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GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

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CHINA 2016 PRIORITIES PAPER

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### China 2016 Priorities Paper

This document outlines Global Partnership for Financial Inclusion (GPI) priorities during China's G20 Presidency for 2016.

Consistent with the theme of China's G20 Presidency in 2016, "**Towards the Innovative, Invigorated, Interconnected and Inclusive World Economy**", the GPI will continue to work on former Presidencies' agenda items and support the implementation of the *G20 Financial Inclusion Action Plan* with particular focuses on:

- 1. Digital Financial Inclusion: Innovation, Supervision and Regulation;*
- 2. Data and Indicators;*
- 3. Reaching the Last Mile: Rural Areas, the Poor, the Youth and the Elderly;*
- 4. Financial Consumer Protection and Financial Literacy;*
- 5. SME Finance: Diversified Financing Channels.*

### INTRODUCTION TO THE PRIORITIES

#### *Digital Financial Inclusion: Innovation, Supervision and Regulation*

As one of the greatest innovations that has facilitated financial inclusion in this decade, digital finance, including mobile payments, internet banking, P2P lending, online insurance, crowdfunding etc., has successfully improved access to finance by the poor, the elderly, the young, women, farmers, SMEs and other under-served groups in G20 and non-G20 countries. Many successful cases of digital financial inclusion have emerged in Africa, East Asia, East Europe, Latin America, Middle East, South Asia, and in remote regions of high-income countries. The promise of digital finance to reach scale, reduce costs and, if coupled with the appropriate financial capability, to improve usage, is unprecedented.

Under the concept of "sharing economy", digital finance promotes interconnection and resources sharing among participants in economic activities, and will play an increasingly important role on the way towards achieving universal financial inclusion. As we have seen in many countries, digital financial inclusion requires a high degree of cooperation between public sector and various private sector players. The G20, under China's Presidency, has the opportunity to shape and accelerate the use of digital mechanisms for improving financial inclusion. This could catalyze and inform country-led actions, with significant potential for social and economic impacts.

In 2016, the GPIFI will explore and study the models, good practices, regulatory framework, financial consumer protection, financial literacy and SME finance on digital financial inclusion across different countries, as a cross-cutting issue of all subgroups, which will form the foundation of a set of high level principles for action on digital financial inclusion. These principles could guide country-level actions to harness digital financial services and delivery mechanisms to safely expand access and usage of financial services for under-served market segments. After the principles on digital financial inclusion are formed and if endorsed, the GPIFI may seek the commitment of G20 countries to develop their country plan for digital financial inclusion.

### ***Data and Indicators***

Data is one of the core areas of the 2014 Financial Inclusion Action Plan. Appropriate indicators and comparable data are very important for policymakers and all stakeholders to measure financial inclusion and evaluate the effectiveness of policy over time and across countries.

Much progress has already been made to establish global indicators including the G20 Financial Inclusion Indicators, and data sources including the World Bank Group's Global Findex Database and Enterprise Survey, IMF's Financial Access Survey, but we still face some challenges. The first one is the lack of core indicators for digital finance. Secondly, there remains scope to improve measurements of regulatory and program-level developments. Thirdly, at the country level, financial inclusion data infrastructures can be improved to fully capture new and existing models of financial inclusion and this requires improved coordination, transparency, and data sharing.

In 2016, the GPIFI will plan to expand and complement the G20 Financial Inclusion Indicators with the addition of new indicators on digital finance and other aspects. Indicators for digital financial inclusion could be constructed from both the supply side and the demand side. After the indicator set is updated, a framework for ongoing collection of new data across and within countries would be needed, which could also continuously improve the quality, transparency and comparability of data.

### ***Reaching the Last Mile: Rural Areas, the Poor, the Youth and the Elderly***

Poverty and income inequality remain a stubborn challenge for many low and middle income developing countries, especially in rural areas where traffic and telecom infrastructures are under-developed. Financial inclusion is considered to be critical to alleviating poverty, reducing income inequality, and achieving inclusive growth. Reaching the last mile by targeting the poor may allow them to invest in physical assets or education, reduce income inequality and smooth consumption, all of which contribute to poverty reduction and broader economic growth.

For both low-income and high-income countries, to meet the financial needs of the young and growing older population is an important part of financial inclusion. Young people usually lack experience in making financial decisions and face constraints in

financing their entrepreneurship and education. Elder people tend to have more assets but may lack the financial knowledge about new financial products and services with the applications of new technologies, which makes them an easy and inviting target for financial fraud and scams. Globally, women are also an under-served group that should be included in the “last mile”.

In 2016, the GPIFI will facilitate dialogue and distill lessons on effective approaches to reaching the “last mile”, including digitalization of social transfer programs, agent banking, financial education, efficient use of subsidies, and the removal of regulatory and technical barriers, as a cross-cutting issue of all subgroups. The GPIFI will also continue the practice of encouraging the active participation of interested low income developing countries (LIDCs) to the GPIFI meetings and related events, and promote financial inclusion in LIDCs.

### ***Financial Consumer Protection and Financial Literacy***

Adequate financial consumer protection contributes to financial inclusion by reducing information asymmetries, increasing consumer confidence, and ensuring financial services to be delivered efficiently, transparently and responsibly to consumer. As financial innovations flourish and financial products become more and more complex for typical consumers, the needs for effective financial consumer protection and financial literacy have increased accordingly. Effective financial literacy can help consumers better understand the benefits and risks of financial products and services and make suitable choices.

In 2016, the GPIFI will continue to promote good practices for financial consumer protection and financial literacy with respect to conventional as well as innovative financial services, especially digitally delivered financial products and services. In the meantime, special attention will be paid to financial consumer protection and financial literacy for rural, young and elder population.

With regard to the regulatory and supervisory environment promoting financial inclusion, the balance between prudential supervision, which is to promote the safety and soundness of digital financial institutions with focuses on risk, capital and liquidity, and market conduct supervision, which focuses on the conducts of financial institutions and consumer protection, will also be an important item in our agenda. These topics are also addressed in the GPIFI White Paper and will be important issues for discussion at the 3rd GPIFI SSBs Conference.

### ***SME Finance: Diversified Financing Channels***

Small and medium enterprises (SMEs) play an important role in job creation, sustainable growth and prosperity. Access to finance is critical for SMEs’ growth and expansion, strengthening their competitiveness and increasing their opportunities of being integrated into the value chains and markets. The recent global economic slowdown in emerging economies requires a new engine for growth, and SMEs can play an important role in boosting the global economy.

Compared with indirect financing through financial intermediaries (i.e. bank loans), financing directly from investors could be a more efficient channel with lower costs, though attention needs to be paid to the financial stability, financial integrity, and financial consumer protection issues that market based funding may trigger. The GPIFI has recognized the importance of diversified financing channel for SMEs, and will focus on how to make longer-term finance available to SMEs by using capital markets instruments, including credit enhancements, SME bonds and securitizations, while also paying due attention to the regulatory and supervisory issues.

In 2016, the GPIFI will continue to give emphasis on SMEs, including women and youth-owned SMEs, and support the implementation of the *SME Finance Joint Action Plan*. SME Finance may also interact with other financial inclusion priorities in a number of ways. It benefits from digital finance in credit reporting, supply chain financing, etc. It is also helpful to improve the availability and comparability of data on SME financial inclusion.

In 2016, the GPIFI, with its four subgroups supported by all G20 countries, Non-G20 countries and implementing partners, will work together on all our priorities towards the innovative, invigorated and interconnected financial inclusion around the world in order to contribute to the international community's agreement to leave no one behind as expressed in the UN's Agenda 2030.

## KEY DATES

In 2016, China will host one GPIFI Meeting in March, the GPIFI Forum and Plenary in July and several workshops. The 3<sup>rd</sup> GPIFI SSBs Conference will be hosted by the Financial Stability Institute at the Bank for International Settlements. If required, subgroup seminars and side events may also take place throughout the year.

**GPIFI Workshop #1 - Financial Inclusion: New Development and Indicators Update**, 1-2 March, Shanghai

**GPIFI Meeting**, 3 March, Shanghai

**GPIFI Workshop #2 - Financial Consumer Protection and Financial Literacy**, May, China

**GPIFI Forum - Digital Financial Inclusion**, 13-14 July, Chengdu

**GPIFI Plenary**, 15 July, Chengdu

**3<sup>rd</sup> GPIFI SSBs Conference**, 26-27 October, Basel, Switzerland