Digital technology is rapidly becoming the biggest driver around the world of economic innovation, competition, and growth. Even though many people have been excluded from the digital economy, tremendous opportunities are available for it to support financial inclusion for sustainable economic development.

To this end, participants in a recent conference—Financial Inclusion in the Digital Economy, on 24–25 May 2016—shared insights into what works and does not work to broaden digital financial services. Event participants also discussed how ADB can help Asia’s developing countries invest in innovative digital financial solutions. With these, countries can fast-track the development of economic and social sectors.

This exchange of ideas, experiences, and best practices—jointly organized by the Asian Development Bank (ADB), the Consultative Group to Assist the Poor (CGAP), and the Asian Development Bank Institute, with the support from the Government of Luxembourg—can enable the development of an innovative and enabling policy and regulatory environment for promoting financial inclusion. This includes effective ways to involve the financial industry, harness private sector technological solutions, and collaborate with international financial institutions like ADB in mobilizing finance.

The conference welcomed more than 250 delegates and experts from 45 member countries to ADB headquarters in Manila. Participants included policy makers, finance sector supervisors and regulators, along with telecommunication regulators, representatives from financial-technology (Fintech) companies, academia, and the financial and technology sectors, as well as global private sector experts and ADB staff and management.

In discussing the enormous transformative power of digital technology for the financial sector, the conference helped identify opportunities and challenges policy makers and regulators face in the development and commercialization of new financial business models and disruptive innovation. Some of the key takeaways of the 2-day gathering included the following:

• Revealed key trends in digital financial inclusion—the opportunity and the responsibility—to prepare for both the risks and the rewards of the digitization of financial service challenges for reaching people excluded from financial services.

### KEY POINTS

- Digital technology is transforming the financial services landscape. Developing country governments in Asia and the Pacific are exploring ways to encourage their populations to use the four key instruments of financial inclusion: payment system, credit, insurance, and investment. By creating such an ecosystem, they can help expand access to affordable financial services to the financially excluded.

- The emergence of new digital technology, including Fintech, can ensure financial inclusion and improve financial well-being.

- For success, financial services need to be tailored to the needs of customers and to be transparent and secure, while providing optimal balance between price and product features.

- Well-sequenced and coordinated policies and regulations are needed for the introduction of digital financial services. This can nurture technological innovation at all levels, by making financial markets and systems more efficient, and contribute to financial stability.

- ADB can help developing countries in Asia and the Pacific mainstream financial inclusion and stimulate broad-based economic growth with its finance and knowledge solutions.
• Highlighted the design of customer-centric financial products for low-income people to advance digital financial services.
• Identified preconditions and sequencing for successful rollout of digital financial services.
• Showed how ADB is uniquely placed to play a triple role that mobilizes financial resources, shares knowledge, and assists Asian countries and industry players in building institutional capacity to enhance responsible and inclusive digital financial services.

KEY TRENDS IN DIGITAL FINANCIAL INCLUSION

New financial technologies and players are having significant, multidimensional impact in a number of emerging markets. These include development of mobile financial services, which are reaching appropriate scale with the help of third-party agent networks. They also include the benefits of Blockchain technology and the advantages of digital currencies, which are growing far more prominent and their abuses becoming better understood, and harnessing the potential of big (or alternative) data analytics for expanding the boundaries of financial inclusion. In addition, impact includes the increasing use of shared service solutions hosted in the cloud, putting digital financial services within reach of smaller institutions and expanding accessibility and convenience for customers.

The rise of new players including Fintechs and the active use of digital platforms can allow countries to accelerate financial inclusion. But this requires support for appropriate financial consumer protection frameworks and wide availability of access points, such as electronic money issuers, crowd funding and peer-to-peer lending, and e-commerce players through simple payment and delivery options. The biggest promise is in support for open and interoperable financial market platforms that encourage partnerships between traditional players such as banks and new, nonbank financial service providers. A focus on national retail payment systems—which can use digital payments such as person-to-person, business-to-government, government-to-person—appear among the best ways for countries to support financial inclusion.

WHY A CUSTOMER-CENTRIC APPROACH MATTERS

Customer-friendly financial services offer real solutions to real-life problems. Customers need financial services that are appropriate, affordable, and accessible. Inclusive financial products and services design must reflect gender, religious, and cultural issues. An increasing focus on customer-centricity—defined as developing products based on trust and fairness that use customer knowledge to meet customer needs—is considered vital to sustainable, valuable, long-term relationships that support financial inclusion.

A customer-centric approach is also critical for bridging the access–usage gap, a core challenge in financial inclusion. To improve usage, CGAP has advocated a five-point approach focused on:

- promoting a customer-focused leadership and culture within financial players;
- ensuring that operational issues focus on the customer;
- collecting information, generating insights, strategic focus on the customer value proposition;
- ensuring that product development is based on insights from the customer experience; and
- creating and measuring the value proposition to the customer, firm, and society.

Successful implementation of financial inclusion policies also requires a deep understanding of differences in access and adoption within the customer base. Sometimes basic access to an account is not achievable, due to a lack of digital devices, nationally accepted forms of identification, or socioeconomic barriers.2 Where access has been achieved, encouraging advanced financial solutions will require greater and continued financial awareness. The same strategy applies if mobile phones and digital devices are accessible but are still not trusted as a medium for financial transactions (footnote 2). Policy makers need to keep the customer and current realities in mind by designing a customized strategy targeting each of these segments.

Moving from traditional business models to customer-centric ones is complicated and long, with a steep learning curve. The good news is that rapidly evolving digital capabilities—particularly mobile, social media, big data, and cloud technologies—offer financial services companies entirely new opportunities for understanding, serving, and engaging customers.3 Partnership models involving government and private players, bankers, and innovators have worked well to reach scale. Actively committing to greater use of digital capabilities is an essential first step toward greater customer-centricity. These capabilities will serve as a catalyst for broader customer-centricity efforts (footnote 3).

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SETTING PRECONDITIONS AND MAPPING THE SEQUENCE

Making affordable digital financial services a game-changing opportunity requires proper sequencing and appropriate scope and timing for gradual introduction. This includes support from government at all levels, an enabling policy and regulatory environment, and investment in digital infrastructure such as broadband connectivity.

Countries that have successfully enabled inclusive digital financial services have benefited from coordinated national financial inclusion strategies. Enhancing national retail payment laws and regulations is among the major issues in most markets.

Countries must have policy and regulatory environments that enable institutional frameworks for developing country-specific and responsible digital financial products and services. Proportionate risk-based regulatory approaches to antimoney laundering rules are needed. Tiered, know-your-customer regulations can remove barriers to registering new customers and ease transaction processing for low-income households and support digital financial service business models. Digital identification and biometrics and remote account opening rules without requiring the customer’s physical presence help broaden access to financial services.

As new players join the financial services industry, policy makers need to ensure level playing fields, prudential requirements, and competition policies as well as coordination between different regulators. In balancing openness to new products and services and new players, security and fraud mitigation regulations and oversight are important.

Amid rapid development of financial technologies, financial regulators will need increasing support to provide the needed supervisory capacity to oversee new players financial products and services. Regulatory technology is an evolving area that demonstrates the potential to enable real-time and proportionate regulatory regimes that identify and address risks. They also facilitate more efficient regulatory compliance and help avoiding regulatory arbitrage. Key issues include support for more open regulatory environments such as regulatory sandboxes or test-and-learn approaches that allow new players and products to be tested in the market.

Implementation of the regulatory frameworks, however, should not become the sole focus of financial regulators. They also need to understand and help build consumer demand for digital financial services to encourage sustainable digital ecosystems for improving financial inclusion. These efforts should include facilitating financial literacy and focusing on end users’ needs; investments in system infrastructure that enable open, interoperable, and interconnected systems; and encouraging shifting from cash to digital payments, particularly government-to-person payments and person-to-government. This also lowers program administration costs and significantly reduces leakage in government expenditure and tax collection.

Digital financial services are also seen as essential for the expansion of microfinance, including credit, savings and insurance. It also includes new players such as peer-to-peer lenders, crowd funding, other nonbank financial service providers, and credit bureaus. In addition, open access to credit sharing can help mitigate over indebtedness, especially through the easier access to the almost instant credit that digital finance can offer.

Digital technologies can also reduce remittance costs relative to traditional over-the-counter services. This helps migrants and their families finance health, education, and other spending beneficial to society. These technologies, by facilitating the tracking of remittance transactions, also allow better mitigation of derisking pressures by improving compliance with antimoney laundering and antiterrorist financing regulations.

As digital financial inclusion increases the number of people using financial services for the first time, consumer protection and financial literacy issues need to be addressed. Given use of open access to digital information, data privacy issues also need to be considered a top priority.

HOW CAN ADB SUPPORT POLICY MAKERS AND REGULATORS

ADB assists its developing member countries through a combination of resources—loans, technical assistance, grants and equity investments, leveraging of resources through partnerships, and providing knowledge to countries to maximize and accelerate development effectiveness. This trio of finance, partnerships, and knowledge is referred to as Finance++. As an agent for change to catalyze private sector involvement, ADB also supports and advises governments on the investment environment and supports public-private partnerships.

Based on the interactions with policy makers and industry experts from developing member countries, ADB identifies several important factors in the expansion of digital financial services in Asia:

- Appropriate policy and regulatory enabling environment
- An active role of government, the private sector, and regulators
- Digital payment ecosystems
- Making government-to-person and person-to-government payments digital
- Innovation and the rapid adoption of mobile and digital technologies
- Growing trust and transparency in the “sharing economy”
- Ensuring greater participation of women
Critical areas include:

- Helping policy makers and regulators develop enabling regulatory environments.
- Collaborating to standardize regulations across the region to expand opportunities.
- Providing capacity building support for regulators and policy makers for enhanced oversight and supervision of responsible and inclusive digital financial services.
- Supporting countries wishing to support interoperable and interconnected digital payment policies.
- Supporting dialogue among industry, regulators, and policy makers for “smarter” regulation.
- Recognizing the digital divide, addressing it, and supporting appropriate digital infrastructure.