



GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

PRIORITIES PAPER

GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPI)

Argentina's G20 Presidency

2018 Priorities Paper

BACKGROUND

Financial inclusion is a key component of Argentina's G20 Presidency agenda. Argentina's G20 presidency theme is "building consensus for fair and sustainable development". By boosting the access and use of formal financial services by underserved individuals and SMEs financial inclusion is paramount to this goal.

Financial exclusion remains a worldwide pervasive problem. According to Global Findex¹, over two billion adults worldwide do not have a basic bank account, which represents 38 per cent of the world's adult population. Among those in possession of an account, only 27 per cent have formal savings and just 11 per cent formally borrow. Additionally, half of the 400 million small businesses lack adequate financing to thrive and grow². The credit gap is believed to be between US\$2.1 and US\$2.6 trillion. Despite the remarkable progress achieved in recent years, thanks in part to the concerted effort of the international community, large segments of the population remain excluded from the formal financial system. As a consequence, households and businesses must resort to cash as well as informal providers, which can involve high costs and greater risks. The problem is particularly acute for women, youth, rural residents and forcibly displaced persons.

Several constraints prevent large portions of the population from accessing and using the formal financial system. Access to and use of financial services is affected by the interplay of demand-side and supply-side factors. Demand constraints such as income insufficiency, poor education and financial illiteracy, and supply constraints such as distance and high costs due to an underdeveloped payments infrastructure are important determinants of

¹ Demirgüç-Kunt, A., Klapper, L. F., Singer, D., & Van Oudheusden, P. (2015). The global findex database 2014: Measuring financial inclusion around the world.

² IFC (2017). Alternative Data Transforming SME Finance.

<https://www.gpi.org/sites/default/files/documents/GPI%20Report%20Alternative%20Data%20Transforming%20SME%20Finance.pdf>

involuntary financial exclusion. These barriers could represent a mechanism for generating persistent income inequality or poverty traps.

Informality³ is an important demand constraint to financial inclusion. Households and small businesses engaging in economic activities outside the formal economy find it particularly difficult to access and use formal financial services⁴. In particular, eligibility criteria play a key role in the financial exclusion of these groups. The inability of an individual or a small business to meet the documentary requirements to open an account or apply for a loan is a major and self-perpetuating determinant of exclusion. This is an important constraint to global financial inclusion because the informal economy encompasses more than half of the global labour force and more than 90 per cent of SMEs in the world⁵.

Digitisation offers the potential to enable broad-based financial inclusion, especially for those operating in the informal sector. The increasing adoption of digital technologies and approaches, together with effective supervision, can expand the scale, scope and reach of financial services, closing the remaining gaps in financial inclusion, especially those associated with informality. Digitisation offers an easy-to-implement opportunity to address the eligibility, affordability and physical barriers to formal financial access, facilitating the introduction of new products and services, and improving the information environment.

Concerted efforts by the public and the private sector are critical to capture the opportunity to promote financial inclusion through digitisation. In the context of the GPI, Argentina's Presidency will roll out an agenda focused on selected building blocks that are needed to unlock the benefits that digital finance can offer to reduce financial exclusion associated with informality.

Argentina intends to harness digitisation to financially include the underserved, particularly those affected by informality. Argentina recognises that informality is a complex issue that requires policy action on several fronts, particularly on institutional development, and tax and regulatory reform. Under the financial inclusion agenda, Argentina's objective is not to formalise those in

³ The ILO's 2002 International Labour Conference (ILC) Resolution and Conclusions concerning decent work and the informal economy proposed a broader scope for the framework of the concept of informal economy, which comprises "all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements". This is the definition followed by Argentina. ILO (2013). Decent Work and the Informal Economy. (http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_212689.pdf)

⁴ ILO (2014). Transitioning from the informal to the formal economy. (http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_218128.pdf)

⁵ ILO. <http://www.ilo.org/global/topics/employment-promotion/informal-economy/lang-en/index.htm>

the informal economy, but financially include them. That said, by increasing the amount of registered transactions and payments carried out electronically, Argentina will focus on one channel of transmission of informality, contributing to formalisation in the long run.

This agenda is very relevant for both developing and developed countries. In the former, the prevalence of informality remains high and digitisation may offer new opportunities to deliver financial inclusion to sectors affected by it. In the latter in particular, technological change is reshaping the workplace and leading to an increasing number of work arrangements that do not imply a stable, formal source of income for workers⁶. Financial services will need to adapt to this. Moreover, financial exclusion associated with informality in developing countries has negative spillovers for developed countries, particularly by increasing the available channels for terrorism finance.

This agenda contributes to the Argentina's Presidency's strong focus on gender policies. Since there is a majority of women in the informal economy, addressing the financial exclusion pervasive in this sector will proportionally affect more women, impacting positively on gender equality.

ARGENTINA'S GPI PRIORITIES AND APPROACH

Argentina's Presidency will seek to deliver an integrated policy guide to harness digitisation to address the financial exclusion of individuals and SMEs in the informal economy. This work will build on that of the Chinese and the German Presidencies, in particular by supporting the implementation of the G20 High-Level Principles for Digital Financial Inclusion (HLP-DFI). Its aim is to serve as a practical guide for policymakers in the implementation of the digital financial inclusion agenda. Argentina's Presidency will focus on a small number of key enablers that hold the greatest promise to harness digitisation to financially include the underserved, especially in the informal economy:

1. Regulatory approaches to enhance financial inclusion through digitisation (digital on-boarding).
2. Development of digital payments infrastructure and incentives to accept digital payments.
3. The use of alternative data to enhance credit reporting.
4. Consumer protection and financial literacy.

⁶ This relates to Argentina's priority of "the future of work".

To advance this agenda, Argentina's Presidency will work closely with each of the GPI Subgroups, integrating their work into a unified deliverable on which policymakers in G20 and non-G20 countries can rely to advance financial inclusion. Argentina's Presidency aims to enhance coordination among the GPI Subgroups and the GPI Troika, and ensure stronger links with the broader G20 Finance track agenda. Likewise, Argentina will focus on areas where international cooperation is necessary.

1) Regulatory approaches to enhance financial inclusion through digitisation (digital on-boarding)

Access to reliable identity data is critical for achieving financial inclusion goals. People cannot use formal financial services without some form of identification that enables providers to verify their identity and minimize the risk of fraud while complying with Customer Due Diligence (CDD) regulations. Despite this, approximately 20 per cent of individuals in emerging markets and developing economies remain unregistered in their country.⁷ Even when people have some form of identification, they cannot register remotely for financial services if that identification cannot be digitally authenticated. Moreover, current on-boarding processes at financial institutions are largely disconnected from other systems, namely CDD, leading to a fragmented view of the client and opacity in the process, with significant losses in efficiency.

Available technology offers a solution to improve identification and verification of new customers. Digital identities, biometrics and Know Your Customer utilities provide a unique opportunity to leapfrog traditional paper-based forms of identification and registration to scale up a robust and efficient on-boarding system. Such a centralized digital on-boarding system across different lines of business and jurisdictions would ensure consistency and faster due diligence. It would also set a clear goal for countries exposed to financial crime risk to meet global Financial Action Task Force (FATF) standards on money laundering.

Argentina's Presidency will work on guides to assist policymakers develop digital on-boarding systems while meeting Anti-Money Laundering and Countering Financing of Terrorism regulatory standards. This work, undertaken in coordination with the Regulation and Standard Setting Bodies Subgroup, would advance the implementation of Principle 7 of the HLP-DFI ("Facilitate Customer Identification for Digital Financial Services"), which calls for the development of a safe and efficient system of digital customer identification and verification. Argentina expects that this work will also contribute toward achieving greater international coordination on digital on-boarding policies.

2) Development of digital payments infrastructure and incentives to accept payments

⁷ World Bank, Identification for Development (ID4D) dataset.

Achieving greater use of digital payments, particularly low among individuals and SMEs operating in the informal sector, is essential for financial inclusion. While this goal can be pursued through various means, Argentina considers two dimensions particularly important. First, there is a need for a cost-efficient, robust and open system that connects digital financial services providers, digital payments services providers, telecom companies and other players to clear and settle payment transactions, while supporting CDD requirements. Reducing the barriers for payments service providers to enter the payments system infrastructure offers a great opportunity to enhance competition and innovation in the industry and result in greater supply of user-friendly, targeted, and affordable payment services for the underserved. Secondly, it is essential that individuals and SMEs, including those operating in the informal sector, have the right incentives to accept digital payments.

Argentina's Presidency will work towards producing policy guidance to develop an open and sound digital payments infrastructure taking into account the various contexts. Working with the Markets and Payment Systems Subgroup, Argentina aims to provide a set of policy tools that can guide policymakers on how to develop an open and inclusive digital payments system that facilitates the entry of new players, increases competition and innovation, and hence improve the quality of payment services and products offered to the population.

Additionally, Argentina will work towards developing policies that provide the right incentives to increase acceptance of digital payments, particularly by those in the informal economy. The lack of access to and use of a digital payments system is particularly acute among informal retailers and individuals. Policies that improve incentives will be an important step to financially include the underserved.

3) The use of alternative data to enhance credit reporting

Information asymmetries in credit markets are a critical mechanism for generating financial exclusion. Underserved individuals and small enterprises, especially those in the informal economy, need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities. They cannot access credit because they often lack credit histories and financial documentation, making it burdensome and costly for credit providers to assess their repayment capacity.

The use of alternative data or big data holds great promise to expand access to finance for individuals and small businesses, especially those operating in informality. The massive volume of data that is generated by the increasing use of digital tools and information systems represents an important opportunity to leverage digital technology to cater to the informal and financially excluded. Every time an individual or a small business uses cloud-based services, makes or accept digital payments, and engages in social media, a digital footprint is

created. Leveraging big data analytics, this raw information can be used as behaviour predictors to support the decision-making process of credit extension.

Under Argentina's Presidency, work will continue on the use of alternative data and new technology to enhance risk identification and assessment of financially excluded individuals and small businesses. Working with the SME Finance Subgroup and leveraging the on-going collaboration with the International Committee on Credit Reporting (ICCR), Argentina will develop policy guidance for regulators and policymakers on the application and use of alternative data in the context of credit reporting. Specifically, guidance will be developed on addressing challenges and opportunities that alternative data and big data analytics bring to the credit information market for both individuals and small businesses. This will build on the work of the German Presidency.

4) Consumer protection and financial literacy

Digitisation offers an unprecedented opportunity to advance the financial inclusion agenda but it also introduces new challenges. Digital financial services can pose significant consumer risks, especially for those without access to formal financial services. These risks include the absence of safeguards for funds managed by unregulated providers; irresponsible lending; limited disclosure of terms and conditions; and fraud and failure to ensure confidentiality of data. Risks are compounded by the complexity of new technologies and services as well as low levels of financial literacy. This potentially limits the positive impact that digital financial services can deliver to both individuals and small businesses.

A sound consumer and data protection framework and increased digital and financial literacy are essential to the responsible and beneficial development of digitisation. Building trust and confidence in the acquisition and use of digital financial services for the financially excluded requires that regulation both promote innovation and incorporate consumer protection. At the same time, the evolution of digital technology calls for renewed efforts to strengthen financial and digital literacy and awareness among both consumers and small businesses.

Argentina's Presidency will work on practice and guidance tools for consumer and data protection. Specifically, Argentina will work with the GPI Subgroup on Financial Consumer Protection and Financial Literacy to provide the following deliverables covering consumer and data protection. Regarding consumer protection and financial literacy, the deliverable will provide direction on developing effective digital financial inclusion initiatives and further raise awareness of the potential opportunities and risks of digitisation. On the data protection side, Argentina will develop high-level guidelines for policymakers on opportunities and challenges of the beneficial use of alternative data. This work will advance the implementation of Principles 5 and 6 of the HLP-DFI ("Establish Responsible Digital Financial Practices to Protect Consumers" and "Strengthen Digital and Financial Literacy and Awareness").

OTHER THEMES

1) Remittances

Under Argentina's presidency, work will continue to improve the environment for remittances. The National Remittances Plan was updated in 2017. We welcome the coordinated work between the Financial Stability Board (FSB), FATF and the GPI to address remittance providers' access to banking services. The FSB created a Remittance Task Force (RTF) that reports to the FSB Correspondent Banking Coordination Group, which is taking stock of past and on-going initiatives related to remittance providers' access to banking services, including through consultations with the private sector. We look forward to the RTF's final conclusions and recommendations to be presented in a report to G20 Ministers and Governors in March 2018.

2) Forcibly Displaced Persons

Under Argentina's presidency, work will continue on the financial inclusion of forcibly displaced persons. GPI members agreed on continuing the mandate of the Temporary Steering Committee (TSC) on "Financial Inclusion of Forcibly Displaced Persons" for another year. The TSC will lead the process of developing a roadmap 'for sustainable and responsible financial inclusion of forcibly displaced persons' by 2018 as requested by the G20 Leaders in the G20 Hamburg Action Plan. The TSC will decide on an efficient process to ensure that non-G20 countries, humanitarian organisations, academia and the private sector will be adequately involved.

KEY DATES

In 2018, Argentina will host one GPI Workshop and GPI Meeting in February, and the GPI Forum and GPI Plenary in June. The 4th GPI Standard Setting Bodies (SSBs) Conference will be hosted by the Financial Stability Institute (FSI) at the Bank for International Settlements (BIS). If required, subgroup seminars and side events may also take place throughout the year.

GPI Workshop, 6 February 2018, Buenos Aires, Argentina

GPI Meeting, 7 February 2018, Buenos Aires, Argentina

GPI Forum, 7 June 2018, Buenos Aires, Argentina

GPI Plenary, 8 June 2018, Buenos Aires, Argentina

4th GPI SSBs Conference, 24 and 25 October 2018, Basel, Switzerland

GLOSSARY

Alternative Data: A generic term that designates the massive volume of data that is generated by the increasing use of digital tools and information systems. It allows for the development of predictive models.

Biometrics: A set of technologies used to measure and analyse people's physical and behavioural characteristics to identify and authenticate an individual.

Digital identity: A range of technologies used to confirm the identity of actors in financial transactions or other applications, e.g. to prevent fraud and to ensure the security of clients and counterparties.

Financial Inclusion: access to and use of affordable financial products and services – transactions, payments, savings, credit and insurance – by individuals and businesses delivered in a responsible and sustainable way.

Know Your Customer Utilities: Facilities managed by third-party platforms that aim to streamline the collection and exchange of data between banks and their clients, while maintaining appropriate privacy controls.

Mobile and Web-based Payments: Applications that allow consumers to conduct transactions through their mobile phone or tablets, improving efficiency and the customer experience.

SME: Small and Medium Enterprise.