

afi Alliance for
Financial Inclusion
Bringing smart policies to life

Fostering Stable and Inclusive Financial Systems - Two Sides of a Coin

Mr. Norbert Mumba, Deputy Executive Director, AFI

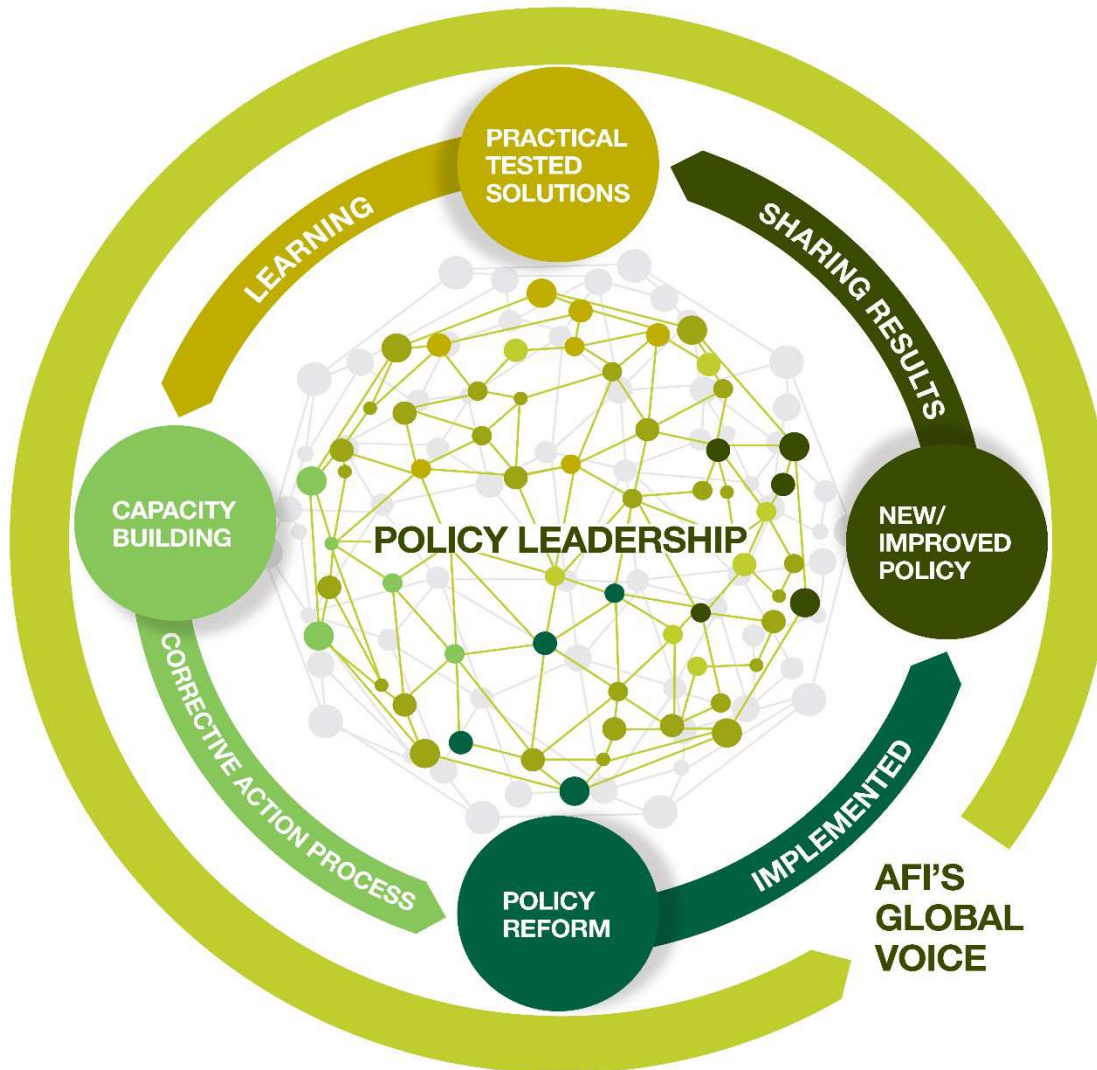
Meeting of the Central Banks and Monetary Authorities of OIC Member Countries
Bodrum, Turkey

Presentation Outline



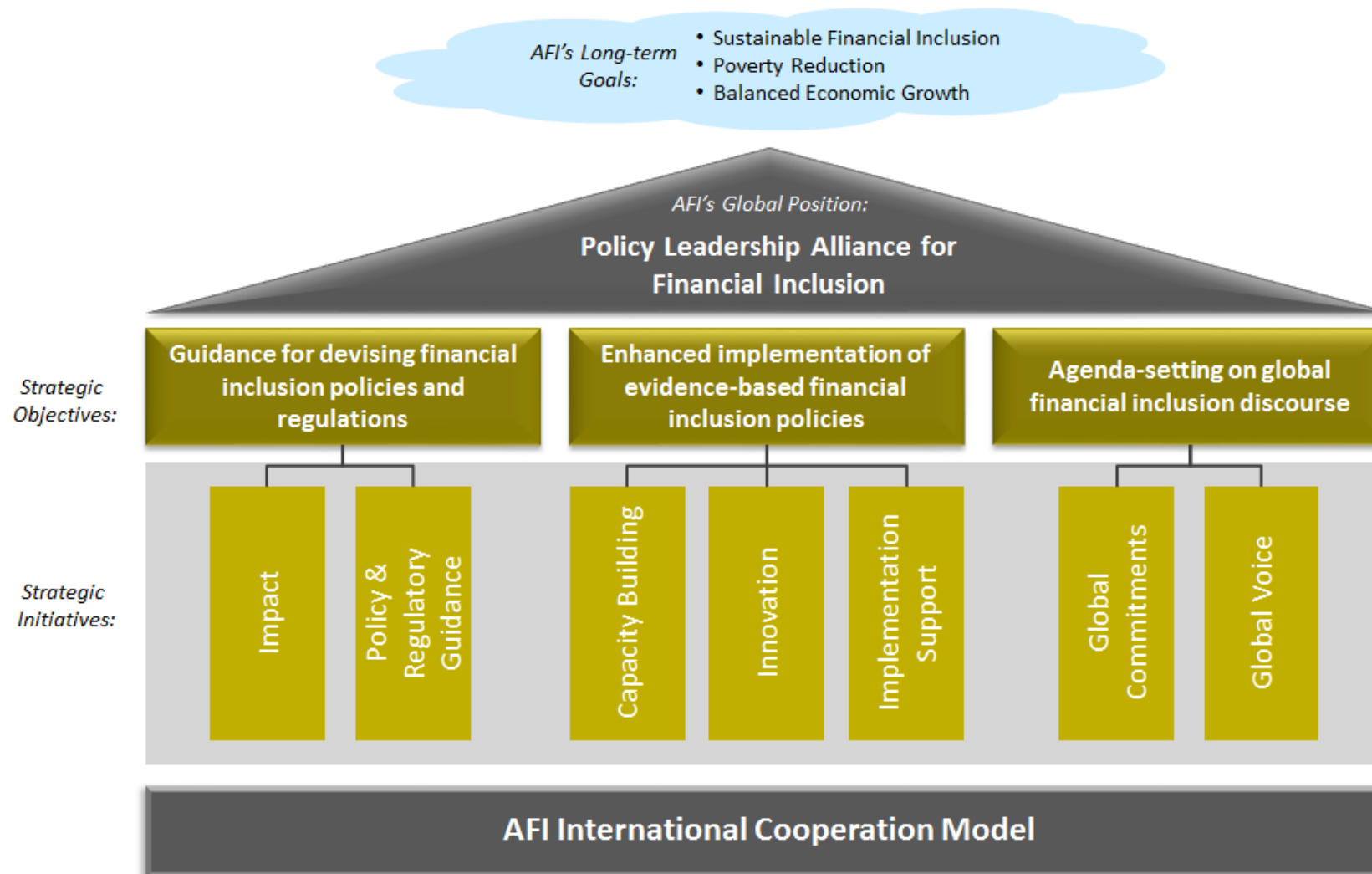
- **About AFI**
- **Financial Inclusion & Stability**
 - Elimination of Financial Exclusion Risks
 - Diversification of Asset Base
 - Crisis Resilience
- **FI & Risks to Stability**
 - Consumer Protection Risks
 - Cyber-security Risks
- **AFIs work towards FI & Stability**
 - Strategies to Maintain Inclusion Momentum & Preserve Stability

About AFI



- AFI is a global network of **policymakers in developing and emerging countries**
- Founded in 2009, AFI's goal is to support developing countries to **develop and implement successful financial inclusion policies**
- The goal of the AFI network is to accelerate the **adoption of innovative financial inclusion policy solutions**, with the ultimate aim of making financial services more accessible to the billions of people who do not have access to the formal financial system.

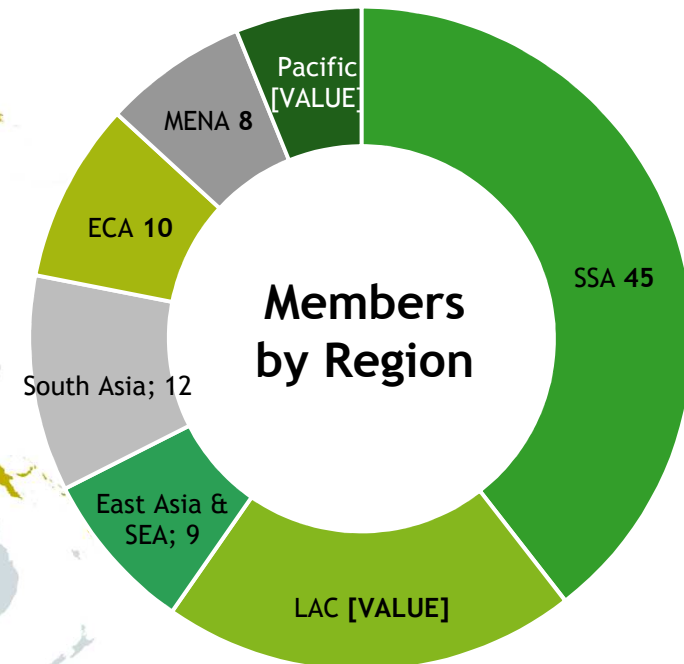
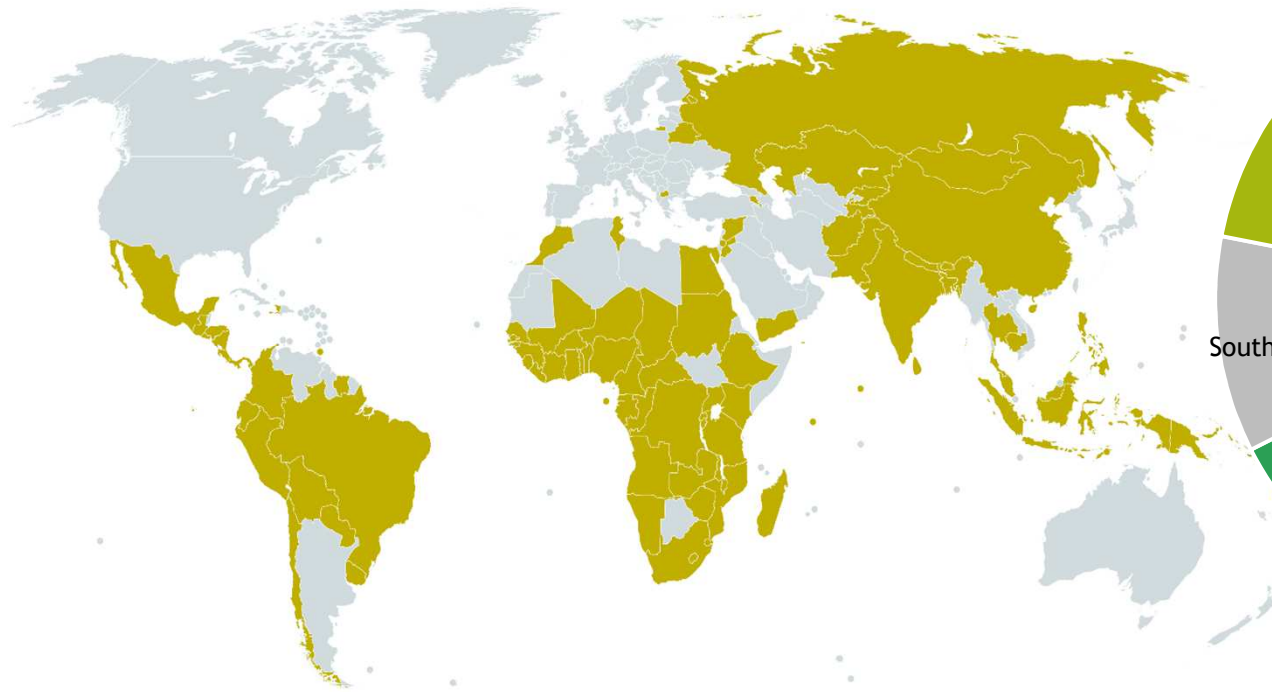
About AFI (Contd)



AFI Network Today



- **115** institutions: majority central banks, financial regulators, ministries of finance
- **94** countries (representing **85%** of the world's unbanked)



Bali Outcome Statement



Bali Outcome Statement acknowledges that financial inclusion will bring positive impact on economic growth and financial and macroeconomic stability, as long as the efforts to promote it are conducted on the footing of solid financial system supervision and sound regulatory environment and calls the development of a set of indicators which reflect a healthy complementary between financial stability and financial inclusion.





GLOBAL STANDARDS PROPORTIONALITY (GSP) WORKING GROUP



Platform to facilitate peer learning on issues policymakers and regulators face in achieving a balance between financial inclusion, integrity and stability
Examine proportionate implementation of the global standards set by global standard setting bodies (SSBs)



ACCESS

USAGE

QUALITY



Representing 51.7% of the world's unbanked population, or 1.04 billion people



Representing 46.1% of the world's adult population (+15), or 2.41 billion people



62 policy changes reported; most within Sub-Saharan Africa members

MD Commitments: Consumer Protection, Financial Literacy & Financial Education



5 knowledge products



Inception



- Need to find balance between financial integrity requirements and financial inclusion
- Fast developing new technologies
- New business models that impact FI

GSPWG Planned Activities

BASEL Standard Subgroup

Gather countries' experience in proportionate implementation of Basel Standards, related challenges, and their impact on financial inclusion.

AML/CFT Proportionality Subgroup

Deposit Insurance Subgroup

Stocktaking countries' approaches on deposit protection and insurance.

Shadow Banking Subgroup

Gender Subgroup (joint DFSWG)

Identify and document innovative KYC practices that can potentially close a gender gap in financial inclusion whilst limiting ML/TF risks.

Financial Technology (FinTech)

Knowledge Sharing

- Case Study: Process and challenges in conducting NRA & Mutual Evaluation
- Toolkit: AML/CFT standards implementation
- Technical Input: AML/CFT training
- Policy dialogue: De-risking



Policy Guidance: Proportionate deposit insurance

- Country Survey: Regulatory & supervisory approaches over shadow banking sector
- Guidance Note: Proportionate regulation (mitigates risks whilst promoting innovation)



Knowledge Sharing

- Peer Learning: Design and implement prop. policies and regulations on FinTech



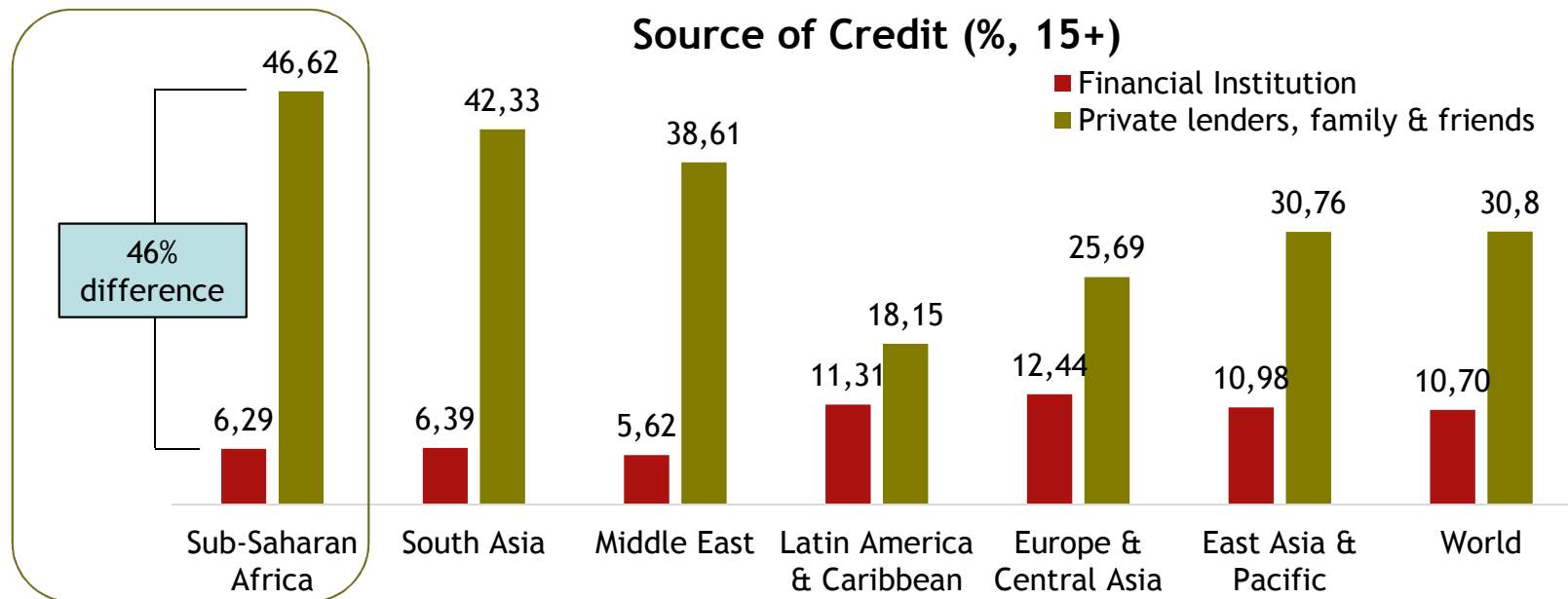
Global Priorities



- ✓ Eliminating the financial inclusion gender gap to contribute to SDG5 Gender Equality
- Leveraging technology to close the multi-trillion dollar MSME financing gap
- Addressing issue of de-risking

1. Elimination of Financial Exclusion Risks

- Financial inclusion is a driver of economic growth & stability.
- Financial Exclusion constitutes severe risks for financial stability and can be harmful for financial integrity.

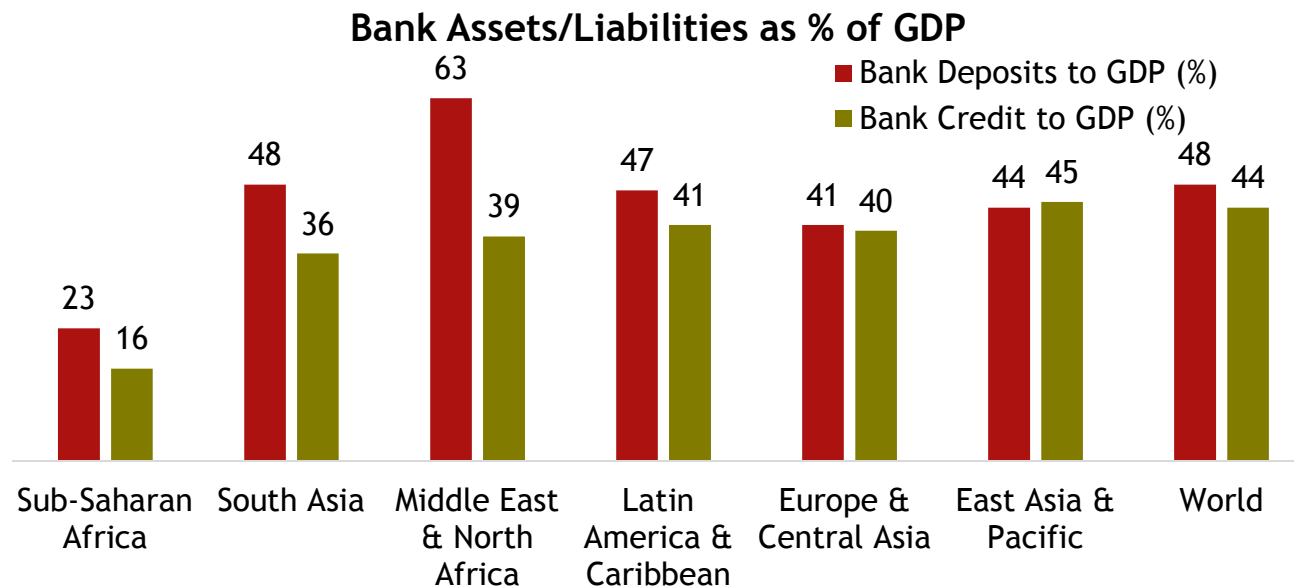


Digital Financial Services - a major driver from financial inclusion - can increase the GDP of developing nations by \$3.7 trillion (the equivalent of Germany's GDP) by 2025. It has the potential of creating 95 million jobs across all sectors

2. Asset Diversification



- **Financial Inclusion contributes to financial stability by diversifying financial assets to often ignored segments such as unbanked and underbanked individuals and small businesses.**



- Evidently, access to formal savings/credit is low in emerging countries.
- New initiatives such as digital financial services can help reach out to new segments and diversify asset base

Inclusive financial sector complements economic stability, a key component of financial stability.

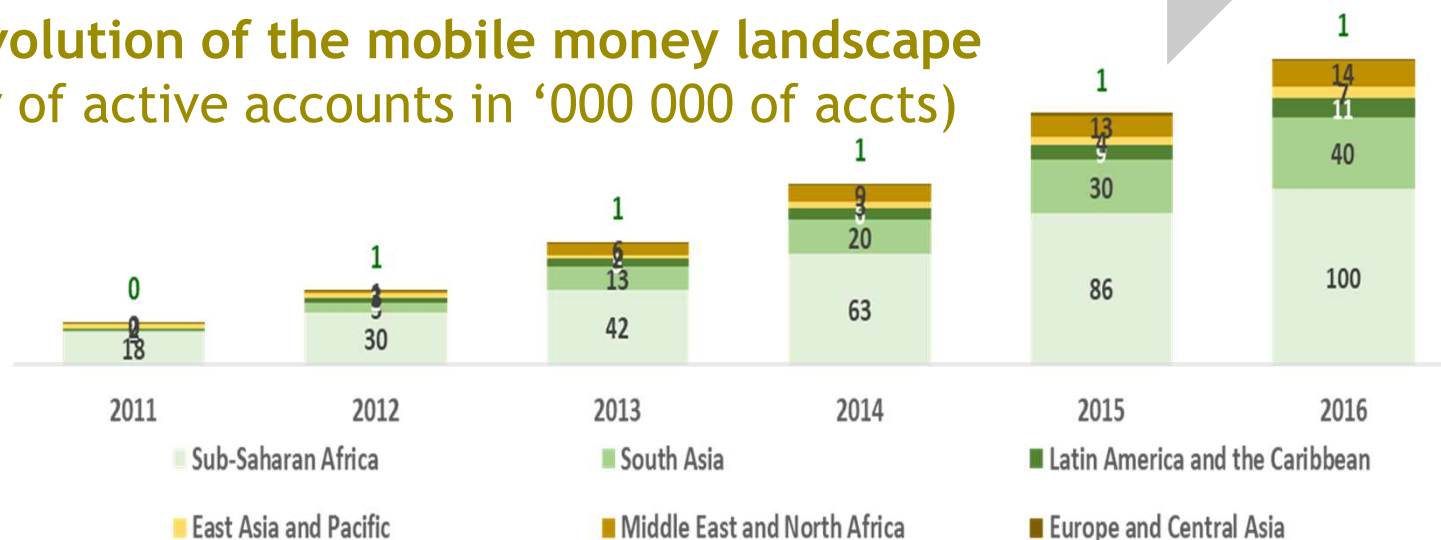
Case Study: Trends in Digital Financial Services



Digital financial services is rapidly growing across the world

More than 40% of the adult population in Kenya, Tanzania, Zimbabwe, Ghana, Uganda, Gabon, Paraguay and Namibia use mobile money as part of their daily life!

Global evolution of the mobile money landscape (number of active accounts in '000 000 of accts)



- There are 277 mobile money deployments in 92 countries
- 19 markets across the world have more DFS accounts than bank accounts
- 37 markets across the world have ten times more DFS agents than they do bank branches

3. Crisis Resilience



- Financial Inclusion can strengthen the domestic capital base, thereby reducing dependency on foreign capital flows, and lowering the risk of external shocks.

A Broader deposit base can significantly mitigate bank deposit withdrawals in times of financial stress.

“A 10 percent increase in the share of people that have access to bank deposits can mitigate deposit withdrawal rates by about three to eight percentage points.” - [World Bank](#)

India is a good example of diversification of assets/liabilities and customer segments. Over the past three years, through its flagship financial inclusion programme called PMJDY, the government has mobilised close of [USD 10.12 billion dollars through 300 million accounts](#). These deposits form 0.61% of the total banking [deposits](#).

Financial Inclusion - Risks to Stability

1. Consumer Protection



- **Over indebtedness, confidentiality of client data along with transparency and disclosure contributes for political and financial stability.**

High levels of over indebtedness

Hampers credit discipline & amplifies stability concerns

Compromise of safety & confidentiality of client data

Breach of critical personal and financial information can have systemic implications

Lack of transparency and disclosure

Lack of trust and credibility in financial system

- Microfinance credit crisis in countries such as India, Mexico, Nicaragua, and Cambodia etc.
- Public disclosure of 130 million Aadhaar IDs with sensitive financial information.
- Equifax security breach leaking social security numbers, credit card numbers, address etc.
- Proliferation of digital credit in East African economies.

2. Risks Related to Technology Adoption

- **Technology intensive solutions are accelerating financial inclusion. If technology platforms such as core banking systems, e-money platform get affected, it can lead to s**

- **Cyber-security:** Malware attacks on mobile phones or the core infrastructure such as electronic transaction platforms can lead to loss of customer funds and other sensitive information.



Analysis of DFS Applications in the Developing World

- [University of Florida](#) analysed 46 mobile applications from countries including Indonesia, Brazil, India, Philippines.
- They analyzed registration, login and transaction procedures.
- Pervasive vulnerabilities uncovered:
 - Botched certification validation
 - Do-it-yourself cryptography
 - Information leakages
- All the applications hold customer solely responsible for fraudulent activity!

AFI's Commitment Towards Inclusion & Stability

Strategies to Maintain Inclusion Momentum & Preserve Stability



1. Regulatory Cooperation

- Cooperate with other regulators, regulatory networks, standard setting bodies etc., to learn and adopt best practices

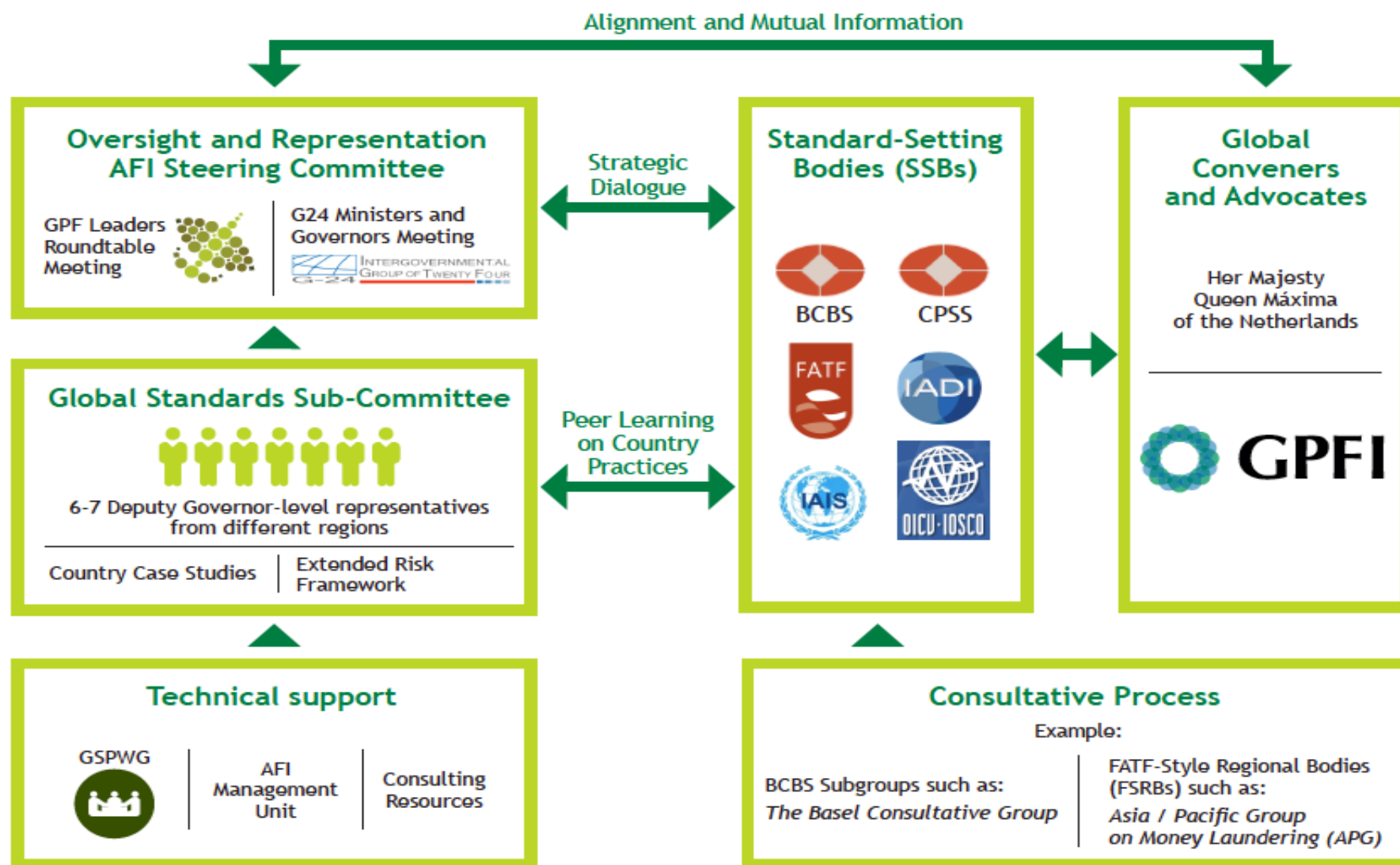
2. Cyber security

- Review/audit risk management and cyber security frameworks on periodic basis.

3. Consumer Protection Policy

- Progress on financial inclusion carries the risk of producing more inexperienced and vulnerable customers. Following consumer protection measures are important:
 - **Credit information sharing** is an effective way of managing over indebtedness and credit risk management. Studies show that credit information sharing helps in [lowering delinquency](#).
 - **Full disclosure** to customers on - product features, pricing, incentives, risks to borrowers, terms & conditions etc. in a language and manner easily understandable to the customers.

1. Regulatory Cooperation: Peer Learning & Global voice with Regulators, SSBs and G20



2. Cyber Security - Training, Awareness & Guidance



	Policy Forum on “Cybersecurity: Safeguarding the Future for Innovative Financial Inclusion” in Malaysia, 2017	130 financial policy makers and regulators from 40 countries
Forums & Events		
	Global Conference on “Maximizing the power of financial access: finding an optimal balance between financial inclusion and financial stability” in Indonesia, 2016	100 financial policy makers and regulators from 30 countries
Training	Regulatory Training on “Cybersecurity Challenges and Resilience Management” in Malaysia, 2017	72 regulators from 34 member institutions
Regional Meetings	Regional Meeting of Financial Inclusion Initiative for Latin America and the Caribbean in Columbia, 2016	41 regulators from 8 Latin American Countries

3. Consumer Protection Policy

Promote policy adoption at national and international levels. Improve understanding of market conduct practices among member countries (63 members)

CONSUMER EMPOWERMENT AND MARKET CONDUCT (CEMC) WORKING GROUP

61 member institutions	63 member countries	62 policy changes	18 knowledge products
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DIGITAL FINANCIAL SERVICES (DFS) WORKING GROUP

64 member institutions	66 member countries	65 policy changes	9 knowledge products
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FINANCIAL INCLUSION DATA (FID) WORKING GROUP

56 member institutions	52 member countries	49 policy changes	18 knowledge products
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FINANCIAL INCLUSION STRATEGY (FIS) PEER LEARNING GROUP

59 member institutions	59 member countries	36 policy changes	6 knowledge products
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GLOBAL STANDARDS PROPORTIONALITY (GSP) WORKING GROUP

47 member institutions	44 countries	18 policy changes	5 knowledge products
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SME FINANCE (SMEF) WORKING GROUP

52 member institutions	53 member countries	30 policy changes	5 knowledge products
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CONSUMER EMPOWERMENT AND MARKET CONDUCT (CEMC) WORKING GROUP



Promote evidence based policy & regulatory solutions
Improve access to finance & the quality of FI
Support the design & validation of tools for policy analysis and policymaking



Inception

- Increasing levels of complexity and innovation
- Failures of consumer protection
- Consumer detriment, lack of trust, weak competition
- Low levels of financial literacy



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MD Commitments: Consumer Protection, Financial Literacy & Financial Education



CEMCWG Planned Activities

Institutional Framework & Supervision Subgroup
Finding a new set of indicators relevant to member countries.

- **Indicator set:**
New set of indicators relevant to member countries

Financial Education/ Literacy Subgroup
Build the capacity of developing and emerging economies to implement audience-appropriate, evidence-based financial consumer protection and financial literacy programs.

- **Guideline Note:**
Design of financial literacy programs

Responsible Lending, Avenues for Help & Redress, Transparency & Disclosures Subgroup
Consolidate survey responses on its next guidance note.

- **Guideline Note:**
Consolidate survey responses following the Guideline Note 17 on Digitally Delivered Credit

Gender Subgroup
Initiate a survey to determine financial literacy and education initiatives towards women.

- **Survey:**
To determine financial literacy and education initiatives towards women



Global Priorities

- Behavioral economics (consumer protection)
- Consumer protection around Big data
- ✓ Measuring the effectiveness of financial literacy/ education programs
- ✓ Consumer protection around Digital delivered products and services

Concluding Thoughts



- Financial inclusion and financial stability need to coexist.
- Financial inclusion brings enables economically and socially excluded to participate and contribute to inclusive growth.
- Sustainable financial inclusion requires a systemic effort which leverages technology, viable business models and appropriate regulatory framework cohesively.



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info@afi-global.org
www.afi-global.org