

THE 2014 AFI GLOBAL POLICY FORUM REPORT

GLOBAL PARTNERSHIPS NATIONAL GOALS EMPOWERING PEOPLE



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Introduction

The 2014 AFI Global Policy Forum, hosted by the Central Bank of Trinidad and Tobago, welcomed more than 400 policymakers, regulators, private sector partners, international organizations and research institutions to Port of Spain. This was the first Global Policy Forum to be held in the Caribbean, and showcased innovative financial inclusion activities in the region and explored global financial inclusion issues under the broad theme. *‘Global Partnerships, National Goals, Empowering People’*.

It was a year of change and evolution for the AFI Network, which is captured in the summary of our Annual General Meeting. AFI members reflected on past achievements and set the stage for a strong future with discussions on governance structure and membership fees. The outgoing Steering Committee Chair, Bangko Sentral ng Pilipinas (BSP), Governor Amando M. Tetangco, Jr., was honored for his service and dedication to the AFI vision, while his successor, Daniel Schydrowsky of Superintendencia de Banca, Seguros y AFP (SBS) Peru was welcomed into the role. The meeting concluded with the announcement that Kuala Lumpur, Malaysia would be the new home of AFI headquarters.

Discussions during the GPF covered a broad range of financial inclusion topics, but three in particular stood out—trends that are likely to see much more attention 2015.

First, digital finance remains a driving force in the development of financial inclusion policy and implementation. Digital technology has expanded well beyond mobile to influence and impact many different areas. This trend shows no sign of slowing and we expect to see digital finance continue to take center stage. The GPF session, ‘Digital Financial Services: Where Are We Headed?’ provided some important insights and predictions.

Secondly, we are seeing the rise of powerful new collaboration efforts in the AFI Network, both with the global Standard-Setting Bodies (SSBs) and private sector leaders. The GPF sessions, ‘New Developments in Global Standards’ and ‘Advancing Financial Inclusion through Public-Private Dialogue’, highlighted the complementary roles of regulatory and private sector financial inclusion activities. It is clear that all sides must communicate, interact and recognize that our goals can only be reached if we work together. For the AFI Network, this is reflected in our increasing engagement with the SSBs and in the overwhelmingly positive reaction to the introduction of the Public-Private Dialogue Platform (PPD).

Finally, we are seeing a convergence of efforts across the financial inclusion field. AFI has always believed that financial inclusion can be sound and sustainable. It helps to achieve national policy objectives and generates wide-ranging benefits for all sectors of society. This potential for shared success is now being widely recognized. Technologies are spreading across policy areas and bringing new and unexpected innovations. Both the public and private sectors are beginning to realize that by bringing all players together and promoting interoperability and greater collaboration, we are able to reach many more people with a broader range of financial services than any one player could alone.

A special thank you to everyone at the Central Bank of Trinidad and Tobago for bringing the warmth and hospitality of the Caribbean to the 2014 AFI Global Policy Forum.



Annual General Meeting (AGM) 9 September 2014



Daniel Schydrowsky, Superintendencia de Banca, Seguros y AFP (SBS) del Peru and Chair of the AFI Steering Committee



Njuguna Ndung'u, Governor, Central Bank of Kenya and Amando Maglalang Tetangco, Jr., Governor of the Bangko Sentral ng Pilipinas (BSP)



Alfred Hannig, AFI Executive Director



Amando Maglalang Tetangco, Jr., Governor of the Bangko Sentral ng Pilipinas (BSP)



Governor Zeti Akhtar Aziz, Bank Negara Malaysia



For more pictures and news about the GPF visit:
www.afi-global.org/global-policy-forum/gpf-2014

Annual General Meeting (AGM)

continued

OPENING

Welcome remarks by Dr. Alfred Hannig, AFI Executive Director

Dr. Alfred Hannig welcomed all delegates to the 6th annual Global Policy Forum and thanked Governor Jwala Rambarran of the Central Bank of Trinidad and Tobago for the country's hospitality. He also highlighted some of the key achievements of AFI members over the last year, such as including financial inclusion in key global forums, such as the global Standard-Setting Bodies, and presenting policy solutions from developing and emerging countries.

Welcome remarks by Amando Tetangco Jr., Governor of Bangko Sentral ng Pilipinas and Chair of AFI

Governor Tetangco discussed the progress AFI has made toward becoming an international and independent organization, reminding participants that AFI members had agreed to move in this direction at the past two AGMs. AFI's aspiration for independence, he said, would foster a stronger policy-enabling environment for members, and ultimately strengthen its standing as a leader in financial inclusion. Governor Tetangco concluded by thanking everyone for their personal commitment and institutional contributions to AFI over the years. He also informed delegates that he will be rotating out as the AFI Steering Committee Chair and announced that Superintendent Daniel Schydrowsky of SBS Perú will be the incoming Chair.

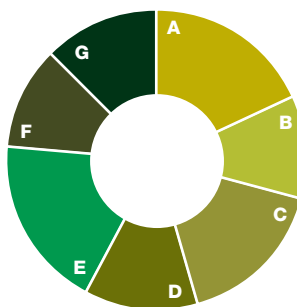
AFI MANAGEMENT UNIT REPORT TO MEMBERS BY DR. ALFRED HANNIG, AFI EXECUTIVE DIRECTOR

Dr. Hannig gave an overview of AFI's activities in the last year.

AFIs Achievements and Impact

- > 120 member institutions from 95 countries
- > 42 staff
- > 12 tangible policy improvements (71 to date)
- > 3 grants (70 to date)
- > 18 Maya Commitments
- > 10 high-level media opportunities highlighting the importance of financial inclusion
- > Program Innovations:
 - Working Group Annual Report
 - Policy Profiles Program initiated
 - Launch of Global Standards Sub-Committee (the launch of the Peer Learning Program with the SSBs and the conversion of the Financial Integrity Working Group into the Global Standards Proportionality Working Group were the results of this program innovation)
 - Launch of the Public-Private Dialogue (PPD)
 - Capacity Building Program
 - Latin America Regional Initiative and joint event with IDB

Working Group membership



A	Consumer Empowerment and Market Conduct (CEMCWG)	54
B	Financial Inclusion Data (FIDWG)	33
C	Financial Inclusion Strategy Peer Learning Group (FSLPG)	49
D	Global Standards Proportionality (GSPWG)	37
E	Mobile Financial Services (MFSWG)	55
F	Pacific Islands (PIRI)	33
G	SME Finance (SMEFWG)	37

Dr. Hannig gave an overview of AFI finances by reviewing the current budget and the network's donor engagement status to date. Dr. Hannig also encouraged everyone in the room to be an AFI Ambassador by helping to facilitate potential funding opportunities.

In addition, Dr. Hannig highlighted key conclusions from the Member Needs Assessment Survey, including:

- > 95 percent of members expressed high satisfaction with AFI
- > Most used services: Working Groups and GPF
- > Most useful services: Grants, GPF and Working Groups
- > New policy areas of interest for members: payment systems, microinsurance and agricultural finance
- > Program suggestions: more regional focus, capacity building and dialogue with the private sector

With respect to next steps, Dr. Hannig highlighted the following key priorities:

- > Mobilization of new funding sources
- > Relocation of AFI Management Unit to the new host country
- > Establishing AFI as a new and independent legal entity
- > Institutionalization of regional initiatives.

Annual General Meeting (AGM)

continued

AFI INDEPENDENCE OVERVIEW BY DR. DANIEL SCHYDLOWSKY, SUPERINTENDENT, SUPERINTENDENCIA DE BANCA, SEGUROS Y AFP (SBS) DEL PERÚ

Dr. SchydloWSky described the path to independence and AFI's transition from a project to an independent institution. He also highlighted independence as a natural step in enhancing the sustainability, legitimacy and accountability of the network, and encouraging a continued sense of ownership among all AFI members.

Announcement of AFI's New Host Country

Prior to the announcement, Eliko Boletawa of the AFI Management Unit interviewed two members of the AFI Sub-Committee on Host Country Evaluation:

- > **Hernan Colman Rojas**, Banco Central del Paraguay
- > **Narayan Prasad Paudel**, Nepal Rastra Bank

Superintendent Colman elaborated on the role of the Sub-Committee on Host Country Evaluation, which provided the AFI Steering Committee with a recommendation for AFI's new host country. The Sub-Committee had a very clear mandate and objectives, and great collaboration among the members. Mr. Paudel stressed that the most important factor in the success of the selection process was the clear criteria defined for recommendation. Mr. Colman Rojas added the diversity of bidders from different regions confirmed that AFI is indeed a global network, and thanked all bidders for their desire and generosity to host AFI and for their passion for financial inclusion.

Governor Tetangco then thanked the Sub-Committee for their transparent and dedicated work in the assessment process, and announced that AFI's new host country would be Malaysia.

Governor Zeti Akhtar Aziz of Bank Negara Malaysia (BNM) came to the stage to express her appreciation for the opportunity to host the headquarters of AFI. Her remarks were followed by a video on Malaysia by BNM.

AFI GOVERNANCE STRUCTURE AND Q&A

Sub-Committee on Independence

- > **Njuguna Ndung'u**, Governor of the Central Bank of Kenya (Chair)
- > **Denton Rarawa**, Central Bank of the Solomon Islands (Vice-Chair)
- > **Nicole Crooks**, Central Bank of Trinidad and Tobago
- > **Md. Allah Malik Kazemi**, Bangladesh Bank
- > **Luis Mansur** (on behalf of Ms. Marusa Vasconcelos Freire), Banco Central do Brasil
- > **Mariana Monge** (on behalf of Fernanda Trigo), CNBV Mexico

Governor Ndung'u gave a presentation on the guiding principles of the Sub-Committee's recommendations, as well as AFI's pre- and post-independence governance structures. Essentially, the Steering Committee will transition into the Board after AFI becomes independent. In addition, the following recommendations were presented and discussed:

AFI Membership

AFI membership is comprised of Principal, Associate and Specialist Members. Principal Members will play a leadership role in governance matters.

Governance rights are not linked to the financial contribution of Principal Members.

A country may have up to three members, of which at least one must be Principal.

Any future strategic decisions affecting the entire membership or changing the fundamental structure of AFI must go through the Membership Council at the AGM (e.g. updates to AFI bylaws or membership fee adjustments). On such issues, each country will be accorded one vote to be decided among the Principal member institutions in that country.

Any decisions voted on by the Membership Council must be approved by a simple majority vote with at least two-thirds of member institutions present.

AFI Board and Committees

The term of office for the Board and Committees is two years, with rotation affecting no more than half of the delegates each year to ensure continuity. The Chair can serve on the board for a maximum of four years (including the time not spent as Chair).



Daniel SchydloWSky, Superintendencia de Banca, Seguros y AFP (SBS) del Perú and Chair of the AFI Steering Committee

Annual General Meeting (AGM)

continued

An institution on the Board may serve in other Committees except for the Budget & Finance Committee (to avoid conflict of interest).

In addition to reviewing and approving AFI's annual and financial reports, and providing high-level strategic guidance to the AFI Management Unit, the Board will also handle withdrawal of membership.

Nominations and Elections for the Board and Committees

All institutions will have the opportunity to nominate themselves or another AFI member for Board and Committee membership. For now, the Board will function as a Nominations Committee to evaluate the candidates.¹

The Board will handle unexpected vacancies of the Executive Director, Board or Committee Members in the case of death, resignation or dismissal. These will be approved through simple majority voting, where two-thirds of Board members need to be present.

In addition, in the spirit of allowing broad ownership among AFI members, the host country will give AFI room to grow: any member institution from the host country will not chair the AFI Board.

A few clarifying questions were addressed during the Q&A session, including the idea of alphabetical rotation for the Board. It was agreed that member institutions should nominate themselves or accept nomination to the Board as a reflection of their willingness and desire to be actively involved in the governance of AFI. To the question about other regions not currently represented in the Steering Committee, in the future there will be opportunity for the Board to include delegates from Eastern Europe, Central Asian countries, and/or the Pacific Islands. Currently, AFI does not include developed countries in the network, but can consider including developed countries in future non-member advisory councils.

In conclusion, AFI bylaws will be updated to reflect the above governance recommendations and AGM discussion, taking into account any additional local legal requirements in Malaysia.

AFI MEMBERSHIP FEE STRUCTURE, BY GOVERNOR NJUGUNA NDUNG'U

Governor Ndung'u set the stage for the membership fee structure discussion by underscoring the importance of sustaining AFI services as a public good through collective contributions, which will be mandatory for all members. He then continued with a presentation that recapped the proposed membership fee structure sent to AFI members in June 2014, as well as member survey results and, finally, covered some important FAQs.

AFI's membership fees will be differentiated based on ability to pay (four tiers, based on per capita income and share of world's GDP) and type of membership (Principal, Associate, Specialist). The membership was unanimous in its support for the introduction of membership fees, with a clear majority indicating that these fees should be enough to cover AFI's core costs, along with the GPF and the Working Groups.

Following a round of table discussions and report-backs, Dr. Schydrowsky summarized the session. The benefits are clear: AFI is producing public goods that members value, but members will still need help marketing AFI to their respective governments. While most AFI members want to support AFI's long-term sustainability, smaller and poor countries will still have difficulty meeting the fees in Option 1. The general sense is that institutions will eventually pay if they want to continue to be a part of AFI, and that they should plan on including AFI membership fees in their budgets as soon as possible. The Steering Committee will discuss how to best revise the fees in light of member feedback and AGM discussions, and will share the final fee structure with members in the near future.



Front row of the Annual General Meeting

¹ Criteria for candidates include: Commitment to and passion for AFI's vision and values; demonstrated historical or emerging leadership in the AFI Network; substantial knowledge/experience in and contributions to the field of financial inclusion and/or at least one AFI policy area; ability to dedicate substantial time and effort to support AFI's mission, as well as the mandate of the Board or the specific Committee; no potential conflict of interest with his/her other ongoing activities or commitments; and highest or second highest level of leadership (for Board only).

The New Global Outlook for Financial Inclusion

PANEL

Vladimir Chistyukhin (Central Bank of the Russian Federation), John Rwangombwa (National Bank of Rwanda), Dean Karlan (Yale University, Innovations for Poverty Action) and Zouhair Khaliq (GSMA)

MODERATOR

Alfred Hannig (AFI)

Financial inclusion is gaining momentum in the global arena, prompting discussions about the megatrends, the challenges and the future direction of the field. In this session, different stakeholders, including the private sector, academia and senior regulators, shared insights on how to address the world's market of 2.5 billion adults who are still excluded from formal financial services.

The session started with a video that highlighted the tangible impact of financial inclusion on the poor and the unbanked through personal interviews, reminding the audience that both high-level and technical discussions need to be grounded in serving the real needs of financial consumers.

The session continued with panelists discussing the major trends shaping financial inclusion today, including:

- > **Lower prices:** Dean Karlan pointed out that new modes of service delivery will dramatically lower transaction costs and lead to more competitive prices for consumers.
- > **More partnerships:** As the financial ecosystem expands to include more players, and patterns of convergence grow across the financial inclusion value chain, providers are increasingly forging partnerships to deliver a comprehensive suite of financial services.



Panel discussion on the New Global Outlook for Financial Inclusion

“We as regulators have a responsibility to ensure stability and provide public confidence. Fear of digital change, a basic fear of the unknown, can be a significant barrier to success.”

John Rwangombwa
National Bank of Rwanda

- > **Mobile technology:** The mobile phone is playing a major role in financial inclusion, with 246 mobile money services in operation in about 90 markets around the world. Zouhair Khaliq expects education and health to leverage mobile platforms more and more in the future, and that proportional regulation is needed to mitigate the risks of this fast-growing platform.

Alfred Hannig then called on panelists to highlight the main challenges and opportunities in achieving financial inclusion in the short term. These include:

- > **Infrastructure:** Many remote and rural areas still lack basic infrastructure (electricity, roads, networks, etc.) for delivery channels. This creates opportunities for governments to internally coordinate the development agenda by investing more in infrastructure.
- > **Consumer protection:** The financial system needs to be stable and secure enough to safeguard against security issues such as cybercrime, which is becoming more prevalent with digital finance. In addition, regulators are working to bring more transparency to the system for financial consumers. For example, the National Bank of Rwanda is currently revising regulation to require banks to fully disclose their fees and interest rates on a weekly basis.



Dean Karlan, Yale University and Zouhair Khaliq, GSMA

The New Global Outlook for Financial Inclusion continued

- > **Financial literacy:** As financial products become more sophisticated and easier to access due to technology advances, there is also a greater risk that they will be misused. For example, with e-money, a transaction can be completed with just the simple touch of a screen. Do financial consumers really understand the consequences of having such power and accessibility at their fingertips? Financial education is key to helping customers understand how to use financial products and services properly and what to expect from products and pricing. Financial education also keeps companies transparent and accountable about their offerings and prices.
- > **Global Standard-Setting Bodies (SSBs):** The recent financial crisis has shown that financial innovation and expansion can have devastating systematic impacts. However, at a time of overhauling and tightening financial regulations, it is crucial to avoid a backlash against financial inclusion. AFI can help the SSBs strike a regulatory balance between strengthening financial stability and increasing access to financial services.
- > **Product design:** Dean Karlan brought up a hotly debated point: that while financial education is important, it does not ultimately drive financial behavior. Rather, he believes good product or service design is the driving force behind behavior change. For example, instead of traditional and expensive savings campaigns, some companies are sending periodic text messages—a simple and low-cost service—to remind their customers to save. Hence, it is the design of text message reminders, more than financial literacy campaigns, that is having an effect on customer decision-making and behavior.

- > **Partnerships and coordination of service delivery:** As the ecosystem of financial service providers widens and interoperability becomes increasingly important, communication between stakeholders from different sectors and institutions will be critical. Public-private partnerships in particular are needed to ensure proportional regulation and a level playing field that gives all service providers equal market access. Policymakers play a critical role in encouraging market innovation while maintaining a stable and secure financial system.

The session concluded with panelists summarizing their visions and hopes for financial inclusion 10 to 15 years from now. This included a greater emphasis on the quality aspect of financial services. It was also noted that convergences are taking place even within financial inclusion terminology. The connections and overlaps between social and financial inclusion could see ‘inclusion’ emerge as a single overarching development goal.



Vladimir Chistyukhin, Central Bank of the Russian Federation



Nestor A. Espenilla, Jr., Bangko Sentral ng Pilipinas (BSP)

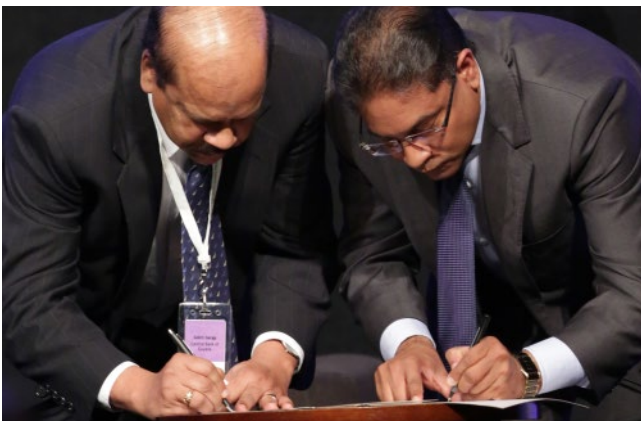
Trinidad and Tobago's Experience in Financial Inclusion

PRESENTED BY

Governor Jwala Rambarran, Central Bank of Trinidad and Tobago

This session highlighted Trinidad and Tobago's major financial inclusion milestones, from the creation of the Financial Services Ombudsman to the foundation of the National Financial Literacy Program (NFLP), and culminating in the launch of the Financial Inclusion Development Agency (FIDA). The session marked another important achievement as well, as the Central Bank of Trinidad and Tobago (CBTT) announced a knowledge-sharing partnership with two member countries of the Caribbean Community and Common Market (CARICOM)—Suriname and Guyana. The announcement was followed by the signing of a memorandum of understanding that officially established FIDA as a regional hub for financial education and training, the first of its kind in the Caribbean.

Governor Jwala Rambarran began by providing a brief background on Trinidad and Tobago's economic situation. As an oil and gas-based economy, the country has a comparatively high GDP per capita and is able to provide social benefits, such as universal health care, free education from primary to post-secondary school, fuel subsidies and no VAT on food. However, the country's economy is vulnerable to fluctuations in the price of oil and has seen its fair share of financial crises, including the collapse of eight non-bank financial institutions in the mid-1980s and the collapse of the country's largest insurance company, CLICO, in 2009.



Governor Jwala Rambarran, Central Bank of Trinidad and Tobago signs knowledge sharing partnership agreement with Bank of Guyana Governor, Dr. Gobind Nauth Ganga

To protect financial consumers and prevent similar crises, the CBTT took steps to improve the financial capabilities of its citizens, establishing the National Financial Literacy Program (NFLP) in 2007. The NFLP could do little to prevent the CLICO crisis of 2009, but it learned important practical lessons from the crisis and has since become Trinidad and Tobago's main financial literacy training center.

In 2013, the National Financial Literacy Survey showed that 16 percent of adults in Trinidad and Tobago are in a persistent state of financial difficulty. Thirty percent of adults defaulted on financial commitments at least once in the last five years, and 69 percent of adults 'sometimes' run out of money before the end of the week/month. These findings reinforced the need for a more structured approach to addressing financial capability issues and prompted the NFLP to expand its mandate. It is now in the process of transitioning to become the Financial Inclusion Development Agency (FIDA), envisaged to be a bridge to the central bank that links all players in financial stability: financial institutions (including the main regulatory authority, the CBTT) and citizens who understand how to use financial products and services properly.

The launch of FIDA and its pioneering knowledge partnerships with Suriname and Guyana mark important milestones for the CBTT as it meets its targets under the Maya Declaration to:

- > transform the National Financial Literacy Program into the National Training Institute for Financial Inclusion by December 2014; and
- > provide technical support to establish a National Financial Literacy Program in at least one Caribbean country by 2017.



Nicole Crooks, Central Bank of Trinidad and Tobago

The Gender Dimension of Financial Inclusion Policymaking

PANEL

Tukiya Kankasa-Mabula (Bank of Zambia), Deepali Pant Joshi (Reserve Bank of India), Wini Purwanti (Bank Indonesia) and Mary Ellen Iskenderian (Women's World Banking)

MODERATOR

Gabriela Andrade (Inter-American Development Bank)

Access to affordable financial services increases economic opportunities for women, yet women entrepreneurs around the world consistently report that access to finance is a major barrier for their business. This persistent finance gap for women is estimated to be as high as 300 billion dollars a year.

There is a strong business case for serving this traditionally underserved market. For example, MFIs with 60 percent or more women clients outperform other financial institutions. A study of 200 MFIs and banks revealed clear correlations between banks that provided credit to women and higher return on assets, portfolio quality and growth, suggesting that banks should be paying more attention to women. Goldman Sachs has reported that closing the credit gap for women-owned SMEs could drive GDP growth in the BRIC countries by as much as 12 percent. Accordingly, organizations like Women's World Banking have shifted the focus of their advocacy work from equality to market opportunity.

Policymakers are taking steps to include women through initiatives ranging from financial education to subsidies, and it is important to learn from their experiences. We have seen gender-neutral policies that have turned out to benefit women, as well as policies that are targeted



Panel discussion of the Gender Dimension of Financial Inclusion Policymaking

SURVEY

Q1: Is there a role for financial regulators in gender issues?

YES 73%

NO 27%

Q2: Are regulators in your country collecting financial inclusion data disaggregated by gender?

YES 17%

NO 38%

PARTIALLY 45%

Q3: What should be the role of regulators vis-à-vis the collection and reporting of gender-disaggregated data by financial institutions?

REQUIRE 52%

ENCOURAGE 38%

NO ROLE 10%



Wini Purwanti, Bank Indonesia

The Gender Dimension of Financial Inclusion Policymaking continued

specifically at women. There is growing recognition of the need to collect gender-disaggregated data, to determine the extent and type of constraints women face.

Prompted by the question of whether an increased focus on gender would divert regulators from their traditional role of maintaining financial stability, the panel agreed that financial stability and financial inclusion were not mutually exclusive; therefore, there was no trade-off between the two.

Tukiya Kankasa-Mabula of the Bank of Zambia (BOZ) explained that the bank's first tangible step in addressing gender issues was instituting a gender policy in 2001 that ensured a certain number of women were represented on the board of the BOZ. Initial resistance from within the bank was overcome as people were sensitized to the idea. The BOZ entered into a partnership with the International Labour Organization (ILO) to implement the Service Quality Check for Supporting Female and Male Operated Small Enterprises (FAMOS) to assess how well financial institutions in Zambia were reaching out to and serving both men and women. The results of the FAMOS check showed women were not being served adequately.

Some countries have gone further and mandated targeted lending. As Deepali Pant Joshi explained, the Reserve Bank of India (RBI) requires five percent of bank credit to go to women. An audience member asked whether such policies could be seen as infringing on the free market, and would perhaps be unnecessary if data-driven business cases and demand were encouraged through financial capacity building programs. Dr. Pant Joshi responded that a business case alone is not enough to overcome patriarchal traditions, and that regulators needed to give the private sector "a friendly nudge" to explore opportunities to serve

women. Other regulatory initiatives in India include the Wealth for All program, which requires every household to have two bank accounts, one of which must be held by a woman. In an effort to expedite the flow of credit to MSEs, the RBI has also been issuing guidelines to banks to use simple credit scoring models and adopt alternative collateral options.

Regulators can also promote financial capability for women; studies show women require more information to make financial decisions, but ultimately become more loyal customers of financial institutions. Telenovelas and other popular media have been found to be more effective than classrooms, and Mary Ellen Iskenderian of Women's World Banking stressed that the possibilities for financial education through mass media are only beginning to be explored. Dr. Kankasa-Mabula pointed out that the regulator has the responsibility to provide leadership in financial literacy, and Dr. Pant Joshi emphasized that financial literacy leads to financial inclusion and that banks are compelled to monitor usage of bank products.

NEXT STEPS

The gender dimension of financial inclusion policy is clearly an area of growing interest among both members and partners. AFI will evaluate how to take this important topic forward in the network, including a dedicated conference or forum through which the issue can be explored in more detail.



Gabriela Andrade, Inter-American Development Bank



Tukiya Kankasa-Mabula, Bank of Zambia and Deepali Pant Joshi, Reserve Bank of India

SME Finance Policy Impact Assessment

SPEAKERS

Roelof Goosen (National Treasury of the Republic of South Africa) and **Douglas Pearce** (World Bank)

MODERATOR

Susanne Dorasil (BMZ)

The objectives of this session were to advance policy thinking on SME finance and discuss the impact of policies on the overall development of SMEs. The moderator kicked off the session with an overview of the GPFI Subgroup on SME Finance, and guided a discussion on the practical challenges of formulating a global definition of SMEs. Participants agreed it was up to individual countries to define the term given their unique national contexts, but the European Union and World Bank have developed parameters to assist with categorizing SMEs.

A presentation by Douglas Pearce of the World Bank focused on evaluating the impact of SME finance policies and interventions. Measuring impact, he said, enables policymakers to quantify the effects of different policies and design the most effective interventions. It also improves targeting and allows policymakers to refine their policies to fit their objectives and optimize scarce resources. Mr. Pearce revealed a surprising finding: the cost of more rigorous impact evaluations is not much more than minimal standard (before and after) monitoring, since the most expensive part of monitoring and assessing impact is collecting new data. Mexico provides a positive example: the national securities commission, CNBV, collects information on a monthly basis about credit issued to firms and individuals with entrepreneurial activities. This information is now being used to evaluate different financial interventions.

Roelof Goosen then shared South Africa's experience. He explained that the Financial Sector Charter (2004) and Financial Sector Code (2012) were enacted as legal mechanisms to strengthen the financial sector and advance financial inclusion. The Financial Sector Code supports black economic empowerment through transformational infrastructure investment, SME financing, agricultural financing, affordable housing and transformational funding for businesses owned by black South Africans. As Mr. Goosen explained, part of the policy package is supporting the development of financial products that meet the needs of the target group, particularly ones that are affordable and easy to use. Increased usage of financial products is assessed and specific targets are set for every product category and segment of the financial sector (banking and insurance). Consumer education then complements these efforts to increase access and usage of financial services.

Regarding SME financing, the Government of South Africa has implemented specific market protection measures, such as the National Credit Act and an ombudsman structure. There have also been investments in the financial infrastructure, such as including small enterprises in credit bureau services, establishing a credit guarantee scheme and adjusting the legal framework to deal effectively with all collateral classes, particularly moveable assets. The development and implementation of these policies have required development initiatives to be coordinated across government entities and the private sector. Capacity building for SMEs has also been addressed by two national public development agencies: the Small Enterprise Development Agency and the Small Enterprise Finance Agency.

ROUNDTABLE DISCUSSIONS

The audience was asked to discuss three questions at their tables:

- 1 What are the existing SME finance policies in your country?
- 2 How do you measure the impact of SME finance policies?
- 3 What are the most pressing issues that need to be addressed to provide support for SME finance policy and impact assessment?

The conversations generated several insights. Some participants doubted there was a truly effective way to measure the impact of SME finance policies. Turkey has had more success implementing SME finance policies that have also had an impact on microfinance. A participant from Tanzania indicated they have one SME policy that is not specific to SME finance, but nevertheless highlights the need for SME financing.

A number of participants pointed out that measuring the impact of SME finance policy was hindered by data issues. There have been problems with collecting data, as well as deciding what data should be gathered to support different methodological approaches. Another issue is a general unwillingness of commercial banks and other financial institutions to engage with start-up SMEs.



Thought provoking issues at the SME session

Financial Literacy: Empowering Consumers, Improving Lives

PANEL

Armenuhi Mkrtchyan (Central Bank of Armenia), Sushma Vij (Reserve Bank of India), Elisabeth Rhyne (Center for Financial Inclusion), Luis Gustavo Mansur Siqueira (Banco Central do Brasil), Gillian Fawcett (ACCA) and Daniele Scauso (Child & Youth Finance International)

MODERATOR

Kate McKee (CGAP)

This session focused on the role of financial education in consumer protection, while also exploring the role of consumer protection regulation and supervision.

Initial feedback from the audience suggested that national strategies for financial education should include policies to improve financial literacy, but also provide consumer protection measures. The role of the regulator is to create awareness of the entire financial system, educate consumers about their rights and provide consumer protection in a structured way.

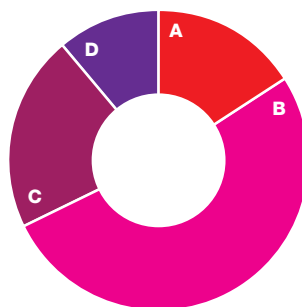
Panelists then shared their experiences and lessons with financial literacy and education in their respective countries. In India, the approach has been to provide financial education not only to existing customers, but to individuals outside the formal financial system as well. As the national regulator, the Reserve Bank of India (RBI) developed the strategy, but banks and other stakeholders are largely responsible for implementing it. The RBI conducts financial literacy camps that are held in three phases. The first focuses on teaching basic financial concepts, such as how and where to save and borrow. The second shows customers how to open accounts, and the third checks how accounts are being used and monitored.



Sushma Vij, Reserve Bank of India and Luis Gustavo Mansur Siqueira, Banco Central do Brasil

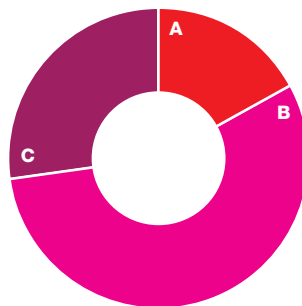
THE AUDIENCE WAS POLLED ON THE FOLLOWING QUESTIONS

Q1: In my country, financial education interventions have brought about behavior change in consumers in a significant way.



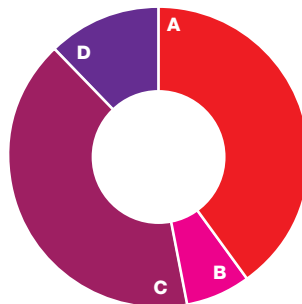
A Strongly agree	16%
B Somewhat agree	52%
C Somewhat disagree	21%
D Strongly disagree	11%

Q2: How much can consumer protection regulation substitute for inadequate consumer knowledge/behavior?



A To a great extent. Better to fix the financial service provider and the products than to educate consumers.	17%
B Equally important. What is the point of rules if people do not understand them?	56%
C To a lesser extent. You must build the financial capabilities of consumers before they start buying new products.	27%

Q3: Which statement do you agree with most?



A Government has to lead financial education, strategy and programs (e.g. India)	40%
B Financial service providers must lead on financial education	7%
C Government sets priorities, financial service providers implement	41%
D Other	12%

Financial Literacy: Empowering Consumers, Improving Lives continued

The result: 95 percent of the RBI's target population is now part of the financial system.

In Brazil, the Banco Central do Brasil (BCB) launched a project called 'Financial Citizenship' conducted in partnership with financial service providers and the government. The project takes a comprehensive approach to financial education and consumer protection and is expected to improve overall financial inclusion in the country.

Until seven years ago, financial education projects in Armenia took a traditional approach that assumed education alone would change consumer behavior. Today, the Central Bank of Armenia's policies strike a balance between consumer protection (to make consumers feel safe) and financial literacy (to empower them and make them feel confident using financial services). This shift from relying on financial education as the main driver of behavior change to regulation as a supplementary tool is expected to deliver results in two to three years. The central bank will then create new rules for financial service providers aimed at changing the behavior of consumers.

KEY MESSAGES OF THE SESSION

- > Change in consumer behavior requires a two-pronged effort: consumer education and proper product design.
- > Financial education should be a joint public-private effort.
- > Financial education is important for social empowerment, especially for women.
- > Consumer decisions are influenced by many factors. Sometimes the incentives for the staff of a financial service provider contribute to consumer harassment. This should be addressed by regulation.
- > If financial education programs are to change behavior they must be timely, continuous and conducted over a long period.



Example of financial literacy product in India

“Regulators don’t want to babysit consumers all the time. Consumers need to make their own decisions – that’s why financial education is so important. Besides, developing a new regulation may be cheap, but enforcing it is as costly as financial education programs.”

Luis Gustavo Mansur Siqueira
Banco Central do Brasil

- > Financial education should aim to change behavior by developing the financial capabilities of consumers.
- > Financial literacy means that consumers know what to expect of financial products and services, and understand their rights and responsibilities.

In emerging economies, the concept of financial education is not only to provide education to existing customers, but to those excluded from the financial system. Ultimately, national financial education strategies should:

- > create public awareness of the financial system as a whole;
- > educate consumers about their rights; and
- > include consumer protection policies for a well-structured financial system.

However, financial education is not enough to change consumer behavior. It must be complemented by sound consumer protection policies that make consumers feel safe and confident using financial services. Financial education is the 'safety net' of the financial system – when regulation fails, informed and educated consumers will make sound financial decisions.



Audience questions

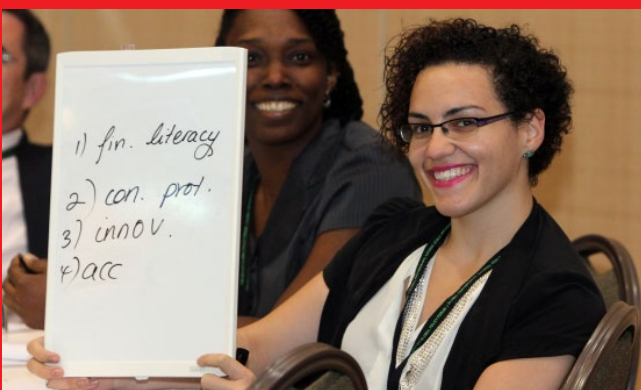
Financial Inclusion Quiz Show

An entertaining and collaborative format, the Financial Inclusion Quiz Show encouraged AFI members and external partners to solve challenging financial inclusion questions as a team. Participants were divided into teams based on where they were sitting, with a number of tables designated for Francophone and Spanish-speaking participants. The Quiz Show posed 20 questions and started off with approximately 25 teams. The teams were not allowed to consult any materials to find an answer, and had to record their final answer on a whiteboard within a certain time limit. Sung-Ah Lee from AFI and Kennedy Komba from the Bank of Tanzania served as Masters of Ceremonies, asking the questions and announcing the correct answers.

The session kicked off with a question about the general definition of financial inclusion. The other 19 questions tested knowledge of AFI's work, the work of AFI's external partners, and financial inclusion trends and trivia. Questions about financial inclusion trends addressed the gender gap in financial access and SME finance. AFI-related questions touched on the Maya Declaration Commitments, AFI's Capacity Building Program, guideline notes by the MFSWG, the AFI Core Set of Financial Inclusion Indicators, and AFI membership and governance. Finally, questions about stakeholders focused on the work of the G-20, Standard-Setting Bodies (SSBs) and funders.

The questions varied by degree of difficulty and generated lively discussion and learning. For example, most teams correctly identified access, usage and quality as the three dimensions of financial inclusion measurement, but only a few teams knew the total number of FATF Special Recommendations on Combating Money Laundering and the Financing of Terrorism published in 2012. In some cases, participants were called on to explain the correct answers in more detail. For example, the Deputy Governor of the Bank of Jamaica was asked to comment on the bank's recently released guideline on electronic retail payment services that allowed for the issuance of e-money.

The Quiz Show turned out to be a tight race. Final scores ranged from 8-13 out of a possible 20 points. Several teams scored 12 out of 20, which meant the top scorers led by only a margin of one. Two teams scored 13 and faced off in a tie-breaking round, with the winning team correctly answering a question about the G-20 Peer Learning Program on Financial Inclusion. The winning team received a small iPod as a token gift.



New Developments in Global Standards

SPEAKERS

Nestor Espenilla Jr. (Bangko Sentral ng Pilipinas and Basel Consultative Group Work Stream on Financial Inclusion), **Marina Abdel Kahar** (Bank Negara Malaysia and AFI Global Standards Proportionality Working Group) and **Loretta Michaels** (US Treasury)

MODERATOR

Amar Bhattacharya (Intergovernmental Group of Twenty-Four)

AFI members have expressed universal support for global standards, which play a critical role in maintaining the safety and soundness of the financial system. They also believe that proportionate supervisory standards will play a major role in creating an enabling environment for financial inclusion. When all the global Standard-Setting Bodies (SSBs) recognized the principle of proportionality and, in many cases, initiated financial inclusion-specific work streams, the AFI Network welcomed these developments. Nevertheless, global standards were not originally developed with financial inclusion in mind, and a number of potential impacts or unintended consequences can arise when certain standards, principles or guidance are interpreted and implemented at the country level.

In this session, participants discussed how AFI's Peer Learning Program with the SSBs, launched earlier in 2014, can draw on the practical insights and on-the-ground experiences of AFI members to help balance the implementation of the global standards with national financial policies.

Marina Abdel Kahar, Chair of AFI's new Global Standards Proportionality Working Group (GSPWG), identified three main areas in which the global standards present a challenge for financial inclusion policymakers:

- > Enforcing global standards can contribute to de-risking by international banks, which has led to the withdrawal of remittance services and correspondent banking in some AFI member countries.
- > Implementing the Basel II and Basel III liquidity and capital requirements has potential impacts on the microfinance and SME sectors.
- > Implementing a balanced approach to AML/CFT is challenging, particularly in countries where proving customer identity may be difficult.

These three areas have been documented in greater detail in *Potential Impacts of Global Standards on National Financial Inclusion Policies*, a paper presented on behalf

of the AFI Network by Deputy Governor Muhammad Ibrahim of Bank Negara Malaysia at the 2 October 2014 meeting of the heads of SSBs convened by H.M. Queen Máxima of the Netherlands, UNSGSA for Inclusive Finance for Development, and Stefan Ingves, Chair of the Basel Committee on Banking Supervision (BCBS). In the second part of the session, small group discussions gave participants the opportunity to provide feedback on the draft paper. The paper has now been circulated for consultation to a range of stakeholders and a final version will be published before the 2015 GPF.

The Basel Consultative Group Work Stream on Financial Inclusion has helped to increase the Basel Committee's awareness of financial inclusion issues. As chair, Nestor Espenilla Jr. (Deputy Governor of Bangko Sentral ng Pilipinas) outlined the efforts of the work stream to date. Deputy Governor Espenilla explained that one of the biggest challenges is breaking down the silos that exist both within countries and between the various SSBs. Knowledge sharing and cooperation are key to expanding the thinking of the SSBs and must be managed at several levels to be effective.

Loretta Michaels of the US Treasury then described the role developed countries can play in addressing the challenges, including taking a leading role in ensuring the SSBs are aware of financial inclusion and sensitive to the implementation challenges of developing countries, as well as offering technical assistance to developing country regulators and supervisors.

Participants concurred that AFI has a critical role to play in bringing developing country perspectives into the dialogue with the SSBs, as well as facilitating peer learning on how member countries have achieved proportionate implementation of the global standards in practice. As Loretta Michaels pointed out, "The work that AFI is doing is immensely helpful, especially the growing interaction with



Lively table discussion

New Developments in Global Standards continued

the SSBs, to make sure the understanding is clear on both sides of the table... there is no one silver bullet answer; it's all about communication, making sure the messages are getting out."

KEY MESSAGES FROM THE SESSION

- > Global SSBs have made considerable progress in taking financial inclusion into consideration in recent years, but many AFI members still face significant challenges with implementation and would benefit from a structured dialogue with the SSBs.
- > There is strong demand across the AFI Network for more clarity on how proportionality can be applied in practice, as well as more guidance and case studies that avoid a one-size-fits-all approach.
- > Country-level implementation of the global standards requires a reasonable transition period to accommodate the particular activities and risks involved, and to ensure proportionate approaches are applied without a negative impact on financial inclusion.
- > Proper attention needs to be given to the alignment of the standards and guidance by different SSBs. For regulators, doubts about the alignment of different standards can be confusing, and may result in overly conservative regulatory approaches that inhibit financial inclusion.

NEXT STEPS

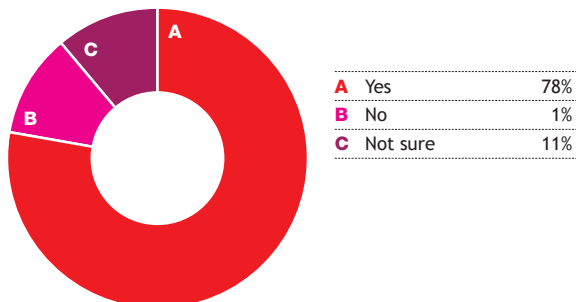
Comments from members during this session were incorporated into the final version of the AFI paper discussed with the SSBs at the October 2014 meeting in Basel. The issues identified in the paper will form the basis for further discussions with the SSBs and address, in partnership with the SSBs, some of the challenges developing and emerging countries face when balancing the implementation of global standards with proactive financial inclusion policies and regulations.

Meanwhile, AFI will proceed with the deliverables identified for the Peer Learning Program with SSBs, including proportionality in practice case studies and the extended risk framework, under the guidance of the AFI Global Standards Sub-Committee (GSSC) and with technical inputs from the Global Standards Proportionality Working Group (GSPWG).

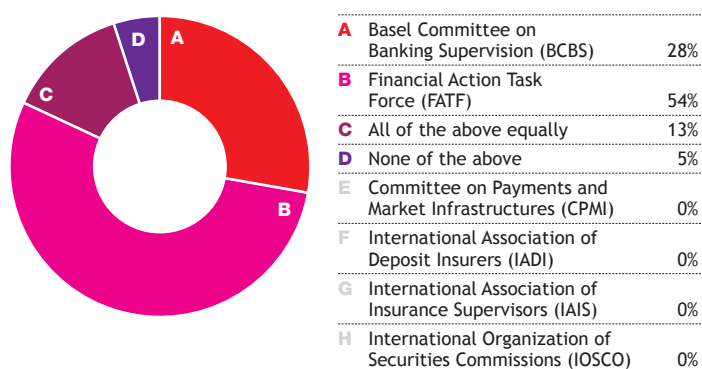
Based on their experiences, there is clear consensus among AFI members that global standards have the potential to hinder financial inclusion, and need to be implemented carefully and proportionately to avoid unintended consequences. The Financial Action Task Force (FATF) and Basel Committee on Banking Supervision (BCBS) standards are seen to have the greatest potential impacts on financial inclusion. In light of these findings, AFI will continue to document members' experiences and challenges in implementing the global standards through its Peer Learning Program with the SSBs, and share lessons learned directly with the SSBs.

POLLING RESULTS

Q1: In your country, are you aware of any specific examples where global standards have hindered or have the potential to hinder financial inclusion?



Q2: From your experience, which set of global standards presents the most potential friction with national financial inclusion objectives?



Digital Financial Services: Where Are We Headed?

PANEL

Governor Njuguna Ndung'u (Central Bank of Kenya), Santiago Peña (Banco Central del Paraguay), Governor Denton Rawara (Central Bank of the Solomon Islands), Jose Lapadula (Millicom International) and Carlos López Moctezuma (BBVA)

MODERATOR

Arjuna Costa (Omidyar Network)

THE VIEW FROM THE REGULATORS

Africa

Governor Njuguna Ndung'u of the Central Bank of Kenya began the session by saying that before mobile financial services began to grow at a global level, "We failed the poor in terms of financial services." He pointed out that electronic money transfers via mobile phones are now serving the needs of poor and those in rural areas. New payment services are changing the behavior of financial customers in Kenya and across Africa. Apart from transferring money, customers are using mobile-enabled electronic money for a broader range of financial services, such as accessing banking services like deposits and loans. Micro and small businesses are increasingly using it to accept payments for goods and services. Governor Ndung'u stressed that interoperability and interconnectivity between banks, payment providers and electronic money issuers will be important, and that regulators will continue to play a key role in making this happen.

Latin America

Santiago Peña of Banco Central del Paraguay pointed out that digital financial services have grown substantially in Latin America over the last decade. Regulation has played a particularly important role in this growth, but



Carlos Lopez Moctezuma, BBVA

"In Africa, physical distance is a barrier to financial services and Africans are happy that digital financial services have become a platform that has taken off."

Governor Njuguna Ndung'u
Central Bank of Kenya

"The important thing moving forward is not more regulations, but better regulations to support innovative financial services."

Santiago Peña
Banco Central del Paraguay

he also stressed the importance of balancing support for innovation with ensuring safety and soundness.

Paraguay has been an early leader in Latin America, especially in defining the role of non-bank electronic money providers. Twenty percent of the country's population now conducts mobile e-money transactions and there are more mobile e-money subscribers than bank accounts. Traditional banks are now entering this market to offer mobile-enabled savings, e-wallets and transfer services. He also noted that stricter international regulations for anti-money laundering, capital regulations and foreign exchange have put pressure on banks. In addition, due to the de-risking strategies of larger international commercial banks, many are now pulling out of smaller markets. These new developments have left local banks and new financial service providers to fill the gap, and this is one area in which digital financial services, especially those that utilize the mobile channel, are making a difference.



Santiago Peña, Banco Central del Paraguay

Digital Financial Services: Where Are We Headed? continued

Pacific Islands

Governor Denton Rawara of the Central Bank of the Solomon Islands emphasized that digital financial services can have a dramatic impact on financial inclusion in small island nations. Central banks and regulators in the Pacific Islands have played a key role in supporting new financial products and services. From his perspective, several key regulatory approaches are having a significant impact on the rapid development and adoption of digital financial services in the region, including: supporting an ‘open door policy’ to dialogue with the private sector; allowing a ‘test and learn’ or ‘test and follow’ approach to new and innovative financial services; enacting simplified tiered KYC regulations; supporting financial education; and collaborating with the Pacific Islands Regional Initiative on new regulatory approaches to enable digital financial inclusion.

Looking ahead, Governor Rawara suggested that regulators and players in the field should support applied product innovation (API) and design more value-added digital financial service products, as well as support consumer protection and financial education for digital financial service clients.

THE VIEW FROM THE PRIVATE SECTOR

Banks

Carlos López Moctezuma of BBVA observed that regulations for banks and new digital financial service players are improving, but more needs to be done to ensure a level playing field. It is especially important, he said, to set ceilings on the USSD and SMS rates that MNOs charge to banks in order to ensure banks and non-banks have equal and fair access to offer mobile financial services. He pointed to Colombia as a concrete example, where new regulations capped the tariffs charged for SMS and opened the USSD channel to banks and other financial institutions to provide mobile financial services.



Njuguna Ndung'u, Governor, Central Bank of Kenya

“Five years ago, the unbanked population stood at 80 percent. Now, 80 percent of the population is banked and much of this is due to mobile financial services.”

Governor Denton Rawara
Central Bank of the Solomon Islands

Mr. López Moctezuma echoed Governor Ndung'u's view that banks in his region, with the exception of Paraguay, have largely failed to provide suitable financial products and services for people at the base of the pyramid. This is beginning to change, albeit slowly.

Non-Bank Mobile Financial Service Providers

Millicom's Jose Lapadula believes digital financial services, and the mobile channel in particular, are bringing down the cost of accessing financial services, but new non-bank mobile financial service providers need to better integrate and interoperate with other financial institutions, especially banks, to deepen access to financial services beyond mere payments. He suggested three conditions must be in place to encourage the private sector to invest in digital financial services that promote financial inclusion: clear rules, legal certainty and, ideally, long-term partnerships with government. An appropriate and enabling regulatory environment with clear rules will be key to supporting players seeking to expand their financial services offerings. In his closing remarks he stated, “With the right set of rules, new mobile financial service operators can be an important part of providing a solution that meets the financial needs of the sector.”

CONCLUSION

All of the panelists agreed that innovation is moving rapidly and regulators need to balance support for new technologies with managing risks and ensuring consumer protection. Clear rules that provide legal certainty, as well as an ongoing dialogue between the regulators and the private sector, are critical. None of this can be achieved alone—only through the convergence and collaboration of different market players will we be able to deepen access to financial services.

Mainstreaming Inclusive Insurance: Innovative Applications of Mobile Technology

PANEL

Jacky Huma (Financial Services Board, South Africa), Daniel Schydrowsky (Superintendencia de Banca, Seguros y AFP (SBS) del Perú), Masitabua Esala (Reserve Bank of Fiji) and Doubell Chamberlain (Center for Financial Regulation and Inclusion - Cenfri)

MODERATOR

Marike Komen Brady (Access to Insurance Initiative - A2ii)

This session discussed the role of insurance regulators and supervisors in ensuring access to microinsurance, and the challenges of bringing the microinsurance agenda to the forefront. The session highlighted innovations in both supervision and product design that have increased the likelihood of those with insurable risks participating in microinsurance schemes. The panel also discussed the policy challenges to be overcome.

THE EXPERIENCE OF PERU

In Peru, explaining microinsurance products to consumers in plain and understandable terms has been a critical issue, but the industry is not yet comfortable with simplifying insurance policies. Inclusive microinsurance, Daniel Schydrowsky of SBS Perú explained, would require a shift to less traditional products and distribution networks, and a nudge from policymakers to create incentives for them. Flexible documentation requirements have been important in preventing potential customers from being unduly excluded, and establishing an adequate national ID system would be extremely conducive to financial inclusion. Simple complaint and dispute resolution mechanisms have been another part of the puzzle. One potential channel for insurance products is correspondent cashiers, and providers should be encouraged to use these agents to sell insurance products using simple and plain language.

THE EXPERIENCE OF THE PACIFIC ISLANDS

Fiji began its financial inclusion strategy in 2009. The Reserve Bank of Fiji envisioned insurance becoming as common a financial service as banking. After an initial focus on savings, policymakers turned their attention to microinsurance. Two main challenges have emerged: literacy on the demand side and product design on the supply side.

Papua New Guinea began by rolling out a microinsurance product using the mobile channel. From the regulator's perspective, proportionate regulation has been critical. The five central banks regulating insurance in the Pacific Islands have participated in a series of regulatory trainings

“Insurance supervisors are like captains of large freight liners—they see obstacles way ahead in the distance and correct course early on to avoid collision...and now, in the world of inclusive insurance, we are requiring insurance supervisors to be speedboat captains—constantly adjusting course in anticipation and responding to new innovations and market developments.”

Marike Komen Brady
Access to Insurance Initiative

that have enabled them to embed microinsurance within their existing Insurance Acts.

THE EXPERIENCE OF SOUTH AFRICA

Following regulatory reform in South Africa, insurers are now supervised by the central bank and a new market conduct authority, and microinsurance regulation and legislation are in place. Funeral insurance is already common in the country.

The panelists acknowledged that mobile insurance networks are important and growing, but this growth is creating several challenges, one of which is lack of disclosure for policyholders. Claims ratios are sometimes quite low, indicating a lack of understanding among policyholders about what they are entitled to under their policy. Also, regulators may not always be clear about their responsibility to mobile policyholders, or may even lack the technical ability to supervise these transactions.

NEXT STEPS

Microinsurance has clearly grown from a fringe subject into an important component of a holistic financial inclusion strategy. The AFI Network will continue to monitor microinsurance trends and initiatives, working with partners such as the Access to Insurance Initiative (A2ii) and the International Association of Insurance Supervisors (IAIS).

Measuring and Accessing Financial Capability: Practitioners Share Studies and Findings

PANEL

Dhashni Naidoo (FinMark Trust), Beniamino Savonitto (Innovations for Poverty Action), Siegfried Zottel (World Bank), Flore-Anne Messy (OECD), Daniele Scauso (Child & Youth Finance International) and Suzanne Roach (Financial Services Ombudsman, Central Bank of Trinidad and Tobago)

MODERATOR

Reuben Summerlin (Pacific Financial Inclusion Program/UNCDF)

Financial capability is a topical issue, and of particular interest to AFI's Consumer Empowerment and Market Conduct Working Group (CEMCWG). CEMCWG identified a need for members to develop a framework as a guide for those who wanted to measure financial capability as a part of their national financial inclusion activities. The moderator began the session with an audience poll that revealed the majority of participants believed no more than 15 countries were at an advanced stage of designing or implementing a national strategy for financial education. The actual number is much higher – 45 – indicating that central banks not only recognize the importance of financial education, but are also allocating considerable resources to financial education strategies.

Flore-Anne Messy of OECD highlighted the need for strategies to monitor, evaluate and address data gaps in financial education. The solution to financial education is not obvious, she said, and there needs to be adequate coordination and agreement on common objectives for national strategies. One ongoing effort is the development of a financial education framework led by the International Network on Financial Education.

The panel acknowledged that the mere presence of a strategy does not solve all financial literacy issues, but there is value in identifying the most vulnerable groups in the population as part of a larger effort to address gaps in financial competency.

Suzanne Roach shared the experience of the CBTT's Office of the Financial Services Ombudsman (OFSO). The problem in Trinidad and Tobago, she said, has been a lack of understanding of financial products combined with a general lack of trust of financial institutions.

As the session continued, the moderator once again polled the audience on the percentage of countries they thought had already implemented a baseline strategy for financial education. The majority thought it was between 50 and

“Even though financial literacy plans are in place in Trinidad and Tobago, this alone does not solve the issue. There are consumers on both ends of the spectrum – highly educated ones and those at the lower end.”

Suzanne Roach
Financial Services Ombudsman, Trinidad and Tobago

80 percent, and the correct answer was 80 percent. This suggests there is significant data available for analysis.

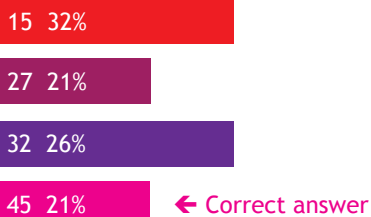
Siegfried Zottel reported on the World Bank's research in this area, which has identified 20 key approaches for assessing financial competency, literacy and capability. A number of surveys have been developed to measure financial knowledge and a basic understanding of economic concepts, along with basic numeracy and literacy skills. However, human decision-making is complex and influenced by more than technical knowledge. Mr. Zottel explained there has been a recent shift toward measuring the attitudes and behaviors of individuals, including their motivation for saving or borrowing, their long-term goals and their level of impulsiveness. Surveys now seek to capture the external socio-economic and environmental factors that influence financial decision-making. In Papua New Guinea, for example, the 'wantok' system is an unwritten social contract that serves as a safety net – people in the same village or town are obligated to help those who are poor – and this limits their ability to save.

Beniamino Savonitto of Innovations for Poverty Action (IPA) addressed the differences between process and impact evaluations. In addition to the usual needs assessments and descriptive studies of financial education, impact evaluation measures the quality of program implementation. This rigorous and complex activity, he said, assesses the extent to which the program causes behavior changes in individuals. There are different approaches: some studies look at the change in an individual before and after participation in the program, while others compare participants to non-participants. He shared results of a World Bank investigation into the long-term impact of financial education. Reviews of the evidence are mixed. A study conducted in the Dominican Republic sought to compare two different types of programs – one with a simple financial education message and one that was more detailed. Results suggest that simpler messages are more effective in introducing behavior change.

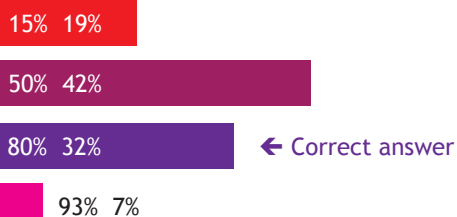
Measuring and Accessing Financial Capability: Practitioners Share Studies and Findings continued

QUESTIONS FOR THE AUDIENCE (ELECTRONIC VOTING SYSTEM)

As of 2013, how many countries were “well advanced” in design or implementation of a national strategy for financial education?



Out of the countries that were “well advanced” in design or implementation of a national strategy for financial education, what percentage have implemented a baseline?



Is the money that policymakers spend on financial education well spent?



Dhashni Naidoo of FinMark Trust elaborated on process evaluation as a monitoring and management tool, and emphasized the importance of providing a continuous stream of feedback to adjust the program in a timely manner. She mentioned that agencies generally underestimate the importance of process evaluation and therefore limit the resources allocated to it. Ideally, process evaluation should be developed in the program design stage.

Daniele Scauso of Child & Youth Finance International focused on the large and growing body of research on financial education for those under the age of 21. Studies have found that, in addition to improving financial literacy, there should be a focus on shaping behavior. It has been found that a combination of social and financial elements is important for young people, particularly social skills and self-esteem, and should be added to financial education.

Mr. Zottel of the World Bank added there has been some success in enhancing financial education/literacy through educational entertainment. For example, the Nigerian film industry has produced a feature film that sought to increase the financial capabilities of households by promoting responsible borrowing and saving strategies. Individuals who watched the film were more likely to open a bank account, but the effects were very short-lived and the impact faded quickly. Another study conducted by the World Bank in South Africa showed the impact of emotional connections in improving financial decisions by incorporating financial messages over a short period into a popular television soap opera, “Scandal”. The analysis found that individuals who watched the soap opera were almost twice as likely to borrow from formal sources, less likely to engage in gambling and exhibited better debt management than those who watched another soap opera that did not broadcast a financial message. The panel agreed that the financial message must be innovative, engaging and designed to touch an individual’s emotions without being overly technical.

The final poll question asked whether the audience believed the money policymakers spend on financial education is well spent. Sixty-three percent agreed. The panel took this opportunity to re-emphasize the importance of process and impact evaluation, highlighting examples of money spent on programs that did not result in improvements to national financial education due to a lack of evaluation. It is not only important to be accountable and evaluate the impact of financial education, they said, but to report on the results and contribute to accumulated global knowledge on the success of financial education strategies.

KEY MESSAGES FROM THE SESSION

- > Impact evaluation is necessary to measure the quality of program implementation.
- > Financial education alone is not enough to change behavior; there needs to be a regulatory and market conduct approach to supporting consumer protection.
- > While it may not be costly to draft regulation, the cost of enforcing it is significant.

NEXT STEPS

As a result of the capability session, the Central Bank of Armenia, with support from a grant from AFI, will implement a framework for measuring financial capability. At the next CEMCWG meeting, members will review this framework and hope to develop it into an AFI guideline by the 2015 GPF in Maputo.

Financial Innovation with Big Data Analytics

PANEL

Stephen Mwaura (Central Bank of Kenya), Luis Martin Auqui (SBS Perú), Duncan Goldie-Scot (First Access) and Arjuna Costa (Omidyar Network)

MODERATOR

Tilman Ehrbeck (CGAP)

This session began with a video about M-Shwari, a new financial product launched by Kenya's largest mobile network, Safaricom, in partnership with the Commercial Bank of Africa. The product offers an interest-bearing savings account and the opportunity to access short-term credit over a mobile phone without ever interacting with a loan officer or bank branch (a credit scoring algorithm is used instead). M-Shwari is signing up 12,000 new customers a day, and has made the Commercial Bank of Africa one of the top players in Kenya's banking industry. The product has marked a significant shift away from the dominant bricks-and-mortar banking model in the country, and is expected to encourage other market players to get on board and, ultimately, create more competition and lower costs.

Stephen Mwaura began the session by explaining that in traditional banking, three C's are evaluated when considering whether to grant credit: capital, collateral and character. However, with a mobile money service such as Kenya's M-Pesa, character can be scored by looking at a person's mobile banking transactions. It has therefore become possible to monitor what a user does on a daily basis, enabling credit bureaus to generate a score for that person. With M-Shwari, the mobile platform has been migrated to the formal banking system. The Commercial



Duncan Goldie-Scot, First Access, Steven Mwaura, Central bank of Kenya and Tim Ehrbeck, CGAP

“We need to ensure a customer focus and understand how technology can be used to better service and meet the needs of clients, especially the poor.”

Arjuna Costa
Investment Partner, Omidyar Network

Bank of Africa invested about 1 billion Kenyan shillings in this product and must now recoup the costs. Fees for M-Shwari currently stand at 7.5 percent per month, but Mr. Mwaura argued it was justified given the initial investment, and they expected the cost to fall over time.

In Tanzania, First Access uses prepaid mobile phone data to predict credit risk for first-time customers who have never used banking services. As Duncan Goldie-Scot explained, when customers try to access loans, the company requests their permission to access their mobile data. The company then downloads approximately 100 data points that are used to arrive at a recommended loan size.

The data is sold to the financial institution for 50 to 75 cents, saving institutions up to an estimated 15 dollars as a result. The scores are powerful, but the challenge lies in getting financial institutions to use the data to lower their costs. One of the variables making the score such a powerful predictor is the number of unique incoming calls to a phone. In Tanzania, 400,000 clients were profiled. First Access's credit risk models have been used to provide business, housing, agricultural and energy loans in collaboration with financial institutions. When asked how the company deals with privacy issues, Mr. Goldie-Scot said the company surveyed a sample of their customers to understand their concerns. They found their clients are willing to share their data in return for the credit score.

Luis Martin Auqui explained that in the Peruvian market, a different type of innovation has been observed: the use of psychometric data. Although it is traditionally used in human resources, this type of data is now being used in microcredit assessments. This qualitative credit assessment measures a person's ability and willingness to pay.

Four areas are tested: intelligence, business skills, attitudes and beliefs, and ethics and character. The results are used to calculate an alternative credit score, which can be used to complement quantitative credit assessments conducted by credit bureaus. This will improve decision making and result in higher numbers of credit recipients and lower levels of credit risk. The biggest challenges with psychometric techniques include

Financial Innovation with Big Data Analytics continued

acceptance of the tool, adequate predictive power and proper implementation. The cost of the test is about five dollars and takes about 35 minutes to complete. The predictive power of the psychometric credit score is similar to that of traditional credit scores, but when the two are combined, predictive power rises by 40 percent. It is important to train implementing officers properly to ensure clients understand the credit scoring process properly.

Omidyar Network has investments in companies such as Lenddo and Cignifi. As Arjuna Costa explained, Lenddo uses a person's online community or social network to create an alternative credit score. Like First Access, Cignifi uses mobile phone data on consumers' behavior patterns to inform the risk assessments of financial service providers.

QUESTIONS & ANSWERS

Q1: Which use for big data, other than financial intermediation, do you envision in the near future?

Mr. Goldie-Scot replied that peer-to-peer lending using M-Pesa may be possible, and that First Access wants to give consumers tablet applications in the future. Mr. Costa mentioned a technology-enabled SMS conversation carried out by an artificial intelligence system that increased communication with customers on certain topics over a few months.

The results of an experiment on savings behavior showed that if engagement increased by up to 40 percent, the savings rate rose by 50 percent. Mr. Mwaura explained the use of these models to gather information has led to a contraction in the informal sector. Luis Martin Auqui envisioned other uses of big data, such as financial education and investment advice for entrepreneurs.

Q2: Why are prices not falling if there are all these benefits from big data?

All panelists agreed it was still too early to see the effects of big data on prices, but none doubted that consumers would eventually see noticeable impacts on price.

Q3: Should it be mandatory for available data to be shared among all financial institutions?

The discussion of whether digital footprints should be proprietary information, as opposed to a public good, was controversial. Not surprisingly, First Access said that selling credit scores would become a difficult business if the underlying information was made publicly available.

Q4: How can we be comfortable with these new developments in light of concerns about data privacy?

Mr. Goldie-Scot suggested a wait-and-see approach. Mr. Costa emphasized the need for transparency and demystifying the advantages and risks for consumers. He also said we learn a lot when we go through business

cycles. Mr. Mwaura said new products are catalysts – risks are usually known and one tries to manage these risks with the tools that are available. He stated that countries should not encourage exclusivity as costs only fall when there is competition. He went on to say that regulators need to define the boundaries, and then shared his own concerns about cybercrime.

Advancing Financial Inclusion through Public-Private Dialogue

PANEL

Santiago Bayner (Banco de la República de Colombia), Greg Reeve (Millicom), Stephen Kehoe (Visa) and Lina Duque (Bancolombia)

MODERATOR

Daniel Schydrowsky (SBS Péru)

“Inclusion must come from the heart.”

Lina Duque

In recent discussions between the members of the Alliance for Financial Inclusion (AFI) and private sector stakeholders, it became evident that select industry leaders view unbanked segments of the population as potentially lucrative, yet currently undertapped markets. A number of these firms have developed comprehensive business strategies and innovative products and services aimed specifically at reaching these segments. They argue that innovations will bring greater access, security and convenience at a lower cost. These industry leaders see systematic dialogue with AFI as an important component of their strategy, and view the Global Policy Forum as a “one-stop-shop” in engaging policymakers and regulators from public institutions that are regulating key markets.

This view is shared by policymakers and regulators as well. Policy and regulation cannot achieve full financial inclusion on their own, and the role of policymakers and regulators is to provide a stable and enabling environment, as well as the leadership to encourage the private sector to innovate



Greg Reeve, Millicom and Stephen Kehoe, Visa

and find safe, sound and sustainable ways to reach the unbanked. Complex innovations in particular challenge policymakers and regulators to create an environment that encourages experimentation in adapting these innovations to the country context, while keeping risks to financial stability and integrity at systemic and institutional levels in check. A number of AFI members expressed that greater private sector participation at the GPF would be very useful for understanding new business models and related risk profiles, and how innovation could help scale up financial inclusion.

In this session, AFI leaders and private sector partners jointly launched AFI’s Global Public-Private Dialogue (PPD) Platform. The platform builds on successful regional cooperation in Africa, Latin America and the Pacific Islands, and will focus on the following areas in 2015:

- > Enhancing capacity building and training for AFI members.
- > Systematic dialogue on innovative products, business models and approaches.
- > Ensuring systematic private sector input in AFI’s regional initiatives.
- > Potential private sector financial support for select AFI programs and activities, including the GPF.

Santiago Bayner of Banco de la República de Colombia kicked off the session by emphasizing that all stakeholders share a desire to find a meaningful way forward. He discussed making use of the AFI Network, sharing knowledge and information, planning capacity building together and sharing best practices. Discussions will help all stakeholders find common ground.

Bancolombia is the largest private bank in Colombia, with 21 percent market share. Lina Duque, Bancolombia Vice President, explained that the company believes financial



Daniel Schydrowsky, Superintendencia de Banca, Seguros y AFP (SBS) del Peru moderating

Advancing Financial Inclusion through Public-Private Dialogue continued

inclusion is part of their business, not an obligation or philanthropic effort. She said the bank had a ‘humanistic’ approach to banking and that it intends to do business differently to build a better society. She stated that the bank wants to be part of the Maya Declaration.

Stephen Kehoe, Vice President for Financial Inclusion at Visa, discussed how he will approach this collaboration with AFI. Mr. Kehoe indicated it was important for AFI and the private sector to structure this dialogue around commonly agreed principles of engagement, with concrete objectives and desired outcomes that support the work of AFI members in advancing financial inclusion. According to Mr. Kehoe, regulators are looking for private sector solutions that will lead to sustainable financial inclusion, while the private sector recognizes there is huge market potential. Returns on investment remain a challenge, business models need to change, and the way products and services are implemented needs to be planned. Regulation will have a major impact on the development of new business models in the future, and for this reason Visa is interested in working with AFI to ensure private sector experiences inform the development of policy at appropriate points in the policymaking cycle.

Greg Reeve, Chief Operations Officer of Millicom, then shared his views on how to make this venture more operational. He stated that private sector participants and AFI leaders had identified a lot of common ground during a closed-door meeting prior to this session. He described these discussions as “refreshing and useful for the private sector.” He emphasized that technological innovation cannot be scaled up without systematic dialogue between policymakers and service providers.

QUESTIONS & ANSWERS

Q1: How do the public and private sectors work together to build trust in the new mobile payments system and the financial system itself?

Ms. Duque suggested that in order to build trust, one must first understand the customer. She suggested that the manner in which businesses work and communicate with customers may need to be adjusted. She also suggested that both the private sector and regulators need to engage in dialogue with customers.

Mr. Kehoe agreed with Ms. Duque’s suggestion. He explained that simplicity builds trust and that digital financial services are becoming easier to use. He voiced his belief that there should be ongoing sharing of expertise in the area of risk management and security, which will benefit both policymakers and the private sector and increase customers’ trust in the financial system.

Mr. Bayner raised the question of the cost of not doing anything. He believes the costs of not integrating people

into the formal financial sector and not providing adequate consumer protection mechanisms are huge, both for governments and the private sector.

Q2: How do regulators find a balance between innovation and regulation?

Mr. Kehoe stated there is no single approach to addressing this issue and that it differs by country. The biggest concern, he said, is with highly regulated nascent markets. He said regulators need to examine regulation on a systematic basis to ensure they are not hindering innovation. This is especially important for emerging technologies, where innovation takes place at an especially rapid rate. He explained that regulation is important because, when done well, it creates clarity, transparency and allows investors to make investment decisions with confidence. He emphasized that consumer protection is necessary and a framework needs to be in place. He believes this is the most challenging issue to be addressed.

Based on her experience working with regulators, Ms. Duque said it is necessary to ensure business is conducted with ease.

In addition to open dialogue with regulators, Mr. Bayner believes there is a need for independent regulators. Regulators must be able to listen to both the market and its participants, make decisions about regulations and explain to others why they have made that particular decision.



Panelists enjoy a moment in the Public-Private Dialogue discussion

Maya Declaration: Global Vision, National Goals



The Maya Declaration

Commitments
you can bank on

PANEL

Nestor Espenilla Jr. (Bangko Sentral ng Pilipinas),
Georgette Jean Louis (Banque de la République
d’Haiti), Jason Lamb (Bill & Melinda Gates
Foundation) and Douglas Pearce (World Bank)

MODERATOR

Ernesto Gouveia Gove (Banco de Moçambique)

“Financial inclusion will not happen purely by effort of the policymakers and regulators. Our role is to provide an enabling environment and play a leadership role in mobilizing others under a common vision.”

Nestor Espenilla Jr.
Bangko ng Sentral Pilipinas

“Commitments only matter if we make progress. Mutual accountability is key and AFI as a family should not shy away from providing honest feedback, both positive and negative.”

Jason Lamb
Bill & Melinda Gates Foundation

Maya Declaration: Global Vision, National Goals continued

This session highlighted the progress AFI members have made in meeting their Maya Declaration Commitments. It also focused on the value of committing and publicly announcing national goals for aligning national financial inclusion efforts, synchronizing progress reporting under the Maya Declaration and exploring partnership opportunities to support national financial inclusion. Highlights from select AFI member countries are outlined below.

PHILIPPINES

- > The number of e-money agents has risen to more than 10,000, increasing access points for consumers.
- > A National Retail Payments System was introduced in 2014 to encourage more electronic payments and interoperability.
- > A consumer protection framework has been developed to motivate financial institutions to be more proactive. Subsets within the framework include customer care, price transparency, data privacy and the provision of financial education.
- > Improvements to the data measurement framework have included the development of a baseline study on demand-side data, and annual and quarterly reports are being produced to highlight progress in financial inclusion.
- > The regulator and the public and private sectors have adopted a partnership approach for the Philippines' national strategy. This will create a more enabling environment to support financial inclusion initiatives.

HAITI

- > Modernization of the payment system continues. Encouraging less use of cash should help to lower costs and increase security, and this has been supported through public financial education efforts.
- > More work is being done to facilitate the full regulation of microfinance institutions by Banque de la République d'Haiti. Legislation has been drafted and was submitted to the Ministry of Finance in December 2013 for debate in Parliament. This will allow greater access to financial services, particularly in rural areas.
- > A new national financial inclusion strategy is currently being drafted and AFI's Financial Inclusion Strategy Peer Learning Group (FISPLG) and the World Bank are supporting the process.

UPDATE ON THE MAYA DECLARATION

- > AFI has made a lot of progress as a network since the Maya Declaration was announced in Mexico in 2011. Feedback from members, both positive and negative, is essential to keeping communication open and charting the way forward.
- > The World Bank is realigning its resources to support the Maya Commitments. The International Finance Corporation (IFC) is also becoming increasingly aligned with the Maya Declaration and will provide support through its network.
- > Communication is extremely important. Using the right indicators to measure and communicate, providing accurate information to all relevant stakeholders, having the right people at the table to create high-level political support, and ensuring the goals survive national political changes are all key to meeting Maya Commitments.
- > There is competition in the private sector over products and services at the bottom of the pyramid, especially in the payments arena. However, every player has a space in the market and a role to play, and right now it is more important to collaborate and develop the infrastructure together.

QUESTIONS FOR AFI

Q1: What is the public relations strategy for the Maya Declaration?

- > Central banks are taking a leadership role and have credibility – they should be the driving force.
- > Target those who can aid/sell the proposition and gather political commitment and support.
- > Create national dialogue.
- > Statistics on financial inclusion should be used as a communication tool and to enable benchmarking.

Q2: How can we monitor progress since 2009?

- > More tools are needed to measure Maya Commitments.
- > We need more clarity on where we are and where we want to be.
- > The annual Maya Declaration Progress Report and the online tracking tool are excellent ways to monitor progress.

Maya Declaration: Global Vision, National Goals continued

Maya Declaration Commitment Highlights 2014

NEW COMMITMENTS

1. Royal Monetary Authority of Bhutan

Committed to driving national financial inclusion strategy, strengthening consumer protection and education and implementing Bhutan's Mobile Payment System by 2015.

2. People's Bank of China

Committed to promoting evidence-based policymaking by designing a set of financial inclusion indicators together with CBRC, strengthening greater partnership with the private sector and promoting greater financial literacy.

3. Comisión Nacional de Bancos y Seguros Honduras

Committed to promoting mobile financial services, and to designing and implementing a comprehensive national financial inclusion strategy.

4. Central Bank of Russia

Committed to strengthening consumer protection and financial literacy, as well as developing a financial inclusion monitoring and evaluation framework based on the recommendations of AFI and the G20.

5. National Bank of Tajikistan

Committed to achieving up to 40% financial inclusion through microfinance by 2017, and implementing mobile financial services initiatives to reach up to 30% of the population by 2017.

6. Banco Central de Timor Leste

Committed to promoting digital financial services and agent banking to cover 75% of the country's sub-districts by 2015, and completing a study on SMEs as a basis for introducing a pilot credit guarantee scheme by 2015.

7. Banque Centrale des Etats de l'Afrique de l'Ouest (not read at the GPF)

Committed to designing and launching a regional financial inclusion strategy with a focus on access to microfinance and payment services that will aim to increase financial inclusion by 60% by 2018.

UPDATED MAYA COMMITMENTS TO INCLUDE MEASURABLE TARGETS

1. Banco de Moçambique

Increase financial inclusion in the country by 25% by 2019.

2. Banco Central del Paraguay

Increase deposits to GDP ratio by 50% by 2015.

3. Central Bank of Trinidad and Tobago

Reduce the unbanked population by 20% by 2017.

4. Bank of Uganda

Increase financial inclusion among the adult population to at least 70% by 2017.

To read the full Maya Commitment text,
please visit www.mayadeclaration.org





Alliance for Financial Inclusion

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