• Broader Inclusion
• Customer-centered product innovation
• Financial capability
• Strong consumer protection
• Better financial infrastructure
• More and interoperable access points
THE POWER OF DIGITAL FINANCE

TRANSFORMING HOW PEOPLE TRANSACT

RECEIVING PAYMENTS
- Salary
- Remittance
- Government subsidy

MAKING PAYMENTS
- Utility bill
- School fee
- Convenience store

THE POTENTIAL ECONOMIC IMPACT

1.6 BILLION newly included individuals
$3.7 TRILLION (6%) GDP boost by 2025
$110 BILLION annual reduction in government leakage
$4.2 TRILLION in new deposits
95 MILLION New jobs
$2.1 TRILLION in new credit

Source: Digital Finance for All
McKinsey Global Institute, 2016
Digital financial services could boost GDP of emerging economies by $3.7 trillion - about 6%

Emerging economies’ GDP
$ trillion

- 31.3 (2014)
- 65.5
- 3.7 (GDP impact of digital financial services)
- 61.7 (Baseline)
- 2025F

GDP impact of digital financial services by channel (%)

- Increased labor
  - Time savings for individuals
  - 3%
- Increased investment in physical capital
  - Shift in savings from informal vehicles to formal digital accounts
  - Increased credit to small businesses and households
  - 33%
- Increased productivity
  - Cost and time savings for businesses and financial services providers
  - Reduction in government leakage of expenditure and tax collection
  - 64%

100% = $3.7 trillion

Source: Finance for All, McKinsey Global Institute, 2016
Evidence for why Digital Financial Inclusion is Important for Development

Suri and Jack, Science, 2016

Key findings:

Poverty reduced by two percentage points nationally as nearly 200,000 households with greater access to M-pesa mobile banking agents move out of extreme poverty.

Stronger impact for women - approximately 186,000 women shift their occupation from agriculture to business / retail occupations.

Previous research by Suri and Jack showed that access to mobile banking also benefitted households by enabling them to better manage income fluctuations and risk.
The 2016 Principles are intended to catalyze country-level actions by G20 governments to drive financial inclusion using digital technologies.

- **PRINCIPLE 1:** PROMOTE A DIGITAL APPROACH TO FINANCIAL INCLUSION
- **PRINCIPLE 2:** BALANCE INNOVATION AND RISK TO ACHIEVE DIGITAL FINANCIAL INCLUSION
- **PRINCIPLE 3:** PROVIDE AN ENABLING AND PROPORTIONATE LEGAL AND REGULATORY FRAMEWORK FOR DIGITAL FINANCIAL INCLUSION
- **PRINCIPLE 4:** EXPAND THE DIGITAL FINANCIAL SERVICES INFRASTRUCTURE ECOSYSTEM
- **PRINCIPLE 5:** ESTABLISH RESPONSIBLE DIGITAL FINANCIAL PRACTICES TO PROTECT CONSUMERS
- **PRINCIPLE 6:** STRENGTHEN DIGITAL AND FINANCIAL LITERACY AND AWARENESS
- **PRINCIPLE 7:** FACILITATE CUSTOMER IDENTIFICATION FOR DIGITAL FINANCIAL SERVICES
- **PRINCIPLE 8:** TRACK DIGITAL FINANCIAL INCLUSION PROGRESS
Payment Aspects of Financial Inclusion (PAFI) Framework

- Access to a transaction account is a stepping stone to **full financial inclusion**.
- **Payment Aspects of Financial Inclusion** (PAFI) is a key building block for UFA

**PAFI REPORT** (by CPMI and the WBG, released April 2016): examines demand and supply-side factors affecting financial inclusion in the context of payment systems and services, and suggests measures to address these issues.
### Comparing PAFI, G20 HLPs and Gates’ Level One Project

<table>
<thead>
<tr>
<th>Payment Aspects of Financial Inclusion (PAFI)</th>
<th>G20 High-level principles</th>
<th>Level One Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment to financial inclusion</td>
<td>Promote a digital approach</td>
<td>Open international standards</td>
</tr>
<tr>
<td>Proportionate legal and regulatory framework balancing risk, consumer protection, and innovation</td>
<td>Provide an enabling and proportionate legal and regulatory framework</td>
<td>Tiered Know Your Customer</td>
</tr>
<tr>
<td></td>
<td>Balance innovation and risk</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establish responsible digital financial practices to protect consumers</td>
<td>Shared fraud service</td>
</tr>
<tr>
<td>Financial and ICT infrastructure</td>
<td>Expand the digital financial services infrastructure ecosystem</td>
<td>Open loop</td>
</tr>
<tr>
<td>Transaction account and payment product design</td>
<td>Immediate funds transfer</td>
<td></td>
</tr>
<tr>
<td>Financial literacy</td>
<td>Strengthen digital and financial literacy and awareness</td>
<td></td>
</tr>
<tr>
<td>Other issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large volume recurrent payment streams</td>
<td>Facilitate customer identification</td>
<td></td>
</tr>
<tr>
<td>Readily available access points</td>
<td>Track digital financial inclusion progress</td>
<td></td>
</tr>
</tbody>
</table>
LACK OF OFFICIAL IDENTIFICATION IS A VITAL DEVELOPMENT CHALLENGE WITH PARTICULAR IMPORTANCE FOR DIGITAL FINANCIAL INCLUSION

1.5 billion people are unable to prove their identity

Most unregistered children and adults come from vulnerable populations: poor rural households, women, children, refugees, and stateless populations

Lack of ID makes it difficult for individuals to:

- Access bank accounts, credit, or capital
- Prove property ownership or inheritance
- Prove eligibility for health, pension, or social entitlements
- Vote in elections
- Cross borders legally

...which, on a systemic level, results in:

- Economic, political, and social exclusion for vulnerable populations
- Service delivery and governance challenges: leakages and ineffective targeting in programs
- Consistent difficulty tracking development progress due to unreliable data

1. Estimated figures, World Bank ID4D Global Dataset, 2016
### Building Robust Identification Systems has Had Transformative Results Across Many Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Inclusion</strong></td>
<td><strong>INDIA</strong>: 257 mm bank accounts linked with Aadhaar; 21 mm bank accounts open with eKYC</td>
</tr>
<tr>
<td><strong>Social Safety Nets</strong></td>
<td><strong>PAKISTAN</strong>: NADRA database used to pay flood relief to 1.5 million families.</td>
</tr>
<tr>
<td><strong>Health Services &amp; Outcomes</strong></td>
<td><strong>PERU</strong>: ID allowed tracking of vaccinations; verifies beneficiaries to access universal health insurance benefits and track services</td>
</tr>
<tr>
<td><strong>Improved Governance</strong></td>
<td><strong>ARGENTINA</strong>: linked 13 public registers and saved US$104mm in reduced leakage and tax fraud</td>
</tr>
<tr>
<td><strong>Gender Equality &amp; Inclusion</strong></td>
<td><strong>PAKISTAN</strong>: NADRA linked direct transfer of benefits to female head of household and had 12 female only enrollment centers; increased female enrolment by 100% from 2008 - 2014</td>
</tr>
</tbody>
</table>
## Getting Credit Indicators by Region from Doing Business, 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Getting Credit DTF</th>
<th>Strength of legal rights index (0-12)</th>
<th>Depth of credit information index (0-8)</th>
<th>Credit registry coverage (% of adults)</th>
<th>Credit bureau coverage (% of adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; Pacific</td>
<td>53.6</td>
<td>6.6</td>
<td>4.2</td>
<td>14.7</td>
<td>20.7</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>64.0</td>
<td>6.4</td>
<td>6.4</td>
<td>23.0</td>
<td>40.3</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>50.31</td>
<td>5.3</td>
<td>4.8</td>
<td>13.0</td>
<td>41.2</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>28.75</td>
<td>1.4</td>
<td>4.4</td>
<td>13.5</td>
<td>12.8</td>
</tr>
<tr>
<td>OECD high income</td>
<td>62.19</td>
<td>6.0</td>
<td>6.5</td>
<td>12.1</td>
<td>67.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>42.5</td>
<td>4.6</td>
<td>3.9</td>
<td>4.2</td>
<td>14.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>37.5</td>
<td>5.0</td>
<td>2.5</td>
<td>6.9</td>
<td>7.6</td>
</tr>
</tbody>
</table>

10

THE WORLD BANK

Treasury
Big data refers to voluminous amounts of structured or unstructured data that organizations can potentially mine and analyze for business.

Alternative data in the broadest sense refers to any information not sourced from financial service providers that can be used to evaluate consumer risk and performance, for example for credit offers.

**Key policy issues include:**

- *Transparency and disclosure*
- *Ownership and control of data*
- *Consent*
- *Recourse mechanisms*
- *Balancing use of data for innovation with privacy, data protection*
Policy directions:

- Facilitate access to payment information in both public and private sectors
- Avoid fragmented credit and payment reporting systems
- Develop supervisory capacity and strategies for evaluating new scoring models
- Promote access to data for new entrants / start-ups

Example: Boston-based non-profit

6-month program provides access to data feeds and APIs from industry leading data partners which include Experian and D&B

No fees, no equity - contribute to learning and collaboration to strengthen fintech
Regulatory sandboxes promote innovation while limiting risk: Example from Singapore

Source: Monetary Authority of Singapore
DEMAND SIDE ISSUES AND APPROACHES

Consumer Protection
Consumers are vulnerable - from simply being sold products they don’t need to frauds and other abuses. Consumer protection adds to trust in financial markets and can help stimulate demand.

Financial Capability
Entertainment Education can be an effective way to share knowledge, develop skills and shift social norms on financial topics such as use of formal accounts or savings.

Product Design
Moving from access to usage requires in-depth understanding of consumer behaviors. Increased use of qualitative and quantitative analysis can help develop more attractive product offerings.
25 FOCUS COUNTRIES: 73% OF THE WORLD’S UNBANKED

Countries prioritized based on share of unbanked, IDA, and FCS: 2014 FINDEX

India
20.6%
(of the world’s unbanked)

China
11.6%

Indonesia
5.6%

Pakistan
5.2%

Bangladesh
3.7%

Nigeria
2.7%

Mexico
2.6%

Egypt
2.4%

Brazil
2.4%

Vietnam
2.4%

Philippines
2.2%

Turkey
1.2%

Colombia
1.1%

Turkey
0.8%

Peru
0.8%

Tanzania
0.8%

Morocco
0.7%

South Africa
0.5%

Myanmar
1.5%

DRC
1.5%

C: Côte d’Ivoire 0.4%; M: Mozambique 0.4%; K: Kenya 0.3%
Z: Zambia 0.2%; R: Rwanda 0.2%

NB Yemen has been replaced with Cote d’Ivoire due to severe insecurity.
THANK YOU!