Responsible Finance Forum

Responsible Financial Inclusion and Digital Innovation: Focus on Asia

RESPONSIBLE FINANCE FORUM VII

May 26, 2016
Xi'an City, China

GPFI

Federal Ministry for Economic Cooperation and Development

giz

IFC International Finance Corporation WORLD BANK GROUP

Cover photo: Grigvovan

CONTENTS

WE NEED TO CARE ABOUT CONSUMERS EVEN MORE, WE NEED TO EQUIP THEM WITH NEW SKILLS.

Anna Zelentsova, G20 Global Partnership for Financial Inclusion

Photo credit: Grigvovan

ACRONYMS

A2II	Access to Insurance Initiative
ASEAN	Association of Southeast Asian Nations
BaFin	Federal Financial Supervisory Authority
BMZ	German Federal Ministry for Economic Cooperation and Development
BRAC	Bangladesh Rural Advancement Committee
BTCA	Better Than Cash Alliance
CGAP	Consultative Group to Assist the Poor
CFPA	China Foundation for Poverty Alleviation
CFPB	Consumer Finance Protection Bureau (United States)
DFS	Digital finance services
FCPFL	Financial Consumer Protection and Financial Literacy
GIZ	German Society for International Cooperation
GPFI	Global Partnership for Financial Inclusion
GSMA	Groupe Spéciale Mobile Association
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
ILO	International Labour Organization
IPA	Innovations for Poverty Action
KYC	Know Your Client
MFI	Microfinance institutions
MNOs	Mobile network operators
NGO	Non-governmental organization
P2P	Peer-to-Peer
PBOC	People's Bank of China
PRI	Principles for Responsible Investment
PSBC	Postal Savings Bank of China
RFF	Responsible Finance Forum
SDG	Sustainable Development Goals
SME	Small and medium enterprise
UFA	Universal Financial Access
UNCDF	United Nations Capital Development Fund
US	United States

ACKNOWLEDGEMENTS

The Seventh Annual Responsible Finance Forum (RFFVII) was made possible by the support of the People's Bank of China (PBOC) as the holder of the 2016 Presidency of the G20 Global Partnership for Financial Inclusion (GPFI).

The Forum was co-sponsored and organized by Germany's Federal Ministry for Economic Cooperation and Development (BMZ/GIZ) and the International Finance Corporation (IFC) on behalf of its partner community.

The Forum was delivered in collaboration with its global partners: The Better Than Cash Alliance (BTCA), The Consultative Group to Assist the Poor (CGAP), The United Nations Capital Development Fund (UNCDF) and the World Bank Group. Logistically, the event was made possible with on-the-ground coordination and client relationship support from the PBOC, IFC-China and GIZ-China colleagues.

This report, like the Forum, is the product of collaboration across RFFVII organizers. The report was produced with written contributions provided by a core team including: Nadia Afrin, IFC; Elena Babkova, IFC; Lory Camba Opem, IFC; Julia Conrad, GIZ-China; Ros Grady, BTCA Consultant; Ivo Jenik, CGAP; Fangfang Jiang, IFC-China; Loretta Michaels, World Bank/IFC Consultant; Margaret Miller, World Bank; Konstantin Pagonas, GIZ; Beth Porter, BTCA/UNCDF; Yolanda Yun Zhu, IFC-China. We thank our more than 100 participants, partners and clients who journeyed from around the world to join us in Xi'an City, China to share and present their perspectives as reflected in this report[1].

The report was made possible with the institutional support from the German Federal Ministry for Economic Cooperation and Development (BMZ/GIZ) and the International Finance Corporation (IFC).

GPFI

Federal Ministry for Economic Cooperation and Development

giz

IFC International Finance Corporation WORLD BANK GROUP

1. For the full agenda, speaker biographies and participant details, see the Responsible Finance Forum website link at: https://responsiblefinanceforum.org/wp-content/uploads/RFFVII_speaker_bios.pdf.

FOREWORD

Responsible finance is a cornerstone of the 2020 Universal Financial Access Goals of the World Bank Group, and contributes to the United Nations' Sustainable Development Goals (SDGs). Responsible finance continues to be a cross-cutting priority of the G20 Global Partnership for Financial Inclusion (GPFI), and of the broader financial inclusion initiatives worldwide.

The Forum, now in its seventh year (RFFVII), highlighted ***Responsible Financial Inclusion and Digital Innovation: Focus on Asia.*** In recognition of the regional focus, it was held in Xi'an, China. The Forum brought together over 100 participants globally, mainly representing the private and public sector of the Asia region in general and China in particular. They included leaders from industry, as well as regulators, providers, investors, researchers and innovators in digital financial services. The event was linked to the G20/GPFI meetings that took place on May 24–25, 2016. It was conducted by the GPFI Sub-Group on Financial Consumer Protection and Financial Literacy (FCPFL), and held alongside the parallel technical committee discussions on a proposed G20 High Level Principles for Digital Financial Inclusion.

This report summarizes the outcomes of the RFFVII and actions to advance responsible financial inclusion. We hope the related experience and innovations highlighted throughout the report inspire new ideas for research, policy and practice. We also hope that they will motivate action not only from among the conference participants, but also from the wider digital financial inclusion community of experts and practitioners.

The next RFF will be held in Germany in 2017, with Germany assuming the upcoming G20 Presidency of the GPFI. The RFFVII will further inform key topics to be covered, including actionable steps from the G20 High Level Principles for Digital Financial Inclusion.

The Forum encourages new and ongoing partners and members to stay engaged. Visit us at: **www.responsiblefinanceforum.org**.

About the Forum

Since 2009, the Responsible Finance Forum (RFF) has been an annual milestome event that brings together the private sector, policymakers, development practitioners, researchers and consumer advocates to share knowledge, emerging good practices, and ongoing initiatives to achieve responsible financial inclusion globally.

The First Annual Responsible Finance Forum was hosted in Berlin by the German Federal Ministry for Economic Cooperation and Development (BMZ/GIZ), and marked its launch among co-founding partners from the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC). The Responsible Finance Forum became the first joint platform to support the efforts of the global community to share insights and evidence on responsible finance practices.

The community has since expanded, representing nearly 20,000 visitors on the RFF Platform today. An annual event was held in collaboration with global partners such as: the Access to Insurance Initiative (A2II), the Better than Cash Alliance (BTCA), The Bill and Melinda Gates Foundation, Citi Foundation, the Federal Financial Supervisory Authority (BaFin), The Financial Times, The International Association of Insurance Supervisors (IAIS), Innovations for Poverty Action (IPA), the International Labour Organization (ILO), MasterCard Foundation, the Microinsurance Network, Munich Re Foundation, Principles for Responsible Investment (PRI), the Netherlands Ministry of Foreign Affairs, the Small and Medium Enterprise (SME) Finance Forum, the United Nations Capital Development Fund (UNCDF) and the World Bank Group.

INTRODUCTION

THIS YEAR WE COLLABORATED WITH OUR PARTNERS TO ORGANIZE A FORUM HERE IN CHINA, WHICH IS LEADING THE G20 PRESIDENCY. CHINA PROVIDES SUCH AN INTERESTING LANDSCAPE VIS-À-VIS DIGITAL FINANCIAL INNOVATION.

Momina Aijazuddin, IFC

The Forum, now in its seventh year (RFFVII) highlighted ***Responsible Financial Inclusion and Digital Innovation: Focus on Asia.*** In recognition of the regional focus, it was held in Xi'an, China. The RFFVII built on previous fora held in Perth, Australia[2] and Antalya, Turkey[3]. Specifically it aimed to:

- **Delve into the top challenges involved in scaling up digital financial inclusion and demonstrating concrete solutions.** The Forum aimed to demonstrate concrete solutions currently being implemented by leading market players and countries — specifically those that have embraced the importance of consumer protection to manage risks while also providing digital delivery of financial products and services.

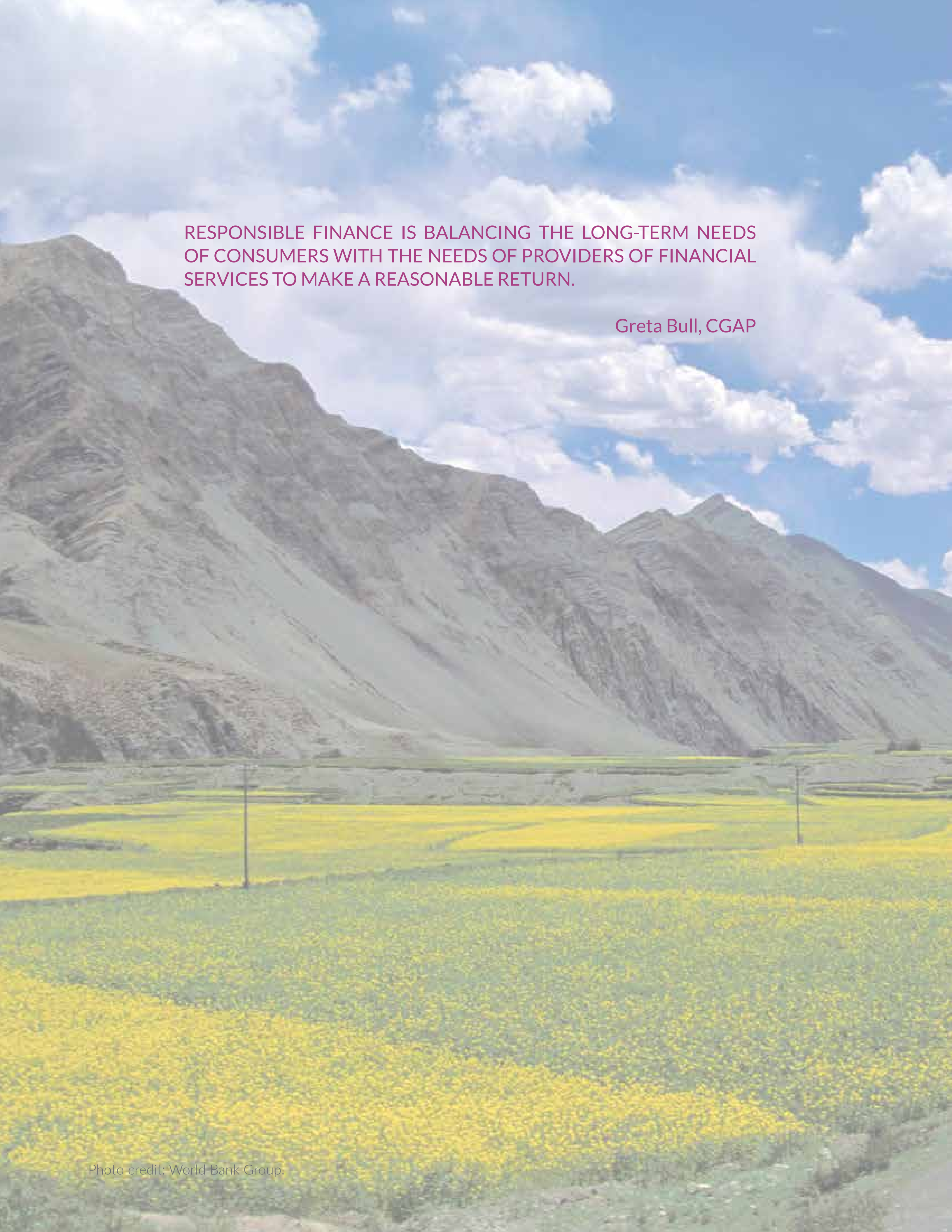
- **Address risks both for customers and institutions as an integral solution and opportunity**. Finovation (financial innovation) and big data are two new tools for decision-making and customer-centric product development; yet, ongoing issues related to data ownership, privacy, security, fraud and other uncharted risks remain. Proportionate regulation and how it translates into practice in different contexts remains essential. This includes finding effective ways for customer disclosure and corrective recourse.

- **Feature new business models in the Asia region's digital financial inclusion landscape**, including China's rapid development in the field of alternative market-based finance, or peer-to-peer (P2P) lending and crowdfunding. Compare different regulatory approaches among countries such as Malaysia and the United States (US).

- **Promote high-level principles for digital financial inclusion,** including the relevance of recently released Better than Cash Alliance (BTCA) guidelines for responsible digital payments.

- **Emphasize the importance of strategic partnerships for public and private sector engagement, including the importance of access to finance for women** in advancing responsible digital financial inclusion as the landscape continues to evolve. The role of the G20 presidency and Global Partnership for Financial Inclusion (GPFI) remain key.

2. Responsible Finance Forum V in Perth, Australia, August 2014, see: https://responsiblefinanceforum.org/responsible-finance-forum-v/
3. Responsible Finance Forum VI in Antalya, Turkey, September 2015, see: https://responsiblefinanceforum.org/rffvi/



RESPONSIBLE FINANCE IS BALANCING THE LONG-TERM NEEDS OF CONSUMERS WITH THE NEEDS OF PROVIDERS OF FINANCIAL SERVICES TO MAKE A REASONABLE RETURN.

Greta Bull, CGAP

Photo credit: World Bank Group.

1. EVOLVING DIGITAL LANDSCAPE: MANAGING RISKS AND PROTECTING CONSUMERS

WE ARE TRYING TO TAKE THIS OPPORTUNITY TO TAKE THE LEAD NOT ONLY FOR CHINA, BUT ALSO FOR OTHER ECONOMIES.

Sun Tao, Ant Financial Services Group

Overview

The advent of the digital revolution has meant a lowering costs, distances, time and barriers to entry for financial institutions and businesses. Digital finance is forcing traditional institutions to reinvent the way in which they do business to meet the evolving needs of their customers. Investing in innovation and forging joint ventures leverages the potential benefits of technology to deliver customer-centric products and services.

At the same time, financial institutions need to manage institutional risks and associated costs with increased compliance. This session presented the impact on consumers and customers, as financial institutions and retail providers strive to adapt and comply with evolving regulations — particularly as they scale-up financial inclusion through digital services and alternative delivery channels.

The session introduced various business models from pioneering Institutions that have partnered with, or embraced technology. Ant Financial Services Group, BKash, and the China Foundation for Poverty Alleviation (CFPA) presented their views on providing financial services to the poor in the digital era, where financial inclusion is opening the doors of opportunity. Costs are coming down, and convenience is giving way to provide more access to those previously underserved, the poor, and women.

Business Models in an Evolving Digital Landscape

Opportunities presented by digital finance services (DFS) do not come without risks[4], particularly when serving lower-income and less experienced consumers. While DFS customers appreciate accessible digital financial services, a wide range of customer risks negatively impact confidence, uptake and usage. In turn, providers can and should take actions to improve safety, reliability and transparency of digital financial service products and systems. Leading financial providers presented ways in which these challenges and risks are being tackled in the evolving landscape.

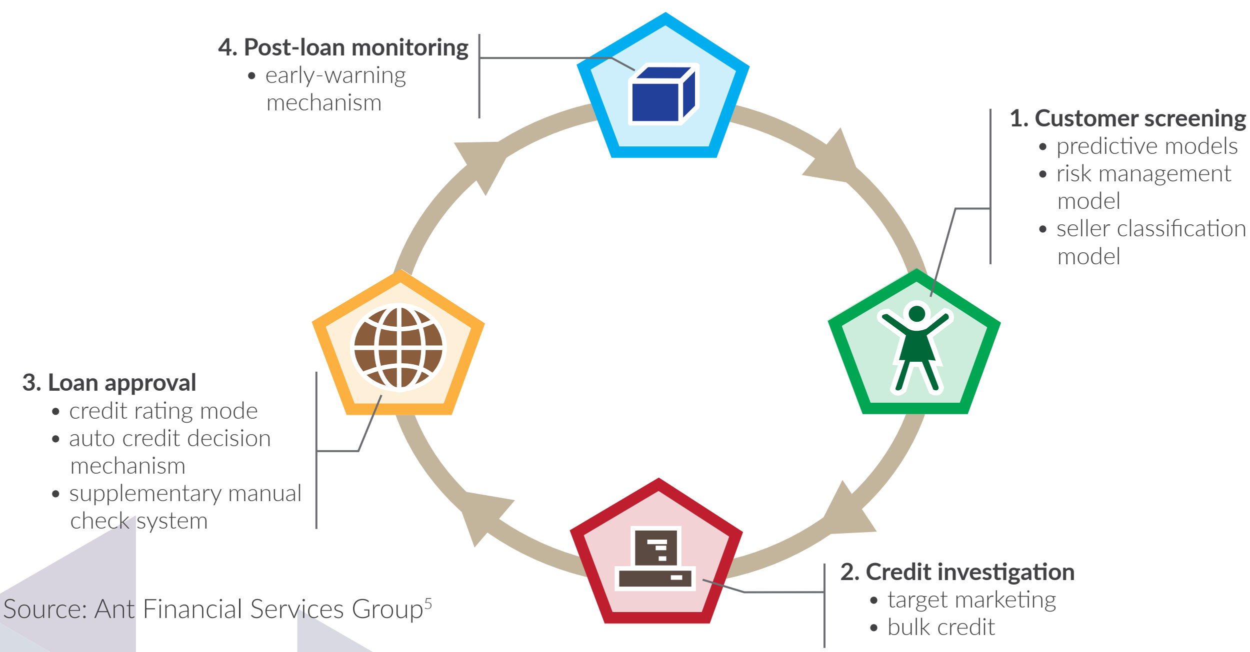
- **Ant Financial Services Group,** a powerhouse in China's online payments market through its Alipay service, described how innovation in technology can greatly change the ways of practicing inclusive finance: mobile internet makes it more accessible, technology reduces the costs,

4. Responsible Finance Forum VI, see Evidence and Innovation for Scaling Inclusive Digital Finance, September 2015, https://responsiblefinanceforum.org/wp-content/uploads/RFF6-report-5_21-final-low_res.pdf.

and big data helps to reduce the risks. The e-commerce company is the world's largest and fastest growing platform, reaching more than 450 million active users and more than 200 domestic financial institution partners. The platform is supported in over 70 overseas markets, with in-store payments covering 80,000 retail stores. Ant Financial has managed to create and scale a diverse set of financial products and services — from online payments to cloud computing and data services. In addition, Ant Financial services more than 4 million micro and small enterprises totaling more than RMB740 billion. Ant Financial's ambitious goals go even further, namely, to build a truly inclusive financial system on the Internet that serves small businesses and the public.

Managing Business and Consumer Risks. The key to Ant Financial's success thus far is its innovative approach to managing risk, not just for its e-commerce business, but also for its customers (Figure 1). Specifically, Ant Financial has established a comprehensive risk management framework which applies big data technology[6], thereby reducing financing costs to micro- and small-sized businesses, increasing accessibility to credit, and enhancing efficiency of financial resources. Ant Financial takes a complementary view of risk for both its business and its customers. Its risk framework covers not only credit risk to help mitigate customer over-indebtedness, but also liquidity, market, and operational. In this context, it looks at risks and examines how each can be mitigated for both the customer and the business itself. Within a given risk parameter, such as operational risk, Ant Finance factors into its equation multiple dimensions that may come into play, including: technology and cyber risk, fraud, data security, customer protection, disclosure and data privacy. Beyond credit risk, Ant Financial also keeps an eye on broader market risks, such as the potential

Figure 1. Comprehensive Risk Management



Source: Ant Financial Services Group[5]

5. See presentation by Sun Tao, Ant Financial Services Group, "Responsible Financial Inclusion and Digital Innovation", https://responsiblefinanceforum.org/responsible-finance-forum-vii/rffvii-background-materials/.
6. Ibid.

interest rate and exchange rate risks. Regarding liquidity risk, it also assesses the stability of the funding base, including payment deposit protection for its customers, which is critical to maintaining the trust and stability of its business in the longer term.

New Credit Scoring System. A new "Zhima" or "Sesame Credit" score was launched by Ant Financial in 2015. The credit score utilizes online user data and behavioral analytics to generate credit scores from its consumers and small businesses. It is the first credit scoring system that combines online and offline data to generate credit scores, powered by data collected from registered users and small businesses on its e-commerce platforms. Data collected include webpage user visits, goods purchased, spending habits, and payment histories. Data are collected only with the knowledge and consent of the individuals' personal information, and data are encrypted and segregated. This innovation is critical in China, where less than one-third of the country has access to credit reporting as compared to United States with nearly 90 percent of the adult population having a credit score[7].

Financial Education and Wealth Management. Ant Financial Services Group also provides wealth management as an added customer service to improve financial education for its customers in the critical stages of decision-making throughout their entire lifecycle.

- **Bkash** is the largest mobile-based financial services provider in Bangladesh, and the second largest mobile money provider in the world. In a country with over 160 million people with 68 percent mobile penetration, bKash taps into a significant opportunity to provide digital financial services to the poor. Partnering with Bangladesh's four major mobile network operators, bKash was able to rapidly expand its customer base, reaching 21 million by 2016, with the number of transactions increasing from 10 million to over 70 million.

  Financial Awareness through Agent Networks. Agents play a critical role in Bkash's vast network of communities by assisting rural users in adopting the use of mobile technology for financial transactions. Agent network management and providing financial awareness and education remain key foci for bKash, particularly given its outreach to the most rural parts of Bangladesh. In this context, bKash's initiatives[8] have shown promising results so far — especially for many poor women with very low literacy who have been able to master bKash. The role of frontline staff in helping users understand mobile money's potential benefits and patiently teaching them the system was key given they are trusted by the local community. Among other approaches to building financial awareness were courtyard learning sessions on mobile money, and working with agents to help get the necessary paperwork completed. This level of commitment among agents and their networks in the rural communities is indeed an incredible challenge to duplicate, but it has shown to be crucial to the unbanked taking-up digital financial services[9].

- **China Foundation for Poverty Alleviation (CFPA),** founded in 1989, is a not-for-profit organization dedicated to national development and poverty reduction. In 2008, its microfinance program was restructured to become the CFPA Microfinance Management

7. Consumer Finance Protection Bureau (CFPB), May 2015, at: http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.
8. See the Bangladesh Rural Advancement Committee (BRAC), "Integrated Development" program at: http://www.brac.net/idp.
9. Grace P. Sengupta, Assistant Manager, BRAC Social Innovation Lab, and Maria A. May, Senior Program Manager, BRAC Social Innovation Lab and BRAC Microfinance Research and Development Unit, "Five Ways to Get Frontline Staff Excited About Mobile Money," Originally posted on the Center for Financial Inclusion, September 2015.

Ltd., and is now by far the largest microfinance social enterprise in China, targeting low-income communities. The CFPA microfinance now covers 176 counties in 18 provinces in China.

- **Sustainable and Prudent Financial Inclusion.** CFPA managed its transformation from a non-governmental organization (NGO) into a commercial institution by maintaining its mission as core to its financial performance, including strong growth in rural areas representing 80 percent of the country's poorest counties[10]. CFPA's business strategy integrated responsible finance throughout its operations, formalizing client-centered practices in policies and procedures across the institution through a comprehensive risk management framework. The business plan established a risk management department to provide regular portfolio reporting and monitoring to senior management on a monthly basis. CFPA further endorsed the Smart Campaign Client Protection Principles[11] and embedded these principles into the organization through staff training, workshops and incentives. It standardized operational procedures to include handling customer complaints and conducting an annual customer-satisfaction survey. CFPA continues to report to the credit registry in China to mitigate over-indebtedness risk, and it has established a credit scoring system. Key monitoring indicators include client retention and new client ratios, which encourage branches to not only focus on business volume, but also on the quantity and quality of their clients to maintain prudent growth. CFPA has successfully managed sustainable portfolio growth in rural China, with the "portfolio at risk of greater than 30 days" at less than one percent[12]. In 2015, CFPA started to introduce digital innovation, with products ranging from a P2P platform designed to provide intermediate debit and credit to micro business start-ups and investors in rural areas to a rural-oriented insurance P2P platform.

Key Takeaways

- Low-income consumers benefit greatly from more accessible and affordable digital finance services and products.
- Digital finance is forcing institutions to reinvent the way in which they do business to meet the needs of their customers.
- Finovation and big data present new tools for customer-centric product development; yet, ongoing issues related to data ownership, privacy and security remain.
- Finding a balance between innovation, proportionate regulation and customer protection is key to the future development of the industry.
- Embedding responsible finance and maintaining a customer-centric approach should be an integral component of risk management.

10. Lory Camba Opem, Martin Holtmann, and others, "Serving China's Frontier Regions through Sustainable, Prudent Financial Inclusion", Small Beginnings for Great Opportunities, IFC Smart Lessons, 2015.
11. See Smart Campaign at: http://www.smartcampaign.org/certification/1-commit.
12. Ibid., page 26.

2. FINOVATION, CUSTOMIZATION AND BIG DATA — OPPORTUNITIES AND RISKS

WE NEED TO MAINTAIN THE BALANCE SO THAT THERE IS ENOUGH REGULATION, BUT AT THE SAME TIME, NOT TOO MUCH REGULATION THAT COULD HINDER INNOVATION IN DIGITAL FINANCE.

Jenny Chang, Shanghai F-Road Commercial Services

Overview

Technology enables frequent changes and service evolution, which regulators in turn can try to leverage for financial inclusion. In fact, digital financial services and big data applications are rightly deemed to be huge game changers, providing 700 million adults with access to financial services just between the years of 2011 and 2014.

This session, co-moderated by IFC and the German Society for International Cooperation (GIZ), engaged two panels in an interactive exchange to: (i) examine the immense potential of digital financial services and big data for responsible financial inclusion; (ii) explore emerging trends and solutions through private and public sector initiatives toward responsible digital finance, highlighting recent innovations in consumer protection; and (iii) address the challenges and risks of financial exclusion associated with big data, and how they can best be tackled —without stifling private sector-led innovation.

The Finovators

Four "Finovators" from industry and public practice introduced their innovative initiatives to leverage new technologies. These included digital financial services and big data technology to enhance inclusive financial services. The four Finovators include: Shanghai F-Road Commercial Services, CreditEase, the Postal Savings Bank of China, and BaiRong Financial Information Services (Figure 2).

Data, in itself, represents a huge enabling factor to the industry because if people cannot offer information about themselves, they can automatically be excluded from financial services. While the use of alternative data to enhance the efficiency and outreach of financial sector operations is clear, the discussion also highlighted risks regarding data security and the protection of financial consumer personal data. These risks have emerged with the digital financial services that employ new technologies and big data applications.

Research in the United States[13] has shown that most of the mobile finance applications offered by non-banks do have serious security issues. With systems failing to protect the data and big data being collected, there is an urgent need to put protection technology into place. Indeed, there are a number of issues that raise serious concerns about personal data protection, including data security issues, the lack of mechanisms to prevent data misuse, the complex processing of all kinds of personal data, and the unclear allocation of responsibilities on the regulatory side.

13. United States Treasury, White Paper, "Opportunities and Challenges of Online Marketplace Lending", May 10, 2016.

Figure 2. Four Finovators

Shanghai F-Road Commercial Services	CreditEase
F-Road is a digital financial services provider, partnering with local financial institutions in China to deliver financial services via mobile devices. The banking platform offers a wide range of technology solutions, including encrypted mobile banking, online day-to-day services, development and operation of community banks, asset management of regional banks and internet finance. With more than 1,300 banks covering 50,000 branches, F-Road has established itself as the leading service provider of the mobile financial service industry in China.	CreditEase is a leading Fintech company in China specializing in small business and consumer e-lending, as well as wealth management. It has multiple online products and services which use big data and other innovative credit technologies. CreditEase has initiated a P2P microcredit platform which has become an important part of China's Internet financial industry. With an annual credit sum of US$10 billion and a client pool of 2 million, it has evolved into the largest P2P platform worldwide.

FINOVATORS

Postal Savings Bank of China (PSBC)	BaiRong Financial Information Services
The Postal Savings Bank of China (PSBC) has nearly 500 million customers and over 40,000 branches distributed over large areas of rural China. The PSBC is planning to link credit services to e-commerce platforms to reach out to rural/unserved areas. It is also planning to use new technological devices (mobile terminals, tablets, and so on) to improve the data collection and sharing of loan applicant information.	BaiRong uses big data technology to provide precision marketing solutions, credit checks, credit monitoring, anti-fraud, and other risk management services for banks, insurance companies and other financial enterprises. As a third-party platform, it has access to vast amounts of data from diverse sources, allowing for precise credit profile building for individual loan applicants. Through the adoption of this big data credit model, an extension of financial services to individuals who would otherwise be rejected due to lack of data is now possible.

Source: Responsible Finance Forum VII, May 2016, Background Information and Materials.

Key Takeaways

- Digital financial services and new technologies offer huge opportunities to enhance the inclusiveness and effectiveness of financial services, and can be a real game changer.
- Nevertheless, it is crucial to acknowledge the risks associated with new innovations, including the potential misuse of big data with regard to the protection of customer information, as well as the potential problem of data discrimination and financial exclusion.
- A clear assignment and allocation of responsibilities on the regulatory side is essential in order to solve these issues in the near future.
- A continued dialogue between Finovators, regulators and other stakeholders has been proposed to prevent uniform over-regulation that tends to stifle innovation. In this regard, efforts to prevent under-regulation resulting in a violation of trust in the industry are equally important.

Private-Public Sector Partnerships in Finovation

Although recent research in the field has revealed clear evidence for a high degree of consumer sensitivity with regard to the security and privacy of data, respective regulatory frameworks and mechanisms to ensure the protection of personal information have not yet been sufficiently prioritized by relevant stakeholders. New technologies and alternative data records can aggravate the problem of "data discrimination", that is, if certain parts of the population are not adequately represented or if conclusions based on alternative information including sensitive personal data — especially non-predictive data —is used against the customer. Therefore, the question evolved as to how to leverage industry innovations to build an environment of trust that favors customers and ensures the sustainability of financial operations. Key is to strengthen the dialogue and exchange between "Finovators", financial regulators and other important stakeholders to jointly develop solutions that dually safeguard customer privacy, but still enhance the inclusion of underserved populations through digital financial sector development. Moreover, industry self-regulation was said to be even more relevant in this fast-changing area.

Key Takeaways

- Technology leaves a big digital footprint. We are all leaving a data trail from our day-to-day lives through our personal mobile phones, what we buy online using payment systems, and our use of social media. This has raised questions about customer protection, data ownership/use, data privacy, cyber security, fraud, as well as the need for customer recourse and simplified disclosure.

- Regulations are being developed. For example, the PBOC introduced its first major internet finance guidance policy last year to strengthen consumer protection and curb mismanagement and fraud.

- The question of who bears the risk if technology fails was raised, whether due to fraud or cyber issues. In this regard, the "customer" is broader, and is comprised of investors, individual consumers, small businesses, and the broader market.

- The question was also raised as to the balance between good will and the consequences from a regulatory perspective. Speed is the greatest asset, but also the greatest danger. Defining proportionality of risks will vary in every context.

- Achieving the right balance between innovation and customer protection is vital: embedding responsible finance is integral to managing risks, not just for the providers, but also to maintaining a customer-centric approach. Stakeholders need to build on comprehensive solutions that bring together risk management and responsible finance concerns. Risks and solutions are more nuanced. Diverse and distinct solutions are needed across markets, products, and players. There is no one-size-fits-all model. A continued dialogue between Finovators, regulators and other stakeholders has been proposed to prevent uniform over-regulation that tends to stifle innovation. In this context, joint efforts to prevent under-regulation resulting in a violation of trust in the industry are equally important.

Responsible Finance
Forum VII
Responsible Financial Inclusion and Digital Innovation:
Focus on Asia
GPFI
giz
IFC
International Finance Corporation
Xi'an , China

3. OPPORTUNITIES AND RISKS OF ALTERNATIVE MARKET-BASED FINANCE

WE ARE STILL IN THE WILD WEST WITH REGARDS TO DATA PRIVACY, DATA PROTECTION, WHICH DATA SHALL BE USED IN A COMMERCIAL WAY... THIS NEEDS A LOT OF ATTENTION.

Wolfgang Buecker, GIZ

Overview

This session offered an opportunity for experts and industry participants to engage in a discussion of the potential of market-based finance for promoting and deepening financial inclusion, as well as for developing responsible digital financial products. Panelists also discussed key challenges faced by platforms, investors and borrowers. The session provided a comparison of the regulatory and supervisory perspectives regarding alternative market-based finance in Asia, featuring examples from different countries, namely China, Malaysia and the United States.

Alternative Market-Based Finance[14]

Crowdfunding platforms (including P2P) spoke of their ability to access a vast array of consumer data, often described as "big data." Sometimes these data are facilitated through affiliations with other businesses, such as e-commerce sites, and relate directly to standard credit analysis methodologies such as cash-flow and gross sales receipts. However they can also include information gleaned from social media such as lifestyle data which are less clearly linked to creditworthiness. The use of big data for credit analysis is one of the innovations crowdfunding sites tout to explain their success.

The predictive power of credit scoring models based on these new types of data has yet to be widely tested. Traditionally, payment histories of consumers from formal lenders as well as from alternative sources (for example, utility providers, telecommunication companies, education providers and government agencies) have driven the predictive power of credit scoring models, such as the FICO credit score used extensively in the US market. Credit bureau data are available to crowdfunding platforms in the United States, but that seems to be unusual. In most countries, access to bank-generated data about credit and other pertinent data on payments and customer identification found in credit bureaus are limited to the banking sector. As a result, crowdfunding platforms have no option but to rely on alternative data. In an expanding economy, assessing credit risk can seem much easier — and results can appear more positive — than in one that is experiencing contraction. In this regard, crowdfunding ventures, and their underwriting technologies, have yet to be tested through a prolonged downturn. More research is needed to understand the value of these types of alternative data and whether the credit assessments they enable are robust in all kinds of market cycles.

14. Margaret Miller and Ivo Jenik, "Big Data and Crowdfunding – Is this the Wild West for Credit Evaluation, the Logical Evolution of Credit Scoring or Both?" Responsible Finance Forum, 2016, at: https://responsiblefinanceforum.org/5482-2/.

CROWDFUNDING MAY BECOME THE NEXT BIG THING IN FINANCIAL INCLUSION, AND NATIONAL AS WELL AS INTERNATIONAL POLICY MAKERS SHOULD PAY INCREASED ATTENTION TO THE CHALLENGES BROUGHT ABOUT BY THIS INNOVATION, PARTICULARLY AS THE INDUSTRY KEEPS GROWING AND EVOLVING.

Ivo Jenik, CGAP

In addition to questions about the robustness of results, the use of big data for credit evaluation raises numerous privacy and data protection concerns, including transparency (what data are being used and its origin), consent (whether permission was provided for use in credit analysis) and access / redress (whether the consumer can see their own data and request that errors be corrected). While these issues may be addressed for credit bureau data which originates with banks and other formal lenders and service providers, the same protections do not typically extend to big data that are amassed from a combination of private commercial transactions, government sources and publicly available information such as social media posts. In jurisdictions where access to credit bureau data is limited to banks, regulators may inadvertently be incentivizing non-banks, such as crowdfunding platforms, to find sources of more personal — and less tested — data for credit evaluation. The potential result may be to restrict competition and add risk to the market. Developing a practical approach to consumer protection for big data, which balances privacy and consumer protection with commercial applications that can facilitate commerce and even access to credit, is a challenge that remains to be met by the industry.

Emerging Regulations in China, Malaysia and the United States

China

Over half of China's 1.3 billion population now have access to the Internet, and 90 percent do so via mobile phones. This has led to a rapid innovation in financial services. Indeed, marketplace finance has grown rapidly in China and the industry is now facing a period of adjustment. On one hand, there is substantial demand for credit from high-growth markets comprised of farmers, workers and small and medium enterprises (SMEs), among others, for which marketplace finance may be part of the financial sector response. On the other hand, there are many retail investors with personal savings in search of higher yields who might be able to meet the demands for alternative finance. Having the ability to effectively match the demand side with the supply side will be key to the success of the P2P finance sector. However, questions remain as to how such innovations can be managed in a sustainable way.

15. U.S. Department of Treasury, "Opportunities and Challenges in Online Marketplace Lending", May 2016, see: https://www.treasury.gov/connect/blog/Documents/Opportunities_and_Challenges_in_Online_Marketplace_Lending_white_paper.pdf.

Malaysia

Malaysia, the first Association of Southeast Asian Nations' (ASEAN) country to enact equity crowdfunding regulations, is among the earliest adopters in Asia. Equity crowdfunding is one of the ways by which more firms can raise growth capital and unleash innovation. Malaysia's Securities Commission released guidelines in February 2015 for appropriate industry regulations, paving the way for equity crowdfunding. Small and medium enterprises and start-ups would be able to obtain market-based financing. The Forum session effectively highlighted that Malaysia benefitted by learning from the West, whereby P2P lending is regulated as a marketplace rather than as an intermediary —and given the fact that securities regulations were further applied to P2P lending. While P2P lending is primarily used for business loans, it was noted that investments in P2P lending are not backed by deposit insurance, as is typical for deposits at the formal banking sector.

United States

Marketplace lending is also a diverse and fast growing sector in the United States. The US Treasury recently released a White Paper[15] regarding the opportunities and risks of marketplace lending for lenders, consumers and investors. The report emphasized five major points as follows:

- First, the use of big data presents both opportunities and risks. The algorithms used by financial services to analyze big data are often a black box, that is, such algorithms are unknown to others. Therefore, it is difficult to ensure that big data actually promote fair lending practices instead of restricting them — or worse, that such lending results in discriminatory practices.
- Second, marketplace lending is not necessarily reaching the base of the pyramid; individuals who already have access to formal credit are using it for debt consolidation.

15. U.S. Department of Treasury, "Opportunities and Challenges in Online Marketplace Lending", May 2016, at: https://www.treasury.gov/connect/blog/Documents/Opportunities_and_Challenges_in_Online_Marketplace_Lending_white_paper.pdf

- Third, marketplace lending has not been tested through the full financial cycle. Interest rates have been low in the aftermath of the global financial crisis, but are now starting to rise. What impact will this have on marketplace lending?

- Fourth, small businesses need better safeguards, oversight and protection, just as individual consumers do.

- Fifth, greater transparency throughout the market will benefit all stakeholders.

Key Takeaways

- Mobile and internet technology have disrupted financial services, and there are important security concerns.

- Peer-to-peer lenders are not necessarily replacing banks. They have a different business approach and are providing more flexible options. Banks and P2Ps can co-exist and even work together.

- Banks have higher operational costs because most maintain brick-and-mortar branches. In addition, banks have a lower appetite for risk, given their higher regulatory burden. Peer-to-peer lenders are in a better position to provide leadership and test new markets by lending relatively small sums of money. Banks and P2P lenders may find various ways to cooperate, including through bank funding of P2P platforms and possible on-lending arrangements.

- Millennials (young people born between the years 1980 and 1999) want to be part of a community and are drawn to social media. The social nature of P2P appeals to Millennials.

- The availability of large amounts of data is a powerful decision-making tool and is fueling new business models. Fintechs are expanding on core bank data by including alternative sources of predictive data. Some sources of data are more predictive than others. Payment data (for example, utility payments, electronic payments, and so on) are proven to be a robust and predictive means for assessing creditworthiness. However, more research is necessary to determine the usefulness of new data sources, such as social media, for evaluating credit risk — and especially for providing information during market downturns.

- Regarding marketplace lending, there are vulnerabilities on both the demand and supply sides. To date, the focus has been on protecting the supply side, such as through improvements to credit evaluation and disclosure. However, consumer protection and financial education are key to market-based finance being equally successful on the demand side.

- The size of market-based finance relative to the financial system as a whole remains small. This may lead some regulators to pay less attention to the need for regulation, as a systemic failure of marketplace lenders is highly unlikely at this time.

- The question was raised about how consumer data can be used in better ways. The issues surrounding the use of credit data are nuanced, and there are trade-offs. More restrictions tend to benefit dominant players such as banks and can result in more severe credit rationing in an economy. At the same time, there are privacy issues and concerns about data misuse, including theft and fraud of private data.

4. RESPONSIBLE DIGITAL PAYMENTS: GUIDELINES IN ACTION

THERE ARE STILL TWO BILLION PEOPLE WHO DON'T HAVE ACCESS TO FINANCIAL SERVICES. WE WANT TO PROGRESS FINANCIAL INCLUSION IN A WAY THAT RESPECTS CLIENTS.

Ruth Goodwin-Groen, Better Than Cash Alliance

Overview

The objectives of this session included: (i) sharing the recently released *Better Than Cash Alliance Responsible Digital Payments Guidelines*; (ii) highlighting several of the key principles in action from providers and payment makers in China and the Asia region; and (iii) considering the potential implications of widespread adoption and implementation of such principles. Examples drew on several of the principles, such as those involving agents, data, and designing for client needs and capability.

A key focus of the discussion was on the unique aspects of digital financial services — as opposed to traditional ones — as well as on what makes digital financial services different and worthy of attention. Two primary responses to this question involved the safeguarding of customer funds in the case of non-traditional service providers and the protection of client data.

In the case of safeguarding customer funds, the panelists agreed that there are multiple levels where this concern comes into play: first, by ensuring that funds are held in safe, prudentially-supervised accounts, such as trust or escrow accounts; and, second, by protecting customers from fraud through enhanced marketing and education campaigns, as well as through improved recourse mechanisms; and third, by improving agent management and training, particularly in an over-the-counter environment such as bKash, in which customers are some of the least financially capable.

In the case of protecting client data, panelists agreed that not only can enhanced customer data help more of the financially excluded participate in the market through better credit worthiness measurement, but that the use of such data must be carefully controlled and not used for discriminatory purposes.

One topic that everyone agreed upon was the fact that regulators need to operate in a faster manner to stay abreast of the innovations in the digital financial services market. This will require both enhanced capacity-building measures, as well as greater dialogue between regulators and service providers — beyond what they have traditionally done.

Reducing the Risks that Come with New Opportunities[16]

Technology has opened opportunities to save time and money. It has also increased the

16. Based on blog post by Beth Porter and Ros Grady, "Reducing the Risks that Come with New Opportunities," see: https://www.betterthancash.org/news/blogs-stories/responsible-digital-payments-reducing-the-risks-that-come-with-new-opportunities. See also Responsible Finance Forum site: https://responsiblefinanceforum.org/publications/responsible-digital-payments-guidelines/.

WE WANT OUR CLIENTS, WHO ARE MOSTLY UNBANKED AND NEW TO DIGITAL PAYMENTS TO FEEL THAT THEY ARE BEING RESPECTED AND TREATED FAIRLY — AND THAT THEY ARE BEING SERVED WITH SPECIAL CARE BY OUR AGENTS AND SERVICE POINTS.

Dasgupta Kumar, bKash

convenience and security of making financial transactions. However, with these opportunities come new risks. For example, those who have been financially excluded or underserved — and who may also have low levels of technological capabilities — may be among the most vulnerable.

In consultation with a broad range of government, industry, and civil society stakeholders, the Better Than Cash Alliance developed the Responsible Digital Payments Guidelines to reduce some of the risks, especially for the most vulnerable. These Guidelines show what underserved clients expect from a digital payments market which treats them fairly and with respect. Consistently applied, they can build greater trust in and use of innovative payments services, such as e-money transaction accounts. In this way, they can also help meet financial inclusion goals, and build robust, sustainable markets that work for both clients and industry. Indeed, they can serve as a critical tool for a world in which there are still 2 billion unbanked adults, according to the 2014 Global Findex.

The Guidelines set out the key good practices that show respect for digital payment clients and provide practical examples of each. The good practices are highlighted below:

- Treat Clients Fairly
- Keep Client Funds Safe
- Ensure Product Transparency for Clients
- Design for Client Needs and Capability
- Support Client Access and Use Through Interoperability
- Take Responsibility for Providers of Client Services Across Value Chain
- Protect Client Data
- Provide Client Recourse

Guidelines in Action

Translating the Guidelines into practice requires action by the providers of digital payments, engagement by policymakers and regulators, as well as the support of development partners to facilitate implementation. Given the pace of innovation, there is no doubt that these Guidelines will evolve over time. Therefore, we must test and learn. Yet, we need to do so in ways that protect the client to the best of our ability with the information and experience that we have. These Guidelines are intended to do just that.

Responsible practices build trust and confidence in both acquiring and using innovative digital payment services. When designed well and linked to accounts, digital payments can contribute to greater financial inclusion — particularly for underserved groups, including women, who especially value the convenience, privacy, and security of digital payments. Furthermore, broader participation in the use of responsibly-provided digital payments can help bring more people and businesses into the formal economy.

Key Takeaways

- The unique aspects of digital financial services (DFS) as compared to traditional ones need special attention.
- Safeguarding consumer funds is key, especially in the case of non-bank financial providers that may not be prudentially regulated.
- Privacy protection and responsible usage of client data in the new world of digital information is a major concern. Such data are immensely valuable to service providers, but can also be very harmful if not properly used.
- Full transparency with customers is critical, including how their personal data will and will not be used.
- Regulators must keep abreast of innovations in the digital financial services market and revamp how they supervise these services. In this context, most will require technical assistance and capacity-building support.

5. PARTNERSHIPS FOR IMPACT IN RESPONSIBLE DIGITAL FINANCE

THIS IS A GREAT PLATFORM TO CATALYZE AND INFORM COUNTRY ACTIONS WITH G20 SUPPORT. THE RESPONSIBLE FINANCE FORUM CAN PLAY A ROLE IN HELPING GUIDE AND PUSH ACTIONS RELATED TO RESPONSIBLE FINANCIAL INCLUSION.

Douglas Pearce, World Bank

Overview

This session explored strategic partnerships and expanded on evidence and emerging results from ongoing initiatives globally and in the Asia region. The importance of consumer research and product innovation for investors, providers, development partners and policy was discussed along with practical approaches in the context of global and industry initiatives. Participants explored strategic partnerships for consumers, financial service providers, policy/regulators and supervisors, as well as for development partners.

Diversified Partnerships

Diversified partnerships are now being designed to spur financial inclusion in the new world of the sharing economy and digital solutions. The role of public-private partnerships in promoting responsible innovation is critical, particularly for consumers as beneficiaries and users of digitally-delivered financial services and products.

Fintech startups have increased the pace of access. However, given uncertainties about regulations, special guidance is necessary within public-private partnerships. The CFPB Project Catalyst is designed to bridge the link between the regulator and the innovation community in the United States, where the unbanked/under-banked population is quite significant. One of the new pilots is to partner with American Express and H&R Block, which is expected to yield substantial insights into consumer behavior and to advance the CFPB's policy agenda — especially in promoting savings and low-cost borrowing for disadvantaged groups.

Regarding institutional partnerships to accelerate the financial inclusion of women, the Goldman Sachs' "10,000 Women Initiative" works in partnership with academic institutions and nonprofit organizations by providing business skills training and capital to women entrepreneurs. In partnership with IFC, the first-ever global loan facility dedicated to women was created in 2014. To date, it has committed over US$400 million through financial institutions in 14 emerging markets. Given the shifting landscape in the financial sector, the "10,000 Women Initiative" strategy is about to transform into a digital one shortly. As a thought leader in the digital arena, the Groupe Spéciale Mobile Association (GSMA) has already launched the Connected Women Commitments to work with mobile network operators (MNOs), Fintech, and their partners to address the barriers that women confront in accessing and using mobile internet and money services.

The partnership-based business model has evolved into digital financial inclusion. There are also digital finance delivery models which, by their nature, are about partnerships. For example, F-Road, a mobile banking solutions provider in China, does not have a payment license.

However, in partnership with more than 1,000 small and rural banks, F-Road has delivered digital payment services to over 10 million people in remote regions. In the sharing economy era, more and more microfinance institutions (MFIs)/banks, MNOs, and technology providers are partnering to expand services with responsible customer innovations in mind.

Partnership is the key to achieving Universal Financial Access by 2020[17]. In this context, the regulators would become the "friend" of innovators — not the "supervisor/barrier". The institutional partnerships would work across all sectors and regions. For instance, the financial institutions and MNOs in the mobile money sector will partner with infrastructure institutions. In addition, the Chinese Fintech companies could also partner with African alternative delivery channels.

Key Takeaways

- Partnerships are critical to achieving Universal Financial Access by 2020. In the new era of the sharing economy and digital solutions, partnerships can be extended across all sectors and geographic borders.
- The partnership-based business model is evolving into digital financial inclusion and will dramatically increase its impact.
- To encourage responsible innovation in financial inclusion, regulators can take initiatives to partner with financial institutions to yield significant insights, as well as to provide special guidance for Fintech start-up companies that have uncertainties about regulations.
- The worldwide gender gap in access to finance, including the use of mobile internet and digital financial services, is one of the remaining challenges for financial inclusiveness. This issue could be the next focus for building strategic partnerships.

17. "An estimated 2 billion adults lack access to a transaction account (Global Findex 2014) and are excluded from the formal financial system. In response, the World Bank Group … with private and public sector partners set an ambitious target to achieve Universal Financial Access (UFA) by 2020. The UFA goal is that by 2020, adults globally have access to a transaction account or electronic instrument to store money, send and receive payments." See: http://ufa.worldbank.org/.

CONCLUSION: KEY TAKEAWAYS AND GOING FORWARD[18]

WE NEED TO REACH OUT MORE TO OUR PARTNERS, CONTINUE TO SEEK SOLUTIONS THAT WE CAN IMPLEMENT FOR THE BUSINESS MODELS IN THE INSTITUTIONS THAT WE WORK WITH.

Lory Camba Opem, IFC

The Responsible Finance Forum (RFF) builds on the results of prior years, with a focus on steps being taken to deepen practices in responsible finance. These include the following key takeaways:

- **For providers: responsible finance and risk management are integral** — especially in the digital world where risks are viral and indiscriminate. Comprehensive practices for responsible finance and risk management should be implemented in line with the pace of digital transformation. These should be embedded in core operations, systems and policies of both traditional and digital financial services delivery. This keeps customers at the center — customers who are the heart of who we all serve. Providers with the commitment and resources allocated at the outset are doing this, but more can be done. In this context, customer trust is fundamental to the survival and growth of the industry, especially with regard to digital finance. It is also key to furthering the industry in the post-global financial crisis context.

- **For regulators and policymakers: regulation needs to be proportionate to risks** so as not to stifle innovation when scaling up financial inclusion initiatives. Steps are being taken that are unique to local markets — including China, Malaysia, the United Kingdom, and the United States. In addition, further actions are still being undertaken in the context of customer protection (against loss of funds; and effective recourse), data privacy, security and fraud protection. Regulatory steps include: Know Your Customer (KYC) tiering for financial institutions that are using innovative technology for inclusion, and regulatory sandboxes or "guard rails" to help contain potential systemic risks for Peer-to-Peer (P2P) lenders. Technology regulation and consumer research initiatives, such as with the U.S. Consumer Finance Protection Bureau's (CFPB's) Project Catalyst, provide alternative ways to strike a balance between innovation and consumer protection.

- **For consumers: digital financial inclusion guidelines and principles can bridge consumer protection to foster a responsible marketplace.** The Better Than Cash Alliance presented their Responsible Digital Payments Guidelines. The Guidelines set out 8 good practices that underserved digital payment clients expect from a market that treats them with respect. They are complementary to the recently endorsed G20 High-Level Principles for Digital Financial Inclusion, which also cover

18. Lory Camba Opem, "Five Takeaways for Digital Innovation", IFC, 2016, at: https://responsiblefinanceforum.org/five-takeways-digital-innovation/

THE KEY TAKEAWAY FOR ME WAS JUST HOW INNOVATIVE CHINA IS. THERE'S SO MUCH HAPPENING HERE, WHICH IS REALLY AT THE FOREFRONT OF WHAT IS HAPPENING IN THE DIGITAL FINANCIAL INCLUSION SPACE.

Momina Aijazuddin, IFC

consumer protection issues relevant to digital financial inclusion (see Principle 5).

- **Forging strategic partnerships among key players remains critical** for traditional and digital institutions, industry, consumer advocates, researchers, regulators, and policymakers to advance responsible financial inclusion. The Goldman Sachs-International Finance Corporation (IFC) partnership, as well as the Groupe Spéciale Mobile Association (GSMA), emphasized the role of women, and the U.S. CFBP highlighted consumer-based research and innovation partnerships. Indeed, partnerships help build and/or reinforce digital ecosystems. It is no longer just about laying down the rails for digital delivery of financial products and services. In this context, the RFF community and the G20/GPFI will continue to forge such partnerships and invite all to stay engaged.

The G20/Global Partnership for Financial Inclusion (GPFI) will continue to have a global leadership role, and the Responsible Finance Forum partners remain committed to evolving apace with the shifting digital landscape.

Program Lead: Lory Camba Opem
Design & Layout: Amy Quach, Jeff Frost
Editorial Assistance: Barbara Balaj
Photo Credits: World Bank/IFC & Responsible Finance Forum
Printing: World Bank Group Printing & Media Services

RESPONSIBLEFINANCEFORUM.ORG