

Alliance for Financial Inclusion First Annual Global Policy Forum

A Marketplace of Ideas

Co-hosted by the Central Bank of Kenya
Nairobi, Kenya, 14-16 September, 2009



The Central Bank
of Kenya

Foreword

There is a growing body of evidence showing that greater financial inclusion presents opportunities for everyone, with positive effects on economic growth, financial stability and social cohesion. Even so, around 2.5 billion adults – over half of the world’s adult population – still lack access to formal financial services. About 90 percent of these unbanked people live in developing countries.

Many of the smartest and most innovative policies for increasing access to formal financial services have come from developing countries – those living with the challenges of financial inclusion every day. As demonstrated by mobile money transfer and payment services in Kenya and the Philippines; the use of third-party retail outlets to offer banking services in Brazil; and the accomplishments of Indonesia and Thailand in reforming state banks, developing countries hold the solutions to unleash the power of financial inclusion. Peer-to-peer learning will help spread these innovations more widely and enable others to scale up successful policy solutions to expand financial access.

The Alliance for Financial Inclusion (AFI) and the Central Bank of Kenya welcomed policymakers and financial inclusion experts to the first-ever Global Policy Forum. Held in Nairobi, Kenya, 14-16 September, 2009, the Forum took place about a year after the global financial crisis. The fundamental rethinking of the role of government in finance triggered by this crisis has built a huge momentum for regulatory change. As we work together to recover from this unprecedented economic slowdown, we should seize this opportunity to advance policies that promote an inclusive, stable and accessible financial system – so that financial markets work for the benefit of all.

We want to thank all of you – participants, presenters and panelists – for bringing your own unique experiences to the table and sharing them so openly with your peers. With your energy and enthusiasm, you all contributed to making the Forum a success.

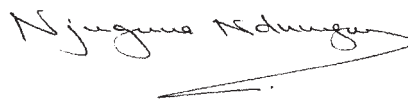
Above all, we would like to express our sincere gratitude to the Bill & Melinda Gates Foundation, which has given a generous grant to GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, German Technical Cooperation) to facilitate this important initiative.

Together, we have the knowledge to make major breakthroughs and the power to give financial inclusion the global voice it deserves.

We look forward to seeing you again next year.



Alfred Hannig
Executive Director
Alliance for Financial Inclusion



Professor Njuguna Ndung’u
Governor, Central Bank of Kenya and
Chair of the AFI Steering Committee



The 2009 AFI Global Policy Forum was held at the Windsor Golf and Country Club in Nairobi, Kenya.



The Forum brought together almost 100 policymakers from 40 developing countries and strategic partners from 60 institutions.



A Forum participant watches a slideshow on one of the Forum's exhibits.



Forum participants enjoy a networking dinner hosted by the Central Bank of Kenya.



The famous Safari Cats dance troupe performs for Forum participants.



Policymakers from around the world had the opportunity to meet one another and share experiences across continents.



Governor of Da Afghanistan Bank, Abdul Qadeer Fitrat, meets Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya.



The visit to the Nairobi Safari Walk gave Forum participants a chance to network while observing Kenya's rich wildlife.

Contents

Introduction	4
DAY 1: Focusing on key financial inclusion policy challenges	5
Perspectives on the role of financial inclusion in economic development	5
Keynote address: Professor Benno Ndulu, Governor, Bank of Tanzania	7
Striking a balance between AML/CFT measures and financial inclusion	8
The state of financial inclusion	9
Regional snapshots of the state of financial inclusion	9
Measuring financial inclusion	11
Using survey data to design financial inclusion policy: Country cases	12
DAY 2: Generating practical answers together	13
Fishbowls	13
Mobile phone banking – Unleashing the potential of technology to expand access	13
Financial identity – A critical stepping stone for financial access	14
Agent banking – Turning non-bank outlets into financial service providers	15
State bank reforms – Increasing access with new commercial models	16
Consumer protection – The missing link in financial inclusion	17
Diversification of products and providers – Expanding access to savings	18
Keynote address: Randall Kroszner, Professor of Economics, University of Chicago and Former Member of the Board of Governors to the U.S. Federal Reserve	19
Side events	20
Day 3: Experiencing smart policies in action	21
Sound practice for policymaking in financial inclusion	21
Overview and demonstration of M-PESA, Kenya’s mobile money transfer service	21
Access to financial services for all – The experience with correspondents/agents in Brazil	21
Financial identification at work – Creating opportunities for borrowers	22
Financial education in action	22
Keynote Address: Aitur Rahman, Governor, Bangladesh Bank	22
Forum Wrap-Up: Turning talk into action	23
What you said: Participant feedback from the Forum	24

Introduction

The first-ever AFI Global Policy Forum aimed to create a platform for policymakers in developing countries to share their knowledge of policy solutions designed to expand financial access for the poor. It also sought to unlock the collective knowledge of AFI members and other leaders, researchers, donors and the private sector, to identify concrete policy solutions that increase financial inclusion.

To meet these objectives, the Forum had the overall theme of “Bringing smart policies to life” across the value chain, from the policy development stage to the delivery of solutions on the ground. To address the key issues needed to bring smart policies to life, each day of the Forum focused on a specific theme along this value chain:

- The first day identified **key financial inclusion policy challenges**. Policymakers discussed key challenges, such as compliance with international standards, data gaps, and lack of systematic knowledge-sharing among policymakers, and some AFI members presented their approaches to overcome these challenges. We also saw speeches by high-level dignitaries, such as the Prime Minister and the Minister of Finance of Kenya and the Governors of the Central Banks of Kenya and Tanzania. As data forms the basis of evidence-based policymaking, the day brought participants up to speed on the state of financial inclusion and presented the latest data.
- On the second day, participants **generated practical answers together** through interactive “fishbowls” or roundtable discussions that offered a marketplace of ideas on AFI’s six key policy areas: agent banking, mobile phone banking, diversification of products and providers, state bank reform, financial identity and consumer protection. Throughout the day, “out of the box” side events offered participants fresh perspectives and new learning opportunities in areas such as social networking and the global financial snapshot initiative.
- The third day centered on **experiencing smart policies in action**, with policymakers and practitioners showcasing smart policies that have helped change people’s lives. Through hands-on demonstrations of agent banking in Brazil, the M-PESA mobile money transfer phenomenon in Kenya, a role play on consumer education and a presentation on getting a biometric financial identity card, participants were put in the shoes of a person without access to financial services.

Throughout the Forum, AFI’s members - policymakers from developing countries – were in the driving seat, both in leading the discussions and in generating innovative solutions. The interactive format allowed for lively debates among policymakers and strategic partners and gave participants the opportunity to cross-fertilize ideas in a free and relaxed environment.

Almost 100 policymakers from 40 developing countries, in addition to strategic partners from 60 different institutions, participated in the Forum. The Forum also attracted a great deal of media attention, with almost 400 placements on the AFI announcement worldwide. These include more than 300 re-posts of the press release in twelve languages and 16 original stories posted by newswires such as Associated Press, Bloomberg and Reuters.

This report aims to summarize the main themes and key outcomes of these three days. Original presentations and videos are available on the AFI website. Visit www.afi-global.org for more information.

Day 1: Focusing on key financial inclusion challenges

Perspectives on the role of financial inclusion in economic development



The opening speaker and Guest of Honour, **Right Honourable Raila Odinga, M.P., Prime Minister of the Republic of Kenya**, underscored the important role that financial inclusion plays in alleviating poverty and ensuring equitable social development. He said that it is crucial to break the vicious cycle of poverty, where those who are poor cannot save, those who cannot save cannot invest, and those who cannot invest are unable to develop and remain poor. Building a culture of savings and finding more innovative ways of accessing finance have only become more important in light of the global financial crisis, which has reduced the flow of international investments.

To push the financial access frontier outwards, innovative technological solutions such as mobile phone banking must be rolled out and interest rates brought down to encourage investments and consumer spending. A well-defined consumer protection framework and financial education programs are also needed to increase awareness of financial services and reduce the risk of abuse by unscrupulous providers.



In his introductory remarks, **Kenya's Deputy Prime Minister and Minister of Finance, Honourable Uhuru Kenyatta** stressed the crucial role the financial sector plays in promoting economic development. He noted that the success of Kenya's development blueprint, Vision 2030, hinges on "a vibrant and globally competitive financial sector driving high levels of savings and financing Kenya's investment needs...". This has only become more important in light of the difficulties in mobilizing international resources brought about by the global financial crisis. The Kenyan government has undertaken a number of reforms in the financial sector to expand financial access. These include the Microfinance Act of 2006, enacted to enable MFIs to take and intermediate deposits from the public, and the SACCO Act of 2008, which streamlined the operations of SACCOs. Kenya is committed to continuing the path of reforms, because the gains made so far are visible.

Despite recent progress in the area of financial inclusion, an estimated 60 percent of the Kenyan population is still formally excluded. This illustrates the huge task ahead in reaching out to this group with a broad range of financial services and products that are accessible, affordable and cater to their needs. Policymakers need to enhance financial inclusion substantially to reduce the unbanked population. In this respect, AFI's vision of expanding financial services for people living on less than two US dollars a day is "worthy of our support."



Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya and AFI Steering Committee Member highlighted the need for policymakers gathering together to draw from the wealth of existing experiences. He also observed that the Forum comes at a time when the global economy is suffering a slowdown. To mitigate this crisis, central banks are taking key policy actions to ensure that financial systems remain sound, secure, and stable.

In the past few years, Kenya has emerged as a success story on how mobile technologies can be used to offer low-cost financial services. More innovative policies are needed to continue to move downstream to reach the majority of Kenyans who still lack access to formal financial services. AFI can provide a platform of policies that have worked in other countries, but it is up to its members to come up with a blueprint that suit their unique circumstances. This is why Kenya will benefit from an AFI grant to learn from countries that have perfected agent banking solutions and see how they can be adapted to the Kenyan context.

Financial Inclusion in Kenya

The proportion of Kenyans accessing banking services increased from 19 percent in 2006 to 23 percent in 2009. Despite this, 33 percent of bankable Kenyans still lack access to even the most basic financial services and 27 percent access financial services through the informal sector.



Mr. Nestor A. Espenilla, Jr., Deputy Governor, Bangko Sentral ng Pilipinas and AFI Steering Committee Member, gave a toast at the welcome reception. Deputy Governor Espenilla called the Forum a "*momentous occasion as policymakers, regulators, strategic partners and other stakeholders from all over the developing world have come together with the shared goal of building an inclusive financial system.*"



Keynote Address: Professor Benno Ndulu, Governor, Bank of Tanzania

It is significant that the first AFI Global Policy Forum took place in Africa – a region where poverty and financial inclusion present the biggest challenges for the global community. The World Bank estimates that across Sub-Saharan Africa, only 20 percent of households have accounts with financial institutions, compared to 90 percent or more in developed countries. Similarly, one bank branch in Sub-Saharan Africa caters to the banking needs of more than 50,000 people, compared to fewer than 4,000 people per branch in developed countries.

Agriculture, the informal sector, and small and medium enterprises represent the biggest source of livelihood for the majority of people in Africa. Yet the growth of these sectors has been constrained by poor access to credit and other financial services. Over the last two decades, the financial landscape in Sub-Saharan Africa has changed rapidly, with the banking system now offering a wider range of services at a greater scale and across a wider area. Key reasons for this include:

- a) **Financial sector reforms**, which have reduced barriers to entry, improved the capacity of financial institutions to mobilize savings, and promoted greater competition;
- b) **Technological innovations**, which have extended affordable and convenient financial services, particularly to rural populations; and
- c) **The growth of specialized microfinance institutions**, which have used innovative techniques such as group lending to deliver financial services to the poor.

Technological solutions, including those using smart cards and mobile phones, offer the opportunity to fast-track financial inclusion, by reducing barriers to access related to cost and distance. Policymakers can encourage more technology-driven innovations through effective policies to protect property rights. Given the trust-based nature of financial markets, policymakers and regulators can also play a key role in building public confidence in new technologies and innovative financial products.

Enhancing the coverage and effectiveness of microfinance institutions could also further financial inclusion. Challenges going forward include ensuring that microfinance institutions are sustainable and commercially viable; helping microfinance institutions move beyond credit to offer other innovative products to rural and low-income people; and regulating microfinance to ensure operations are properly managed.

The lack of assets that can serve as collateral calls for policymakers to implement measures that enable institutions to provide financial services to low-income and rural populations without demanding physical collateral. In this regard, establishing credit reference bureaus could go a long way towards building an inclusive financial system.

Financial inclusion is not an end in itself, but the means to an end. The ultimate goal is bringing about real improvements in people's lives by enhancing their economic opportunities, and AFI is an instrument for peer learning that can serve as a catalyst for achieving this goal.



**Presenter and panelists
(in picture from left to right):**

Randall S. Kroszner, Professor of Economics at the University of Chicago and former member of the Board of Governors of the U.S. Federal Reserve

Luis Urrutia Corral, Vice President, Financial Action Task Force (FATF) on Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)

Attorney Vicente Aquino, Executive Director of the Anti-Money Laundering Council, the Philippines

Striking a balance between AML/CFT measures and financial inclusion

Policymakers and financial institutions are increasingly concerned about the potential constraints of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) recommendations on financial inclusion. Oftentimes, international standards are based on the experiences of developed countries, where the lack of financial inclusion tends to be less of a problem. For this reason, AFI members have stressed the importance of tailoring AML/CFT recommendations to reflect the realities of developing countries, including leaving room for the objective of financial inclusion. The attendance and presentation of the Financial Action Task Force (FATF) on AML/CFT demonstrated FATF's openness to share its views and perspective and discuss this issue with policymakers.

Highlights of the session include:

- **The FATF recommendations have a measure of flexibility to allow countries to implement them in a context-sensitive manner.** To prevent unintended negative consequences, AML/CFT frameworks must be tailored to the local context.
- **The impact of AML/CFT measures differs across countries and is determined by a number of country-specific factors.** These include the national identification infrastructure; government capacity in financial sector supervision and law enforcement; the structure, capacity and incentives of formal financial institutions; the usage of informal financial services; and linkages to international financial markets.
- **The FATF recommendations permit a risk-based approach.** This allows resources to be allocated in the most efficient ways and focus on real and identified threats.
- **A successful AML/CFT regulatory outcome requires the participation of all stakeholders,** including regulators, bank supervisors, the private sector, and national authorities responsible for identification.
- **Countries can learn from their peers on measures to mitigate the impact of AML/CFT frameworks on financial inclusion.** Examples include Mexico, where different sets of risk-sensitive regulations have been created for different financial service providers, and South Africa, where specific AML/CFT rules have been designed for basic bank accounts.

Key areas that could benefit from a continuous dialogue and exchange between policymakers and FATF include how to interpret AML/CFT principles during the assessment phase, how a risk-based approach can be implemented in practice, how to incorporate a financial inclusion perspective in FATF's 40+9 recommendations, and the cost and benefits of Know-Your-Customer (KYC) measures in different national contexts. Countries need to develop effective AML/CFT regimes and financial inclusion policies that are complementary rather than conflicting. AFI can play a role in this regard by providing a platform to continue the exchange and to share successful country-level experiences on how to balance AML/CFT regimes with financial inclusion.



The state of financial inclusion

Financial inclusion data can play a key role in supporting evidence-based policymaking and help policymakers prioritize and allocate resources more efficiently. Despite a number of global and national data initiatives, policymakers not only face huge data gaps, but also often lack understanding of data definitions, measurement tools and impact assessment. This session presented the latest data and trends on financial inclusion by region and provided an overview of current financial inclusion survey methodologies and key challenges related to survey design and implementation.

Presenters:

David Porteous, Bankable Frontier Associates (pictured above)

Latin America and the Caribbean:
Ignacio Mas, Bill & Melinda Gates Foundation, on behalf of Luis Tejerina, Inter-American Development Bank

Africa:
Maya Makanjee, FinMark Trust

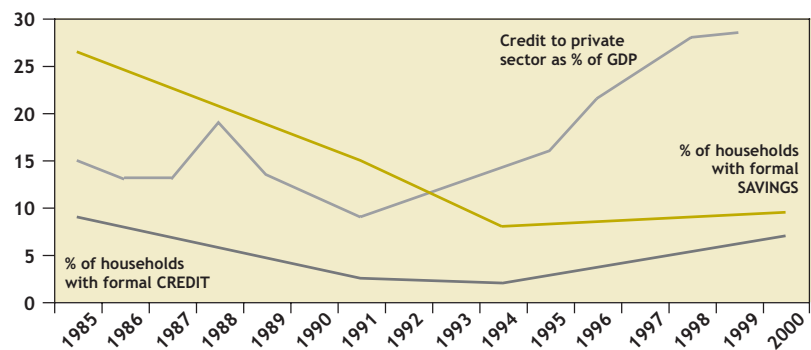
Asia:
Nimal Fernando, Inclusive Finance International

Regional snapshots of the state of financial inclusion

Latin America has seen spectacular growth in the microfinance industry, with the number of clients increasing from 1.8 million in 2001 to 8 million in 2008, though the impact of this growth has yet to be explored. Since usage of formal financial services tends to be low for both poor and non-poor households, greater financial inclusion is not only a matter of poverty reduction. Gathering demand-side survey data is crucial to understand the needs of the customers and their reasons for exclusion and to develop appropriate financial products. The region also has a unique opportunity to use conditional cash transfers (CCT), which currently reach more than 20 million poor households. For example, Colombia, Ecuador, Brazil and Mexico have already started offering simplified bank accounts to deliver CCTs. This can serve as an entry point to establish formal banking relationships, especially if these accounts can be used beyond the receipt of transfers.

The perils of using aggregate data

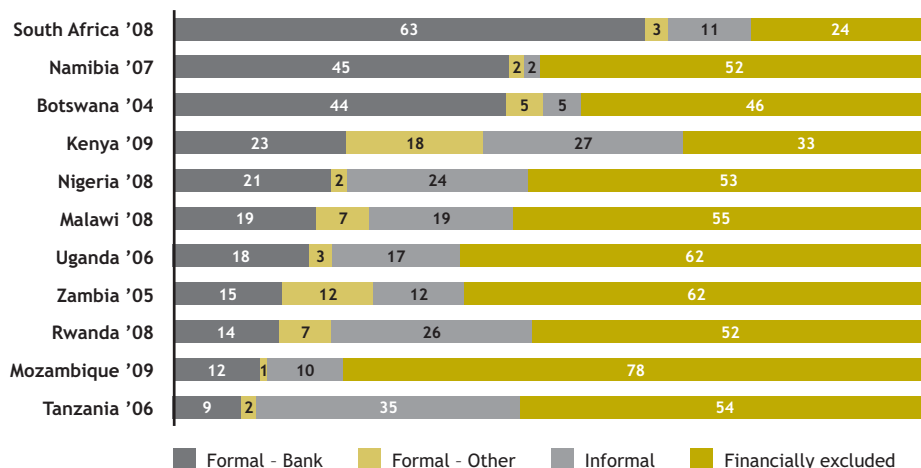
Financial deepening, Peru, 1985-2000



Source: Alem, 2006 in Tejerina et. al.

In Africa, there is a great variation in access to formal financial services, ranging from 11 percent in Tanzania to 66 percent in South Africa. The FinScope survey has been used to measure financial access in 14 African countries, classifying all adults into three broad segments: formally included, informally served, and financially excluded. A comparison of access to credit, savings and insurance products (both formal and informal) in Botswana, Zambia and Mozambique shows that savings, rather than credit, is driving access.

Comparison of access strands, Africa



Source: Presentation made by Maya Makanjee, FinMark Trust, at the 2009 Global Policy Forum.

Asia has made a remarkable progress in expanding financial access in recent years, with Bangladesh and India making especially large contributions. 40-50 percent of households have access to formal or semi-formal financial services, though the share is only 25 percent for poor households. The poor are generally served by public banks or non-bank entities, with private sector banks playing a smaller role. Inclusion levels vary significantly across countries, and despite significant progress, an estimated 535 million people in the region are still excluded from formal financial services.

Inclusion level varies significantly across countries in Asia

High level of inclusion (Over 50% of the adult population or households)	Thailand, Malaysia, Sri Lanka, Nepal, Mongolia
Intermediate level of inclusion (30%-49%)	India, China, Indonesia, Bangladesh, Vietnam
Low level of inclusion (Below 30%)	Cambodia, Myanmar, Philippines, Papua New Guinea, Pakistan, Laos, Timor-Leste, Solomon Islands, Vanuatu, Samoa, Tuvalu, Kiribati

Source: Presentation made by Nimal Fernando, Inclusive Finance International, at the 2009 Global Policy Forum.

Measuring financial inclusion

Measuring financial inclusion can follow a three-step approach:

- 1) Defining financial inclusion,
- 2) Selecting the appropriate approach, and
- 3) Understanding the costs involved and the options for implementation.

There are multiple ways to define financial inclusion, each with varying degrees of complexity. Key dimensions include access (ability to use formal financial services), usage (actual usage of financial services and products), quality (product attributes match the needs of customers), and impact (effect on the livelihoods of customers). Once there is a clear definition, the selection of indicators helps translate the concept of financial inclusion into concrete results that can be measured.

Supply and demand side data can provide answers to different sets of questions and a combination of both is needed to provide a full picture of the state of financial inclusion. There are many different instruments and survey techniques that can be used and the approach chosen must be tailored to the objective and available resources.

Surveys can deepen the understanding of financial inclusion and support the development of smart policies. To ensure that the data generated is useful to their needs, regulators can support the collection and use of demand side data and provide supply side information. Other government agencies and the private sector with an interest in the data may also support survey efforts. Joint efforts by different countries in agreeing on a definition and common indicators for financial inclusion would allow for more meaningful cross-country comparisons of survey data.



John Sibi-Okumu was the overall moderator for AFI's 2009 Global Policy Forum.

Using survey data to design financial inclusion policy: country cases



Presenter:
Wajeetip Pongpech, Bank of Thailand

Thailand

The Bank of Thailand is taking on the challenge of gathering reliable demand side data on financial inclusion. Thailand's 2010 national household survey will focus on three dimensions that have been identified as crucial to improve people's capacity to be financially included: financial access, financial literacy and consumer protection.

The Bank of Thailand is working with academics to translate pressing policy questions into survey designs and has proposed that AFI members take on this challenge together. Such collaboration will pave the way for an international financial inclusion data platform, with AFI providing the necessary tools and resources. The data generated will feed into poverty impact assessments and become increasingly relevant as it is repeated over time and as additional countries join.



Presenter:
*Shem Ouma, Central Bank of Kenya
(pictured above) and David Ferrand,
Financial Sector Deepening Trust, Kenya*

Kenya

FinAccess surveys undertaken in Kenya in 2006 and 2009 show that formal financial access (by banks and non-banks) increased from 26.4 percent in 2006 to 40.5 percent in 2009, mainly due to the M-PESA phenomenon. Policymakers have taken a lead in implementing the surveys and have used the data to track progress and feed into policy documents and strategies, such as the country's Vision 2030. At the same time, more detailed findings from the surveys have yet to find their way into policies, due to capacity constraints in data analysis and the limited time in which policies are often formed. Engaging other experts and disseminating the findings more extensively could help deepen the analysis of future surveys.



Presenter:
*Raúl Hernández-Coss, Comisión Nacional
Bancaria y de Valores (National Banking and
Securities Commission of Mexico)*

Mexico

Quality demand-side information can play a crucial role in driving policymaking, product design and impact analysis. To address the lack of such information, Mexico has designed a national strategy to measure and monitor financial access that could be adapted by other countries. Available demand and supply-side survey information was analyzed to identify data gaps, and four possible options were investigated on how to fill these gaps. CNBV opted for a multi-survey approach that combines a large-scale national survey repeated at regular intervals with smaller, more targeted surveys that test market appetite and assess more specific outputs as needed.

Day 2: Generating practical answers together

What is a fishbowl?

For each of the six policy areas promoted by AFI, a group of 6-8 inner circle panelists engaged in an interactive roundtable or "fishbowl", supported by an expert moderator or presenter. To maximize mutual learning, the fishbowls aimed to include both aspiring countries and more experienced policy experts. The discussion was then widened to allow questions from the audience. The expert moderator or presenter concluded by summarizing the discussion and highlighting priorities for future action.



Panelists:

Michael Tarazi, CGAP (expert moderator)

Nestor A. Espenilla, Jr., Deputy Governor, Bangko Sentral ng Pilipinas (pictured above left)

Gerald Nyaoma, Central Bank of Kenya (pictured above right)

Carlo Corazza, World Bank/IFC

Tavneet Suri, Massachusetts Institute of Technology

Marina Solin, GSM Association

Abdul Qadeer Fitrat, Governor, Da Afghanistan Bank

Abayomi Atoloye, Central Bank of Nigeria

Fishbowls

Mobile phone banking – Unleashing the potential of technology to expand access

Worldwide mobile phone penetration is soaring, with subscriptions more than quadrupling since 2002 to more than 4 billion. More than half of these users are "unbanked", representing a huge potential for expanding financial access at a lower cost than through brick-and-mortar bank branches. For this reason, regulators are increasingly open to consult with mobile network operators, who are able to capitalize on their customer base and agent networks to rapidly expand the reach of mobile financial services to the unbanked.

Financial solutions driven by mobile technologies are breaking barriers to access by significantly lowering the transactions costs of making and receiving payments. This potential has been demonstrated by countries such as Kenya and the Philippines, where the use of mobile phone-based financial services have revolutionized access.

In both the Philippines and Kenya, regulators have adopted a pragmatic "test and see" approach to regulation. To address the role of non-bank actors in delivering financial services, central banks have allowed mobile network operators to develop and experiment their business models and products in consultation with the regulator, while closely observing the uptake and market response through research. Once market innovation and learning meet the needs of both regulators and operators, regulation can be created and implemented to provide legal certainty and create a level playing field to allow new players.

Regulators' concern for systemic stability has led to the development of services with a unique low risk profile. Balances used in these payments and transfers are not financially intermediated and clients do not earn interest, which is why they are not categorized as deposits. To protect customer funds, current practice also requires mobile network operators to deposit the equivalent of 100 percent of the e-money issued in a trust account to ensure that it can be redeemed at any time.

Regulators have adopted different approaches to manage the relationship between mobile network operators and their agents.

Kenya and the Philippines have implemented a risk-based approach to supervision that allows financially well-resourced and sustainable mobile network operators to offer financial products and take responsibility for supervising their agents. In Afghanistan, to mitigate the risks of money laundering and financing of terrorism, mobile network operators are required to have agreements with their agents, take security deposits, gather data, and be fully responsible for the cash-out function.

The case for interoperability between operators will depend on the market structure and competition policy prevailing in each country.

Interoperability involves allowing operators to access and integrate into each other's platforms so that clients can transact across operators. Mandating interoperability may promote competition, but it also entails potential trade-offs between providing for consumer choice, market innovation and the policy goal of expanding access.



Panelists:

Nicola Jentzsch, Technische Universität Berlin
(expert presenter)

Halim Alamsyah, Bank Indonesia
(pictured above left)

Abel Tshimole, South Africa's National
Credit Regulator

Tony Lythgoe, IFC

Minakshi Ramji, Centre for Microfinance

Anja Smith, CENFRI

Michael Malan, CompuScan

Forum moderator, John Sibi-Okumu

(pictured above right)

Financial identity – A critical stepping stone for financial access

KYC norms require financial institutions to verify the identities of new customers before opening accounts for them. This is usually done through reliable, independent documents such as identity cards and birth certificates. Yet millions in developing countries lack such documents. Those who do not have the necessary formal identity documents can make use of informal financial histories and means of identification to build a financial identity that can serve as a stepping stone to gain access to formal financial services.

Financial identity is a unique identifier combined with an electronic footprint of a person's financial behavior. The information attached to the identifier must be accurate and user-friendly, be regularly updated and have a fixed timeframe. Despite the costs involved, building such nationwide systems can bring huge benefits, not only in increasing financial access but also in reducing risk in the long term, as this allows people to be tracked.

There are growing practical solutions and technical tools to overcome identification barriers and build effective financial identity systems.

For example, in India, stringent KYC norms have been relaxed to allow for the creation of low-risk bank accounts with a verification letter from the local government. In Indonesia, a proposal is underway to use information from the informal financial sector, such as pooling funds, to track poor people's financial behavior and to feed this data into a formal database. Utility bills and other data sources can also be used to build a person's financial history. Biometrics can be a promising technology to identify clients, but given the costs involved in developing the infrastructure and the risk that these costs are passed on to clients, it should not be viewed as a silver bullet for all countries.

Sharing information among financial institutions is a big step forward which has a positive impact on portfolios and bad debt ratios. Larger players with a competitive advantage may resist at first, but the gains should become clear as some players start sharing data. Credit bureaus can help microfinance clients leverage their credit histories to move into the formal financial system. Depending on the country's situation, it might be helpful to make the sharing of information compulsory in the beginning.

There is a need to strike a balance between building financial identity and protecting the privacy of clients in the early stages of policymaking.

Data protection regulation should cover all institutions that have access to personal data and individual clients should have the right to know and decide on how their information is being used. Consumer education and awareness-raising campaigns should accompany financial identity projects to give customers the financial literacy they need to provide "informed consent" and increase their awareness of the value of sharing information.



Agent banking – Turning non-bank outlets into financial service providers

The agent banking model is one in which retail outlets (such as shops or post offices) act as bank agents in areas where commercial banks do not have sufficient incentive or capacity to establish formal branches. Because the set-up of agent banks is less costly and more flexible than for traditional bank branches, agent banking represents a significant opportunity to expand outreach of critical financial services to the unbanked.

Panelists:

*David Porteous, Bankable Frontier Associates
(expert moderator)*

*Guillermo Babatz Torres, President, Comisión
Nacional Bancaria y de Valores, Mexico*

Luiz Edson Feltrim, Banco Central do Brasil

*Alessandra von Dodt Borowski,
Banco Central do Brasil*

Ernesto Aguirre, AFI Regional Associate

Justin Oliver, Centre for Microfinance

*Kirill Kosminskiy, Russian Ministry
for Economic Development*

Matu Mugo, Central Bank of Kenya

Joseph Attah, Central Bank of Nigeria

Agents are increasingly moving beyond traditional payments products (utility bills, taxes, etc) to offer a broader range of financial products.

Brazil, with more than 100,000 correspondents, was the first developing nation to offer banking services in every municipality. Agents are increasingly offering additional services such as withdrawals, deposits, pre-approved credit lines, simplified current accounts, and international remittances. In Mexico, research has shown that there is an especially strong demand for deposits.

Agent banking presents many potential risks as well as opportunities that policymakers must manage through the appropriate legal and regulatory frameworks.

Brazil has adopted a risk-based approach to supervising agent banking, where any institution supervised by the Central Bank can establish an agent relationship, which is governed by a public contract, with any business for whom they are willing to assume full responsibility. Commercial banks are responsible for supervising, setting standards for, and tracking the operations of their agents. In Mexico, agents are permitted to perform KYC verification for low-value transactions.

Developing policies around agent banking requires regulators to also consider the broader distribution chain of financial services, particularly to traditionally unbanked populations.

In Kenya, where plans are underway to adopt agent banking as a strategy to mobilize deposits, the regulator is taking a step back and assessing the distribution system as a whole. For example, the Central Bank is now reviewing the licensing requirements for branches.

Laws aimed at supporting agent banking must be complemented by sufficient business incentives for both agents and financial institutions to implement this model.

In some cases, government cash transfers have been used to kick-start agent banking, but agents must ultimately be able to offer other financial services as well if the system is to be financially viable and effective.



Panelists:

Wolfgang Buecker, GTZ (expert moderator)

*Gil S. Beltran, Undersecretary,
Department of Finance, the Philippines*

*Carlos Alberto Moya Franco, Banca de las
Oportunidades, Colombia*

*Miranda Goeltom, former acting Governor,
Bank Indonesia*

Norasi Bukhamana, Bank of Thailand

*Norbert Mumba, Bank of Zambia
(pictured above)*

State bank reforms – Increasing access with new commercial models

State banks operate in about 70 percent of developing countries and hold around 15 percent of bank assets. Although many of these banks produce poor results, mainly due to weak governance, others succeed. Evidence suggests that if state banks are made to operate in an economically viable way, there are opportunities to increase outreach and expand financial access, particularly in rural and agricultural areas where private sector penetration might be limited.

In many countries, state bank reforms have focused on improving governance and ensuring that operations are commercially sustainable. One of the most well-known examples is Bank Rakyat Indonesia (BRI) and its village units, which used innovation to transform itself from a subsidized and loss-making state bank into a profitable microfinance specialist. Using savings mobilization to ensure self-sustainability, BRI now has eight savers for every borrower.

State banks can play a role in expanding access to finance, particularly in rural areas. State-owned banks in countries such as Brazil, India, Indonesia, Mexico and the Philippines represent most of the branches in rural areas and are often the only financial institutions serving these communities. Even when this segment of the market is commercially viable, state banks can act as a catalyst to lead the market and generate market interest through innovation. One example is the Bank of Thailand, which has set up Specialized Financial Institutions (SFIs) to serve the rural and microfinance sectors.

State banks have to strike a balance between fulfilling their social mandates such as rural development and maintaining long-term financial health. In the Philippines, state banks which have a social mandate have maintained public ownership but are still required to operate profitably. In Colombia, the state bank has an independent board and is run like a private bank, though the government provides funds for specific social initiatives.

The potential dangers of state subsidies need to be addressed. Subsidized state credit can undermine the sustainability of state banks, threaten private MFIs and jeopardize the general payment culture. At the same time, there may be a case for state banks to use credit guarantees or similar subsidies in the short term to lead and demonstrate feasibility in rural and microfinance markets. As part of the risk of such schemes is borne by the state, there may be political reasons for channeling these funds through state banks.

The private sector can also play a role in fulfilling social goals. In Colombia, the government is involving the private sector through the Banca la Oportunidades, a government program which brings together a network of state and privately owned financial institutions to deliver financial services to the unbanked.



Panelists:

*Patrick McAllister, Cauris Consult
(expert presenter)*

Koid Swee Lian, Bank Negara Malaysia

*Felipe Tam Fox, Superintendent,
Superintendencia de Banca,
Seguros y AFP (SBS), Peru (pictured above)*

Katherine McKee, CGAP

Juanita D. Amatong, Bangko Sentral ng Pilipinas

Monique Cohen, Microfinance Opportunities

*David Baguma, Association of Microfinance
Institutions of Uganda*

*Samuel Ochieng, Consumer Information
Network, Kenya and Consumers International*

Consumer protection – The missing link in financial inclusion

Every year, there are 150 million new customers of financial services worldwide. Information asymmetry between consumers and the banks places these new customers at a disadvantage. For financially illiterate and inexperienced customers, this imbalance is even greater. Consumer protection can help to bridge this gap by strengthening market discipline and ensuring that financial institutions do not abuse their power, and by equipping consumers with the knowledge they need to make informed choices.

Consumers have rights. These include the right to be heard and rights to information, choice, redress and privacy. By making consumers aware of their rights, consumer education can bridge the information gap between industry and vulnerable consumers of financial services. It helps financially illiterate clients understand that they have options and assists them in making informed choices by presenting these options in a clear and transparent manner. Consumer education can also build the confidence of clients to ask the right questions and teach them about their rights and responsibilities.

Transparency leads to deeper and more efficient financial markets.

Information builds trust among consumers and increases demand for financial services. Better informed consumers also allow for more accurate risk management that improves the quality of investor portfolios.

Regulators are employing different strategies to strengthen consumer protection. In the Philippines, the regulator is training financial service providers to teach their clients how to calculate interest payments and do basic budgeting. Malaysia offers credit counseling and debt management to the over-indebted, while in Peru, where credit bureaus are not available at the microfinance level, financial education is a key strategy to safeguard against over-indebtedness. High school students are trained on budgeting and financial institutions are required to publically disclose interest rates and other loan terms.

Regulators can and should work with both consumers and industry to supervise market conduct. A “carrot-and-stick” approach may be needed: Self-regulation by banks can help create a culture of transparency and make the business case for consumer protection, but to ensure transparent pricing and disclosure, enforcement is also needed. Stakeholders such as ombudspersons can support the regulator by addressing individual complaints, while independent consumer advocates can offer additional support to consumers. Units for consumer protection in financial services can be housed within or outside the prudential regulator, but it is important to separate consumer protection for financial services from overall consumer protection.



Diversification of products and providers – Expanding access to savings

A variety of formal and informal service providers, particularly microfinance institutions, have sprung up to serve the poor in new and innovative ways. The poor's demand for financial products from these providers goes beyond credit. In particular, there is an unmet demand for savings, a financial product which is essential for poor households to manage cash-flows. Who can and cannot accept savings is a pressing question for regulators.

Panelists:

Renée Chao Béroff, Groupe Microfinance Participative pour l'Afrique (Expert moderator)

Khandakar Muzrahal Haque, Microcredit Regulatory Authority, Bangladesh

Alex Counts, Grameen Foundation

Nabil M. Al-Montaser, Central Bank of Yemen

Justine Bagyenda, Bank of Uganda

Angelique Kantengwa, Bank of Rwanda

Deepali Pant Joshi, Reserve Bank of India

Eduardo Flores, Superintendencia de Banca, Seguros y AFP (SBS), Peru

Mark Flaming, Frontier Ventures

Regulators are trying to balance the goals of promoting access to savings for the poor with ensuring systemic stability and protecting deposits. Institutions that accept deposits and intermediate funds must be subject to some level of prudential regulation and supervision. In Bangladesh, previously unregulated microfinance institutions that were informally taking deposits will soon be subject to new regulation, which will allow them to take deposits while ensuring clients are protected. In Rwanda, concerns over the governance of cooperatives led the regulator to regulate large cooperatives. India's bank-led paradigm for financial inclusion aims to provide a full range of financial products through mainstream financial institutions.

Many other countries have adopted a "tiered approach", allowing new or unregulated institutions to take deposits with different requirements than full-fledged banks. The strength of this tiered approach is that the regulator has allowed unregulated innovators to become a robust part of the formal system, by creating legal paths for these entities to move into the regulated sector. In countries such as Peru, Bolivia and Uganda, this approach has led to higher savings, which has not only benefited consumers but also helped institutions weather the financial crisis, by making them less dependent on external financing and wholesale funding. But striking the right balance on capital and reporting requirements and governance issues can be a challenge, as has been the case in Uganda.

Institutions providing financial services to low-income populations still need enabling regulations that allow them to graduate into taking savings. Technology-based solutions such as mobile and agent banking can reduce cost and break down barriers of distance, but in their current form they do not fulfill poor clients' needs for formal savings accounts. For this reason, regulation is still needed to allow mature microfinance institutions to safely provide excluded populations with a range of financial products, including savings, which are tailored to their needs.



**Keynote Address: Randall S. Kroszner,
Professor of Economics, University of Chicago
and former member of the Board of Governors of
the U.S. Federal Reserve**

The global financial crisis which shook the world in the fall of 2008 was not caused by financial inclusion. On the contrary, analysis by the US Federal Reserve shows that problems in the US sub-prime market were not the origin of the crisis, but a symptom of the breakdown in risk management which occurred. By bringing people into the market, financial inclusion can actually be positive for financial stability, safety and soundness.

Another key lesson from the crisis is that both investors and individual consumers need sufficient information to make the right choices. Good disclosure prevents consumers from being harmed, builds their confidence in the system, and allows them to take more appropriate loans. By providing more stable funds and better information for investors, consumer protection can also improve investor confidence and increase the flows back into the market. Ultimately, rebuilding trust is one of the key ways to bring new people into the financial system.



Krirk Vanikkul, Deputy Governor, Bank of Thailand and AFI Steering Committee Member, remarked in his speech that the Global Policy Forum had been *"a great success in bringing policymakers together to share and learn from each other"*. Deputy Governor Krirk noted that he himself was taking many lessons home, especially regarding the mobile and agent banking models.

Side events



Presenter:

Daryl Collins, Bankable Frontier Associates

The Global Financial Access Snapshot (GFAS) initiative

Daryl Collins from Bankable Frontier Associates provided an overview of a proposed Global Financial Access Snapshot (GFAS) survey project. The initiative would be applied in 135 countries around the world by attaching a standard set of demand-side financial access indicators to an existing annual global survey such as the Gallup poll. Participants welcomed the idea of the GFAS survey, which would allow policymakers and others to broadly measure trends over time and compare data across countries. While less in-depth than national data initiatives, the GFAS initiative could also create demand for more robust national surveys.

Policy implications of the publication “Portfolios of the Poor”

Ms. Collins also presented the findings from the book *Portfolios of the Poor*, which she co-authored. The book is based on year-long “financial diaries” of villagers and slum dwellers in Bangladesh, India and South Africa, which track penny-by-penny how households manage their money. The diaries found that despite low and unpredictable earnings and a lack of access to appropriate financial tools, the majority of the poor employ a wide array of formal and informal financial tools to manage risk, absorb negative shocks and smooth consumption. These strategies reveal new methods for fighting poverty and can provide policymakers with valuable ideas for envisioning the next generation of banks to serve the “bottom billion.”



Presenter:

Andrew Robinson, Ask Agent Ltd.

Successful social networking

Social networks are online communities which allow members of a network to link up and exchange ideas about similar interests. In India and Africa, such networks have helped microfinance professionals, advocates, policymakers, and recipients link up, discuss issues, exchange knowledge, and access opportunities they otherwise wouldn't have heard about. A tool called Ask Agent has a network of thousands of individuals available to answer questions. To test the network, participants posed a question about pyramid schemes and how to legally restrict them. Within 24 hours, several dozen people in the Ask Agent social network responded to the question with useful answers. Participants discussed how social networks could be applied to the AFI membership community and the various attributes and functionalities that would be useful for policymakers.

Day 3: Experiencing smart policies in action

Sound practice for policymaking in financial inclusion



Presenters

(in picture from left to right):

Pauline Vaughan and Betty Mwangi-Thuo, Safaricom, and Gerald Nyaoma, Central Bank of Kenya

Overview and demonstration of M-PESA – Kenya’s mobile money transfer service

In Kenya, only 23 percent of people have a bank account but 80 percent use a mobile phone. To tap into this potential, mobile operator Safaricom launched the M-PESA mobile money service in 2007. The service has quickly grown into one of the most successful in the world, with more than 7 million customers and over 12,000 agents by mid-2009. In a joint overview and demonstration of M-PESA, representatives from Safaricom and the Central Bank of Kenya (CBK) showed how the service developed, what benefits it can bring to consumers, and how it works in practice. Used for ATM withdrawals, bill payments and money transfers, the service is now the primary method of sending money in the country. The infrastructure is cost effective and flexible to the needs of the population, and the electronic footprint allows for better monitoring of financial activities without the challenges of managing physical cash.

Mutual consultation and information-sharing strengthened the relationship between the regulator and the operator and created an enabling regulatory environment that allows for innovation while addressing legitimate regulatory concerns. Because there is no intermediation of the funds and no interest is paid, the M-PESA service does not fall under the definition of banking business and deposit-taking under Kenya’s Banking Act. In the absence of specific regulation for non-banks to appoint agents and adhere to AML/CFT standards, the CBK allowed Safaricom to introduce the service with certain conditions to minimize risks. To provide legal certainty and create a level playing field for new market entrants, new legislation is currently underway to bring mobile payments into the regulatory framework.



Presenter:

Alessandra von Borowski Dodt, Banco Central do Brasil

Access to financial services for all – The experience with correspondents/agents in Brazil

This session provided a demonstration of how correspondents/agents have been successfully used to expand financial access in Brazil. An extra 13 million unbanked people have been reached and more than 100,000 retail outlets (post offices, lottery kiosks, grocery stores, and the like) turned into correspondents since 1999. Payments, transfers and deposits are made in real time using point-of-sale (POS) devices and bank cards. Correspondents are used to distribute welfare payments and other public services, and services such as pre-approved credit lines, simplified current accounts, and international remittances are also authorized. Participants especially appreciated the videos showing how the model works in practice and the benefits it brings customers in Brazil.



Presenter:
Michael Malan, CompuScan

Financial identification at work – Creating opportunities for borrowers

In this session, participants gained hands-on experience on how a biometric identity card is issued and how it can be used to verify customer identities and to share information across financial institutions. As demonstrated by the case of Uganda, biometric technology such as fingerprinting can help banks meet KYC requirements and serve as a building block for the creation of a credit reference system. The experience in Uganda shows that credit bureaus can protect borrowers from identity theft and increase financial access, though factors such as the cost to borrowers and infrastructure capabilities must be considered in delivering the services.



Presenter:
Monique Cohen, Microfinance Opportunities

Financial education in action

Participants were asked to place themselves in the shoes of a poor client. The role play that followed aimed at teaching people to ask questions to protect themselves from aggressive lenders:

- Do I need this loan?*
- How can it help me?*
- Do I understand its conditions?*
- How will I repay it?*



Given the high cost of training individuals directly, mass media such as videos, call-in radio shows, posters and leaflets can be effectively used to help poor and low-literate consumers understand financial products. Comics, soap operas and after-school programs can also be powerful tools, especially in reaching young people.

Keynote Address: Atiur Rahman, Governor, Bangladesh Bank

Bangladesh has used financial inclusion as a policy tool for combating poverty. The country has seen a strong focus on microcredit, but deposit services are recognized as an important stepping stone for accessing other financial services. Despite a steady growth in coverage, about 25 percent of the adult population is still excluded from deposits and other financial services from regulated institutions. A “missing middle” has emerged in recent years between the poorest served by microfinance and the relatively better off served by banks. To bridge this gap, the government is providing refinancing lines against bank loans to SMEs, for rural economic activities, and other priority areas. Technologies such as smart cards and mobile phone banking can reduce the costs of managing the portfolios of small sized loans to borrowers and render this segment of the market more viable.



Alfred Hannig, AFI Executive Director (above left) and Atiur Rahman, Governor of Bangladesh Bank (above right)

Forum wrap-up: Turning talk into action

In his closing remarks, **Alfred Hannig, Executive Director of AFI**, thanked the co-hosts, partners and participants for a successful Forum. He said that he felt encouraged to see empowered policymakers leading the discussions, and recapped some of the key lessons learned.

- As identified in the mobile phone banking fishbowl, there is a case for regulators to adopt a “test and see” approach and work with industry to create mutually acceptable regulation.
- As stressed by Luis Urrutia Corral, Vice President of FATF, policymakers cannot simply import solutions from other countries, but need tailor-made policies that suit the needs of their individual countries.
- Policymakers and FATF demonstrated a commitment to continue the discussion after the Forum. AFI could offer a platform to facilitate such an exchange.
- As pointed out by Randall Kroszner, Professor of Economics at the University of Chicago and former member of the Board of Governors of the U.S. Federal Reserve, financial inclusion is not the cause of the current financial crisis but can be a stabilizing factor in its recovery.
- Policymakers need more information about the excluded in order to reach them, and regulators can and should play a role in gathering this data.
- AFI will continue to support its members in gathering financial inclusion data, including through the data platform proposed by the Bank of Thailand, which met with enthusiasm from Forum participants.
- The Forum led to the creation of a number of working groups to support more in-depth collaborations on specific issues. These include a working group on mobile phone banking and one for countries in the Pacific.
- AFI will ensure that the stimulating discussions generated during the fishbowls continue by building on this interactive format to support virtual exchanges on the upcoming AFI online network platform.



Guillermo Babatz Torres, Chairman of CNBV, Mexico

In his closing remarks, **Guillermo Babatz Torres, Chairman, Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission of Mexico) and AFI Steering Committee Member** pointed out the need for regulation to develop in consultation with the market and to ensure that it is nurtured with the best information possible. He proposed that AFI adopt a working definition of financial inclusion and stressed the need for data to inform the design of public policies, assess the impact of policies, and support the private sector in introducing financial products. He reiterated that measurement tools should move beyond access to explore usage patterns and the permanence of products. Dr. Babatz also suggested that AFI become a gateway in supporting improved data collection and the exchange of experiences among its members.

What you said: Participant feedback from the Forum

Results of a survey conducted at the end of the Forum pointed to a remarkable level of satisfaction amongst participants. An overwhelming 63 percent of respondents reported being "very satisfied" with the Forum, with an additional 36 percent stating they were "satisfied." Forum participants appreciated the unique opportunities it offered for networking and knowledge-exchange and were excited to see policy solutions originating in the developing world.

The interactive nature of the sessions, the high caliber and diversity of participants, and the mix of topics and formats were also singled out as key reasons for the Forum's success. The topic of mobile phone banking generated particular interest: the M-PESA demonstration and the mobile phone banking fishbowl were the most top-rated sessions. Other favorite sessions included the data discussion on the global state of financial inclusion and the agent banking and consumer protection fishbowls.

We are also taking your ideas on board to make next year's Forum even better. Following your feedback, we want to continue to fine-tune the fishbowls so that they are even more interactive and targeted. We will also allow more time for Questions & Answers and increase the use of small breakout sessions to support deeper discussion and facilitate networking.

We look forward to seeing you at the 2010 AFI Global Policy Forum!



About AFI

AFI is a global network of policymakers in developing countries that aims to enable an extra 50 million people living on less than two US dollars a day to have access to formal financial services by 2012. Established in September 2008, AFI is managed on behalf of its members by GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, German Technical Cooperation) with funding from the Bill & Melinda Gates Foundation.

AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. We connect policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances.

We're a member-driven, inclusive and impartial organization, focused on results and free of vested national and commercial interests. We embrace all evidence-based policies and welcome all strategic partners that help our members achieve our goal of expanding financial inclusion.

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