

Third GPI-FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion: New Frontiers in the Supervision and Oversight of Digital Financial Services

“Wrap-up Remarks and Agenda for Engagement in 2017 and 2018”

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Introduction

I am honored to provide wrap-up remarks following the extremely rich and fruitful discussion at this Third GPI–FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion.

Before sharing my observations on the outcomes of the Conference and before looking ahead, I would first like to take stock of where we stand and what we have achieved so far.

A decade ago, the German government has helped to catalyze the first dialogue with an SSB on financial inclusion: In 2006, a Joint Working Group has been formed between the International Association of Insurance Supervisors (IAIS) and what was then the CGAP Working Group on Microinsurance – this Working Group would later become the Microinsurance Network, an Affiliated Partner of the GPI since the Turkish G20 Presidency in 2015.

In just over 10 years, we have gone from dialogue with just one SSB to a sustained engagement with all of the SSBs and other relevant organizations represented in this room – all of them recognizing the importance and complementarity of financial inclusion to their standards, guidance and other activities.

It was under the Financial Inclusion Experts Group that the first conversations began with multiple SSBs, as well as the initial work to capture and distill emerging country-level experience into the 2010 G20 Principles for Innovative Financial Inclusion.

Today (as Tianqi Sun outlined in his GPI welcome) - less than 6 years after these early achievements, which led to the establishment of the GPI and the adoption of the first Financial Inclusion Action Plan – today, we see around us a world that has embraced the potential of digital financial inclusion as a key objective of financial sector policy, regulation and supervision.

The endorsement of the G20 High Level Principles for Digital Financial Inclusion provide impetus to assure that the topics discussed here over the last day and a half in the context of global standard setting also translate into action on the country level.

Financial Inclusion, Standard Setting, and Inclusive and Sustainable Global Development

Germany has long been a passionate promoter of inclusive financial sector development, not only to benefit individuals who are currently excluded from full social and economic participation, but also to build the economies of the countries in which they live.

These objectives are reinforced by the Agenda 2030 and the UN Sustainable Development Goals and the Addis Ababa Action Agenda, the implementation of which are of high importance for the German government. Both also highlight the role of financial inclusion, and recognize its potential to increase opportunities and resilience at the individual as well as at the national level.

By connecting global development and financial sector policy, regulation and supervision – and bringing us together in the same room – the GPF-ESI SSBs Conference offers important symbolism:

Together we are articulating a new narrative for how development cooperation relates to the evolution of the global financial sector policy architecture. And we are doing so at a point in history when things are evolving at a very fast pace (as we have observed throughout this event).

Elaboration of this new narrative is not something that can happen overnight. Indeed it is something that cannot be achieved within a single G20 Presidency.

It is thanks to our ongoing collective commitment that the GPF has emerged as credible ‘co-convenor’ for processes like our joint engagement in the development of the GPF White Paper and the organizing of this conference – and as a structure to maintain continuity from G20 Presidency to Presidency.

Elaborating the narrative, bridging financial inclusion as a development cooperation priority and as a topic of financial sector policy, calls for what I might call a ‘whole of Government’ approach.

In this context I want to highlight a concrete manifestation of what good can come of development cooperation policy that is fully joined up with financial sector policy, regulation, supervision and the world of financial sector standard setting and that was already mentioned by Conor Donaldson in the previous meeting. I am referring to the Access to Insurance Initiative.

A2ii, as we call it, traces its roots back to the early collaboration with IAIS, yet it represents a fundamentally new idea: strengthening the country-level implementation capacity of supervisors by supporting standard-setting bodies at the national level, in this case as Implementation Partner of IAIS.

What A2ii does is a truly *'global public good'*: it exists to augment the resources of the standard setters in addressing the needs and building the capacity of its members. A2ii involves the national supervisors in dialogues, knowledge generation and joint standard-setting, creating *'national drivers of inclusive insurance.'*

Great progress integrating financial inclusion into global standard setting

Now, let me take stock of where we stand w.r. to global standard-setting against the objectives we have set for ourselves in the G20 Financial Inclusion Action Plan. One of the most notable successes of the GPMI is progress in integrating financial inclusion into the agenda of the SSBs, as documented in the 2016 GPMI White Paper.

The general message on this score from last month's Hangzhou Summit is *'keep up the good work.'* GPMI Recommendations to G20 Leaders at Hangzhou include three Recommendations of direct relevance to this gathering and the future of this work.¹

I'll note here two of these Recommendations – and I plan to close with the third, which is the most forward looking:

- First, the Financial Stability Board (FSB) and the relevant SSBs are called upon to “act upon the Observations and Recommendations set out in the GPMI White Paper *'Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape,'*” approved at the GPMI meeting in Shanghai in March.²
- Second, the same bodies are called upon to “seize the opportunity provided by the organization of the Third GPMI Conference on Standard-Setting Bodies and Financial Inclusion to advance dialogue on issues related to the supervision and oversight of the fast-changing landscape of digital financial inclusion.”

With regard to the first recommendation, action on the White Paper's recommendations can be seen, for example, in the litany of collaborations among the SSBs, which Alfonso Garcia Mora catalogued in introducing the respondents for the previous session. I also look forward to many more examples under the German G20 Presidency.

¹<http://www.gpmi.org/sites/default/files/documents/2016%20Update%20to%20Leaders%20on%20Progress%20Towards%20the%20G20%20Remittance%20Target.pdf>

² http://www.gpmi.org/sites/default/files/documents/GPMI_WhitePaper_Mar2016.pdf

As for advancing the dialogue on supervision and oversight of digital financial services, I am delighted by what I have seen and heard. I am sure we have advanced this dialogue, which I am sure, will go on after the conference.

Let me cite a few of my takeaways:

- The rapid expansion of access points in even remotest areas and the fintech revolution challenges us to revisit fundamental questions about the role of financial institutions and financial systems, the responsibilities of both financial and nonfinancial regulators, and the power of private actors. The urgency of collective action among SSBs and other stakeholders has intensified, as innovation blurs lines between their traditional jurisdictions.
- Inter-authority coordination at the country level is already taking place in markets on the frontlines - including the Chinese and Tanzanian examples about which we heard at the beginning of the conference. While much more is needed, the SSBs can already demonstrate leadership at the global level, not just by the issuance of statements and reports, but by joint capacity building initiatives and issuance of joint guidance.
- The increasing level of financial inclusion - often based on the rapid expansion by non-financial providers and digitization of financial services - heightens the importance of financial consumer protection, which is becoming more and more a shared responsibility of multiple supervisors. Moreover, fast scaling digital transactional platforms in some markets raise potential systemic dimensions (notwithstanding tiny individual transaction sizes), upping the ante for the SSBs as well.
- Crowdfunding – an issue that came up at the last GPF-IFI SSBs Conference two years ago as very much a frontier issue for the assembled SSBs remains a complex and complicated issue. Still more data and research are needed to better understand the impact of different regulatory frameworks on the crowdfunding industry, on customers and the financial sector as a whole.
- Financial regulators and supervisors must collaborate with privacy and data protection regulators to develop a sound understanding of customer data issues, exploring risks arising from digital financial services and potential solutions provided by new technologies.

Looking ahead to the German G20 Presidency and beyond

Let me close with some remarks about what to expect during the German Presidency – and I believe and hope also beyond into 2018 and further. I will focus on those aspects that I hope may be of interest to you as the standard-setting community.

Let me start by reminding us all, why I am comfortable sharing thoughts about our Presidency (which has yet to start) and beyond already at this point of time.

As I have already mentioned: by their nature, complex issues usually take more than a year to be resolved. The structure the GPFi provides allows us to maintain this continuity from Presidency to Presidency. So we want to continue the work in areas where we're making progress and strengthen the GPFi's institutional capacity through clarification of basic processes and governance.

This means for example, on the one hand that we'll be looking for ways to further improve our already strong collaboration on standard setting. On the other hand we will be seeking avenues for elevating the importance of how financial inclusion is treated in financial sector assessments and by financial sector assessors – an element of the Financial Inclusion Action Plan that so far has received less attention than the work of the GPFi directly with the SSBs.

During our presidency we want to build on the "Observations and Recommendations" of the GPFi White Paper, as recommended in the GPFi's report to the Hangzhou Summit. To mention a few of particular resonance for Germany:

Further joint exploration is warranted regarding the interdependence of financial inclusion, stability, integrity, and consumer protection, the importance of which was underscored in Tianqi Sun's GPFi welcoming remarks. In this regard, we support working towards the development of a common understanding of the risks of financial exclusion and their relevance to the mandates and work of the individual SSBs. There is progress to be made on joint analysis of implementation challenges encountered in the full range of country contexts when developing guidance, including the situation of countries with limited regulatory and supervisory capacity and high current levels of financial exclusion.

The main topic of this conference - digitization - sweeps through all aspects of our lives in industrialized and developing countries. In terms of *financial inclusion*, it is a game changer, having provided 700 million adults with access to financial services between 2011 and 2014 (as mentioned in Jaime Caruana's welcome remarks).

The rapid development of information and communication technology impacts both - the business models of financial service providers and – for us as the 'Financial Inclusion Community' – our approaches. Not surprisingly, the topic of 'digital solutions for the financial sector' was a key priority of the GPFi during the Chinese Presidency and will certainly be top on the agenda of the GPFi in the upcoming years. Technological innovations in the financial sector are highly welcome. They complement the existing approaches and provide us with new instruments to overcome the existing barriers. But our understanding of recent developments and new business models is still limited. What is the best way to leverage the opportunities while minimizing risks?

Therefore, and building on the High-Level Principles for Digital Financial Inclusion, we intend to work with all of you and to make use of the expertise of the GPFI to get a better grasp of the risks and opportunities of digital financial services. Just to highlight three areas:

- First, we plan to gather examples of effective digital financial inclusion solutions, to provide an overview of emerging approaches and facilitate information sharing and peer exchange. This work is supposed to build on the High Level Principles and shall accelerate the uptake of digital solutions to expand financial inclusion.
- Second, we will identify the main types of alternative data being used for SME financing and the different types of institutions using alternative data, and patterns in what types of data they use.
- Third, we are keen to better understand the topic of ‘data protection in the context of digital financial inclusion and Big Data.’ How are FinTechs and other service providers using data? What is the evidence for the benefits and risks? And are there good examples of regulation and implementation?

It is about innovation, competition and learning. What is important is that we ensure a responsible development which maximizes the welfare of the customer. One crucial aspect which came up during the discussions the last two days but otherwise is often overlooked is that the success of digital financial services relies on trust. And trust in digital financial services implicates a number of consumer protection challenges and behavioural economic aspects (as we discussed in various conference sessions).

And there is a relatively new focus area I want to emphasize. In 2015, an estimated 65.5 million people were displaced from their homes by conflict and persecution. These “forcibly displaced people” are a complex target group with specific financial needs and often limited legal and financial rights. Many have no or only very limited access to suitable financial services. And the fall-off in correspondent banking channels serving fragile and conflict-affected states constitutes an additional obstacle.

It should be noted that forcibly displaced persons are often to be found in regions and countries which are of high relevance to the SSBs’ efforts in regard to anti-money laundering and combating the financing of terrorism.

Germany is very mindful that the financial service needs of migrants and forcibly displaced persons trigger policy issues far beyond the capacity of financial sector standard-setters to solve, or at least to solve alone. Having said this, there are many issues on which new thinking, new research, new dialogue partners, and new

guidance from the institutions represented in this room – especially if we act together – can make important headway.

We are committed to continue the GPFIs work – together with you from the SSBs – on the issues of ‘de-risking,’ on Anti-money-laundering and Combating the Financing of Terrorism, and on lowering the transfer costs of remittances globally. All of these issues have linkages we need to deal with and we look forward to continuing down this path during the German G20 Presidency.

Closing

The ‘rapid pace of change’ theme with which Jaime Caruana started us off in his welcoming remarks for the BIS can be expected to continue through 2017, and will still be with us at the time of the Fourth GPFIsFSI Conference in 2018, under the Argentine G20 Presidency.

It is safe to say that technology will continue to drive change in ‘finance as we know it,’ and will continue to introduce both big challenges and opportunities for vulnerable excluded and underserved customers, and of course for policy makers and the SSBs.

To meet these challenges and leverage these opportunities, the need for collaboration, among policy makers, regulators, supervisors and market overseers at the country level and among SSBs as well as other relevant international organizations at the global level becomes ever more critical.

By the time we next gather here, in two years, I hope for concrete progress in response to the third GPFIs recommendation that I want to highlight from the Leaders’ Summit last month:

- “To motivate the FSB and the relevant SSBs to consider steps towards a standing platform to pursue joint work on crosscutting issues of current relevance to the work of multiple global bodies stemming from the shifting risk picture described in the GPFIs White Paper.”

In my view, this Third GPFIsFSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion, that comes now to a close, represents an important step in this direction.

I am impressed by how far we have already come and I am gratified by the role the GPFIs is playing to support this objective – in this case as ‘co—convener’ of this conference together with FSI.

But we can move further: As I have said, I look forward to the prospect of fundamental progress on this front by the time we next convene for the Fourth GPFIs-

FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion under the Argentine Presidency in 2018.

On this hopeful note, I would like to close by extending thanks to the organizers of this event, who have dedicated countless hours over many months to its preparation, first of all to the Financial Stability Institute, our generous host, and to the GPMI Subgroup on Regulation and SSBs, recognizing in particular the UK for your Subgroup commitment and guidance and the support provided by all of the GPMI Implementing Partners under CGAP's leadership.

Thanks to all conference participants (SSBs and others) who have contributed to the framing and preparation of the event and to the fruitful discussions here in Basel.

And finally, special thanks to our two excellent conference co-chairs Matt Gamser and Gunilla Lofvendahl.