



# EMEA Webinar on "Digital Financial Inclusion: A pillar for resilience Post COVID-19"

Date 16 July 2020, 15:00

This webinar aims to discuss the role of digital financial inclusion as a pillar of resilience, amidst and post COVID-19 crisis, and assesses the challenges and opportunities.

The panel was moderated by **Prof. Rym Ayadi**, EMEA President, and the Speakers were: **Mais Shaban**, Research Fellow, EMEA and EMNES Fellow; **Purva Khera**, Economist, Monetary and Capital Markets Department, International Monetary Fund (IMF); **Sumiko Ogawa**, Senior Economist, Monetary and Capital Markets Department, IMF; **Ghiyazuddin Ali Mohammad**, Senior Policy Manager, Digital Financial Services, Alliance for Financial Inclusion (AFI); Discussant **Isabella Chase**, Royal United Services Institute for Defense and Security Studies (RUSI)

**Rapporteur** : **Mais Shaban – EMEA Research Fellow**

**Sara Ronco – EMEA Researcher**

## Introduction

**Rym Ayadi** welcome note

- The webinar is organised under the umbrella of the EMEA regional policy research initiative on COVID-19. The main objective of the initiative is to facilitate the shaping of future policy responses and actions towards enhancing socio-economic resilience in Europe, the Mediterranean and Africa post COVID-19 crisis. EMEA published a policy assessment framework "EMEA monitor", tracking weekly policy responses to

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Covid-19, available online. The monitoring covers three pillars: health preparedness, containment and de-containment policies and economic preparedness, recovery and overall effectiveness. A number of policy papers have been published on key elements related to COVID-19.

- Today, the discussion is on the role of digital financial inclusion as a pillar of resilience amidst and post COVID-19, in addition to the challenges and opportunities.

### Panelist Presentations



#### ***Mais Shaban:***

- Presented the policy paper and recent work on “Digital financial inclusion as a pillar of resilience amidst Covid-19”, co-authored with Rym Ayadi
- Explained the challenges imposed by COVID-19, the impact of containment measures taken by countries that imposed a heavy burden on households and MSMEs and the impact on income and employment. Government responses to ease the impact of the crisis included social and monetary measures, however, the effectiveness and reach of these policies are conditional on the ability of people to access financial services.
- The state of financial inclusion in the SE Med: less than 50% of adults have any type of account; SSA: lowest rate of access to formal financial services provided by banks, however, is mobile money
- The main proposal is digital financial inclusion as a means to facilitate access to government support, easing the impact of movement restrictions and reducing the reliance on cash.
- Recommendations: promote use of mobile digital wallets, facilitate individual and MSME access to banking financial services and credit guarantees online, enhance digital financial literacy; inclusion of gender perspective in designing financial support

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policies, more inclusion for rural and marginalised urban areas, and use of digital identity to ensure compliance with international regulatory requirements

- Beyond these actions, international initiatives should continue to design new tools and strategies to enhance digital financial inclusion
- Recommended adopting a multidimensional definition of financial inclusion integrating the digital dimension
- Proposed a composite Index for Financial Inclusion that includes traditional and digital indicators for each dimension
- Inclusion of digital indicators is particularly important in low and lower-middle-income countries and in SSA and South Asia
- MENA digital index is very low. Digital services recently introduced and promoted by governments in the region

### ***Purva Khera:***

- Presented a recently published paper, “The Promise of Fintech: Financial Inclusion in the post COVID-19 Era” exploring the determinants, role and economic importance of fintech driven financial inclusion
- Step back, looking at before Covid-19 the state of traditional and digital financial inclusion in 52 developing economies. Fintech is leading to an increase in financial inclusion and, in particular, Asia and Africa maintain the lead in digital financial inclusion
- 2014-2017 growth of financial inclusion in all countries, improvements are driven by fintechs due to the ease of accessibility, low cost, flexibility, user friendly and more efficient.
- For fintech credit, China dominates the global market for fintech credit (2017) followed by the US and UK, but is also growing rapidly in other countries, including developing ones such as Kenya and India. In comparison to traditional credit, the fintech loan application is easier, faster, loan approval is instant, there is no collateral requirement, and it provides flexibility and convenience. The use of machine learning and AI helps in assessing credit worthiness.
- Fintech credit is still small in comparison to bank credit and not large enough to pose systemic risk to an economy

### ***Sumiko Ogawa:***

- Role of digital financial inclusion during and post Covid-19 crisis
- Digital financial services has the potential to help cope with the economic fallout of the pandemic and recovery, but a balance is needed between enabling innovation and addressing risks

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- Opportunities: SARS epidemic in 2003 helped accelerate China's launch of digital platforms and eCommerce, whilst consumers preference changed towards online transactions
- Similarly, the current crisis is likely to accelerate the trend towards mobile money accounts and fintech credit, especially with increased government support through lowering fees and increasing limits on digital transactions
- The growth of financial inclusion goes hand-in-hand with economic growth and reduced inequality, reflecting that access to financial services helps smooth consumption against shocks and increases productivity
- But acceleration in the adoption of digital financial services could also enhance pre-existing risks, such as financial instability and the exclusion of people who do not have access to technology and infrastructure.
- Risk of excessive financial inclusion, such as over borrowing, leads to high default rates (Example: Kenya). In addition to, risk of regulatory arbitrage, cybersecurity risk etc., all these risks could lead to involuntary financial exclusion and loss of trust in the services or the system
- It is important to enhance digital and financial literacy to mitigate these risks and ensure that regulation and supervision is keeping up with these developments (data protection, financial integrity, cybersecurity)
- This crisis is the first test to the resilience of many fintech companies
- If smaller companies exit the market, the landscape could become more concentrated, so it is important to maintain a competitive environment
- Q: Are peer to peer platforms in China regulated? Accessible globally? Fintech credit is not large enough to pose systemic risk, but growth is so rapid and might overcome the need to regulate. And is cryptocurrency studied in this research?
- A1: The department is focussed on payment and credit and does not include cryptocurrency, savings and insurance, but there is work by the IMF on cryptocurrency and Central Banks' digital currencies
- A2: Fintech is growing very fast, but still the numbers are less than one percent in the majority of countries and in China it is close to 1-2% of GDP, so it is growing rapidly but currently there is no systemic risk. If it keeps accelerating this pace, there is a need to strengthen regulation
- A3: Regulations on p2p platforms were introduced after 2015, only feasible and reliable platforms remained afterwards
- A4: a lot of fintech companies in China are expanding into South East Asia

### **Ghiyazuddin Ali Mohammad:**

- Policy framework for leveraging digital financial services to respond to global emergencies- the case of COVID-19

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- AFI is a network of regulators and financial sector policy makers working in the area of financial inclusion policy making. The regulators are from more than 89 countries
  - This policy framework was developed by the digital financial services working group of AFI, from 62 countries. Key contours of the policy framework: 1. promoting and incentivising digital payments, 2. secure and resilient digital payments and technology infrastructure, 3. enabling regulations, 4. agent and merchant operations, 5. facilitation of additional use cases, 6. coordination amongst stakeholders, 7. broader cross cutting issues.
1. Promoting and incentivising digital payment key initiatives: Waiver of fees and transaction charges, awareness and sensitisation initiatives across the value chain, linking e-Money and branchless banking accounts to enable inward international remittances which are reducing globally during the pandemic and which are expected to decline further, so it is fundamental for regulators to ease the process of sending money back home
  2. Secure and resilient digital payments and technology infrastructure: with increasing reliance on digital payment infrastructures during lockdown period, financial institutions could face operational challenges, such as failure of resources. Hence, governments provided guidance on business continuity plans, both from the regulator and financial service provider perspective. Resilience of digital payments infrastructure with focus on end point security, security of software, digital devices, and IT infrastructure. Focus on emergency and crisis communication.
  3. Enabling Regulations: Regulation is not a one-size-fits-all approach and can be reviewed in critical periods by the regulatory and supervisory authorities to suit the prevailing circumstances.  
Key highlights: apply simplified KYCs and eKYC solutions, where there is assessed lower ML/TF risk, in keeping with FATF standards, consumer protection and data privacy initiatives to ensure fair treatment of clients, leverage on SupTech and RegTech as a technology compliance solution to effectively conduct remote supervision.
  4. Agent and merchant operations: Flow of remittances and transfers is hindered in the absence of effective cash-in/out CICO agent networks to underserved populations. Key highlights: Identify/notify mobile money/agency banking as an essential service. Authorities to work with DFS providers to facilitate effective liquidity management and rebalancing facilities to agents. Provide dedicated services for vulnerable customers, especially the disabled, women and the elderly.
  5. Facilitation of Additional Use Cases: Emergency is a good opportunity to offer additional products/use cases through DFS in order to facilitate remote access and to enable seamless movement of funds to sustain economic activity at the level of individual and small businesses. There is a need to work towards enabling remote, digital access to existing products, such as savings, investments, insurances, remittances. Digital G2P payments, such as emergency cash transfers

and support programmes, insurance and remittances. SME lending platforms (P2P and equity crowdfunding)

6. Coordination Amongst Stakeholders: shared responsibility model, based on close cooperation between the government, service providers and other economic stakeholders for the development and implementation of policies. Central banks should be part of the national taskforce, and set up internal and institutional taskforces/working groups comprising stakeholders from DFS providers, FinTechs, researchers etc.
  7. Cross Cutting Issues: it is important to take a targeted approach, starting with the most vulnerable segments, particularly women. There is a need for green finance to support the inclusive green recovery. In terms of environmental impact assessment and exploring opportunities related to renewable energy systems or energy efficiency systems MSMEs, resilient housing etc.
- Q: Have you seen the reduction in the trend of using cash? There is no substantial data, however, countries witnessed an increase in digital payments which started declining again, based on discussions with members
  - Is it important to reduce the cost of sending remittances? The potential of digital platforms helps reduce cost and increase efficiency
  - What is meant by remote supervision? Regulators used to visit on a periodic basis, but now data is provided by DFS providers

**Isabella Chase** (discussion / security concerns)

- **On the first presentation:**
  - Good recommendations
  - Including digitalisation in the definition of financial inclusion is crucial
  - Particularly important issue is enhancing financial digital literacy, also in relation to the fraud threat and trust in the system
- **On the second presentation:**
  - Raises an important issue of financial crime moving from traditional banks to fintechs, who might not be fully equipped for the financial crime that they experience
  - It is important to make sure that regulation can keep pace with innovation
- **On the third presentation:**
  - It is important that financial crime controls scale at the same rate as fintech growth
  - AFI policy framework considers all the key points that will ensure long term sustainable growth in this area
  - There might be unintentional risk entering the system because of flexible KYC and simplified due diligence but governments are working on these measures

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- Suptech and Regtech are important technologies to accelerate the adoption of new financial services, but this is dependent on having the infrastructure and technology in place and there are physical barriers
- Coordination amongst stakeholders is critically important for sharing insights and best practices
- **On the financial security concerns:**
- Ensure that digital financial services are not going to be undermined by financial crime, mainly fraud, exploiting government disbursements, money laundering, and terrorist financing.
- Q: methods to launder money have changed – is cryptocurrency a vehicle? Little use mainly because of volatility concerns
  - **Ghiyazuddin Ali Mohammad:** as the number of transactions increase the security requirements and compliance to international standards need to increase accordingly.
  - **Sumiko Ogawa:** Human capital development is crucial, lack of skilled experts is one of the constraints to expanding fintech businesses
  - **Purva Khera:** all fintech companies interviewed mention regulatory uncertainty as a key constraint to their expansion
  - **Mais Shaban:** the link between financial literacy and fraud is important and should be taken into account when designing digital financial literacy programmes
  - **Rym Ayadi:** Digital financial inclusion is there to stay but work has to be done in terms of increasing skills, literacy, effective regulation and supervision (which is currently lagging behind), dealing with security issues, and consumer protection. EMEA / EMNES will continue doing research on issues related to digital financial inclusion, and the pre-requisites and the conditions for it to function in the Middle-East, Africa and Europe.