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INNOVATIVE POLICY AND REGULATORY APPROACHES FOR FINANCIAL INCLUSION IN ASIA

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Financial inclusion is a very important issue for Asia. Those living on less than $2 a day comprise 33% of the total population in the case of East Asia and 70% in the case of South Asia, according to the World Bank.

A survey by APEC shows that access to finance is the most important challenge faced by small enterprises. The issue is not just credit, because limited access to a broader range of financial services, including savings, insurance and payments prevents many people from breaking the cycle of poverty.

Financial inclusion came to attract much attention from governments during the course of the last decade. What many see as the turning point was when microfinance emerged as a viable commercial activity. With this transformation, much more resources became potentially available to expand access to finance, and the emphasis shifted from using donations or public money for subsidizing microfinance service providers to reforming laws, policies and regulations in order to provide an enabling environment for existing and new types of financial institutions to extend their services to the unbanked and underbanked.

The presentation by AFI underscored the key role of technological innovations, like mobile and branchless banking, which have significantly lowered the costs of providing financial services to low-income households, enabling institutions serving this market to become commercially viable.

Innovations on a broader front are also having an impact on access to finance. For example, improvements in credit information systems and risk analytics are enabling more financial institutions to more safely channel credit to traditionally underserved borrowers while lowering the costs through competitive pricing. Improvements in electronic data security that reduce the risks of unauthorized data use are facilitating the development of innovative services.

In developing countries where the financial industry is still in its early stages and lightly regulated, innovations have been adopted more easily and developed faster. Cambodia is an example, where mobile banking has developed quite rapidly, while regulators are trying to catch up with developments in the market.

Where regulatory frameworks have already attained a degree of complexity in line with more developed financial industries, policy makers have had to wrestle with reforming existing policies and regulations to enable the adoption of innovations and the entry of innovative players. The Philippines has been cited as an example, where the central bank has done an excellent job. This is also an area where international regulatory standards and the way they are applied in each jurisdiction are very important.

Enabling innovations and the entry of new players will require not just these kinds of adjustments to regulation and supervision of institutions. It will also require new legal, policy and regulatory frameworks to effectively protect the interests of consumers and to ensure financial stability, such as what Malaysia had done. It will require new methods of financial education and financial capability building, especially for vulnerable low-income population groups. And it will require the development of market infrastructure supporting the delivery of financial services, including payment and credit reporting systems.

The presentation by AFI makes an excellent point in saying that most of these innovations in policies and regulations are taking place in developing countries, and so it makes a lot of sense to facilitate the sharing of these experiences among them. By adopting this approach and bringing together regulators from developing countries in Asia, Latin America and Africa, AFI is filling in an important gap and providing a very valuable service.

In addition to the above comments, there are two points worthy of further consideration.

The first is that we have to start thinking of how we can promote financial inclusion more efficiently. Much work is being done at the global, regional, national and sub-national levels. APEC, G20, CGAP, IFC, IDB, World Bank, and a host of private sector organizations and NGOs are all doing a lot of work. Duplication is unavoidable, and sensible competition is a good thing. However, it is also important to identify gaps that are not being sufficiently addressed as well as opportunities to pool resources.

The second point is that even though there is a lot being done, there is still much to do in terms of developing policy and regulatory frameworks, and for as long as humans continue to innovate, the evolution of markets will require continued regulatory reform.

ADBI and the APEC Business Advisory Council (ABAC) are organizing with the Indonesian Ministry of Finance a financial inclusion forum this coming June 11-12 in Batam Island, Indonesia. The theme of this forum is "Financial Inclusion, Innovation and Regulation: Meeting the Challenges of Policy Reform and Capacity Building." This will focus on some areas which we believe deserve more attention.

- One is the development of regulatory frameworks to promote the adoption of innovations in retail payment systems, including electronic payments, interconnectivity and inter-operability based on common standards.
- Another is the policy implications of the development of financial identity and credit information databases that can be used for risk management and prevention of over-indebtedness. Discussions will include new models of information sharing, access and analytics of data, credit bureau systems around new technologies, developing non-financial data centered on digital services, and consumer protection in the context of digital data.
- A third area pertains to innovative approaches to financial education, including the incorporation of financial education in G2P payments, remittance collections and branchless banking as well as developing financial education models that reflect new modes of access to finance and bundles of various financial products.

In conclusion, it is important to keep in mind that for efforts to promote financial inclusion to be fruitful, they must be undertaken as part of a coherent effort to develop a financial and economic ecosystem that facilitates inclusive growth. Facilitating greater access to finance can help more people participate in and benefit from economic growth only if the right macroeconomic and structural policies that encourage entrepreneurship are in place.