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APEC: Trekking the Road to Financial Inclusion

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Introduction

Financial inclusion has evolved from being a buzzword to being recognized as an important pathway towards inclusive growth. In APEC, the promotion of financial inclusion as part of the region's inclusive growth agenda started out as an immediate policy response to the 2008 Global Financial Crisis (GFC). As large investment houses and financial corporations closed down, ordinary people lost jobs and incomes, heightening the risk of economic, financial, and social exclusion.

Reeling from the aftershocks of the GFC, APEC promoted an inclusive growth agenda at the 17th APEC Economic Leaders' Meeting in Singapore in November 2009. One of the initiatives identified under inclusive growth is increased access to finance and financial services. In response, APEC member economies have launched financial inclusion strategies parallel with financial literacy programs.

Financial inclusion is an issue of growing importance to policymakers due to its potential to contribute to key development objectives such as economic growth and increased welfare. This has been recognized by the G20[1], which prioritized discussions in late 2008 and 2009 on the interlinked policies of financial inclusion and responsible finance.

The aim of this policy brief is two-fold: 1) to enhance awareness on the financial inclusion and literacy programs being implemented within the APEC region; and 2) to examine whether these strategies and programs have translated into greater financial inclusion and improved access, especially increased use and knowledge of available financial products and services in APEC.

Defining Financial Inclusion

Financial inclusion centres on financial access as the primary requisite, although organizations and economies have varying definitions.

The main similarity among the various definitions is that financial inclusion is focused on the delivery of financial services to the marginalized and low-income segments of society with the end-goal of improving lives and reducing poverty.

While APEC as a whole does not have a formal definition of financial inclusion, meaningful initiatives have been launched on the matter, primarily through the Finance Ministers' Process (FMP). The APEC FMP's efforts to promote financial inclusion largely aimed at increasing awareness and expanding access of vulnerable segments of society. As such, initiatives centred on increasing women's access to financial services, improving the level of financial knowledge and awareness among poor households, and enhancing the financial skills of small and medium enterprises (SMEs), among others. In 2015, the FMP launched the Cebu Action Plan (CAP), with financial integration as one of its four main pillars[2], and sharing financial inclusion and literacy strategies as one of the concrete actions under this pillar.

Moreover, the FMP has taken into account rapid technological changes by including the development of digital ecosystems as one of its priorities in 2016-2017. For 2018, the FMP has started developing a capacity-building package on advancing financial inclusion that focuses on financial innovation and consumer protection. This initiative aims to share experiences and good practices among APEC economies, particularly on the mechanisms employed by governments to foster financial innovation while ensuring consumer protection, including working with the private sector. In line with this, the FMP has also conducted activities to improve consumer's digital financial literacy and awareness.

Financial inclusion, as defined by Beck (2016), means access by enterprises and households to formal financial services that are both appropriately-designed to meet their needs and also, reasonably priced. This access to financial services includes geographic access, taking into account proximity to a financial service provider; and socio-economic

[1] Nine APEC member economies are also members of the G20: Australia; Canada; China; Indonesia; Japan; Korea; Mexico; Russia; and the United States. The other G20 members are: Argentina, Brazil, France, Germany, India, Italy, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the European Union.

[2] The other pillars are: Fiscal Reforms and Transparency; Financial Resiliency; and Infrastructure Development and Financing.

access, relating to the absence of prohibitive fees and documentation requirements.

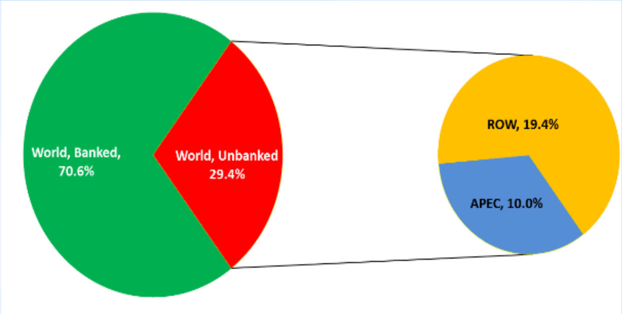
The Asian Development Bank (ADB) broadly defines financial inclusion as the degree of access of households and firms, especially poorer households and SMEs, to financial services.

The Consultative Group to Assist the Poor (CGAP) is of the view that financial inclusion means being part of the financial system by having an account at a formal financial institution that will allow access to a bank, savings account, debit card, insurance, or line of credit, to help people, especially poor household to conduct daily transactions, manage cash flows, finance small businesses, and improve overall welfare.

The World Bank (WB) defines financial inclusion as access by individuals and businesses to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit and insurance—delivered in a responsible and sustainable way.

The WB estimates that, in 2017 alone, around 1.6 billion adults worldwide are unbanked or do not have an account at a formal financial institution, translating into 29.4 percent of world adult population. About 556 million adults aged 15 and above in APEC are unbanked and do not use formal financial services. This is around 10 percent of the world adult population and 24 percent of the total adult population in the APEC region (Figure 1).

Figure 1. Percentage of World Adult Population without an Account at a Formal Financial Institution, 2017



Source: World Development Indicators (WDI), WB.

To support the financial inclusion agenda, the WB's Development Research Group launched the Global Financial Inclusion Index (Global Findex), which is currently the most comprehensive database that serves as a basis for policymakers and researchers to set policies and understand the factors that impact on individuals' use of financial products and services[3].

The Global Findex comprises a core set of indicators that are expected to address five basic aspects of financial service use: accounts, savings, borrowing, payments, and insurance[4].

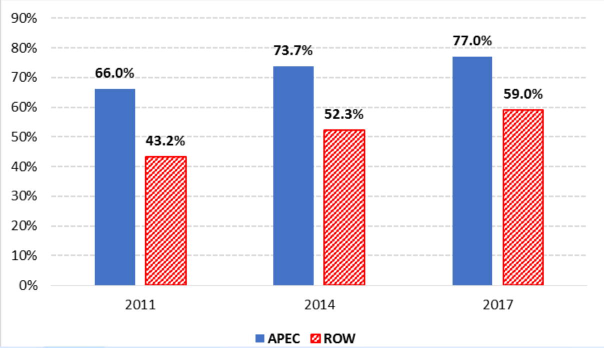
APEC Performance in the Global Findex

While there are variations in APEC economies' performance on financial inclusion as measured by the Global Findex, the APEC region as a whole has performed remarkably well in ensuring access to financial services, with an upward trend in averages across the years.

Using indicators for which data is available for at least 19 out of the 21 APEC member economies[5], it is observed that the results for APEC have improved in recent years and are more favorable compared to the average fetched by the rest of the world (ROW).

The number of respondents aged 15 and above who maintain an account with a bank or any financial institution, either by themselves or together with someone else, reached 77 percent in APEC by 2017, higher than the ROW average (Figure 2).

Figure 2. Percentage of Adults with an Account in any Financial Institution



Source: Global Findex Database (2011, 2014, 2017), WB.

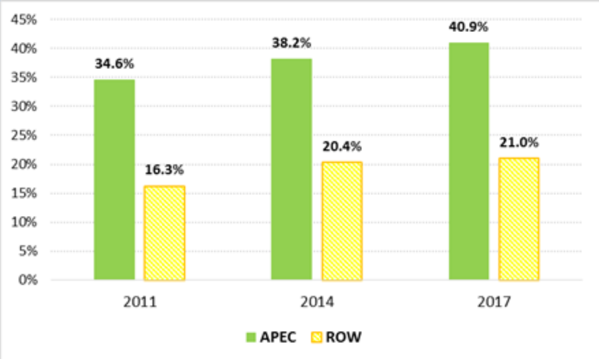
[3] The Global Findex is a demand-side database that provides quantitative measures of how easily individuals can access financial products and services made available by formal financial institutions. Supply-side data are being gathered through the International Monetary Fund's (IMF) Financial Access Survey (FAS) and the Alliance for Financial Inclusion's (AFI) Core Set of Financial Inclusion Indicators.

[4] The indicator "bank accounts" measures the percentage of adults with an account at a formal financial institution, including a bank, credit union, post office or microfinance institution. The savings dimension takes into account the percentage of adults who saved during the past 12 months using a formal financial institution. Borrowing is determined using both the flow and stock measurements. The flow measure makes use of the percentage of adults who borrowed from a formal financial institution within the past 12 months; while the stock measure looks at the percentage of adults with outstanding loans used to purchase a home or an apartment. Payment patterns is measured by computing for the percentage of adults who used a formal account to receive wages or government payments within the past 12 months and those who used a formal account to receive or send money to family members living elsewhere within the past 12 months. The indicator on insurance takes into account the percentage of adults who personally bought private health insurance and also those who work in farming, forestry and fishing, and personally paid for crop, rainfall, or livestock insurance.

[5] Data not available for Brunei Darussalam and Papua New Guinea.

In addition, the number of respondents aged 15 and above who saved at a financial institution increased to around 41 percent in the APEC region in 2017, almost double than the average fetched by the ROW during the same year (Figure 3). It is also noticeable that the number of respondents who stated that they are saving or setting aside money at a financial institution is only about half of those who reported that they have an account at a financial institution.

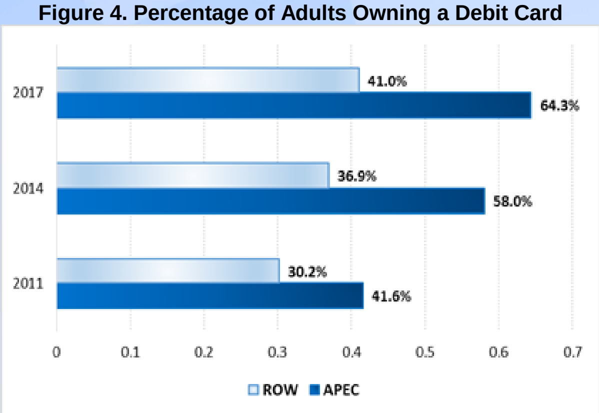
Figure 3. Percentage of Adults who saved at a Financial Institution



Source: Global Findex Database (2011, 2014, 2017), WB.

In terms of card ownership, debit card ownership is more prevalent compared to credit card ownership, globally and in the APEC region (Figures 4 and 5).

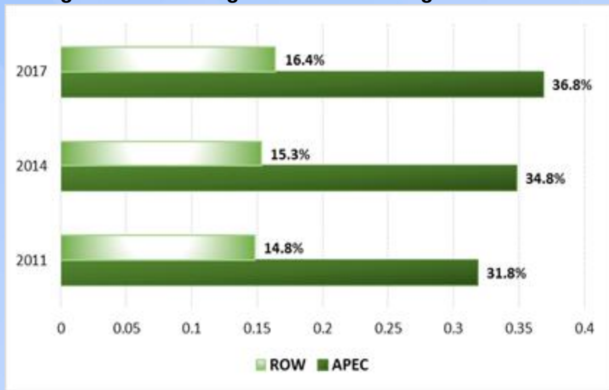
Figure 4. Percentage of Adults Owning a Debit Card



Source: Global Findex Database (2011, 2014, 2017), WB.

The list of documentary requirements and processing time are usually lengthier for credit card applications. This is due to the fact that financial institutions need to thoroughly examine credit worthiness as it entails more risks. Credit card users have longer payment period and could delay or even default on payments, while with debit cards, funds are automatically deducted upon usage. Nonetheless, it is noted that card ownership—either credit card or debit card—is generally low across the world.

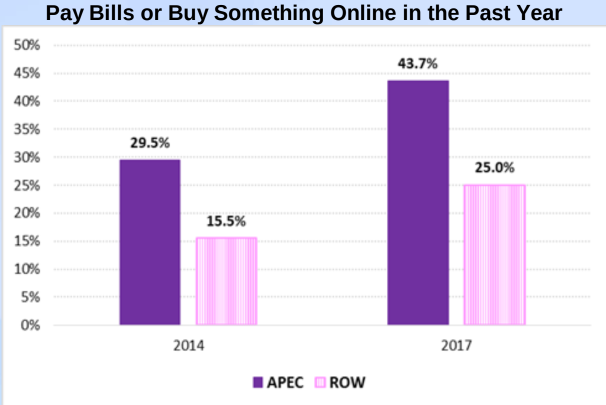
Figure 5. Percentage of Adults Owning a Credit Card



Source: Global Findex Database (2011, 2014, 2017), WB.

The advent of technology has given rise to the use of the internet and mobile phones to conduct financial transactions, particularly in paying bills or making purchases online. In 2017, almost 44 percent of respondents in the APEC region aged 15 and above used internet to pay bills or buy something online in the past year, a marked improvement from the 29.5 percent recorded in 2014 (Figure 6).

Figure 6. Percentage of Adults who used the Internet to Pay Bills or Buy Something Online in the Past Year



Source: Global Findex Database (2014 and 2017), WB.

The progress made by APEC economies in the area of financial inclusion as measured by the Global Findex is consistent with the programs and strategies implemented in the region to increase awareness about the availability of and the means to access financial services and products.

Information gathered as of June 2018 shows that 20 out of the 21 APEC member economies have launched financial literacy programs that are geared generally towards equipping consumers with understanding about available financial instruments and services to help them make informed investment decisions[6].

Moreover, 15 APEC economies have established domestic financial inclusion strategies with specific objectives and action plans. It should be noted that

[6] Information gathered from central banks and economy sources.

some APEC members who are G20 members could have implicitly adopted the G20 financial inclusion action plan (FIAP)[7] instead of establishing their own, so that the number of APEC economies with a financial inclusion strategy could include up to 18 members. In addition, some APEC economies are taking important steps towards developing and improving their own financial inclusion strategies such as conducting an economy-wide survey to determine the level of financial inclusion and publicly announcing the approaches that they are considering in formulating a financial inclusion plan.

An example is the Philippines, which, through the Bangko Sentral ng Pilipinas (BSP), has conducted an economy-wide Financial Inclusion Survey (FIS) involving Filipino adults. The results of the 2017 FIS highlighted the challenges and opportunities for digital financial inclusion. In particular, the survey found that the uptake for electronic payments and remittance transactions via formal accounts is low, with only 18 percent receiving salary, 12 percent sending/receiving money, and 6 percent receiving pension using their account. In response, the BSP has implemented the National Retail Payment System (NRPS), its flagship program for digital finance, which is aimed at creating a safe, efficient, and reliable electronic retail payment system that is interconnected and interoperable.[8]

The financial inclusion strategies and financial literacy programs of the majority of APEC economies are mostly catered towards widening access to and enhancing knowledge of traditional financial products and services offered by formal financial institutions. However, this may change as Financial Technologies (FinTech) become more important in the financial sector. In fact, one economy, Singapore, has already promoted FinTech explicitly as a way to widen access to financial services in this digital era.

In its simplest definition, FinTech refers to technologies used or applied in financial services. FinTech is the product of the evolving relationship and intersection of technology and financial services. The rapid changes and magnitude of innovations introduced in so short a time have redefined FinTech as disruptor technologies that have transformed the delivery of financial services in terms of efficiency, costs, and quality.

Final Remarks

The overall goal evident across the APEC region is to make financial inclusion an economy-wide agenda that will allow increased participation of vulnerable groups in the financial decision-making process. This, in turn, should result in better investment decisions, higher incomes, and enhanced living standards for all.

Less than 10 years after the launch of the APEC inclusive growth agenda with financial inclusion as one of its initiatives, significant improvements are observed in people's access to financial services and education/information in the APEC region, as measured by the World Bank's Global Findex.

The progress made so far is encouraging. These benefits trickle down to ordinary people—a mother needing a small loan with low interest rate for her home-based cupcake business; a worker looking for safe financial instruments to invest his salary in and in the process, earn more than the prevailing deposit rate; or an innovator looking for capital to launch a new app.

So much has been done in less than a decade, and there is so much more that could be done. There is no one-size-fits-all: every economy is expected to implement a financial inclusion strategy that is appropriate and feasible given its development stage, economic priorities, and culture. Nonetheless, government support remains vital to the success of financial inclusion strategies and financial education programs. The role of government is to ensure that an appropriate and functioning regulatory and legal framework is in place, adequately supported by technological and financial infrastructures. Strengthening credit information bureaus is equally crucial to the financial inclusion agenda as it enables lending institutions to make sound decisions and apply appropriate interest rate schemes that should help both the lender and borrower achieve their respective objectives.

There are many other ways that governments, together with the financial sector, can contribute in making financial inclusion more meaningful for all. Such short-term solutions that will increase participation in the financial process could include: reducing documentary requirements, especially collateral requirements to take in more borrowers; granting exemptions from cumbersome documentary requirements where appropriate; lowering transaction charges; allocating resources for micro, small, and medium enterprises (MSMEs); and facilitating electronic or mobile transactions for increased convenience at less cost, among others.

[7] G20 Leaders approved the multi-year FIAP in November 2010. The FIAP is guided by the nine high level Principles for Innovative Financial Inclusion, which are basically practical recommendations to aid policymaking: leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality, and framework.

[8] BSP, Financial Inclusion Survey: Moving Towards Digital Financial Inclusion (2017), available at: http://www.bsp.gov.ph/downloads/Publications/2017/2017FISToplineReport.pdf

Within the region, there are several avenues where APEC economies can collaborate and conduct joint activities involving knowledge-sharing and capacity-building, for example, on sharing best practices to strengthen credit bureaus or credit information-sharing mechanisms, implementing an incentive structure that encourages commercial banks to allot resources for MSMEs, and other such practices that lend support to the goal of financial inclusion.

For example, the APEC FMP has led the way in advancing the financial inclusion agenda in the region. In 2015, finance and central bank deputies under the FMP partnered to help build the Asia-Pacific's financial sector into an engine for more "inclusive economies" whose benefits should be widely felt by businesses and people across the region. Among their priorities are boosting access to capital and markets, particularly for small businesses which account for over 97 per cent of firms and half of employment in APEC economies; and developing and linking credit information bureaus among APEC economies to provide readily available credit information on potential borrowers as well as allow for easier analysis of risks and faster financing access.

Within APEC, the FMP counts as its partners the APEC Business Advisory Council (ABAC), the Human Resources Development Working Group (HRDWG), the Policy Partnership on Women and the Economy (PPWE), and the Small and Medium Enterprises Working Group (SMEWG), among others.

The ABAC for its part has launched a Financial Inclusion Initiative in 2010, centering on the conduct of an annual forum to provide an avenue for policy dialogue on expanding new channels to serve the financial needs of the unbanked. In 2014, the HRDWG published the APEC Guidebook on Financial and Economic Literacy in Basic Education. The document contains guidelines on curriculum development and resource mobilization to help design and implement relevant learning activities that boost financial and economic literacy in primary and lower secondary schools. The PPWE has also worked with the FMP under one of its main policy priorities seeking to improve access to capital for women. Meanwhile, the FMP has been an important source of support for SMEs. A Memorandum of Understanding on Cooperation among APEC Financial Institutions Dealing with SMEs to support financing for SMEs was signed in 2003.

The APEC region is on the right path in moving towards greater financial inclusion as one of the passageways towards inclusive growth. A majority of APEC economies have successfully launched financial inclusion strategies and financial literacy programs, even though more work can still be done as mentioned earlier. Effective and continuous implementation is critical, so that more and more people in the region have access to financial information, products and services, particularly the marginalized and low-income groups, including those who live in remote rural areas.

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