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FIGI News

FINANCIAL INCLUSION GLOBAL INITIATIVE

SEPTEMBER 2019

Welcome to the second edition of the Financial Inclusion Global Initiative newsletter

This is the second edition of the Financial Inclusion Global Initiative (FIGI) newsletter. **FIGI** is a three-year program implemented in partnership by the World Bank Group (WBG), the Committee on Payments and Market Infrastructure (CPMI), and the International Telecommunications Union (ITU) that is funded by the **Bill & Melinda Gates Foundation** (BMGF) to support and accelerate the implementation of country-led reform actions to meet national financial inclusion targets, and ultimately the global **'Universal Financial Access 2020'** goal.

FIGI covers three comprehensive **country technical assistance programs, three working groups** on outstanding challenges in closing the global financial inclusion gap, and three annual **symposia** to gather the relevant policy makers, academics, private sector players and development partners on topics relevant to FIGI. Through these components, FIGI aims to enable national authorities in developing and emerging markets to better harness the potential of digital technologies for financial inclusion, and to manage associated risks.

Following the developments of the working groups and country implementation programs, this newsletter aims to update you on the latest developments of the FIGI program and related resources on digital finance and financial inclusion.

We hope you find this newsletter useful and, as always, welcome your feedback.

Sincerely,
FIGI Secretariat

FIGI Collaboration Highlights

CPMI-World Bank PAFI collaboration: In parallel with the FIGI work, The World Bank Group and the **Committee on Payments and Market Infrastructures** (CPMI) of the Bank for International Settlements convened a task force on **Payment Aspects of Financial Inclusion** (PAFI) to comprehensively examine how payment systems and services affect financial inclusion efforts. Currently three subgroups are gathering information and providing analysis on (1) the implications of fintech developments for financial inclusion; (2) developing a measurement framework for tracking progress on access

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Inside this Edition

FIGI Working Group Updates

Digital Identification (ID) Working Group: The Digital ID Working Group, led by the WBG, aims to identify and accelerate the use of digital identification for expanding access to, and improving uptake of, financial services. The FIGI Digital ID Working group published a **blog post** on highlights from the **G20 Digital Identity Onboarding report,** with a particular emphasis on the policy considerations relevant to digital ID for the financial sector. Many of the principles relevant to ID as a whole as have been outlined in the ID4D **Principles on Identification.** The considerations address factors including the importance of integrated ID frameworks; appropriate regulatory frameworks; risk-mitigating oversight models

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considering new players beyond traditionally regulated financial institutions; authentication and personal data protection; procedures for citizen redress when the security of personal data is comprised; empowering the private sector to develop services drawing the legal ID infrastructure; and the close monitoring of emerging trends in ID.

The FIGI Digital ID working group is working to translate these policy considerations into practical approaches that can be applied at the national level given different country contexts and regulatory frameworks that pertain to the financial sector. The diagram below shows the wide range of applications of digital ID within the formal financial sector (see diagram on pg. 3 of this newsletter on 'Benefits of Digital ID').

To find out more about the guiding principles, risks and mitigation strategies, and uses of Digital ID Systems, check out the **blog post** on how digital ID is a critical enabler for financial inclusion.

Security, Infrastructure and Trust (SIT) Working Group: The Security, Infrastructure and Trust (SIT) Working Group, led by the International Telecommunications Union, aims to build confidence and trust in the use of digital financial services. The SIT Working Group has finalized four reports in 2019, including the following: (i) 'SS7 Vulnerabilities and their impact on DFS Transactions', which provides recommendations on how to mitigate risks associated with the lack of reliable access to internet; (ii) 'Unlicensed Digital Investment Schemes', which looks at the impact of internet fraud on financial exclusion and proposes tools to address this challenge; (iii) 'Methodology for Measurement of QoS KPIs for Digital Financial Services', which presents a methodology to measure quality of service indicators for digital financial services; and (iv) 'Field measurements for QoS KPIs in Ghana', which applies the methodology developed for measurement of quality of service indicators for digital financial services to the case of Ghana. These reports are in the process of being published online and links will be available on the **FIGI website** in the following weeks. The SIT working group has also set up developer resources for strong authentication frameworks. This set of resources was completed in June 2019, and is available **here**.

Upcoming workshop: A **FIGI Security Clinic** will take place from December 4–5, 2019 at the ITU in Geneva to present the findings of the SIT Working Group. Topics to be discussed on the first day include: the mitigation of SS7 vulnerabilities for digital financial services (DFS), implementation of consumer authentication technologies to enhance security, security assurance framework for DFS providers and telecom operators for better risk management, and the mitigation of vulnerabilities of DFS applications based on USSD and STK. The second day of the event comprises of a series of DFS Security clinics, with topics such as the implementation of decentralized ID for DFS, tracking Ponzi schemes, and Fast Identity Online (FIDO) authentication for DFS. The target audience for these clinics includes practitioners that are actively involved in technical security implementation in the area of DFS.

Cybersecurity for Financial Market Infrastructures Workstream (SIT Working Group): The Cybersecurity for Financial Market Infrastructure Workstream, led by the WBG as part of the SIT Working Group, aims to explore compliance and best practices for cybersecurity specifically on financial infrastructures. The Cybersecurity Working Group has finalized a report on 'Cyber resilience for FMIs', which aims to improve cyber resilience of financial market infrastructures critical for financial stability and financial inclusion. Specifically, the report presents a methodology developed by the European Central Bank to operationalize the CPMI-IOSCO Guidance on Cyber Resilience for FMIs. This can be used by FMIs to comply with Guidance, and by authorities (supervisors and overseers) to assess their FMIs. This report will be published online in the next few weeks. The workstream has recently released a cybersecurity for Financial Market Infrastructures **newsletter**.

FIGI Collaboration Highlights,
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to transaction accounts; and (3) preparing a toolkit to facilitate the application of the PAFI Guiding Principles and key actions for consideration. The PAFI and FIGI work streams are collaborating on an on-going basis. In particular, the PAFI work is directly linked to both the Electronic Payments Acceptance (EPA) working group and the Digital Identification for Financial Services (ID) working group. These work streams provide opportunities for cross-learning in both directions, and both PAFI and FIGI leadership are taking great care in making sure that these synergies are fully exploited.

Benefits of Digital ID

What's new in FIGI Countries?

CHINA

- **Super platforms and financial inclusion:** Super platforms, particularly in China, have been generating interest in the financial inclusion community because of their potential to maximize scale and reach while embedding digital financial services into successful digital use cases. Tech giants in China (such as Alibaba and Tencent) have recently integrated a range of financial services—from payments to micro-investments—into their product offerings. **CGAP, in partnership with the Mastercard Foundation** finds that super platforms could demonstrate a positive impact on consumers and businesses, and focus on three types of digital services commonly offered across super platforms: digital payments, social networks and e-commerce. Findings suggest that while there could be gains in efficiency through a decrease in transaction costs, the effect is unclear for lower-income consumers, and more research is needed on the impact of super platforms on different user segments, including low-income women, youth and rural residents. This is in line with FIGI's support to Chinese authorities to expand financial inclusion by helping to provide assistance around the development of innovative products and services targeted to meet the needs of China's underserved populations, and develop an enabling environment for FinTech.

EGYPT

- **Strengthening Financial Consumer Protection:** With technical inputs from the **FIGI** project, the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA) finalized their respective financial consumer protection regulations. These regulations are harmonized across common products that are regulated by the two institutions. The CBE recently adopted and circulated these in a **circular** dated 19th February, 2019 on Banking Sector Consumer Protection. The comprehensive financial consumer protection guidelines document by FRA was also approved by the FRA Board in March.
- **Regulatory Sandbox:** Central Bank of Egypt announced its **regulatory sandbox** soft launch starting June 2019, and invited FinTech startups and companies specializing in e-KYC solutions to apply for its first pilot cohort under the CBE regulatory sandbox principles and eligibility criteria. Additionally, CBE announced the establishment of the **FinTech Hub,** a unified platform driven by innovation and technology to foster and connect all Fintech eco-system stakeholders, including Fintech startups, financial institutions, regulators, service providers, mentors and investors.
- **Personal Data Protection:** A new draft personal data protection law—which aims to protect the personal data of citizens—**has been approved and passed by Parliament.** Specifically, this law specifies the conditions under which personal data can be collected, how and for how long it is stored, and the rights of the data subject to access and review their personal data. It also outlines the obligations of the data controller and processor to apply the standards required to secure personal data in order to protect confidentiality.

MEXICO

- **As Expanding digital financial inclusion in Mexico:** The Ministry of Finance and Public Credit (SHCP) and Mexican Banking and Securities Commission (CNBV) recently released secondary regulations (following the FinTech law) around the registration of FinTech companies as Financial Technology Institutions (FTIs). These are defined as crowdfunding entities and e-money entities. The fintech rules provide additional requirements and documents to operate as a fintech institution, including provisions around the regulation of crowdfunding entities, e-money entities, cryptocurrencies in Mexico, and regulatory authorization for FTIs. The secondary regulations have been issued in connection with Fintech services for the banking, money transmitter, insurance and pension fund industries, robo-advisory services, agency services by FTIs, as well as anti-money laundering, information security, corporate governance and other requirements for the operation of FTIs. **FIGI** will continue to provide support around fintech regulation to the Mexican authorities. For more information about the FinTech law and secondary regulations, **see here**.
- **Financial Education Workshop for Policy Makers in Mexico:** In July 2019, the World Bank and the Ministry of Finance of Mexico (Secretaría de Hacienda y Crédito Público, SHCP) co-organized a technical workshop for Mexican policy makers on how to strengthen financial education programs delivered by the public sector. The World Bank team shared the findings and recommendations from a financial education program mapping exercise and a financial capability needs assessment in Mexico, conducted by the WB team in 2018. The workshop was supported by **FIGI** Mexico.

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FIGI Video Series

What would it take to shift consumers from cash to digital financial services? The financial sector experts say that it takes a combination of Innovation, FinTech, and Digital ID. Tune in below to hear more:.

"The use of digital tools has to be easy and convenient as cash is today. These tools need to be developed in a way that the poor can easily adopt and use them. There is an incredible amount of innovation in the financial sector and we would like to see these innovations reaching the poor. A digital account is the first step, but it is not enough. We need to think about what the right enabling policies as well as standards and rules are, and combine them with the best of what fintech has to offer."

—**David Lubinski,** *Senior Program Officer, Bill and Melinda Gates Foundation* (**watch the full interview here**).

Harish Natarajan, Lead of the Payments Systems Development Group at the World Bank discusses the constraints to financial inclusion, and emphasizes that any solutions to mitigate the issue must involve a deep understanding of the constraints themselves. In this interview, he also discusses the complexity of distinguishing between terms such as 'digital financial services' and 'fintech' and provides a way of classifying how the former is more an umbrella term that encompasses all digital platforms and technologies used for advancing access to and use of financial services, while the latter refers to a more disruptive and innovative approach to using new and existing technology (**watch the full interview here**).

"Technology and fintech will reshape how financial services are provided in the next few years. The Government plays a key role, and needs to facilitate the process of increasing trust among the user base and provide incentives for people to start making the shift to cashless alternatives, by taking into account the existing mindset and cultural inhibitions. This will require new regulation, and the creation of trust in the financial system for citizens."

—**Essam El Saghir,** *Chairman, Egypt Post* (**watch full interview here**).

Blog Series

3 Ways to advance usage and drive impact in financial inclusion: As the Digital Revolution continues to progress, digital financial services are making financial access more feasible. These innovations are helping to level the playing field for small farmers by providing access to buyers, more efficient pricing, and speedier payments. Paper voucher systems used amid humanitarian crises are being replaced with prepaid cards for food and supplies. And small and micro-merchants can expand their businesses by leveraging purchase data to enable credit scoring. But the active use of digital financial services still remains a challenge. For example, about one in five bank accounts is currently inactive, without a deposit or withdrawal within the past year, and overall, developing economies have been slow to close the usage gap with high-income economies. Three key components are needed to move the newly included from access to usage: (i) Focus human-centered design on customer needs and cultural considerations; (ii) Build financial knowledge and change behavior; and (iii) Build robust ecosystems to enable scale.

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Blog Series,
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Fintech and Capital Markets—What next? Fintech holds the potential to transform finance and capital markets. Digital financial education is a priority to ensure that the benefits of fintech are shared evenly by consumers as they choose financial products. In many developing economies the infrastructure, institutions and information technology to enable fintech is not very advanced, and fintech will not substitute for market inefficiencies. However, fintech can make up for many of these gaps. The experience varies from one country to another, but the emergence of fintech hubs has shown to be valuable in convening the various stakeholders (i.e., experts, investors, researchers, banks, consumers and regulators, financial institutions) to share their knowledge, stories of success and challenge, their assessment of risks and opportunities. This type of engagement facilitates the flow of new practices and applications within and between jurisdictions that can potentially minimize regulatory arbitrage and fragmentation.

Financial Inclusion Beyond Payments: Policy Considerations for Digital Savings: Digital savings represents a relatively new area of inquiry for digital financial inclusion research, and technology as well as innovative business models can enhance savings account accessibility through the following: (i) Value chain disaggregation- when banking institutions partner with nonbanks for the technology and distribution aspects of digital savings accounts, allowing for expanded access points, improvements in the economics of low-cost savings accounts, and scaling up of microbanking institutions; (ii) Product tailoring and customization- made easier through digital technology and innovative business models, enabling providers to incorporate greater degrees of accessibility to savings account offerings; and (iii) Leveraging of existing DFS ecosystems- helps foster competition in the savings product space and facilitates access through use of existing infrastructure.

Related Research and Publications

Financial Inclusion Beyond Payments: Policy Considerations for Digital Savings report: The report discusses key policy issues that enable and constrain digital savings market development and offers policy considerations within the context of the G20's High-Level Principles for Digital Financial Inclusion. The report explores the characteristics of digital savings products and business models that enhance savings product access and identified policy issues that appear most important for facilitating digital savings account deployments: (i) Enable banking institutions to pursue digital savings partnerships with nonbank entities; (ii) Support the development of interoperability between banks and nonbank e-money issuers; (iii) Harmonize customer due diligence standards for e-money wallets and low-risk bank deposits.

White paper on postal financial inclusion: Potential use-Cases of cryptocurrencies by Posts: Building on their socially oriented mission and universal service obligations, Postal Services are well positioned to address the three main challenges that impede financial inclusion: access, eligibility, and affordability. Studies have shown that Posts are comparatively better positioned than other financial institutions to provide financial services to segments of the population that tend to be excluded, such as women, migrants, and the economically marginalized. Keeping pace with recent innovations, the Universal Postal Union (UPU) examines the role that distributed ledger technology (DLT), blockchain and cryptocurrencies can play in the postal industry, as well as the role of the UPU and its members in enabling efficient delivery of services.

Can regulation promote financial inclusion? This policy research Working Paper by the DEG Indicators Group investigates the role played by financial regulation in bridging the gap between policy objectives and outcomes, and in probing the determinants of financial inclusion. The paper proposes a broad index of regulatory quality for financial inclusion, emphasizing the role of nontraditional delivery models, for example, branchless banking, and actors, for example, nonbank lending institutions. It also tests the relationship between regulatory quality and financial inclusion outcomes.

FinTech: Regulatory sandboxes and innovation hubs: This report sets out a comparative analysis of the features of existing innovation hubs and regulatory sandboxes, drawing on information gathered from authorities, financial

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Related Research and Publications,
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institutions, and other FinTech firms and technology providers. Based on the results of this comparative analysis, the report identifies a set of operating principles that can be regarded as best practice in the creation and operations of innovation hubs and regulatory sandboxes. These principles include the following: (i) promote consistency in the design and operation of innovation facilitators; (ii) promote transparency of regulatory and supervisory policy outcomes resulting from interactions between competent authorities and firms in the context of innovation facilitators; and (iii) facilitate cooperation with appropriate authorities (including consumer protection and data protection authorities.

FIGI Foundations: Quick Links

- **The Global Findex Database 2017,** Measuring Financial Inclusion and the Fintech Revolution
- **ITU-T Focus Group Digital Financial Services and Access to FG DFS reports** (PDF and Flipbook format)
- CPMI and WBG **'Payment Aspects of Financial Inclusion** (PAFI)' report
- **G20 Digital Financial Inclusion**
- **Universal Financial Access Data Portal**
- **BMGF Level One Project Guide**
- **Financial Inclusion Global Initiative Homepage**

FIGI Information: For any questions, comments, or to unsubscribe to this newsletter please contact the FIGI Secretariat (**figisecretariat@worldbank.org**)