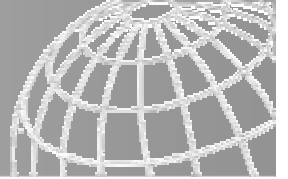


Financial Access Policies: Outstanding Issues for Asian Emerging Markets

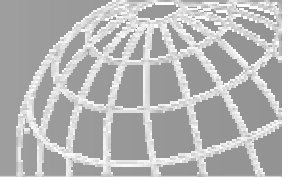
**24th ABA General Meeting and Seminar
1- 2 November 2007, Hongkong**

Dr. Alfred Hannig



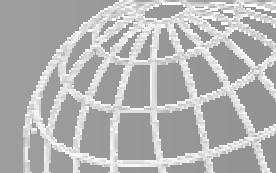
Background

- Global attention increasingly focuses on driving financial inclusion.
- The notion of financial inclusion recognizes not only the vision to include as many poor people as possible into the formal financial system but also assigns a role to mainstream financial institutions in reaching out to the unreached.
- Policies do matter! Increasing awareness
 - » of policy barriers that hamper financial inclusion
 - » that policies can play an important role in enabling and expanding pro-poor financial service delivery



Financial Access Policies: What works? (1)

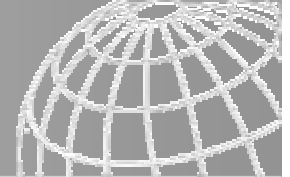
- Findings from a study funded by the Bill & Melinda Gates Foundation (BMGF)
- Definition:
 - » Financial Access Policies refer to various measures the government can undertake to influence financial markets.
 - » It can be the legislation, regulation, and their enforcement, expenditures, e.g. to finance public goods, or direct participation in the market through state-owned enterprises.



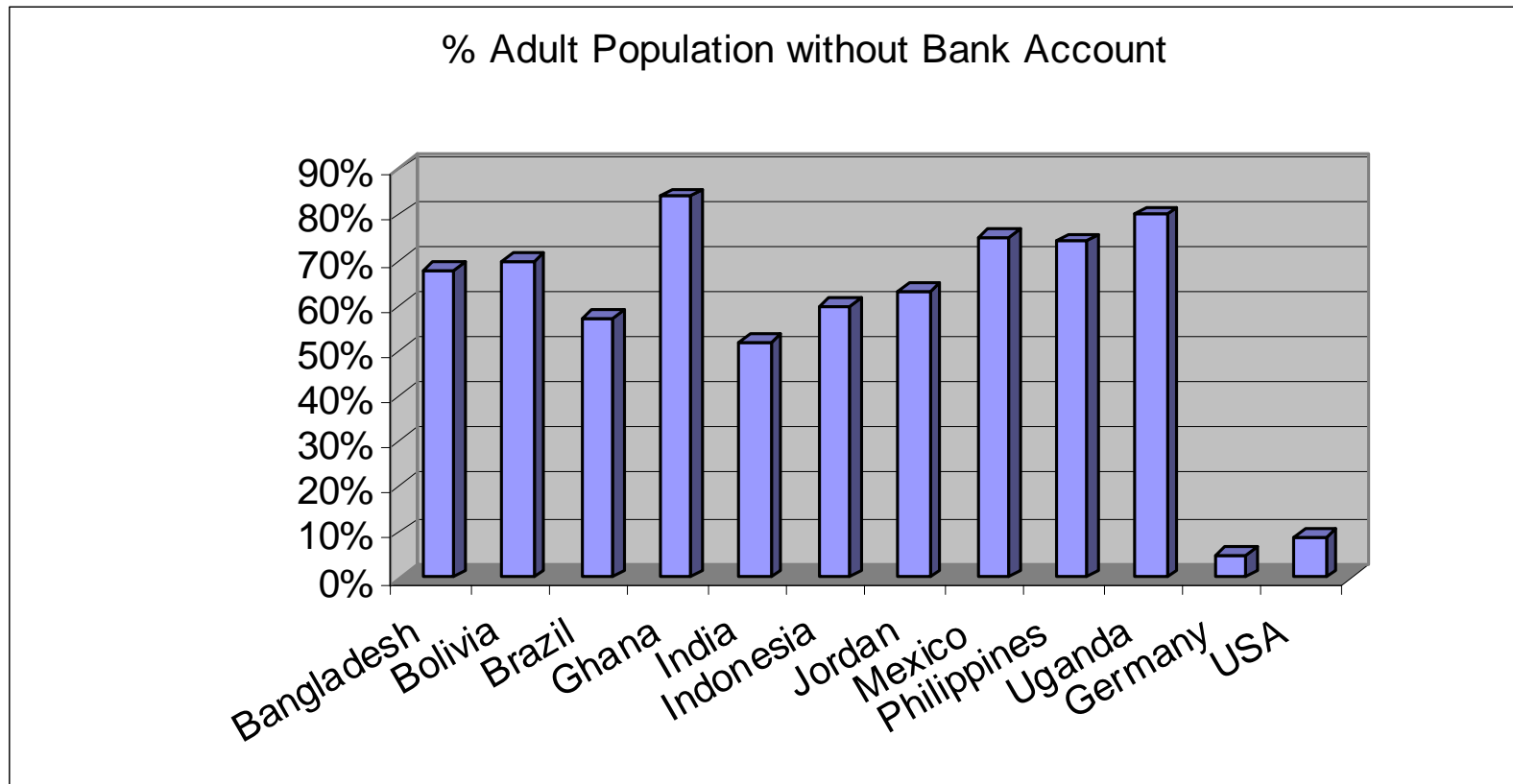
Financial Sector Depth

Economy	M2 / GDP	Domestic Credit from Banking Sector, % GDP	Domestic savings, % GDP	Gross Capital Formation, % GDP	ODA / GDP	Remittances / GDP
Bangladesh	35%	38%	18%	24%	2.48%	6.33%
Bolivia	39%	52%	10%	12%	8.80%	1.80%
Brazil	27%	81%	19%	19%	0.05%	0.59%
Ghana	29%	30%	11%	30%	15.31%	17.00%
India	29%	60%	28%	30%	0.10%	2.86%
Indonesia	41%	49%	23%	23%	0.03%	0.73%
Jordan	124%	94%	26%	26%	5.05%	19.87%
Mexico	27%	30%	n/a	22%	0.02%	2.65%
Philippines	52%	54%	16%	16%	0.51%	12.91%
Uganda	19%	11%	23%	23%	16.99%	5.09%
Germany	67%	138%		17%		
USA	63%	216%		18%		

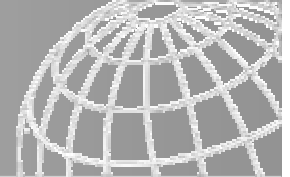
Source: World Bank's World Development Indicators (2006), Industrial and Financial Systems (2006)



Financial Access

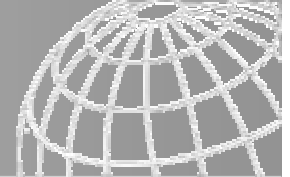


Source: Honohan (2007)



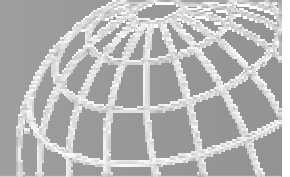
Financial Access Policies: What works? (2)

- Regulatory reform efforts in the successful countries benefited from substantial preceding improvements in the financial sector environment.
- New regulations only make sense if there is a perceived opportunity to make profits with additional supply of financial services.
- Microfinance regulations can be a strong policy solution when the benefits of access to cheap domestic savings outweigh the additional costs for the supervisors and the supervised.
- **Brazil** provides the relevant insight that relaxing branching regulations can be a powerful and economical alternative to the introduction of specific microfinance regulations.



Financial Access Policies: What works? (3)

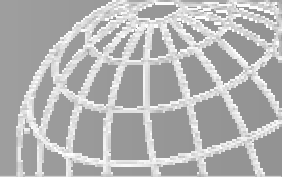
- The use of information and communication technologies can have a substantive impact on access for customers previously excluded from the financial sector, as demonstrated by the case of the **Philippines**.
- Well-governed and commercially oriented public banks can play an important complementary role in expanding financial inclusion based on the findings from **Indonesia, Mexico, and Brazil**.
- The impressive case of **Bangladesh** showed that access to finance can increase at high numbers in the absence of formal regulation for a certain time, but policy-makers and regulators will later catch up and launch regulatory initiatives to keep risk under control.



Financial Access Policies: What works? (4)

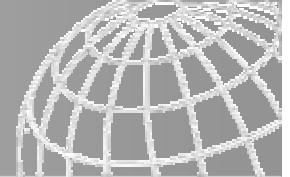
- Out of 35 policy tools potentially successful in broadening access the most effective narrow down to a select few.

- Five **policy solutions sets** are proposed to be leveraged to increase speed and safety of inclusive financial system reforms. Policies that promote:
 - » Agent Banking
 - » Mobile Phone Banking
 - » Diversifying Savings and Insurance Providers
 - » Reforming Public Banks
 - » Financial Identity Regulations



Financial Access Policies: Agent Banking

- Correspondent Banking Agents, or agents from non-banks (e.g. retail commercial outlets—lottery kiosks, pharmacies, post offices, etc.), that partner with banks to provide distribution outlets for financial services.
- In 2000, 1,628 municipalities in **Brazil** had no bank branches or agents. By the end of 2003, banking services were available in all of Brazil's more than 5,600 municipalities, largely because of the increase in non-bank agents.
- By the end of 2004, 57 banks and 17 financial companies had over 38,000 formally recognized correspondent outlets, and by the end of 2005 an estimated 90,000 formal and informal correspondents.

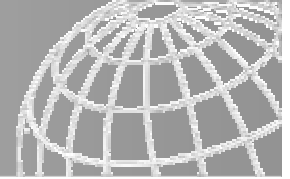


Financial Access Policies: Mobile Phone Banking

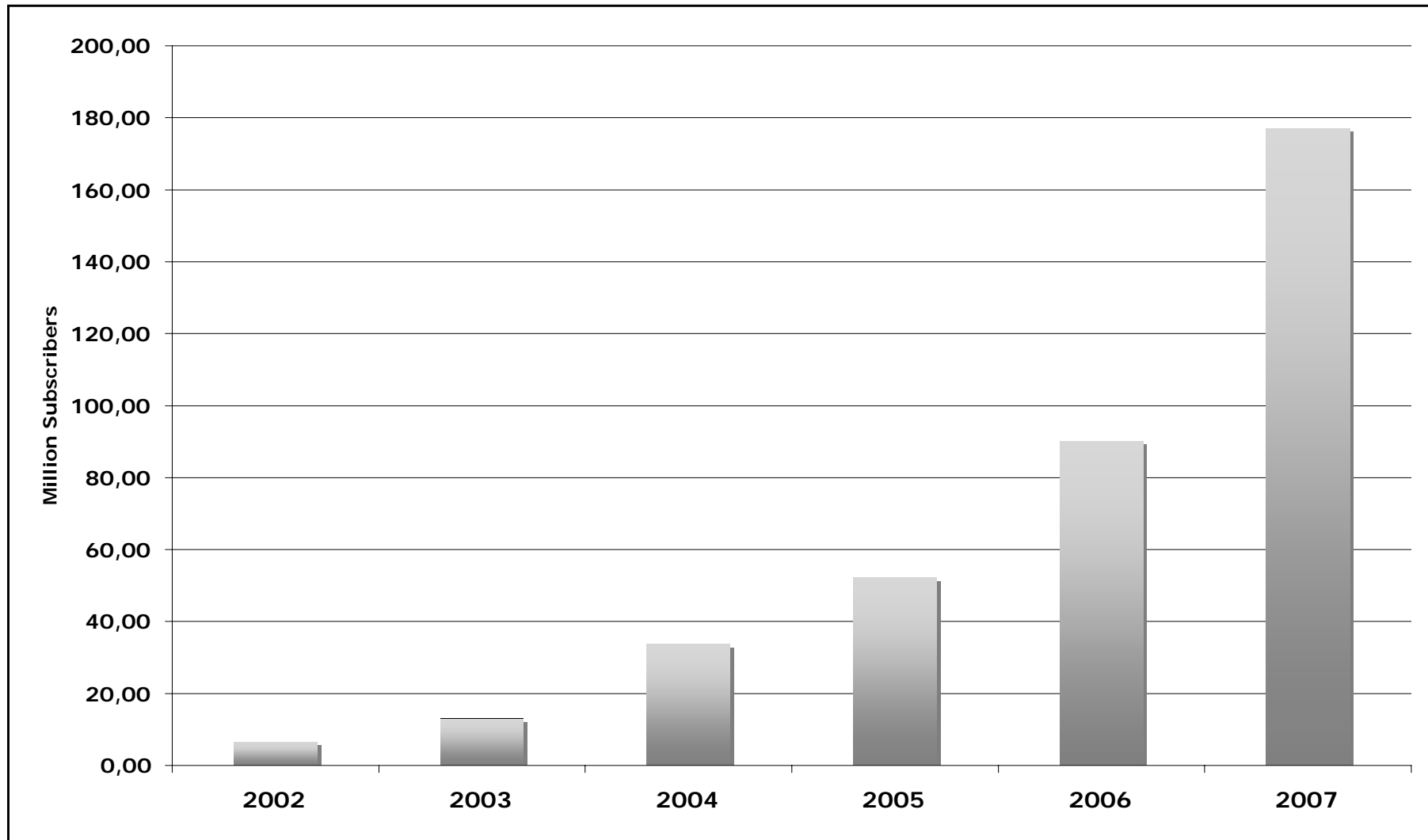
- M-banking features include the following:
 - » cash deposits and withdrawals
 - » third-party deposits into a user account;
 - » retail purchases at selected outlets
 - » over-the-air prepaid top-ups using the cash in the account
 - » transfer of cash or airtime credits between user accounts
 - » bill payments.

- Most current users are in **Japan** and **Korea**.

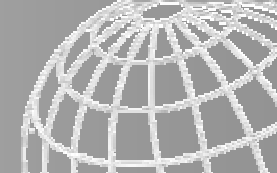
- **Philippines:** G-Cash and Smart Money 4 million users of mobile financial services.



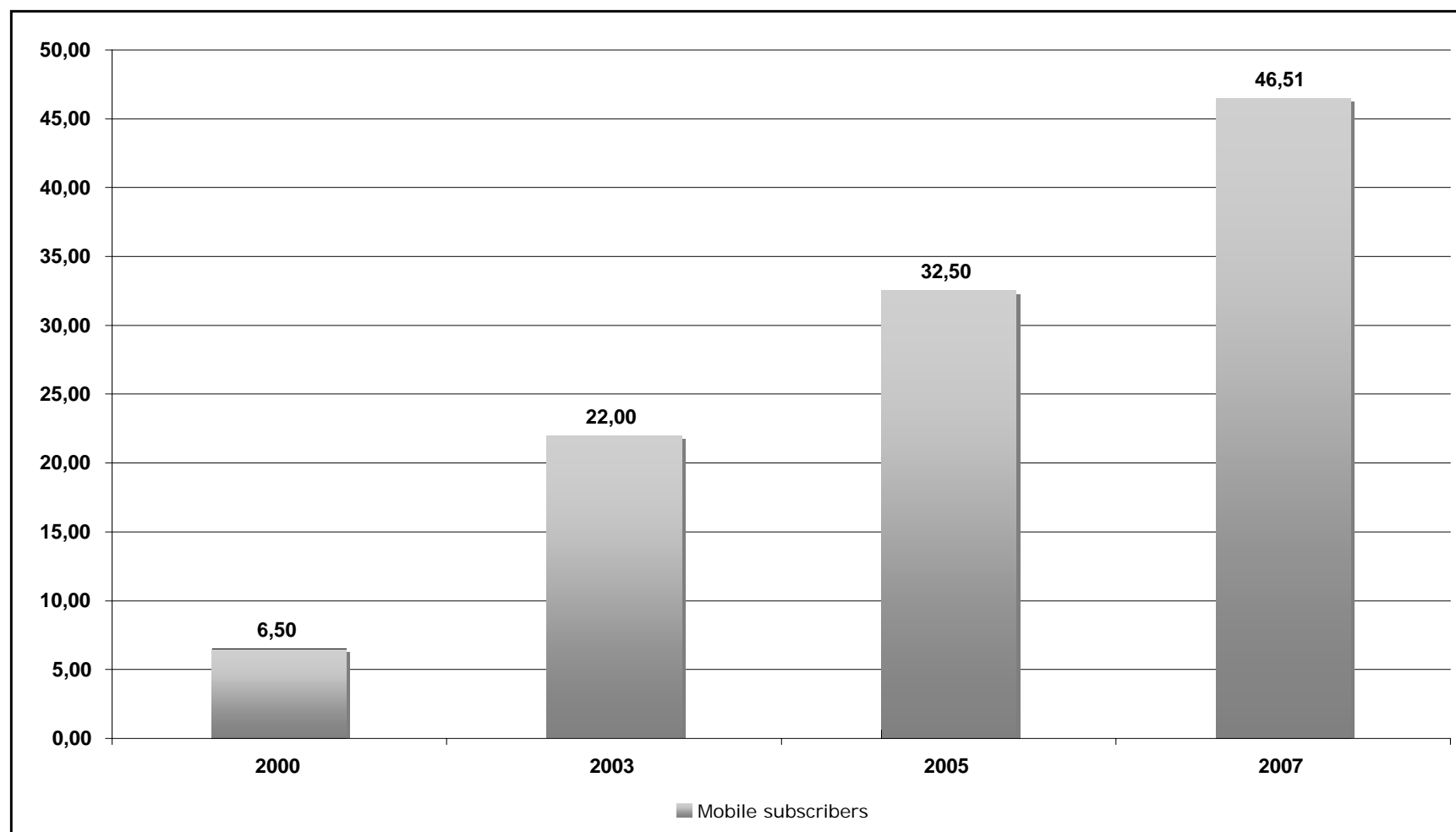
Number of Mobile Phone Subscribers in India



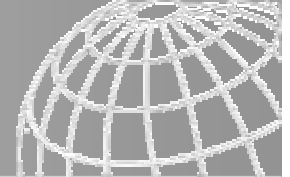
Source: TRAI Annual Reports, number for 2007 is estimate based upon yoy growth rate.



Number of Mobile Phone Subscribers in the Philippines (million)

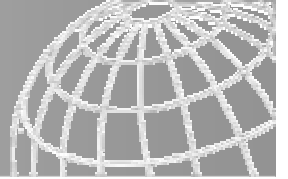


Source: Telecom Ministry of the Philippines, number for 2007 are estimated.



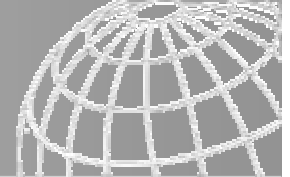
Financial Access Policies: Diversifying Savings and Insurance Providers

- Lowering the regulatory barriers to starting up and offering savings and insurance products in service of the poor.
- In **Indonesia**, the entry barriers to the financial sector were lowered by the introduction of the Rural Banks (second-tier banks), where 2,100 units hold 5.7 million deposit accounts and 2.5 million outstanding credit accounts.
- The Insurance Commission in the **Philippines** has introduced a specialised regulatory and supervisory framework for Microinsurance Mutuals. They are income-tax exempted and require a lower guarantee fund. Two million households have access to formal insurance through this model.



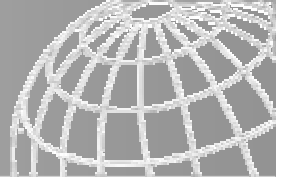
Financial Access Policies: Reforming Public Banks

- Transforming the governance and management of state banks towards more effective or even commercial provision of financial services.
- Bank Rakyat **Indonesia** (BRI) and its Village Units are the best known example of a large state bank that has managed to become a microfinance success.
- Today it has over 4,000 outlets, and provides microcredit to 3.3 million clients for a total portfolio of US \$ 3 billion. Even more impressive, savings clients total over 30 million.



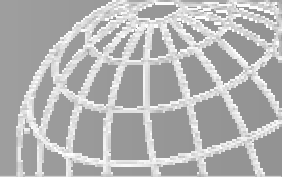
Financial Access Policies: Financial Identity

- Policies that endow clients with a financial identity, oftentimes by transforming their transaction history into a financial asset which can be used to leverage access to credit and other banking services.
- Regulatory frameworks should adapt a flexible approach in terms of supporting financial identity generation: whereas information sharing should be facilitated in the initial stages of development, later stages of large-scale information processing should be accompanied by more protective laws.



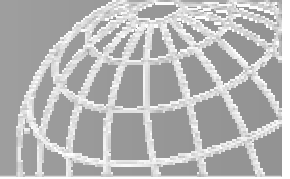
Policy Challenges

- M-banking places high demands on regulatory capacity, because it cuts across the regulatory domains of banking, TelCos, payments system, and anti-money laundering, while risks remain uncertain.
- Agent banking solutions have substantially not reached into financial intermediation so far.
- It remains to be seen how much technology will help deliver financial services that *make a difference* (not just e-money transfers) to the *poor*.
- Mutual learning among market players and regulators is crucial in order to address traditional and valid concerns while creating space for regulatory innovation.



The Way Ahead: Better Financial Access Policies

- Mutual learning among market players and regulators is crucial in order to address traditional and valid concerns while creating space for regulatory innovation.
- Make more use of innovations that are already available in financial markets of emerging countries through effective South-South Exchange and Learning.
- Promote multiple channels for information dissemination, user discussion, and user-initiated access among policy-makers.
- Engage international standard setters in an analysis of their impact on access.



Thank you!