Fintech Driving Financial Inclusion: Recent developments

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Alfonso Garcia Mora
Global Director
Finance, Competitiveness and Innovation GP
The World Bank Group
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1. Financial Inclusion Trends
Financial inclusion has improved globally, but 1.7 billion adults (31%) remain unbanked ...

**Adults with an account (%)**

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2014</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; Pacific (excluding high income)</td>
<td>44%</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Europe &amp; Central Asia (excluding high income)</td>
<td>39%</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>High income</td>
<td>84%</td>
<td>90%</td>
<td>92%</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean (excluding high income)</td>
<td>32%</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>Middle East &amp; North Africa (excluding high income)</td>
<td>25%</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>South Asia</td>
<td>30%</td>
<td>37%</td>
<td>48%</td>
</tr>
<tr>
<td>Sub-Saharan Africa (excluding high income)</td>
<td>20%</td>
<td>30%</td>
<td>41%</td>
</tr>
</tbody>
</table>

**Source:** Findex 2017, World Bank

Though one third of the SSA countries still below 30%
... with significant differences across and within income groups
In SSA the difference is larger than the global average (12 p.p.) in almost half of the countries.

Worldwide, most unbanked adults are women
Adults without an account by gender (%), 2017

Twice as many unbanked adults live in the poorest households in their economy as in the richest ones
Adults without an account by within-economy income quintile (%), 2017

Source: Global Findex database.
Is there a potential to improve these ratios?..... Savings

Only 50% of the adults who save use a financial institution...

Source: Global Findex database.
Note: People may save in multiple ways, but categories are constructed to be mutually exclusive. Saved formally includes all adults who saved any money formally. Saved semi-formally includes all adults who saved any money semi-formally but not formally. Data on semi-formal saving are not collected in most high-income economies.

One third of the unbanked adults save....

Source: Global Findex database.
Note: People may save in multiple ways, but categories are constructed to be mutually exclusive. Saved formally includes all adults who saved any money formally. Saved semi-formally includes all adults who saved any money semi-formally but not formally.
Is there a potential to improve these ratios?..... Payments

235m of unbanked receive agricultural payments in cash ...

100m of unbanked receive government payments in cash ...

260m of unbanked use cash for remittances ...

Source: Global Findex database.
Note: Data are not displayed for economies where the share of adults without an account is 5 percent or less or the share receiving payments for agricultural products is 10 percent or less.
2. Why and How Can Fintech Help?
## Fintech is transforming the financial industry

<table>
<thead>
<tr>
<th>User Needs</th>
<th>Traditional Model</th>
<th>Gaps</th>
<th>Technological Innovations</th>
<th>Fintech Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Save</td>
<td>Bank deposits, Mutual funds, Bonds, Equities</td>
<td>L</td>
<td>H, H, H, L</td>
<td>Virtual currencies, Mobile market funds, Blockchain bonds</td>
</tr>
<tr>
<td>Borrow</td>
<td>Bank loan, Bonds, Mortgages, Trade credit</td>
<td>H</td>
<td>H, H, H, L</td>
<td>Credit modeling, Platform lending, Crowd-funding, Blockchain bonds, Auto-underwriting</td>
</tr>
<tr>
<td>Get Advice</td>
<td>Financial planner, Investment advisor</td>
<td>H</td>
<td>M, L, M, M</td>
<td>Robo-advising, Automated wealth management</td>
</tr>
</tbody>
</table>
Do you believe that part of your business is at risk of being lost to standalone FinTech companies within the next five years?

- **North America**: 69% (2016) - 82% (2017)
- **Europe**: 83% (2016) - 89% (2017)
- **Latin America**: 91% (2016) - 93% (2017)
- **Africa**: 80% (2016) - 88% (2017)
- **Asia**: 88% (2016) - 88% (2017)
- **Global**: 83% (2016) - 88% (2017)

Source: PwC Global FinTech Survey 2017

... as recognized by participants
...but it will also bring important challenges

**Regulatory & Supervisory Perimeter, Capacity:**
Fintech players may not fit with current regulatory/supervisory remits;
Systems & capacity constraints

**Financial Stability:**
Unsupervised linkages;
Exacerbate credit cycles;
Untested credit models;
Affect banking system profitability

**Depositor and investor risk:**
Many different typology of new providers, with different regulation/supervision/transparency

**Vulnerability to cyber threats:**
Can affect financial market infrastructures, financial institutions, consumers, authorities.

**Over-indebtedness:**
New/easier access to digital credit.
Consumer protection and literacy critical

**Integrity (ex. AML/CFT):**
Access to customer information can lead to abuse without adequate consumer protection mechanisms.
Cryptocurrencies (like Bitcoin) have been used for illicit activities.
Example: The potential of mobile to reach the unbanked...

Two-thirds of the unbanked adults have a mobile phone....

Sources: Global Findex database; Gallup World Poll 2017.
Note: Data are not displayed for economies where the share of adults without an account is 5 percent or less.
...process that is already taking place
... and can be specially relevant in counties with lower income
...helping to reduce the inclusion gaps related to gender and income
Fintech affects many policy levers and objectives

<table>
<thead>
<tr>
<th>Selected Fintech adoption drivers and policy levers</th>
<th>Common policy objectives</th>
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<tr>
<td>Legal, regulatory, and supervisory framework</td>
<td>Stability</td>
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<tr>
<td>Financial sector structure and development</td>
<td>Integrity</td>
</tr>
<tr>
<td>Digital penetration and literacy</td>
<td>Consumer and investor protection</td>
</tr>
<tr>
<td>Physical, digital and financial infrastructure</td>
<td>Level playing field and innovation</td>
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Selected Fintech adoption drivers and policy levers

- Legal, regulatory, and supervisory framework
- Financial sector structure and development
- Digital penetration and literacy
- Physical, digital and financial infrastructure

Common policy objectives

- Stability
- Integrity
- Consumer and investor protection
- Level playing field and innovation
- Inclusion
- Market development
Emerging Trends and Policy Issues

Financial Inclusion

- Evidence of **positive impact**
- **Strong potential** for improvements to capital mkts, MSME finance, Islamic fin & insurance
- **Risks**: exclusion, discrimination, privacy and cyber

Monitoring Emerging Risks

- Many have setup a framework, but **enhancements needed**
- Largely proportional, but **challenges**:
  - Limited experience and resources
  - Cross-border regulatory arbitrage
  - Cyber-risks

Adapting Legal Frameworks

- Adapting to **new business models** and technological capabilities
- More openness to change **public law than private law**
- Policy implications for issues like **Data need changes in private law as well**
- **Private sector** using instruments like contracts to address gaps, but these however have limits
Emerging Trends and Policy Issues

Data Frameworks

- **Central to Fintech** with important implications for competition, privacy, efficiency and inclusion.
- **Framework** should cover collection, processing and storage; rights and obligations; individual controls; cyber security; and competition aspects.
- **Global dialogue needed** including on issues like data localization.

CBDC

- Multiple experiments and studies on Central Bank Digital Currency.
- Need for close look on implications for stability.
- Case for CBDC based on context, and needs to be weighed against enhancements to existing arrangements.

Monetary system stability

- Fintech developments could lead to more diversified and de-centralized global financial system.
- Potential longer term impacts on international monetary system.
- Need for international co-operation.
4. The “Bali Fintech Agenda”
Need for a balanced approach: Four broad policy challenges

- Foster enabling environment to harness opportunities
- Strengthen financial sector policy framework
- Promote international collaboration
- Address potential risks and improve resilience
Regional overview (1/2)

East Asia and Pacific

Significant advances in nearly every aspect of Fintech, however regional disparity.

Some Fintech products have shown significant risks for consumer protection, investor protection, AML/CFT and also stability.

Significant intra-regional Fintech related investments from China and Singapore.

Strong support from public authorities in ASEAN countries.

Regulatory interventions on payments, alternative lending and crypto.

South Asia

Steady rise in the use of digital payments, though lagging behind other regions.

Strong potential for harnessing Fintech for financial inclusion and closing the gender gap.

India is fast growing into a major fintech hub in Asia.

Bangladesh is also making steady progress in fintech innovation and adoption.

Fintech innovation and investment in Pakistan, Nepal and Sri Lanka are in their nascent stages.

Middle East and North Africa

High-income countries making rapid strides, the rest of the region has had a slow start.

Persistent gaps in financial inclusion across countries and gender.

Four countries (Egypt, Jordan, Lebanon, and UAE) account for 75% of fintech startups.

New growth centers have also emerged in Bahrain, Iran, and Saudi Arabia.
### Regional overview (2/2)

<table>
<thead>
<tr>
<th>Region</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Sub Saharan Africa**  | Leaders in *mobile money* adoption resulting in significant gains in financial inclusion.  
  *East* Africa has maintained an overall lead. *Southern and Central* Africa has significant room for further gains.  
  *West* Africa well-positioned to take advantage of digital technologies.  
  Gaps in foundational infrastructure and legal and regulatory frameworks could constrain further growth. |
| **Europe and Central Asia** | Tremendous *potential* given the high mobile phone and internet access.  
  Major *regional differences* between high income and middle-income countries (EU and non-EU)  
  The region has been home to some major fintech startups and *cryptocurrency* mining centers in recent times.  
  *Authorities* across the region have been *proactive in* encouraging development of fintech, as evidenced by the survey results. |
| **Latin America and Caribbean** | *Adoption* of digital payments and mobile money services *low*, despite relatively high mobile and internet penetration rates.  
  Fintech startups are growing, albeit from a low base.  
  *Pro-active regulatory responses* – Mexico Fintech Law, Regulatory adaptations in Colombia and Brazil.  
  Several central banks are exploring the possibility of issuing *CBDC* (Central Bank Digital Currency). |
Countries recognize the broad benefits of fintech including for financial inclusion...
(for households (84%) and MSMEs (73%) and reduce the urban-rural gap)

**Fintech and financial inclusion**

Do you expect fintech to significantly expand access and usage of financial services in your jurisdiction within the next five years (please check all that apply)?
A: Increases overall financial inclusion for households.
B: Helps close the Micro, small, and medium-sized enterprise gap.
C: Helps close the Rural and remote areas gap.
D: Helps close the Gender gap.
E: Other. [Please provide brief description]

**How fintech is expected to contribute to increase in access and usage of financial services**

- EAP
- ECA
- LAC
- MENA
- North America
- SAR
- SSA

- Other.
- Helps close the Rural and remote areas gap.
- Helps close the Micro, small, and medium-sized enterprise gap.
- Helps close the gender gap.
- Increases overall financial inclusion for households.
... and are taking a variety of policy measures to foster these benefits.

Actions taken for harnessing potential of Fintech:
- Improving consumer awareness and education.
- Reviewing and amending the policy framework to enable fintech investment, innovation, and adoption (e.g., similar treatment of similar activities and risks, proportionality).
- Strengthening of institutional capacity.
- Expanding outreach to stakeholders (e.g., financial incumbents, fintech companies).
- Adopting a cross-agency approach involving relevant ministries and agencies.

Actions taken for harnessing potential of Fintech: Regional breakdown:

- EAP
- ECA
- LAC
- MENA
- North America
- SAR
- SSA

Other.
- Reviewing and amending the policy framework to enable fintech investment, innovation.
- Improving consumer awareness and education.
- Adopting a cross-agency approach involving relevant ministries and agencies.
- Expanding outreach to stakeholders (e.g., financial incumbents, fintech companies).
- Strengthening of institutional capacity.
Many countries have a fintech strategy in place...

...and have taken regulatory actions
(76% have made modifications to their regulatory approach to facilitate the development of Fintech)

Fintech strategy

Regulatory and supervisory approaches

Have authorities modified their regulatory and supervisory approach to facilitate the development of fintech and/or develop supervisory capacity (please check all that apply).

A: Set up special contact point for fintech questions.
B: Allowed sandboxes.
C: Other. [Please provide brief description]
D: Established Innovation hubs.
E: None.
Countries observe various gaps in regulatory frameworks and have made modifications to address new risks (63% have observed increased Fintech-related ML/TF risk, but few countries have adopted risk assessment mechanisms)
Countries clearly see a need for international cooperation in various areas...

Top 5 priorities for international co-operation on Fintech

- A. Cybersecurity
- B. AML/CFT
- C. Legal, regulatory frameworks
- D. Payments and security settlement systems
- E. Cross-border payments

Priorities for capacity building and bilateral advice from IFIs

- A. Cybersecurity
- B. Legal, regulatory frameworks
- C. AML/CFT
- D. Supervisory frameworks
- E. Payments and security settlement systems

Please check the top five priority areas.

A. Cybersecurity
B. Legal, regulatory frameworks
C. AML/CFT
D. Supervisory frameworks
E. Payments and security settlement systems
F. Data and statistics
G. Consumer and investor protection
H. Financial development and inclusion for both households and firms
I. Cross-border payments
J. Consumer and investor protection
K. Crisis preparedness
L. Macroeconomic policies
M. Central banking
N. None
O. Competition policies
P. Cross-border capital flows
Q. Other
R. Correspondent Banking Relationships
S. Insolvency framework
T. Other areas of financial regulation
5. Conclusions and the Role of the WB
Conclusions

Fintech is making inroads globally but has not yet reached the disruptive critical mass:

- Most advances in mobile payments with major impact on financial inclusion
- BigTechs are increasingly offering financial services and challenging incumbents
- Traditional financial institutions are adapting rapidly, increasing their digital footprint
- Supervisory agencies are exploring fintech applications
- Impact on monetary systems and financial stability is limited at present
## Role of the World Bank Group (some country examples)

1. **Legal and regulatory framework** (e.g. India, Jordan, Rwanda, KSA, Vietnam, Mexico, Colombia, Kenya, Philippines, etc.)

2. **Digital and financial infrastructure** (e.g. UZB, Ethiopia, Zambia, Guyana, Lao, Madagascar, Pacific islands, Pakistan, etc.)

3. **Access to transaction accounts** (e.g. Afghanistan, Madagascar, Pakistan, Mozambique, Sierra Leone, Bangladesh, Ethiopia, etc.)

4. **Access to financial services** (e.g. India, Haiti, Kenya, Myanmar, Rwanda, Tanzania, Colombia, Mexico, etc.)

5. **Capacity building** (e.g. Bangladesh, Colombia, Georgia, India, Peru, KSA, Afghanistan, Burundi, Vietnam, Mozambique, etc.)

6. **IFC investments and advisory services**