased financial literacy is key to reaching underserved populations. Countries such as China, India and Singapore are building financial education into traditional school curriculums. Conversely, low levels of basic literacy and numeracy can be significant barriers to understanding financial products.

Populations with low education levels are most in need of client protection. This must come both from below (client education) and above (regulation of financial-services providers). Regulators continue to struggle to balance encouraging innovation with protecting consumers. Finding the right balance between data-sharing and privacy also will remain a challenge.

As the industry works to provide financial services to more people, it also must provide better quality support to the end-users of these services. This can greatly amplify the desired, and needed, impact. And while technology is helping to illuminate the additional services that customers want, those customers will continue to require “human-touch” in customer service, or otherwise the rate of uptake and therefore progress will be impeded.

The following articles in these proceedings, which summarise the sessions of the Asia-Pacific Financial Inclusion Summit 2017, delve deeper into these topics, as well as others, such as blockchain technology and how to best serve small and medium-sized enterprises. As digital financial services continue to shape financial inclusion, understanding these issues is key to developing the financial-services industry in a way that maximises benefits for clients and the organisations that serve them.
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INTRODUCTION

Financial inclusion has progressed remarkably throughout the Asia-Pacific region. Advances in technology, new products and services, creative public-private partnerships, innovative business models as well as deeper insights into client needs are all driving rapid transformation across Asia’s financial inclusion ecosystem. The link between financial inclusion and equitable growth has also been recognized and major global platforms, including the United Nation’s Sustainable Development Goals, embraced the goal of broader access to financial services.

Yet, in spite of recent innovation and change, more than 1 billion people within the Asia-Pacific region still have no access to formal financial services. A lack of access and usage as well as the need for favourable regulatory frameworks continue to constrain the growth of thousands of micro, small and medium-sized businesses, impede women’s access to economic opportunity, and disadvantage vulnerable communities. Continued progress will rely on an ecosystem of financial-services providers, government, regulators, technology and communications services, and trusted intermediaries that can adapt and respond to changing client preferences and market needs. Together, all these players will need to find creative solutions to tackle big challenges and harness opportunities to close gaps and better enable financial inclusion in a digital age throughout the Asia Pacific.

The 2017 Asia-Pacific Financial Inclusion Summit brought together more than 450 thought leaders in the inclusive finance ecosystem to drive collective and positive change for greater financial inclusion across the region. Now in its second year, the Summit was hosted by the State Bank of Vietnam and organised by the Citi Foundation and FDC, in partnership with BWTP and the Economist Group. Themed ‘Advancing Financial Inclusion in a Digital Age’, the Summit explored the opportunities and challenges of the next generation of financial inclusion, and showcased the latest technology and innovations in financial products and services for the unbanked and underserved.
Representatives of the Foundation for Development Cooperation and the Citi Foundation opened the Asia-Pacific Financial Inclusion Summit 2017 with optimism as they introduced the keynote speaker, Madam Nguyen Thi Hong, deputy governor of the State Bank of Vietnam. They explained that summit attendees would learn and share about the latest government initiatives to increase financial inclusion in the region, innovations in financial technology, and other topics, such as human tendencies that affect financial access.

Financial inclusion can be a critical driver of social and economic growth, advancing progress towards the Sustainable Development Goals set by the United Nations (UN). But enabling financial access should be just one part of empowering communities through training and other forms of investment. When people adapt their financial behaviours to build and preserve assets, they pave the way to better outcomes in education, employment, health, housing and more. The summit was an opportunity to accelerate coordination, sharing and debate to find creative ways to help more people reach more of their goals in all these areas.

**Great progress has been made, but much remains to be done**

Although 1 billion adults in the Asia-Pacific region remain unbanked, smartphone ownership is rising at an extraordinary rate. More than 94% of the world’s population can now receive a mobile-phone signal. The paradigm shifts enabled by mobile technology were not even on the horizon in 2004, when this summit was first held.

New players in the inclusive-finance ecosystem, such as mobile-money providers, can help many more people access the services they want and need. But bringing vulnerable populations into the world of banking technology requires ongoing client-protection efforts. Government and industry must continuously evaluate product design and delivery.

**Keynote by Madam Nguyen Thi Hong, deputy governor of the State Bank of Vietnam**

Madam Nguyen Thi Hong noted that 60m people live in rural Vietnam, including 52% of the nation’s labour force. Financial inclusion is a key tool in supporting these workers’ success in agriculture and other endeavours. The government and the Communist Party of Vietnam are facilitating financial inclusion through efforts including improving credit policy, attracting investment in agriculture and assisting with recovery from natural disasters.

In many countries, national financial-inclusion frameworks are helping to reduce barriers such as gaps in legal frameworks, inadequate financial infrastructure, limited financial literacy and insufficient consumer protection. This work depends on collaboration within and among countries, and international organisations such as the UN, the G20, APEC, the World Bank, ASEAN and the Asian Development Bank are contributing greatly to this progress.
1. FINANCIAL INCLUSION: THE CHANGING LANDSCAPE IN THE ASIA-PACIFIC

**Moderator: Ms. Brandee McHale**, President of the Citi Foundation and Director of Corporate Citizenship at Citi

**Mr. Gregory Chen**, Head Policy, The Consultative Group to Assist the Poor (CGAP)

**Mr. Dean Karlan**, Professor of Economics, Yale University; President and Founder, Innovations for Poverty Action (IPA)

**Ms. Vijayalakshmi Das**, Chief Executive Officer, Friends of Women’s World Banking (FWWB), India

This opening plenary session of the Asia-Pacific Financial Inclusion Summit covered a wide range of ideas and issues, from creative asset-building mechanisms to the comparatively utilitarian Aadhaar identification system. One recurring theme is that financial services are not the end goal but instead are means to ends such as education, improving health, growing enterprises and helping farmers survive extreme weather. People should be able to buy what they need today even if their income is unavailable until tomorrow. Transactions should be seamless and often automatic.

People have many needs other than financial services. While technology can help address them in an integrated and efficient way, finance is not the solution to every problem. For example, BRAC of Bangladesh is well known for its “graduation programs”, which involve intensive hand-holding to help poor people overcome some of their challenges. Direct transfers also are rising in prominence as low-income countries evolve into middle-income countries with bigger tax bases.

**Savings for debtors; wealth managers for the non-wealthy**

Because lenders’ current and potential customers have a wide range of needs, rigidly structured microloan products are limited in their usefulness. Without a grace period on repayments, people borrow more than they really need so they can make the payments until their investments bear fruit. As a consequence of this, the cost of their loans increases significantly. Similarly, a farmer should not feel pressure to take out a 12-month loan if all they need is liquidity for a single planting season. Preliminary evidence suggests that flexible repayment schedules can significantly improve client outcomes, but there is not yet a sufficient track record to justify scaling up this practice.

As with loans, the savings products a person has access to may not help meet their goals. One way to help people save is through automatic deductions. For example, a set portion of each remittance a woman receives could go into her savings account. The service provider might even make that the default unless the recipient opts out.

Of course, savings accounts may not always be the best product solution to meet the need of every client at every point of their lives. Some providers promote savings to people with outstanding loans costing them 30% or more per year, who would probably be better served with solutions that encourage them to pay off debt before saving.
One way to address this issue would be for banks to provide a system which enables a seamless transition from loan repayment to savings. For example, a customer might set up a loan repayment of US$5 to be made automatically each month from their mobile money account. If the loan matures in April, the service could then automatically direct that payment into a savings account starting in May, with no further action required by the account holder, assuming that the customer has not taken another loan.

Some argue that this is an unrealistic plan, because digital financial services are largely used for payments and transfers rather than savings. However, in Kenya, where the use of mobile money is famously widespread, significant numbers of people are connecting their mobile-money accounts to their bank accounts.

Clients have a wide range of needs: consumption smoothing, investing in education, livelihood financing, asset creation, and water and sanitation, among others. There is no reason why poor people cannot have access to wealth-management services similar to those which commercial banks commonly offer to their wealthier clients. A wealth manager could design an appropriate suite of services for poor clients, help them prioritise their needs and select the best service providers to meet their goals. Could those service providers be legally required to enrol the client only in suitable products? The problem would be how to judge what constitutes suitability.

**Double-edged swords: Political will and digital footprints**

Regulators in several countries are laying the groundwork to facilitate financial inclusion. One of the biggest examples is India’s Aadhaar biometric identification system, which greatly simplifies KYC processes, though it also raises privacy concerns. Another way governments can support the finance industry is by supporting the establishment of cell towers into remote areas. There are many mountainous and island regions where digital financial services cannot yet penetrate due to lack of infrastructure. Yet another idea is for a regulator to create an app that would let customers easily compare pricing information from different financial-services providers.

Clearly, microfinance institutions are not the only organisations serving the masses. In several countries and communities across the region, access to a range of financial products and services are available through mobile technology, agents or traditional bank branches. These access points might all be operated by different companies, which might also be regulated by separate government agencies. In order for regulators to successfully enable a financial services environment in which innovative products and services can be developed that meet the needs of customers, while also ensuring adequate consumer protection, regulators need to be capable of adapting to changes. This includes monitoring and gaining an understanding of the types of companies entering the financial services space and actively engaging with the communities they operate in to see how real people are using the services they regulate. The introduction of new players into the finance industry is causing it to change rapidly and regulators must expect that in such an environment regulations will require more frequent amendments and improvements. Learning to take educated risks and rapidly adapt to such an environment is likely to be difficult for many governments as this is not a traditional strength of regulators.

Political will is an important ingredient to the success of regulatory bodies in supporting financial inclusion. The governments of Bangladesh and India, for example, have made significant commitments to support financial inclusion. In Bangladesh, the government is taking steps to digitise some of its social-safety-net programs and India’s drive for “universal” financial inclusion, *Pradhan Mantri Jan-Dhan Yojana* (Prime Minister’s People Money Scheme), is so great that some deem it an overreach.
As services go digital, organisations have the opportunity to learn a great deal more about users’ preferences, choices and habits through data analysis. This information is extremely valuable, but many consumers don’t understand what they are giving away. While data can be used for anonymous research, it can also be used to deny a client’s application for insurance. While risk-based pricing is good for credit markets, discriminatory lending is a risk. Data can also be sold to third parties which can potentially further complicate issues. In this data-driven world, finding a balance between privacy and responsible data use is becoming increasingly important. The solution probably requires a combination of self- and government regulation.

Test, adjust, repeat
Non-governmental organisations (NGOs) can test new ideas that the private sector can scale up. Testing is important because services do not always work as intended and may also lead to unintended consequences. Just as there was once talk of microfinance as a “silver bullet”, or the development solution with the greatest potential to alleviate poverty, it can be argued that some are now promoting digital financial services in a similar way. While the expansion of digital technology has certainly created several new opportunities for development pathways, it is unlikely to live up to the loftiest expectations.

One important area in which digital services can have a significant impact is reducing prices. Digital services can also make loans very easy to acquire, but that can also be problematic; particularly for people who have limited financial literacy and may not clearly understand the pricing and other terms that they are accepting. By integrating options into services like this that allow customers to “undo” commitments they make on their phones is one potential way of reducing this risk.

Despite all the risks and concerns, there remains a great amount of optimism for financial inclusion as a meaningful part of development. Evidence from randomised controlled trials shows that financial inclusion is making a significant difference for low-income populations. While some of the change is detrimental, most is beneficial—allowing more people to achieve the life they want.

As more financial inclusion data is collected it will enable practitioners and policy makers to better support it and derive greater benefits. However, two typical consequences of the success of financial inclusion are that for-profit firms try to use it to achieve their financial goals and politicians try to use it to achieve their political goals. There is a sense that a tipping point has been reached and the challenge now is to expend less effort in convincing policymakers that financial inclusion is good economics, and use that spare capacity to find the next innovation that will improve more lives.

Key points
• Financial services are not the end goal; instead, they should work in the background to facilitate people’s efforts to improve their lives.
• Products should be customised to meet people’s needs, with features like grace periods, terms that sync with agricultural cycles, and savings deposits that are automatically deducted from remittances.
• The financial inclusion landscape is rapidly evolving with new products and services being offered by a wider range of companies. Regulators need to be aware of these changes and find ways to adapt in order to ensure an appropriate regulatory balance that promotes both innovation and consumer protection.
• Finding the right balance between data-sharing and privacy will remain a challenge; particularly as the use of digital financial products continues to expand.
2. CONNECTING THE LAST MILE: A DFS REALITY CHECK

Moderator: Mr. Alwaleed Alatabani, Lead Financial Sector Specialist, World Bank, Vietnam

Mr. Jinchang Lai, Lead Financial Sector Specialist and Financial Infrastructure Lead for East Asia and Pacific, Finance and Markets, World Bank Group

Mr. Dongwen Liu, General Manager, CFPA Microfinance

Ms. Lara Storm, Director, Financial Inclusion, MIX

While digital financial services (DFS) are growing quickly, this growth is uneven—both within and between markets—and these services generally have yet to reach the unbanked or underserved. Despite great optimism, progress has been limited in countries such as Cambodia, Laos and Myanmar. While China has experienced rapid growth, several companies there have failed, costing a significant number of consumers dearly.

DFS cannot completely replace the need for live customer service. Although rural areas offer plenty of potential for DFS to increase inclusion, people in these areas tend to have lower levels of connectivity and education, which sustains the value of agents as a more viable way to reach them.

Risky growth in China

In the last few years, regulators in China have allowed DFS providers to expand from just lending to offer additional products and services such as savings and insurance. The resulting growth has been so rapid that risk levels are high. While observers have detected positive effects in rural areas, most of the new users nationwide already had access to other financial-inclusion channels.

Bank regulators take on non-banks

While most DFS providers need licenses to operate, many regulators are still building their capacity to oversee non-deposit-taking (NDT) lenders. By one estimate, the number of such lenders needs to be ten times the number of commercial banks to meet market demand. Traditional lenders tend to be risk-averse and thus lend to a small slice of the market. In developing countries, NDT lenders provide liquidity to a larger slice, including entrepreneurs needing small loans, employees working in the informal economy, and those without collateral. Because finance for this segment is crucial to national and regional economies, regulators deserve support to improve their expertise regarding NDT lenders.

Building client capacity

To create efficient markets, governments need to address a multitude of questions. What can borrowers and lenders do when things go badly? Can receivables function as collateral? If so, how can this be enforced, especially if third parties have claims on the funds? Borrowers need a strong client-protection framework, and most economies do not yet have protocols for protecting personal data or a process for handling personal insolvency. Supervising third-party debt collectors can be a difficult task.
Because people who are new to financial services are more vulnerable to fraud, there is broad agreement that an increase in the quality and quantity of financial education is needed. The Citi Foundation and Visa are both examples of organizations which have made commitments to support these efforts financially. In addition to working from the bottom up to educate clients, the industry—both providers and regulators—must work from the top down to protect clients. For example, regulators could push financial service providers to provide better disclosure. Dispute mechanisms, which include a third-party option with multiple levels, such as an ombudsman, mediation and court proceedings, are also an important aspect of consumer protection. Some pieces of the puzzle are more difficult to place because they require legislative approval such as establishing credit bureaus, protecting personal data, and establishing new licensing regimes or a system for personal insolvency.

**Biometrics and behaviour**

Microfinance clients are increasingly adopting electronic money for their transactions; particularly in urban areas where cash is becoming less popular. To support the transition to DFS, institutions are integrating biometric identification systems. These systems have the potential to eliminate the need for written signatures, which are unfamiliar to many people with low levels of education. Under legacy systems, clients sometimes spend hours practicing how to sign their names just to execute a contract to open an account. More financial technology (fintech) companies are also using behavioural data, such as cash flow or social-media activity, to make lending decisions. While the use of behavioural data shows promise, many observers worry that algorithmic credit analyses introduce unknown biases and other risks.

**Using data to work smarter**

Financial-services providers know that their customer data is valuable, and they tend to guard it carefully. But could regulators give them incentives to share that data? Could a consolidated database help providers visualise their footprint within the broader context of the market? Such a system could incorporate other metrics such as literacy rates, poverty rates, the locations of schools and police stations, and other indicators of where there is sufficient infrastructure to support a new agent or branch.

What other factors motivate a financial-services provider to target certain areas or develop new products? What does the data tell us about what we think we know? A study in Kenya showed that most mobile agents are working within 5km of a bank branch rather than truly reaching “the last mile.” A project in Benin showed that mobile-phone penetration ranging from 40% to 80% allowed a mobile-money service to make a positive impact. But financial inclusion peaks at 22% in the country, with a rate of just 4% in rural districts. Organisations such as the Bill and Melinda Gates Foundation and the MasterCard Foundation are supporting this kind of research.

**DFS can’t do it alone**

In addition to “soft” infrastructure like policy and regulation, there remains a great need for “hard” infrastructure like payment systems and mobile-phone towers. This includes agent networks. Mobile payments are great, but sometimes clients just need to cash in or cash out, which puts the user back in the position of having to travel to a service point. A robust agent network can minimise this inefficiency. Commercial mobile-money firms have been quick to profit from serving urban areas, but in a small village, transaction volume can be low. This can make it difficult to recruit quality agents. While optimism is high that DFS will close gaps in financial inclusion, the data shows us that most people who now use digital financial services also have access to other types of financial services. This brings us back to the idea of human interaction and the importance of building agent infrastructure.
Because technology is just one of the many tools that we need to exploit in pursuing greater financial inclusion, further coordination is key. Countries must continue to build and implement national financial-inclusion strategies. These efforts hinge on collaboration: the more that companies, NGOs, regulators and donors communicate, the more progress we will make.

**Key points**

- Regulators continue to struggle to balance the desire to encourage innovation with the need to protect consumers.

- Client protection needs to come from below (client education) and above (regulation of financial-services providers).

- Technology can help reach the last mile, but multiple channels will continue to be necessary.
Young people face many barriers to success, and their lack of access to finance is one such barrier. Efforts to train youth on financial topics tend to be part of broader educational efforts more often than those targeting adults. As well as budgeting and entrepreneurship, topics such as leadership, workplace readiness and shopping for non-financial services are often included. In addition to financial institutions and NGOs, much of this work is being done in schools, as early as the primary grades. Working through schools can help address the problem of how to reach young people in rural areas where online tools don’t work due to limited connectivity. Regulators are helping too, with initiatives such as the rule adopted in 2014 in Vietnam that removed the requirement for people ages 15 to 17 to have parental permission to open bank accounts.

As financial products should be customised from region to region and for customers in different life stages, so should financial education. Using examples from a shopping mall might engage a city kid, but photographs of luxury items might turn off a rural teen. Other populations, such as migrants and out-of-school youth, also warrant their own customised curriculums, but motivating young people to engage in financial education can be a challenge.

**Inspirational trainers**

A key element to successful training is the quality of the trainer—not just their knowledge, but also their ability to make a compelling presentation. Because many young people are so comfortable with phones, using apps can be a good way to impart knowledge. This has the additional benefit of capturing data that can be analysed to show the areas where learners are making more or less progress.

Policymakers in India and China have built financial education into school curriculums. China alone has spent US$300 billion on its entrepreneurial environment. In other countries, however, some non-school program operators have had difficulty convincing schools to prioritise the topic. Some argue that it is easier to train one group of teachers—such as technology teachers—to take on financial education, but others disagree. In Singapore, for example, all future teachers are taught to infuse financial topics into their lessons—whether they teach maths or cooking.
Trawling the shopping mall for ... mentors

Engaging young people can be challenging. Mobile channels can be a good avenue, as can going into the community. For example, some programs bring students to shopping malls to discuss advertising and food labels, practice making informed decisions, distinguish needs from wants, and learn how these skills relate to planning for the future. The need to help youth understand the consequences of their actions is particularly strong in the case of e-commerce, since learning to control impulses can prevent expensive mistakes.

Like mainstream microfinance borrowers, young people need to be trained on small-business development, including topics like understanding interest, repaying loans and investing in expansion. They also need budgeting skills to help them reach personal and business goals. Beyond planning income and expenditure, they need to know how to save more effectively, and why they should. Sometimes, training in these skills is grouped with other “life skills” like nutrition, health, and employability efforts like gaining transferable skills, positioning oneself in the labour market and applying for jobs.

Research indicates that combining mentorships with financial literacy and entrepreneurship programs allows these efforts to catalyse each other, creating significantly better outcomes. A program in Singapore identifies young people who are struggling academically and matches them with retailers. During school holidays, the young people shadow the retailers for two weeks and then work for them for one month. The students are paid US$20 per day and must deposit that money into their bank accounts. This real-life experience gives them a sense of hope and focus that improves their performance in school.

Motivation

For many young people, financial services are not of great interest or concern. They might be more focused on their social lives or whether they will have something to eat tomorrow. Strategies to engage them revolve around building confidence, using games, developing competitions and focusing on practical issues. With out-of-school youths, theatre, peer-to-peer learning and discussion may work best. Some programs use case studies, send students to open bank accounts, and bring in bankers to participate in the training. Others include exams, grades and certifications that young people can present to employers to bolster their job applications.

There is a growing preference among young people towards digital financial services as opposed to traditional ones. Students are also learning to investigate which providers offer them the best terms. As they age, they will become a major force in the industrywide shift towards digital. Banks that don’t function well online will fail to attract these customers.

Key points

• Financial-education services targeted at young people are more likely to be combined with coverage of leadership, consumer, health and other topics.

• Peer learning and mentorships are among the teaching avenues that can motivate reluctant youths.

• Countries such as China, India and Singapore are building financial education into traditional school curriculums.
4. LEAVING NO ONE BEHIND

Moderator: Mr. Royston Braganza, Chief Executive Officer, Grameen Capital, India
Mr. Vipin Sharma, Chief Executive Officer, ACCESS Development Services
Ms. Tam Le Thanh, Associate Professor, Dean of Commercial Banking Department, School of Banking and Finance, National Economics University, Vietnam
Mr. David Kneebone, General Manager, Investor Education Centre

As markets evolve and people move up the economic ladder, there is a risk that others will get left even further behind. Delivering financial services to the people who are most difficult to serve begins with financial education and appropriate product design. The funding spectrum—from philanthropy to mainstream investing—can enable a range of opportunities to address these issues.

Trial and error in India and Vietnam

India has been addressing the issue of financial inclusion for decades. Although the overall impact has been limited, India’s most recent financial-inclusion campaign is showing promise. Within the last two years, 270m people have opened bank accounts for the first time. While it is still too early to judge the impacts of this, the campaign could potentially lead to significant benefits; particularly if these new users develop habits of using these accounts and their associated debit cards. Building upon this momentum, the Indian government is also working to boost the number of social schemes that use direct-benefit transfers from 70 to 140. It has also introduced new life-insurance schemes (for 300 rupees per year), accident insurance (for 12 rupees) and micro pension programs.

The government of Vietnam has also been a strong supporter of microfinance. The Vietnam Bank for Social Policies (VBSP) now provides financial services to 7m people, however the subsidies it uses have become a point of controversy. While regulatory changes have been proposed to improve Vietnam’s microfinance sector, progress on reforms has been slow. Private MFIs in the country have found it difficult to grow due to restrictions on investment and other factors, but the country financial inclusion strategy, which is currently being developed, is expected to provide additional focus on fintech and agent banking which could provide additional opportunities for MFIs.

Engaging with communities

A program in Uganda has been successful in engaging unbanked people by encouraging young women to save in low-cost accounts, involving their parents in recruitment. As the parents watch their daughters make progress towards their savings goals, the parents often become motivated to open accounts as well.

In Sri Lanka, an MFI successfully boosted the number of women it serves by hiring more women as credit officers to engage with the local communities. These women were also trained in Islamic finance principles, as many Islamic communities in the country are underserved. The program involves a range of services including savings, insurance, fund transfers and the development of value chains in partnership with for-profit companies.
In Pakistan, the World Bank and the Pakistan Microfinance Network are partnering to provide hands-on training to beneficiaries of a conditional cash-transfer program. Topics include planning how to spend the cash, using automatic teller machines and learning about other available banking services. The early data from this program suggests that the impact on financial inclusion has been significant.

The State Bank of India and the Reserve Bank of India have had success using storytelling to reach people with limited literacy and numeracy levels. This idea has also been adapted to reach older people in Hong Kong.

Lack of infrastructure, education

Different markets present different challenges to financial-services providers. Sometimes, people lack the documents required to open an account. In the case of digital finance, connectivity may be limited, or users may not be familiar with technology in general. Even worse, customers may have been cheated by unscrupulous firms in the past, resulting in greater levels of risk-averseness.

Some countries have unique demographic or infrastructure related challenges such as thin population density and poor roads. Other countries limit MFIs from accepting certain kinds of investment or NGOs from being overly profitable.

Lack of properly functioning credit bureaus may also be the cause of many problems. For example, some credit bureaus only provide credit reporting on loans provided by MFIs, not not from other lenders, making it easier for customers to use one loan to repay another leading to over-indebtedness.

Responsible and responsive

Leaving no one behind means delivering products that adequately meet everyone’s needs. The ubiquity of the mobile phone despite inequality is a perfect example: even very poor people will buy products that meet their needs. For financial-services providers, greater inclusiveness requires reconsidering features such as repayment terms and delivery channels, as well as whether services are provided through groups or directly to individuals.

Just as users must be encouraged to access a new service, financial institutions need to better understand how to profit from serving marginalised groups. VBSP is one example of an organisation pursuing such understanding. By using subsidies to test new projects it seeks to learn which are sustainable and can be replicated by others.

Products and services must also be responsible. Clients must be protected from over-indebtedness and treated fairly in cases of disputes. Those who use digital finance should have control over the data they share; particularly as the implications of corporate use of personal data is still not fully understood.
Collaboration for financial education

Many successful financial-education programs rely on coordination among a variety of organisations. National financial-inclusion strategies specify the roles of government, the private sector, NGOs and others. Stakeholders should set goals that cover what each child and adult should know, what attitudes will serve them well, and what behaviours a successful user of financial services will exhibit. In the Netherlands, the ministry of finance laid the groundwork before 40 private companies got together to address financial education. Brazil, Hong Kong, India, Indonesia and Japan have also developed successful programs.

Key points

• Increased financial literacy is key to reaching underserved populations, as are basic literacy and numeracy.

• Vietnam and India are among the countries that have started to find success through trial and error.

• Educating children about financial services can engage their unbanked parents.
5. HARNESSING CHANGE TO ACCELERATE FINANCIAL INCLUSION

Moderator: Mr. Sean Preston, Chief Representative, Country Manager, Visa Vietnam, Cambodia, Laos
Mr. Shameran Abed, Head of Microfinance, BRAC; Chairman, bKash
Mr. Philip Course, Managing Director, Cullinan Group
Mr. Punnamas Vichitkulwongsa, Chief Executive Officer, Ascend Group

Despite the overall success of microfinance institutions’ ability to reach the unbanked and underserved, an estimated 2 billion people still lack access to financial services. The financial lives of people at the base of the pyramid are generally complex and traditional products such as loans or even mobile wallets are not enough to adequately service their needs. To manage their money successfully, people need access to a range of financial services through multiple channels, including credit, savings, insurance, payments and micropensions. A poor person anywhere in the world—even in a remote, rural area—deserves access to all of this, and only by harnessing technology will providers be able to effectively offer such a range of products and services.

Over the last five years, investors have put US$50 billion into 2,500 fintech companies. That shared commitment goes towards reducing risk, generating new products, and decreasing the cost of reaching customers. Although only a portion of the investment is directed specifically at financial inclusion, the successful technologies will in turn benefit the poor as well.

People’s financial lives are complicated

Even if all the technologies work as intended, we still need to better understand the financial lives of those at the base of the pyramid. The problems that poor women face in accessing financial services in Bangladesh, India and Pakistan are very different from what their counterparts face in Tanzania, Liberia and Sierra Leone. In Bangladesh, tremendous population density is one of the natural advantages for microfinance institutions. A microbank could set up a physical branch almost anywhere and attract enough clients to become viable within a year. But in rural Tanzania, villages are 20 miles apart making physical branches far less viable. Such situations highlight the need for technology as a way to provide viable solutions.

In order to maximise usage and effectiveness, financial products and services need to be designed with the varying needs and preferences of customers in mind. Australia’s Cullinan Group offers its client companies three ways to work with customers. A user can download a mobile-phone app to perform tasks such as sending a remittance. In connection with that interaction, the system will offer the user an additional product that is relevant to their usage history. The second channel is a website, which a potential customer can find through ads that appear next to search results for terms such as “loan application”. The third channel involves a loan officer: a computer system displays prompts that guide them through a conversation with the customer. This, too, facilitates customised upselling based on the customer’s history with the company.
Designing services people love

Human-centred design, which involves building products around people’s needs, is in vogue. Successful technology firms aim to perfect the user experience: China’s Alipay and India’s Paytm are prime examples. While banks typically require users to log in before they have access to any services, many apps are now designed in ways which encourage users to enjoy browsing the software to explore the services on offer but without being asked to provide anything such as a deposit or email address as an initial first step. Having the user experience at the heart of the system means giving customers the freedom to explore the service openly and only being required to log in after deciding to make a purchase.

The upsell can also be part of a good user experience. Most banks would create a payment service as a tool to enable transactions: you exchange some value, and that’s it. But Alipay, which started with e-commerce, has expanded this concept into a “commerce loop”: creating awareness, facilitating sales and building loyalty to bring back customers to create more sales.

In order to be successful in this area, an organisation needs to be able to effectively analyse behaviours to comprehend the customer’s experience and problem they may have with the product, a great user-experience designer, a good technologist to help build scale, and a strong executor to carry it all out. Most microfinance institutions lack the capability to design their products and services in these ways on their own and so will need to seek partnerships to successfully broaden their product and services offerings to more appropriately meet the needs of their customers.

We want less flexibility!

BRAC of Bangladesh has had exceptional success with its home-grown bKash mobile-money service, serving 25m users via 160,000 agent points since launching in 2010. One of the many risks BRAC took with this product is that the microbanking side of the organisation might lose much of its US$500m in savings deposits to bKash. And yet, while people signed up for the new service, many didn’t move their savings. What BRAC learned from this experience was that clients did not necessarily want more flexibility. Instead, they found the rigidity of the old system to be of greater value to them as a way to protect their savings from themselves and, often, from their husbands, who are the biggest risk to women’s savings.

So, while mobile money has many strengths, people still need other options. Even in the most remote areas, there are shops and individuals that can act as agents. In these areas, it is important that the technology is simple enough for both end-users and agents to use easily. People in remote areas are less likely to have smartphones or know how to download an app. A simple technology like the USSD protocol is enough to perform many financial transactions on older phones.

One powerful way to encourage the use of digital funds is to change the way money enters the system. When farmers can accept electronic payments from middlemen and city dwellers can receive e-remittances from family members abroad, they will be more likely to pay their own bills digitally. Increasing numbers of shops—especially those that are also bank agents—are already accepting electronic payments. Square is an example of a service that offers a small plug-in device that turns any smartphone into a point-of-sale (POS) terminal, making it easy for retailers to get on-board.

An existential question

Technology has the potential to put some microfinance institutions out of business. At the same time, microbanks have built plenty of value over the decades: a good understanding of their customers and a deep well of client trust. Institutions that don’t innovate might be gone in five years, but those that embrace change could have a crucial impact on the future of financial services.
One reason for microbanks to tie into new technologies is that they often get cheaper over time, while physical branches tend to get more expensive. Another is that technology companies often need microfinance institutions to tap into the bottom of the pyramid. The data microbanks have about loan size, repayment history and demographics is very valuable, and can make it easier to cross-sell things like microinsurance and payments products. The data can even be packaged to increase funders’ confidence, reducing the cost of finance.

It has been said that people tend to overestimate the impact technology will have over the next two years but underestimate its impact over the next ten years. So how do microfinance institutions adopt new tools and business models soberly? There are peer-to-peer lending models, “many-to-many” lending club models, identity-as-a-service options and behaviour-based credit scoring.

Relationships with customers are supremely valuable, and bringing technology into those relationships protects microfinance institutions from becoming obsolete. At the same time, clients (or their children) are moving into the middle class, so NGOs have a decision to make. When should institutions seek to serve families over the very long term, and when should they move them to commercial financial services—whether traditional or virtual?

**Key points**

- People need a range of service options and delivery channels to choose from if they are to manage their financial lives well.
- Technology is the best tool there is to reach the 2 billion people who remain unbanked.
- Successful technologies tend to address challenges that are beyond the scope of microfinance institutions, which must develop partnerships to make effective use of tech.
- The strength of microfinance institutions’ relationship with clients can keep them relevant even as disrupters succeed in the marketplace.
The vision of reaching the 2 billion people still needing financial services has evolved from focusing on branches to focusing on technology, particularly services provided through agents. While financial technology (fintech) companies are attacking the challenge inherent in this shift, many banks and microfinance institutions are not. The following examples offer a glimpse of future trends.

**MasterCard, mobile banking, and the Vietnam Bank for Social Policies**

While the government of Vietnam has an explicit policy promoting the shift from cash to electronic payments, mobile-banking services in the country remain extremely limited. However, mobile-phone usage is high. Among the 7m customers of the state-owned VBSP, which serves poor people, 25% have smartphones. VBSP just launched a partnership with MasterCard to exploit this high phone penetration by offering mobile-banking services. MasterCard is covering the costs for the ongoing six-month pilot, and both parties mean to make the service profitable.

Initial elements of the program include notifying customers of payment dates and account balances via SMS. This is intended to offer gradual entry to clients who are less comfortable with technology. Later phases will include a smartphone app offering person-to-person payments, insurance and other services. The effort is requiring many changes to VBSP’s internal operations. In addition to client education, the bank will need to expend significant energy to win staff buy-in to the project.

**Bima’s mobile microinsurance**

Bima, a firm that offers microinsurance and health services in 16 emerging markets, is growing at a rate of 500,000 customers a month. Most of these live on no more than US$10 per day. While less than 3% of people in most emerging markets have insurance, the high rate of mobile-phone use again offers an opportunity. Teaching customers about insurance and getting them to believe they will be paid as promised can be the toughest barriers to getting them to accept an insurance product: the initial sign-up and payment process is paperless and only takes two minutes on a mobile phone. Clients can choose to complete the sign-up process on their own, but Bima also has agents in the field who can help them. Because payments are made with mobile money, Bima can break annual premiums of US$10 down to less than US$0.03 per day.
Bima has not had success with marketing by SMS. Instead, it has a few hundred agents in each country that market and provide education in person and by making voice calls. It also has a quality-assurance process to ensure customers understand what they are buying. To support the claims process, Bima has a dedicated team that will walk customers through collecting and filing the needed documentation. The goal is to pay claims in five days or less.

Contrary to the experience of many other providers, Bima has found microinsurance to be a sustainable business. Before it enters a market, the firm seeks a projected break-even point of no more than two years. In some cases, claims have been low, and Bima has increased payouts.

In response to customer demand, Bima has also moved into telemedicine. Through this service, customers can call a doctor at any time of the day or night to get information and connect with a primary-care provider if required. Bima is now operating this service in Bangladesh and Ghana, and is studying another five markets for expansion.

TransferTo: Remittances of cash and airtime
TransferTo connects approximately 1,000 financial institutions, remittance firms and mobile-money operators. Rather than offering retail products, it facilitates these companies’ provision of digital transfers of airtime and money. The company started 11 years ago with a focus on airtime transfers in amounts worth US$1–20. In the last three years, it has acquired a license from the UK’s Financial Conduct Authority (FCA) and entered the cash-remittance market.

To participate in the Thailand-to-Myanmar remittance corridor, TransferTo engaged mobile operators in both countries to allow people to send airtime to family members in Myanmar. The unit size is 3,000 kyats (about US$2.20), which lasts most mobile users about three weeks. The service is designed with a very simple user interface, because many users cannot read Thai, and is built on the USSD protocol, so a smartphone is not necessary. Users simply provide a destination phone number and the amount of credit to send, then the sender and recipient both receive SMS notifications of the transaction. TransferTo enables similar services in Malaysia, Hong Kong, Singapore, Taiwan and many Middle-Eastern countries. Marketing is carried out via social media.

After customers are comfortable with sending airtime, it is much easier to upsell them to sending money. One example of how mobile-money operators use TransferTo is to serve small hotels that partner with the website Booking.com. Hotels in Nigeria, for example, collect payment from guests and then owe commissions of roughly US$100 per month to the website, which is based in the Netherlands. While banks charge US$30 or more to wire funds internationally, TransferTo helps mobile-money operators in Nigeria get the hotels’ payments to Europe at far cheaper rates. In addition to helping the hotels who already use Booking.com, this cheaper, easier payment channel also helps the website attract more partner hotels.

Software Group boosts MFIs’ back-office efficiency
Software Group provides delivery-channel technology in approximately 65 countries. It has helped numerous MFIs throughout the region increase their capabilities by strengthening the efficiency of their institutional and operational systems. For example, Software Group has successfully reduced the loan-disbursement timelines of some MFI clients from 72 hours to 6 hours. In other cases, the company has provided technological solutions which have drastically increase the number of accounts loan officers can manage successfully.
**Protecting clients**

Amid the rush to provide more convenient services, mistakes have been made. Some “nanoloan” companies, for example, are making it incredibly easy to borrow, but aren’t taking precautions against over-indebtedness. And even clients that can afford to repay their loans might not fully understand the importance of doing so.

Regulators are most concerned with cross-border payments because of potential money laundering and terrorist financing. The key element to this issue is the client onboarding process. Companies that use mobile-phone numbers instead of identification cards must work with regulators to be sure they are comfortable with the concept. In addition to initial KYC compliance, transactions must be monitored for suspicious activity in real time. A higher level of KYC is generally required to get cash out.

As part of their efforts, firms can buy third-party blacklists of customers that shouldn’t be served. Daily transaction limits are another way to minimise illegal activity, but too low a cap pushes honest customers back to traditional providers. The impact of fraud on mobile-money services is generally small.

**Key points**

- The high penetration of mobile phones in low income brackets is a huge opportunity for digital financial services.

- The complexity of designing, marketing and delivering services such as mobile banking, insurance and remittances drives partnerships among financial-services providers, mobile-network operators, government and other organisations.

- Although the move to digital KYC is beneficial, it requires additional due diligence to prevent criminal activity, especially when customers are getting cash out and making cross-border payments.
Micro-, small and medium-sized enterprises (MSMEs) are the main drivers of employment in most economies, and the opportunity involved in providing finance to them is enormous. Some observers argue that it warrants national conversations of the type that occurred when countries were first establishing their stock exchanges.

While MSMEs can be extremely small, defining the maximum size of an MSME is not easy. A medium-sized enterprise might have annual revenue worth up to US$1m, or it might have up to a few hundred employees. Often it will have a good relationship with a commercial bank. Since the smallest enterprises in many places are served at least partially by microlenders, the middle of the MSME market—small business—is the hungriest for funding.

Although in theory many of these firms should be able to access loans, in practice they are often required to put up a large amount of collateral, wait months for processing, pay exorbitant interest or commit to a term loan when a credit line would fit their needs much better.

Meeting the needs of MSMEs by using existing data

The ability of lenders to make quality decisions is significantly impacted by the quality of data that they have available to them. As such, the availability of such data is not only linked to opportunities for entrepreneurs to access finance, but it also prevents over-indebtedness. By being able to access their data, a driver for a company like Uber or Grab can easily show their cash-flow history. A bricks-and-mortar retailer can offer more data to a lender if its customers use Facebook to view videos of the dresses the clerks put in the window or a fintech firm might buy receivables from a factory with a well-established record of sales. Lenders that figure out how to use these data sources effectively will have significant advantages.

Most MSMEs are not highly connected to digital channels. Their moves into technology are more likely to be through processes such as supply-chain financing, trade financing, e-procurement or using blockchain databases to improve contracting processes.

Managing privacy concerns

Despite the challenge of privacy, using new data types to perform credit evaluations is a major opportunity. One possibility is that a farmer or shopkeeper seeking a loan could use a peer-to-peer website that lets them request a loan through a tiered process. A user could, in theory, give up one level of personal or business data to see what offers lenders make. If the entrepreneur doesn’t like the offers, he or she could reveal an additional tier of data to try to get better terms. This would allow the user to keep more control over their data.
Meanwhile, potential lenders could fund the entrepreneur from anywhere in the world. Someone in Europe, for example, could use the same peer-to-peer website to diversify their portfolio with a loan or basket of loans, denominated in one or several currencies. Businesses in Singapore are already using similar mechanisms, raising hundreds of thousands of dollars in equity via crowdfunding in a matter of weeks. Faced with a conventional venture-capital timeline of six months or more, MSMEs are looking online first.

**Legal tech and regtech**

One way to encourage the spread of these financing platforms is to improve infrastructure. Simplifying elements such as KYC, legal documentation, contracting and payment collection is important. Technology that improves legal and regulatory processes—legal tech and regtech—can lower the costs of doing business while balancing the protection of investors and borrowers. These are critical parts of the evolution of infrastructure.

Another way to support innovation is for regulators to keep their touch light. Although customer risk is always a concern, openness propels change. When a fintech provider is selecting the next country it will expand into, it won’t choose the one that requires a local office. When regulators think that fintech providers should be regulated as banks, those firms end up replicating inefficient financial institutions that have a history of failing the MSME sector.

When fintech firms need funds to expand, banks may not be the best choice. BBVA, a Spanish banking group, looked into traditional financial institutions that invested in fintech, and found that banks that took control of fintech start-ups tended to push them to reproduce behaviour that is not good for MSMEs.

**Back-office changes**

As entrepreneurs can benefit from improving their use of technology, so can lenders. Many still are using highly inefficient accounting methods such as Excel spreadsheets to run their businesses, instead of more-sophisticated Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) software. Payment processes can also be moved online and credit scoring standardised to enhance efficiencies. Another potential option, while controversial, is to use the social-media data in users’ phones to predict the prospects of repayment.

As lenders are learning more about technology, telephone companies are learning more about lending. Large numbers of poor people have phones despite their low incomes. Their service providers already have highly relevant data about them, such as their patterns of replenishing airtime. Will banks leave this huge market to telephone and fintech companies?

After-sale service is another area where banks have been slow to act. For example, if a bank knows that an MSME’s purchasing just increased significantly, the bank can contact the customer to see what additional products they might now be in a position to use.

Over the next few years, several factors are poised to push MSME funding to new heights. Among these are improved telephone connectivity, flexible logistics options and millions of young people coming of age. Young people are comfortable with smartphones, the internet and sharing their data. The long-term effects of this are likely to be profound.

**Key points**

- New types of data are opening a huge market for providing finance to MSMEs at reasonable terms.
- New legal and regulatory technologies are key enablers of this opportunity.
- Interplay among traditional lenders, fintech firms and mobile-phone companies will define the future of financial services for MSMEs.
Blockchain is a distributed database that can increase the transparency and security of financial, health, identification and other data. It is a form of distributed ledger technology (DLT), meaning that the data is not held on a single computer, but instead is managed by the consensus of multiple servers. Blockchain can facilitate transactions by confirming their validity in a way that each party can see. Rather than trusting the other party, a person or institution places trust in the system’s cryptography. This reduces the need for service providers that mediate flows of data and money. One of the features that makes blockchain secure is that once a record is added to a blockchain, it cannot be removed. Regulators praise the audit-readiness of blockchain data.

The virtual currency bitcoin uses a public blockchain, which anyone can add data to or view. Alternatively, a bank might set up a private blockchain that only it and its partners can access. A blockchain is just one part of a technology system, though: an institution still needs other tools to analyse the data that the blockchain holds. For example, software can process blockchain transaction histories to perform anti-money-laundering functions.

Groups of banks are using distributed ledgers to share information for reasons including the optimisation of interbank payments. It can offer an efficient way to execute transactions, though it lacks the consensus mechanism that defines a blockchain. A blockchain purist would consider DLT as simply one more type of database; in fact, they would argue that the decentralised nature of blockchain allows for the removal of intermediaries to the point that financial institutions will become irrelevant in the future. This idea could contribute to a form of “crypto-anarchy”, where technologies bypass external regulation.

The consensus mechanism involved in blockchain allows for extremely high security. In some ways, it is the opposite of the centralised, closed-permission networks that banks often use. These traditional data structures have been hacked more widely than is recognised, because they can be pierced at a single point of attack. Despite its high value, the bitcoin blockchain has never been hacked in the nine years of its existence.

**Cutting out the middleman**

Firms are using cryptocurrencies such as bitcoin to reduce the number of steps required—and hence the fees charged—for people to get money where they want it to go. One firm in the
Philippines uses bitcoin to power a mobile-phone app that functions as an e-wallet. Customers can use it to top up their phone credit, send money to a person or a bank, and buy prepaid Visa cards. They can upload money or cash out via agents in multiple countries.

The firm charges 3% or less for international remittances, significantly less that the 7% rate charged by legacy providers.

If a family member abroad wants to send money home for a specific purpose, a cryptocurrency can allow the money to bypass existing networks and fees. Instead of using a sending agent to send money to a receiving agent to be hand-carried to make a payment, the sender can upload the value, and the doctor, school or microbank can access it directly. This has the significant advantage of confirming for the sender how the money was used.

As more merchants accept cryptocurrencies, more steps are cut from the processes people use to manage their lives, and the value of the ecosystem increases. How best to facilitate this transition remains an open question.

**Facilitating identification and trade finance**

Blockchain has great potential to help poor people prove their identities and their creditworthiness. As people make blockchain transactions, the resulting records can function as credit histories for lenders to evaluate. This can be tied into KYC, reducing the cost and time that institutions typically spend on compliance. It can also reduce fraud.

Hernando de Soto, a Peruvian economist, estimates that confirming the identity of the 4 billion people working outside of formalised systems could “unlock” US$9 trillion of buying power. Importantly, it can all be done in ways that protect privacy. For example, data from an electricity bill can be broken down to prove a person’s address without revealing the amount of the bill.

Blockchain can also help with trade finance, which is very documentation-heavy. When all parties can easily view customs documentation and letters of credit, processes can be significantly quicker and cheaper.

Another advantage of a distributed ledger is that it still works when one or several servers goes offline. Furthermore, by splitting tasks among multiple computers processes can run more quickly. Completing a transaction on a public blockchain can take 20 minutes because it needs to be replicated across widely dispersed servers, but in a smaller, private network the wait time is very short. This type of network could be used, for example, by a group of banks, to allow customers of one bank to perform transactions at branches of the partner banks. A similar concept could allow microfinance institutions to exchange funds with outside entities even if the microbank is excluded from clearing and settlement networks.

**Maintaining security**

Efforts must be made to minimise money laundering and terrorist financing, but it is tough to regulate payments on the blockchain itself. The way to address this, as regulators have done in the Philippines, is to monitor the entry and exit points, making services that allow people to upload or extract money from the system perform KYC requirements and monitor the size and frequency of transactions.

**Key points**

- Blockchain is a form of distributed ledger technology that can increase the transparency and security of financial, health, identification and other data.
- Cryptocurrencies such as bitcoin use blockchain technology to facilitate transactions, reducing the need for intermediaries.
Moderator: Mr. Juan Carlos Izaguirre, Senior Financial Sector Specialist, Policy, The Consultative Group to Assist the Poor (CGAP)
Ms. Pia Roman, Director, Inclusive Finance Advocacy Office and Concurrent Head, Financial Consumer Protection Department, Bangko Sentral ng Pilipinas
Mr. Vijay Chugh, Former Chief General Manager, Payment and Settlement Systems, Reserve Bank of India
Mr. Chou Vannak, Deputy Director General, General Department of Financial Industry, Ministry of Economy and Finance, Cambodia
Mr. Simone di Castri, Director, Policy and Ecosystem Development, Bankable Frontier Associates (BFA)

In a fast-moving landscape, how can regulators encourage innovation while keeping consumers safe? A decade or two ago, supervisory authorities began moving their focus from prudential regulation to protecting clients from abusive financial institutions. Now they must expand their perspective to policing telecommunications companies and information-technology firms as well as agents and agent networks. While it is tempting to push regulators to err on the side of innovation, the risks are significant. As an example, nearly a million customers in China lost US$7 billion to a fraudulent scheme that was presented as peer-to-peer lending.

As the financial-services market has grown in size and complexity, many central banks still have the same capacity as they did 20 years ago. This means fewer experts are available to learn about innovative models and there is less appetite for loosening capital requirements. Strengthening regulators’ capacity requires more than staff training: they also need new tools to automate parts of their work. A positive sign is that a growing number of regulators have adopted frameworks that explicitly support innovation.

Moderation in all things
There is always a need to find balance, and data collection offers one example, where privacy and efficiency are concerned. Sharing data can help institutions boost both inclusion and sales. But should a woman pay more for life insurance because her mobile-money transactions reveal she buys fewer fresh vegetables than her neighbour?

Another matter that requires balance is how quickly new models should be regulated. To keep markets open to new players, it is often best to regulate only after gathering robust evidence. This helps distinguish real risks from perceived ones. After a new regulation is issued, adjustments will likely be needed. At each step of the process, it is important to remember that a new model or technology is bringing people into the financial system who are making transactions for the very first time and need to be informed and protected.
Bangko Sentral ng Pilipinas (BSP), the central bank of the Philippines, took such an approach with virtual currency. In 2012, it started to investigate the potential of the concept by engaging with firms active in the subsector. By 2014, BSP had determined that virtual currencies could offer cost savings and increased efficiencies, but it was too early to regulate them. With use increasing, BSP took the middle ground of issuing a consumer advisory explaining that protections were few. Only in 2017, five years into the process, did BSP issue its regulation, which targets the exchanges that allow people to cash in and out of currencies like bitcoin.

This type of measured response to a challenge is mirrored in the tiered KYC regulations that many countries are adopting. Several years ago, a BSP survey identified lack of proper identification documents as a significant barrier to onboarding new clients. As a result, institutions are now allowed to defer KYC requirements for new microfinance customers until they make transactions that warrant more scrutiny. When a client meets that threshold, their institution can invoke electronic KYC, which is significantly less onerous than traditional KYC processes.

**Opening the market**

Until recently, the idea that everyone needed a bank account and possibly a credit card was widespread. Although mobile-money services like M-Pesa have shown this is false, non-banks are only allowed to offer this type of service in 52 countries. Just like we need mobile connectivity in rural areas, we need non-banking institutions to be able to compete with banks in every country. From a risk perspective, it is hard to argue that non-banks should be excluded from offering mobile money. Similarly, there is no need to regulate microfinance institutions as tightly as banks, which is still the norm in many countries.

Regulators can support new technologies in many ways. For example, the Reserve Bank of India invites private-sector representatives to present their ideas at periodic “Innovation Days”. These events have given regulators the chance to prepare for a wide range of developments, such as the use of e-currency as legal tender, a technology called “beep and pay” that allows retail payments via ordinary feature phones, and the biometric cash-out mechanism that grew into Aadhaar Pay. Another source of innovation is the Institute for Development and Research in Banking Technology, which was established by the Reserve Bank of India in 1996.

**Testing the market with “regulatory sandboxes”**

A regulatory sandbox is an arrangement where a regulator permits a company to provide a new service to a subset of clients before agreeing to a complete rollout. While an incubator or “innovation hub” can help entrepreneurs develop ideas, a regulatory sandbox lets those ideas be tested on an intermediate scale while regulators build trust in them. BSP is using this framework now to let a bank offer a limited number of reduced-KYC accounts.

There are many other avenues through which regulators can support financial inclusion. In addition to opening communication with industry, they can talk to their peers in other countries. They can build national financial-inclusion strategies, as Cambodia recently has. Regtech (regulation technology) is another area of growth. Can automated reporting reduce costs for both financial institutions and regulators? Can technology help supervisors cut fraud? Regulators need to open themselves to change and encourage dialog with the private sector.

**Key points**

- Regulators are being asked to do more with less; regtech can help.
- Regulating new services can happen in stages: studying, testing in a sandbox, regulating and adjusting.
- Tiered requirements based on risk can simplify areas such as compliance reporting and KYC systems.
- Allowing non-banks into the market and allowing banks to work through agents can boost financial inclusion significantly.
10. DEVELOPING FINANCIAL INCLUSION IN VIETNAM

Moderator: Mrs. Nguyen Thi Tuyet Mai, Managing Director, Vietnam Microfinance Working Group (VMFWG)

Mr. Pham Huyen Anh, Director of Banking Operation Policy Security Department, State Bank of Vietnam

Mr. Dinh Xuan Ha, Head of Financial Institutions R&D Department, Institute for Banking Strategy

Mrs. Thi Ngoc Linh Duong, Member, the Vietnam Women’s Union Presidium, General Director, Tinh Thuong One-member Limited Liability Microfinance Institution (TYM)

Mr. Nhan Phan Cu, Director, Communication and International Co-operation Department, Vietnam Bank for Social Policies (VBSP)

Mr. Alwaleed Alatabani, Lead Financial Sector Specialist, World Bank, Vietnam

While definitions of financial inclusion vary, people clearly need and want institutions to give them access to more than just loans and savings products. A greater array of payment options, insurance and other services can lead to poverty reduction and shared prosperity. Inclusion is also a step towards a cashless economy, which offers greater efficiency, safety and tax compliance.

Worldwide, from 2011 to 2014, the proportion of adults with formal accounts rose from 51% to 62%. Of the 90m people in Vietnam, about two thirds live in rural areas and have low incomes. Nearly all enterprises are medium-sized or smaller, but only about half of these have access to credit through the country’s 35 commercial banks, 27 non-bank institutions and handful of other organisations. These services are concentrated in the largest cities, with scarcely any access in mountainous areas, especially in northern parts of the country.

Because this situation is similar to that of many other countries, Vietnam has ample opportunity to benefit from others’ experience. Partnerships among government, NGOs and the private sector are critical. Although regulators in Vietnam have been making it easier for agents to offer payments, insurance, remittances, currency exchange and other services, more reform is needed to support the delivery of mobile payments and other financial services. When advocating for such changes, a good strategy is to identify a well-placed champion of financial inclusion. Then evidence-based strategies can be distributed through that person.

While commercial banks are serving Vietnam’s major cities, it is MFIs, along with the VBSP, that have had success in rural areas. One strength of these institutions is their understanding of poor people’s needs. Their challenges include how to increase scale and diversify product offerings beyond credit and savings. MFIs’ forays into insurance have been minimal, and electronic payments are in their infancy.
Paying $10 to visit the bank

Although most banks in Vietnam have offices in regional centres, these are far from many of the communes where poor people live. The average distance from communes to towns is over 50km, a distance that often requires half a day of travel each way. The opportunity cost of a lost day of work is often US$10. In response to this problem, the VBSP sends staff to conduct transactions at nearly all of the country’s 11,000 communes. However, this only happens once a month. As most poor people in Vietnam have at least a simple “feature” phone, technology has great potential to boost financial access.

In addition to distance, barriers to financial inclusion include the cost of bank accounts as well as lack of identity documents and other KYC issues. Some people simply aren’t interested in accounts, often because their needs are met through a family member’s account. There are also barriers are on the supply side, such as limited payments infrastructure, lack of creditworthiness data, and incomplete secure-transaction frameworks.

Developing a national financial-inclusion strategy

Unlike many of its peers, Vietnam does not yet have a national financial-inclusion strategy. Such a plan helps the different arms of government and industry coordinate their efforts to reduce duplication and increase their impact. One important element of any strategy is to measure interim performance. This allows for the periodic recalibration of efforts. Of course, setting goals requires data on current progress in achieving financial inclusion.

As of 2014, the World Bank’s Global Findex database ranks Vietnam behind its regional peers on inclusion, with 31% of adults holding a transactional account at a formal financial institution. Unsurprisingly, there are disparities along lines of gender, age, income and geographic location.

In 2016, the State Bank of Vietnam established its Financial Inclusion Support Framework, which includes four pillars:

- Participating in the development of a national financial-inclusion strategy including a monitoring and evaluation framework.
- Improving legal and regulatory oversight of the payment system and credit infrastructure.
- Enhancing and diversifying financial services for people and enterprises.
- Improving financial education and consumer protection.

The World Bank has been supporting this work, and the International Finance Corporation (IFC) is also helping in areas such as transaction security, credit infrastructure, credit reporting and payment systems.

Banking by agent and phone

There is great potential for agent and mobile banking in Vietnam. For example, enrolling a corner store as an agent of a bank or MFI has a range of benefits. The institution extends its reach cheaply, the agent gains a new source of income, and the customer saves time and money on travel. The ability to make transactions by mobile phone similarly expands geographical accessibility and hours of availability. Mobile banking can also improve the services provided through savings and credit groups, by letting group leaders enter transactions into institutions’ computer systems in real time.

A major technical barrier to agent banking is identity verification. This can be improved with iris scanning or other forms of biometric identification. Another challenge for financial institutions is building relationships with telecommunications providers, as this is unfamiliar territory. However, financial-institution staff tend to be supportive of mobile and agent banking, and customers are willing to pay a fee for it.
The first phase of rolling out a mobile-banking system can be to allow customers to check balances by SMS. After people get comfortable with the system, SMS payments and other services can follow. Waiving fees during a promotional period is a good way to get customers on-board.

**Key points**

- Vietnam’s impending national financial-inclusion strategy holds promise for streamlining the efforts of industry, government and donors to advance financial inclusion.
- Vietnam has the benefit of being able to borrow ideas from more-advanced peer countries.
- Agents and mobile banking have the potential not only to reach many people, but to facilitate deeper usage by existing clients.
11. BUILDING TRUST AND OVERCOMING BARRIERS IN DIGITAL FINANCIAL SERVICES

Moderator: Ms. Franchette Cardona, Marketing Director, Wing Cambodia Limited Specialised Bank
Mr. Tony Westaway, Managing Director, MiBank
Ms. Chandni Ohri, Chief Executive Officer, Grameen Foundation India
Ms. Parul Agarwal, Associate Director, IFMR LEAD

All around the world, MFIs, banks, mobile-money providers and telecoms are building ecosystems of digital financial services (DFS). The evolution of electronic remittances, credit disbursals, loan repayments, savings, retail payments, agent networks and other services has been different in each market. For example, mobile money has caught on only slowly in India, but quickly in Bangladesh, where bKash has been highly successful.

Even as specialised DFS firms enter the market, the value proposition for microfinance services remains strong. Rural people still get turned away from commercial banks for reasons ranging from having the wrong identity documents to not having shoes. So people continue to tuck cash into empty food tins, hide it under their beds and bury it under their fireplaces. By contrast, trusting a microbank with their money frees people to participate in their communities instead of lingering near home to guard their life savings. This is just one example of what is needed from financial services, and of the benefits that accrue when those needs are fulfilled.

One way to encourage customers to try a new service is to harness their tendency to follow their peers. Firms may seek out the “early adopters” in a community, who like to try new things and talk to their friends about their novel experiences. Getting these people to use a new product can be very helpful in building a critical mass of users.

For many, though, moving to a digital channel is a painful shift in behaviour. MFIs often ask customers to make two leaps at the same time: from an informal, cash-based system into a more formal banking product; and from a transaction with a human being (involving a paper receipt) to tapping on a phone keypad. The leap is all the greater for someone who isn’t already an avid user of technology for other purposes. Some older clients, for example, are reluctant to use a phone, even to make calls. They may prefer their daughters and sons to access their accounts for them.

Whether it involves teaching the primary client or a relative, much of financial education involves “hand-holding.” Unlike some agencies that offer generic financial education, MiBank, a microbank from Papua New Guinea, argues that the return on investment from financial education is higher if people walk out the door with a mobile wallet or another tool they can use right away.

Even after a reluctant client has been cajoled into trying a new service, they won’t necessarily use it regularly. Marketing a periodic product, such as commitment savings or microloan repayments, helps to develop customer habits of using DFS on a regular basis.
High-quality user experiences

Mobile-money services must function consistently and have simple user interfaces. If the customer has to “try again, please” 10% of the time, the firm will lose about 10% of its potential customers on the first demonstration. It’s important that users have confidence in the system, especially those who use phones only sparingly. For example, a person who regularly makes voice calls may not know how to send an SMS. If using a service requires ten steps, they could easily get stuck at step five and give up.

Even banking via an agent can pose difficulties for customers. Biometric identification systems, such as the Indian government’s Aadhaar, can smooth these transactions significantly by enabling customers to have their transactions completed almost instantly following a simple fingerprint or retina scan. Despite the privacy concerns inherent in biometrics, this can be a much better value proposition than phone-based services, especially for users who are not tech-savvy.

Segmenting the market

Firms need to consider the different aspects of their customers which impact how they can engage with the products and services they intend to offer. This includes understanding the literacy levels or familiarity with technology of their target market and ensuring that products and services are designed appropriately to meet their respective needs. A person’s level of comfort with technology is usually found to be highly correlated to age, and mobile-phone ownership—not simply access—is also a critical factor. A household might share a mobile phone, but if a woman has her own handset, her ability to engage in digital transactions is much higher.

In Bangladesh, one factor that has encouraged the adoption of mobile money is the high rate of domestic migration and the subsequent need to send money to faraway family members. Another selling point is that mobile money is relatively robust in cases of flood or other disasters.

Some clients want product features that may seem counterintuitive. MFIs might design savings products to have the funds easily accessible when needed by the client, but many customers want to create distance between them and their money, so they (and their relatives) are less likely to spend it impulsively.

Understanding client needs is important not only in product design, but also in staff training. As an example, an MFI planning to roll out a mobile-money service might hire a young, tech-savvy team to design and implement the product. However, such a team may find it difficult to connect well with the MFI’s older generation customers. But not being able to adequately assess and understand the needs of its customers the MFI will struggle to produce products and services that can sufficiently serve them.

Agent challenges

Agent networks can be an important supplement to using mobile technology for banking services, however, the use of agents can also be very challenging for service providers. In some areas, the limited pool of potential agents often includes short-term businesses. Each time one of these operations closes, a new agent must be recruited, trained and introduced to the public. Engaging a third-party agent aggregator can simplify the process, but it also can blur the question of which organisation takes ultimate responsibility for customer satisfaction.
Mobile as a delivery channel, not a product

Thinking of mobile money as a delivery channel sets the stage for offering a range of financial services through mobile phones. Although consumers may not find the prospect of having to learn about new services too frequently, the prospect of future options can broaden the initial value proposition. When people come on-board, they might use bill payment for months before sending a remittance, renewing a solar-device subscription or making an electronic loan payment. This is like the evolution that takes place when, after meeting weekly with an MFI representative in person for years, a customer “graduates” to using 24-hour mobile services.

Delivering a wider range of services through mobile channels also increases revenue for agents, keeping them loyal. Scale is important, but broadening services is another way to grow revenue while helping customers meet more of their needs in a simpler way.

Deepening is the new scale

Financial institutions should not be offering DFS just because “everyone else” is, especially since investing in technology doesn’t usually result in cost savings in the short term. The reason to invest in DFS is that it lets institutions reach new clients, deepen their impact on existing clients, and increase their bottom lines. It can also reduce cash-related fraud and boost efficiency.

Despite huge progress in financial inclusion, MFIs and other traditional microfinance providers still often struggle to adequately meet the needs of clients or are simply unable to reach them in many areas. DFS can help institutions reach out to more people in the way they want, and to deepen that reach as they work to achieve true financial inclusion.

Key points

• To adopt DFS, people need a strong value proposition to motivate them and significant hand-holding as they learn to use each product.
• Different groups need different product mixes, marketing strategies and training methods.
• Offering mobile banking, agent services, card payments and other services is less about creating the best product than it is about giving people the best range of choices.
Women generally make good choices for their families, and giving them appropriate tools and information amplifies the beneficial results of these choices. Many group-lending institutions already impart information about products like savings and insurance in weekly or monthly group meetings. But many women need more training. Those using Mexico’s low-touch conditional-transfer program, Prospera, didn’t realise that the card they use to withdraw cash benefits could also be used for saving. In Myanmar, providers use games to teach financial topics. But more is required for women to advance from financial inclusion to greater economic participation, civic engagement and empowerment within the family.

Ninety-four countries and the G20 have all committed to promoting gender balance in financial inclusion. Indonesia, for example, has a strategy established through 2020. Its work suffers from fragmentation, but the government is working to unify efforts to boost inclusion from 36% to 75% by 2019.

Women commonly have different preferences to men. For example, some women may have a stronger preference for having deeper customer relationships in general. This results in lost opportunities if loan officers are too focused on simply selling a loan and then moving on to the next customer rather than taking the time to develop the customer relationship. A Global Banking Alliance study shows the importance of post-sale service with 73% of participating women expressing dissatisfaction with their financial-services providers.

**Access does not equal use**

A result of this type of dissatisfaction is that women with access to financial services may not use them deeply enough to extract their full benefit. Such cases also lead to customer retention problems and studies have shown that women leave institutions more frequently than men do. Women’s savings accounts lie dormant more frequently than men’s, and women’s enterprises are registered at a lower rate than men’s. These trends hold true even in markets where there is no significant gender disparity in access, such as South-East Asia.
Self-worth
Among women, there are many subgroups with different needs, facing different barriers to success. Financial-services providers need to look at women as entrepreneurs, employees, homemakers, youths, widows, city dwellers, farmers and more.

For example, rural women often spend four months producing vegetables and then sell to a middleman who takes half the profit for a limited amount of work. But even this minimal income from crops or livestock might be more than the woman, her husband, their children or the bank realises. Running the numbers often show that woman are capable of earning more at home than her husband does outside the home. By increasing their understanding of the lives of women financial institutions can more effectively determine how their services can be developed or used to more sufficiently address their needs, and as a result, boost their customer portfolio.

Spousal harmony
Women must be willing and able to express their ideas to maximise their contributions to family and society. Programs that support women in managing and communicating the family budget can lead to positive impacts on the family’s finances while also improving spousal relationships. For example, by teaching women to document household spending to provide a transparent view of the family’s expenses additional trust and better relationships can be achieved.

Better relationships lead to increased confidence. When women realise the importance of their work, they become more willing to buy insurance to help care for their children in case of tragedy. Both parents become more focused on the future, and start to save for purposes such as their children’s education or to improve their housing situation.

Programs customised for immigrants can include classes to learn the language of the new country as well as financial classes taught in the attendees’ first language. Children can also benefit from these in many ways. When women doing their expense-tracking “homework” ask their children for help with the language of their new country, the children can also learn from the budgeting exercise and gain an appreciation of their families’ financial situation.

A wide range of topics in non-financial education can also help women improve their situation—from driving a motorcycle to learning to access services for victims of domestic violence. Networking also has great potential. The peer relationships women build in class can be critical to meeting their social and other needs.

Classes provided for women immigrants by Singapore’s Pearl S. Buck Foundation boosted participants rate of tracking their expenses from 36% to 100%, their rate of budgeting from 10% to 85% and their rate of savings from 58% to 72%.

Building on remittances
Remittances can be a potent gateway to women’s use of other financial services. For example, of people in Cambodia, Laos and Myanmar receiving remittances from Thailand, 60% are women. These are significant markets that can be developed to accelerate women’s financial inclusion. Many women earning salaries away from home send money to their families very consistently. They often use digital financial services to do so, and this practice could be leveraged to boost savings rates. For example, a microfinance institution in Cambodia might collaborate with a garment factory in Thailand to offer a remittance-linked savings product tied to employees’ salaries, which could receive payments electronically. This might include a cheaper remittance fee while developing a shared savings account (or an account each) for the sender and recipient.
Making women’s lives easier

Another way to meet women’s needs is to focus on convenience. Diamond Bank, a commercial institution in Nigeria, created a “Beta” (better) savings account that can be opened and accessed via mobile phones or agents who visit women at their places of business. This is facilitated by Nigeria’s tiered KYC system, which allows the opening of small-balance accounts with just seven pieces of identifying information. New clients can open an account and obtain a debit card in five minutes. In four years, the program attracted 415,000 clients.

Microfund for Women in Jordan found another niche for serving women. They worked with a local insurance company to offer health insurance including maternity services, an element of coverage that was very hard to find in the area.

Pay-as-you-go energy

Women are affected more negatively than men by a lack of access to high-quality energy sources. For example, they may face more physical danger while collecting firewood, and they may spend more time indoors, developing breathing problems from poor indoor air quality. In many countries, the private sector offers pay-as-you-go models for energy-related products that can improve women’s lives—sometimes with risk participation by government. Rather than microfinance institutions leading the way on many of these initiatives; it is more frequently the companies selling the devices. For example, a lighting product might be charged by the sun and be able to run three LEDs for 12 hours at a time. Instead of paying for it upfront, users can buy a time-based use allotment directly from the supplier. After paying, they receive a code by SMS that they key into the device to enable it for the duration purchased. When a user doesn’t pay for more, the device can be disabled remotely.

Statistics on lighting products like this are showing greater usage by women than men, even though it was often the husbands or sons who make the payments. Cases like this illustrate the need for careful reporting to understand how well women are being served.

Key points

- Many women with access to financial services do not use them deeply.
- Women can benefit greatly from non-financial services like empowerment and networking.
- Women may be more responsive to services that make their lives easier, such as doorstep banking and remittance-linked savings.
- Solar-device firms are outmanoeuvring lenders to provide women with products that improve their health and safety.
13. A NEW AGE OF COLLABORATION

Moderator: Mr. Graham Macmillan, Senior Program Officer, Inclusive Economies, Ford Foundation
Mr. Manoj Sharma, Managing Director - Asia, MicroSave
Mr. Brooke Patterson, Digital Development Regional Advisor for Asia, USAID
Mr. Nhan Phan Cu, Director of Communication and International Co-operation Department, Vietnam Bank of Social Policies (VBSP)

We are witness to an exciting moment in the evolution of financial inclusion, as the proliferation of services such as mobile money and government transfers are catalysing microfinance providers’ expansion from microloans, savings and insurance into remittances, mobile wallets and other services. Other factors in this acceleration include developments in infrastructure such as expanding mobile connectivity and national identification systems. Institutions are moving from offering poor people first-time loans to delivering a wide variety of products and services. Doing this effectively requires collaboration between several stakeholders.

MFIs setting up their own agent networks: A bad idea?
As microfinance institutions enter the world of digital financial services, collaborations are essential. Unfortunately, these microbanks are not always well structured for engaging in partnerships. As a result, they often contemplate setting up their own agent networks, but this can be prohibitively tough. Banks, for example, almost never set up their own payment systems.

What problem are we solving?
Opening accounts and disbursing loans is not the end goal. What problem are financial institutions solving? What products can they offer to improve people’s lives? If a product doesn’t work for clients, institutions are not doing a good job. For example, mobile services may not work for the poorest (potential) clients because they are less likely to own a mobile device, be comfortable using it or even be connected to a network.

However, financial institutions have strong reasons to push digital financial services. Where a traditional customer contact might cost US$1, SMS banking can cut that cost below US$0.05. This convenience and cost savings has to be balanced with maintaining personal relationships, or at least excellent customer service’ particularly since uptake of digital financial services generally requires greater amounts of trust from the customers.

On the front end, institutions should be asking clients what they need. But it’s also important to know how things have gone after they’ve been given what they wanted. Was the client happy with the service? Did it improve their life? Positive outcomes can take many forms: increased income, better health, higher social status and stronger community connections, or the ability to use helpful (and enjoyable) services like radio, television, telephone and the internet.
Cutting theft and cutting into profits

In India, the nascent “India Stack” is already allowing people to send money to each other. Users are also given a gigabyte of cloud storage that they can use for data such as bills and transaction histories. India’s government has begun using the service by uploading high-school diplomas and further uses are expected as the private sector creates apps which enhance and build upon its tools.

Some of these tools straddle the boundary between financial and non-financial services. One of these is India’s Aadhaar biometric identification system. Of the 1.2 billion people using it, two thirds qualify for subsidised rice. A few years ago, it was estimated that half that rice was misappropriated. Through the use of Aadhaar, the rice-distribution system has grown much less corrupt, increasing people’s trust in the technology, which is also used to meet KYC requirements for financial services. Rice fraud has been cut so much, in fact, that it has driven some shopkeepers out of business. This is a missed opportunity for financial inclusion. Financial institutions should be helping those shopkeepers boost their income by becoming bank agents, which would simultaneously help them and give their neighbours another channel through which to access financial services.

Financial inclusion is not just one thing

Financial inclusion is often defined differently among different stakeholder groups. It can be defined as access to “appropriate and relevant” financial products, and in that case the services that contribute to inclusion will vary from region to region and person to person. Financial inclusion can also be defined as a toolkit that enables a person to lead a more resilient, prosperous life.

As people’s needs vary, so do markets. Optimism in the Philippines was high when the country witnessed the first launch of a mobile-money system led by mobile-network operators. But the system hasn’t found the same traction with customers that mobile-money has in Kenya, which currently has the highest rate of mobile-money adoption in the world.

Observers are watching Myanmar to see if it can successfully overcome some of the challenges that have mired other markets. The uptake of mobile phones in Myanmar has been very rapid, but much of the credit and remittance flows remain informal. It remains a question, then, whether people in Myanmar will move to digital financial services soon. Many people have smartphones but lack mobile-data services, and this would need to change to accelerate DFS take-up. There are signs that this is happening, even in rural areas, with an increasing number of customers buying data packages.

In Vietnam, the low use of payment services stems from a lack of awareness, minimal financial education and the need for device-based training. Rather than using the media to address these challenges, the VBSP is using its saving and credit-group leaders to reach people. Nine thousand staff can’t reach the bank’s 7m customers directly, but 200,000 group leaders can.

Continually challenging ourselves

As financial institutions look to serve their clients better, they often look to partnerships. One of the common challenges with forming partnerships is how to manage the different approaches and priorities of each partner. This makes it even more important for institutions to continually question their methods and goals. Are they leaving out people in rural areas? Are they creating efficient credit-scoring algorithms that inadvertently discriminate? Are they building infrastructure that sounds good but fails to meet client needs? Are donors competing when they should be collaborating?
While DFS has the potential to significantly reduce costs, it can also be a factor for why certain customers are left behind. Are microfinance institutions the best candidates to test the impacts of mobile money? Most don’t have big enough balance sheets to take such risks. Institutions need to consider carefully their reasons for introducing DFS. What is in it for the client? And what is in it for institutions?

**Key points**

- Each client and market has different strengths and weaknesses.
- The adoption of digital financial services is a prime driver of collaboration.
- The challenges of collaboration make it even more important to stay focused on client needs and outcomes.
- Success depends on meeting end goals such as poverty reduction rather than intermediate goals such as offering financial services.
The closing session of the Asia-Pacific Financial Inclusion Summit 2017 reviewed a range of takeaways for attendees to keep in mind as they promote financial inclusion in local markets across the region. Several themes emerged on this “most important financial reform of our time”:

- The quality of financial infrastructure needs to be enhanced to provide connectivity, accessibility and interoperability.
- People in rural areas are most at risk of being left behind.
- Evidence-based research is critical to ensuring that resources are directed towards addressing the right problems and benefiting customer segments such as people in rural areas, women, youth, and small and medium-sized businesses.
- By building knowledge, education increases trust, enables informed empowerment and supports client protection.
- Beyond meeting KYC requirements, data can provide insight into consumer behaviours, facilitating faster and deeper access to financial products and services.
- Clients benefit when regulators respond collaboratively to the fast-changing world of digital finance.

Progress in relation to these themes enables and accelerates the process whereby people who are minimally financially included eventually graduate to richer opportunities. As fintech firms disrupt old business models, they promise increased efficiency that could pave the way for client services that are superior in price, availability and depth.

The recent history of Vietnam shows how much can be accomplished in a short time. In 20 years, the country has left behind its dependence on agriculture to become a major industrial economy. However, millions of people still lack access to critical financial services, especially in rural areas.

Attaining financial inclusion is only a means to an end. More important than how many people access services is how many achieve various aspects of prosperity: adequate healthcare, education, nutrition, sanitation, security, shelter, well-being, dignity and hope. By promoting this focus on human-centred goals, events like the Financial Inclusion Summit become powerful agents of change.