THE DIGITAL FINANCE FUTURE:

Inclusive and Global Economic Growth

MERIDIAN
INTERNATIONAL CENTER

TABLE OF CONTENTS

THE DIGITAL FINANCE FUTURE:
Inclusive and Global Economic Growth

1 INTRODUCTION

Worldwide, over two billion adults lack an account at a financial institution. With a majority of people in developing nations relying on cash, many are left outside the formal economy. As such, the underprivileged are not benefiting from traditional financial systems, which elongates their economic disadvantage in society. These individuals need better mechanisms for saving, sending and borrowing money. As policy makers, innovators and development leaders around the world confront these issues, digital financial services have emerged as tools for growing a more inclusive global economy, improving global ties, and building sustainable futures for all.

Joining this growing global conversation, Meridian International Center launched *The Digital Finance Future: Inclusive and Global Economic Growth* convening series. Over a six-month period, Meridian brought economic and political counselors and other members of Washington D.C.'s international diplomatic corps together with influential business leaders, U.S. government representatives, journalists and members of civil society for a series of intimate conversations exploring the role of digital tools in expanding financial inclusion throughout the world.

The Digital Finance Future officially launched at the Meridian Global Leadership Summit on October 14, 2016. The series continued with five sequential convening sessions, each of which brought together approximately 30 individuals from foreign embassies, U.S. government agencies, multilateral development organizations, financial inclusion incubators, tech startups and the media for intimate conversations on various topics related to economic inclusion through digital financial services and emerging technologies.

The first session was geared toward members of the media who explored the role of data and the importance of designing national strategies for economic inclusion. Following, Meridian held four regional sessions for diplomats from nations in Sub-Saharan Africa, South and Central Asia, East and Southeast Asia, and Latin America and the Caribbean, respectively. Every session also involved Meridian's Rising Leaders Council and Corporate Council, as well as a larger influencer network of international business, policy and technology leaders – all of whom have the potential to serve as change catalysts and advance digital financial inclusion of the underprivileged in all nations.

Each of the five sessions took place over two hours and was structured by two segments separated into three parts. The first element was two short presentations from financial inclusion experts, who framed the overall discussion. Each presentation was followed by simultaneous small-group discussions among attendees at their respective tables, and concluded with the full group of participants reconvening to share key insights that emerged from the breakout conversations. After every two-hour session, Meridian produced a recap highlighting critical takeaways and synthesizing insights shared during that specific program. This is the compendium of these session summaries.

Initiatives like *The Digital Finance Future* help ensure that issues of domestic and international importance are addressed through substantive dialogue in a neutral setting that fosters collaboration needed to drive policy discussions and cross-cultural exchanges within and beyond Washington's diplomatic community. In order to accelerate the universal transition to the digital economy, government and policy makers need to work together to establish policies and regulations that facilitate sustainable developments and provide oversight and accountability. Meridian is pleased to leverage our convening power and approach to advance this effort through initiatives like *The Digital Finance Future*, which is made possible by the Bill & Melinda Gates Foundation.

2 MESSAGE FROM THE PRESIDENT

The Digital Finance Future initiative connects strongly with Meridian's mission of advancing effective global leadership to promote a more secure and prosperous world. Meridian routinely focuses on global economic development issues, principally through the scores of public and private sector exchange and leadership development programs that we implement across the United States and around the world each month. The initiative also engages Meridian's longstanding relationship with the diplomatic corps in Washington to equip them as leaders who influence policy for sustainable impact.

- Ambassador Stuart Holliday, President and CEO, Meridian International Center

3 SESSION 1: MEDIA

The Digital Finance Download: Diplomats and Journalists Explore the Data Driving Financial Inclusion in the Future Global Economy - *November 17, 2016*

Attendees participate in a digital wallet exercise

Over breakfast, journalists gathered with diplomats and digital finance experts for a roundtable discussion on the role of digital services in creating a more inclusive global economy. Ambassador Stuart Holliday, Meridian's President and CEO, welcomed the group with thoughts on the state of the global economy. "When we think about the world today – in terms of inequality, income and the uncertainty around migration in countries – economic stability is so important." The digital revolution has become part of that equation, opening up access to banking and financial tools for 500 million people in the past five years alone. Yet billions of people worldwide are still unbanked. While we are beginning to see change toward greater financial inclusion, there is a long path ahead that requires action from governments, regulators, policymakers, consumers, humanitarians and business leaders around the globe.

Ambassador Stuart Holliday, President and CEO, Meridian International Center

To demonstrate the need for cross-sector collaboration in the future digital economy, Rosita Najmi, Program Officer at the Bill & Melinda Gates Foundation, facilitated a group exercise on digital financial services. Holding up a wallet, just like the ones most people carry around today, Rosita prompted the participants to examine the wallets in front of them. "Take a good look because these wallets are among the last of their kind." The financial industry is transforming as physical money and manual transactions are digitized – not because digital is trendy but because digital financial services have benefits and advantages, particularly for the poor. Not all lives have equal opportunity today but digital tools and services are helping to reduce the cost of financial inclusion in order to create a future economy that benefits everyone.

Inside each wallet was a set of assets that included everything from a mobile phone, which symbolizes how digital money can go more places more quickly and more securely than cash, to an identification card, which 1.5 billion people worldwide lack today – a major barrier to accessing vital financial services. Najmi called the participants' attention to a "24" bill, representing the average number of people forced to flee their homes every minute. She described the growing importance of humanitarian responses that safely assist with money transfers across borders. "My family came to the U.S. as refugees from Iran. My brother was responsible for carrying our money. We had $5,000, and he put it in every pocket of his body … That's neither safe nor secure."

Another bill inside the wallet was labeled "97" to represent the percentage of garment workers in Bangladesh who are paid in cash, with little or no accounting and protection against theft. For many workers, cash wages do not always come on time and managers may skim a little bit for themselves. These inconveniences and corruption can be erased by a verifiable digital payment direct to a personal account. Employers can also benefit from digital payments, which ensure more careful accounting and save them money by being more efficient than labor-intensive cash payments.

When it comes to inclusion in the formal economy, women experience more barriers than men. This is largely because cultural norms and policies can make it harder for women to obtain and manage their own accounts. In countries like India, poor people are putting cash savings into a household account that oftentimes does not permit women access. "It needs to be one account per adult to be considered financial inclusion," said Doug Pearce, Practice Manager for Financial Infrastructure and Access at the World Bank Group. Overcoming behavioral barriers, Pearce explained, is necessary to shift fully from a cash economy to a digital one, which could not only alleviate barriers for women but also make saving and managing finances safer by using mobile technologies.

Samuel Schueth, Technical Director at InterMedia, an organization that collects demand-side data to guide deployment and track usage of financial tools in developing countries, explained the financial inclusion gender gap while referencing the wallet's "1.1 billion" bill, which represents the number of women – or 42% of the female population – who are excluded from the formal economy. "It's defined as the percentage of men who have access to a financial services account minus the percentage of women. While it varies across metrics and country to country, the gap is closing for men but not for women."

My family came to the U.S. as refugees. My brother was responsible for carrying our money. We had $5,000, and he put it in every pocket of his body … That's neither safe nor secure.

Inclusivity also depends on the degree to which governments address privacy and security challenges in the digital market. Victor Shiblie, Editor in Chief and Publisher of The Washington Diplomat, raised questions about the responsibility of governments to create safety valves that control outflows of money in the digital market. In the Western Hemisphere, many nations are concerned about new risks through digitization like cybercrime and rights to privacy and control of individual data. Offering a counter perspective, Najmi noted, "The concerns that many European countries and the U.S. hold around privacy and security are not globally shared." For example, India created a digital locker where people keep core documents about themselves and personal identification because, in doing so, they can easily access and participate in government provisions and services.

One of the convening session's featured presenters, Olivia White, Partner of McKinsey & Co., elaborated on the importance of participation in assessing financial inclusion. McKinsey Global Institute's new report "Digital Finance For All" (September 2016) has a more nuanced view of financial inclusion, which goes beyond the traditional notion of account ownership and delves into active use – saving, investing and borrowing. In many developing economies not everybody is financially included, certainly middle class people, but even wealthy people who rely on cash or do not have access to credit. In Pakistan, a country of 100 million people, there are under 250,000 mortgages. Realities like these demonstrated to White and her McKinsey team the need to assess macroeconomic benefits of digital financial services.

By 2025, increased use of digital finance could increase global GDP to $3.7 trillion. This equates to 1.5 times Africa's GDP or is the same as giving $600 to every person in the emerging world. A more robust global GDP also drives job growth. The projection for new jobs generated because of increased financial inclusion is 95 million across emerging markets, White stated from the report.

Olivia White,
Partner, McKinsey & Company

Pearce, the other featured speaker in this session, addressed the World Bank Group's role in enabling financial inclusion, specifically at the country level. He leads a team developing national financial inclusion strategies in 25 countries that represent 73% of the world's unbanked. Operating under a goal of 1 billion new account holders by 2020, the World Bank helps these countries meet financial inclusion targets by working with authorities on reforms that prioritize and initiate financial inclusion through digital services. Pearce said the national scope of each strategy allows for better coordination of resources, which signals to the private sector an easier path to innovate and invest in financial services. The "FinTech," or financial technology, trend for inclusion is already proving effective in countries like China and India, where 84% of the 1.43 billion new accounts from 2014 to 2015 were created.

As the world moves toward a borderless economy, the opportunities and implications of digital finance are also growing more nuanced. Puru Trivedi, Associate Director for Corporate Relations at Meridian, nodded to the intersection of finance and politics, specifically the recent demonetization of India's currency as a move to force people off the illegal market and into the formal economy – but without fully considering the consumer implications. On the flip side, the digital marketplace could provide new opportunities for government subsidies, which a majority of the world's poor and rural farmers rely on for survival.

From a system perspective, financial regulators will also need to begin thinking differently about their roles – moving beyond compliance to ongoing supervision. "In managing the digital economy, regulators can use digital tools to help customers gain more confidence in the system," Najmi purported. She explained how sending an SMS that acknowledges a customer's submitted complaint, with a record number and response timeline included, would be monumental compared to the radio silence most people experience with the existing financial industry.

As more people around the world build trust in digital financial services, participation in the future digital economy will also grow. With a financial revolution upon us, people not governments will begin voting with their money about which countries are most hospitable to their economic future.

4 SESSION 2: SUB-SAHARAN AFRICA

Bridging the Digital Inclusion Divide in Sub-Saharan Africa: Takeaways on the Policies and Regulations for Digital Finance and their Impact on Rural and Agricultural Communities *- January 25, 2017*

Alonzo Fulgham, President of Galileo Energy Partners BV and Meridian Trustee

The first regional session of *The Digital Finance Future* examined the role of policy and regulations shaping Sub-Saharan Africa's digital finance landscape, with a particular focus on how it impacts rural and agricultural communities. The first speaker, Dr. Stijn Claessens, Senior Advisor to the Board of Governors of the Federal Reserve System, explored the challenges to advancing digital financial inclusion through cross-sector partnerships given existing policy and regulatory environments. The second speaker, Max Mattern, Financial Sector Analyst, Customer & Provider Solutions at CGAP, unveiled the consequences (sometimes indirect) of certain policies and regulations on rural and agricultural communities, whose economically disadvantaged position is compounded by geographic and cultural barriers.

Regulations and Reality

Across the discussions, the group collectively identified an overarching problem of the disconnect between regulations and reality. In the existing regulatory framework, there are multiple regulators for providers of financial services. Discussants raised concern over how the various regulators' interests are not always aligned and their lines of communication are not always open, which can create distortions that favor some providers over others – and ultimately impact financial service facilitators like agents and consumers the most. In Indonesia, rules for hiring e-money agents are applied differently to banks than mobile network operators. Meanwhile, "Know Your Customer" (KYC) laws that prevent banks from being used for money laundering or other criminal activities are applied to smallholder farmers not relevant to

Rosita Najmi, Program Officer for Financial Services for the Poor, Bill & Melinda Gates Foundation

their daily needs or operations. Agricultural business is seasonal, which makes for seasonal payments following seasonal crop sales. Farmers often receive seasonal payments a few times a year in large sums of cash. Unfortunately, KYC laws impede most smallholder farmers from receiving funds digitally, which requires them to travel long distances to reach a physical bank and collect their payments in cash. The alternative option is to direct the single large payment across numerous bank accounts and request multiple transfers of small funds to their mobile devices. These options are neither safe nor efficient for farmers.

Emphasis was placed on the need for greater balance and transparency in regulations surrounding digital financial services, which could be achieved through policy changes allowing for greater market competition and innovation. Participants from across sectors called for the involvement of private sector influencers to help adopt and adapt innovations in digital finance and encourage use of financial services by low-income populations. While sharing these sentiments, discussants representing multilateral finance organizations and policy spheres in particular emphasized the importance of financial inclusion policies being compatible with traditional mandates of financial regulation – stability and integrity of the system and consumer protection.

The Informal Sector Conundrum

Given the current policy and regulatory environment, challenges remain to advancing financial inclusion through formal channels. Discussants referenced costly barriers to entering the formal economy, like higher taxes on business accounts over personal ones, as well as behavioral barriers stemming from fear and mistrust of both traditional banks and digital tools and services. For farmers or artisans who live and conduct business differently from urban dwellers, the cash economy is more accessible, familiar and favored – despite the disadvantages. Participants asked what the formal and informal sectors could learn from one another in order to address the unique needs of different populations and create value in formal financial systems by tapping into their particular desires. Those from nonprofits and philanthropies examined the issue more holistically, emphasizing the importance of contextual finance, which requires representation of all stakeholders to ensure that economic needs and interests are addressed in culturally relevant ways across communities, businesses and governments.

Cross-Sector Partnerships to Advance Inclusion

All participants noted that cross-sector partnerships are at the heart of creating a healthy and inclusive digital finance ecosystem. Reflecting on the importance of context, discussants stressed the value in having multiple players working together to better understand the specific financial needs and wants of various groups. They also highlighted perspectives that are currently missing, in particular the end user or client of digital financial services, as evidence for strengthening relationships among all stakeholders.

As economic governance grows more collaborative in the digital age, opportunities emerge for increased data sharing and open networks. Representatives from both government and private business raised concern over data privacy and security; meanwhile those individuals from philanthropies and international development offered examples like India's digital locker, which draws on support from banks, private companies and the government to house personal documents of millions of citizens who have control over who accesses what information. In offering these examples, attendees built the case for cross-sector involvement in creating open data policies that, by nature, are more transparent and thus help build trust in and adoption of digital financial services.

Understanding Needs through Data

Participants also mentioned ancillary benefits of data sharing, including greater understanding of the needs of rural populations that lack financial resources and/or access to them and collective problem solving to drive benefits to the individual user. Emphasis was placed on country-specific, if not localized, approaches to bridging the rural-urban divide in emerging economies, inclusive of but not limited to Sub-Saharan Africa. Another benefit of open data systems is increased digital literacy, which could help increase experimentation with more digital tools and services – by users and creators alike.

One interesting provocation came from a representative of an international development organization who challenged a suggestion to stem rural to urban flow using data. The provocateur argued data should help with provision of resources and equitable access to them, which would make flows into cities more organic and less concentrated. For example, equipping more farmers with tools so they do not have to leave their land and families to seek employment or new income streams in cities.

Building Capacity alongside Financial Inclusion

With the future policy and regulatory environment in mind, discussants looked ahead to the potential of cross-sector partnerships to not only build a case, but also capacity, for a digital finance-driven world. Participants highlighted flexible regulation that allow for low-risk innovation to broaden financial services and products; policies that encourage free market competition among financial service providers; and surround-sound programs in financial literacy and digital finance training for banks, farmers and beyond.

With the ubiquity of mobile phones reaching every corner of the world, there is untapped potential to build capacity in agricultural communities, which are home to 1.5 billion people and produce food for 80% of the world's population. Participants shared ideas about tech savvy youth in rural areas helping to increase the value of agricultural production by working with entrepreneurs around the world while creative financial policies could lower cost barriers by offering rainfall or crop insurance to farmers' collectives. Individuals representing startups and economic development firms suggested digital finance providers diversifying product and service offerings for farmers through apps with crop encyclopedias and GPS land mapping that are highly relevant and attractive for these groups. Others stressed the importance of going beyond savings to help farmers operate and thrive sustainably in a digital-first financial system.

Dr. Stijn Claessens, Senior Advisor, Board of Governors of the Federal Reserve System

With mobile phones reaching every corner of the world, there is untapped potential to build capacity in agricultural communities, which are home to 1.5 billion people and produce food for 80% of the world's population.

Measuring Impact and Success

The conversation culminated with all participants thinking about next steps for advancing financial inclusion through digital services around the world. Many reflected on the examples offered and ideas shared during the session to emphasize the importance of metrics in helping measure quality and define success. A U.S. Government representative encouraged the group to shake traditional notions of success and consider financial health as one indicator. Most of the entrepreneurs, development consultants and philanthropists in the room elevated the role of metrics in making digital finance scalable. These final interactions mirrored the very ideas shared during the session, with individuals from across sectors having open conversation about the opportunities and challenges for the digital finance future.

From Pro-Poor Policies to Biometrics and Demonetization – The Prominence of Women in the Digital Economy - *February 16, 2017*

Vyjayanti Desai, Program Manager of ID4D, World Bank Group

The second regional session explored the financial inclusion gender gap, digital identification and the impact of demonetization in South and Central Asia. Dr. Leora Klapper, Lead Economist in the Finance and Private Sector Research Team of the Development Research Group at the World Bank, presented on the gender gaps in financial inclusion. The second speaker, Vyjayanti Desai, Program Manager of Identification for Development (ID4D) at the World Bank, addressed the opportunities to advance financial inclusion through digital identification and biometrics – as well as the barriers to full adoption of these emerging technologies. Beth Rhyne, Managing Director of the Center for Financial Inclusion at Accion, gave a short overview of India's demonetization and facilitated a full-group discussion exploring the implications of this country's economic shake up on the future of digital finance.

Defining Parity in Digital Finance

Before diving deeper into the gender gaps in financial inclusion, most participants sought to define parity. In particular, there was differentiation between parity in terms of both assets and access. One participant hypothesized that while statistically 90% of women could have accounts, 80% of them might have minimal amounts of money in those accounts compared with men who often have much more due to a variety of factors ranging from earned wages to inheritance.

Discussants also explored parity of economic growth, particularly in the realm of loans. While women have equitable – if not prioritized – access to microloans, they have far less access to commercial loans. What will it take to move business loans for women entrepreneurs from $500 to $1,000 and beyond? Against the cultural and legal backdrop of South and Central Asia, women often lack the collateral necessary to acquire commercial loans. Many participants from think tanks and financial inclusion organizations offered examples of inheritance laws, cultural notions of ownership and patriarchal decision-making as barriers to moving the needle on economic parity.

Probing further into the definition of parity, participants examined the binary gender groupings of "men" and "women." They identified different subgroups of women, broken down by socioeconomic status, employment status, marital status, religion and age, among other categories. On employment, one participant raised a question about whether employment and financial independence are choices that shape and/or are shaped by cultural tolerance. This thought exemplifies many conversations had about the role of societal norms and cultural mores, often country- or region-specific, that influence conceptions of parity.

Designing Inclusive and Culturally Specific Financial Products and Systems

In further discussing the role of customs and traditions, participants explored how culture, convenience and development can go hand in hand to advancing women's financial inclusion – rather than hindering it. An example that best demonstrated this marriage of culture and finance was shared by an attendee who started a self-help group for women in rural India and helped advance their financial inclusion by leveraging existing social norms in their village. With males being the primary, if not sole, decision-makers in the community, these women had to rely on one of their sons to open a bank account that the group would be able to manage. This example demonstrates the interplay of gender and trust, and how long-standing cultural conceptions around them can still serve to benefit women seeking greater financial inclusion in communities where the shift toward digitalization and parity are slow.

Cultural context was also central to a discussion around the "how" of financial inclusion: How will products and services be designed to meet the unique needs of specific populations – in particular, women and the subgroups among those women? How will economic inclusion programs help increase access to these products and services? How will the technologies, services and programs be rolled out? While many of these questions were rhetorical in nature, they prompted participants to think about the systems and processes necessary for not only adoption but also implementation, integration and full operation of digital financial services.

Anushe Khan, Senior Operations Officer for SME Banking and Banking on Women, International Finance Corporation; Margaret Miller, Lead Financial Sector Economist for Finance & Markets, World Bank Group

The diplomats were particularly concerned about designing policies and regulatory systems that meet the needs of women and the poor. One diplomat from a Central Asian country advocated for pro-poor policies that could help to overcome some of the legal barriers related to ownership and inheritance. A few individuals from multilateral organizations and representing European perspectives presented remittances as one arena to make more pro-poor. One idea offered was reducing fees that are often incurred through money transfers and currency exchange, which make a significant dent in the total income earned by low-wage, poor people. Noting that laws in many South and Central Asian countries are linked to traditions, customs and histories that often compound the disadvantaged position of the poor, discussants contemplated whether changing social norms and cultural mores, or changing laws and policies should come first when developing pro-poor strategies for financial inclusion.

Laws in many South and Central Asian countries are linked to traditions, customs and histories that often compound the disadvantaged position of the poor.

Those favoring policy-led change provided examples of government incentivizes that are working to include underprivileged groups. In Kazakhstan, government workers receive wages digitally – essentially direct deposits to their bank accounts – which has helped accelerate inclusion simply by providing access to accounts. For the female workers in particular, the government's mandate helped circumvent any possible cultural barriers that women typically face to opening and managing their own accounts. The Bangladeshi diplomat shared how their government recently took a monumental step forward in addressing the financial inclusion gap by opening accounts for all unbanked citizens, which according to the diplomat was nearly 70% of its 110 million population. Beyond setting up these bank accounts, the diplomat said the Bangladeshi government worked with the central bank to place one 'taka' (local currency) in each one. While the long-term impact of this initiative has not yet been felt, the short-term outcomes include a narrowing financial inclusion gender gap in a country with a significant parity deficit, particularly among older women. Diplomats and other experts who have worked in Bangladesh nodded to the country's Internet access and technological literacy, which trail behind other countries in South and Central Asia.

A few provocations followed these examples of government incentives. Of note was one participant who inquired whether any fellow discussants considered ways for private sector to incentivize wage earners in non-governmental sectors to go fully digital. Along these lines, other attendees emphasized the need for greater financial and tech literacy programs, specifically for women and the poor, as well as campaigns to educate local banks and finance ministries on the barriers to economic inclusion that poor women face. A majority of discussants recognized that, in order to address the financial inclusion gaps and catalyze parity, all sectors must mobilize time and domestic resources toward strengthening female agency. Research has shown time and again that when women have greater power and agency over their income, the benefits trickle down to improved education for their children and family health.

Digitizing IDs for Greater Inclusion

One arena where the private sector is playing a significant role in advancing economic mobility is the digitization of national identification. Demand-side, digital IDs have benefits of increased security over personal information, compliance with 'Know Your Customer' regulations, and SIM registration compatibility. Supply-side, the dramatically decreasing costs of technology make digital IDs an attractive option for managing personal information. As more governments work with tech and data management companies to digitize citizen identification – everything from birth certificates and health records to proof of residency – more opportunities for economic inclusion are afforded to the underprivileged. For poor women in particular, digital identification is helping them overcome cultural barriers to accessing the financial tools and services that could lift them out of poverty.

Sk. Aktar Hossain,
Commercial Counselor, Embassy of Bangladesh

In South Asia, dominant cultural conceptions of women as inferior to male authority often prevent women from acting independently, especially over financial matters. Poverty further marginalizes women, as the financially disadvantaged often lack the proper documentation or merely the agency to access and operate many products and services – inclusive of and beyond the digital finance realm. In rural villages, for example, women who possess some form of identification oftentimes are denied services because business owners or financial agents, who are predominantly men, do not view them as truly independent and thus qualified to make economic decisions or manage financial resources.

Against this societal context, participants discussed the potential for digital IDs to circumvent cultural challenges. One attendee

As more governments work with tech and data management companies to digitize citizen identification – everything from birth certificates and health records to proof of residency – more opportunities for economic inclusion are afforded to the underprivileged.

prefaced this conversation by distinguishing between two types of identity data: technical/legal information and social/political information. Biometrics, the analysis of a person's physical and behavioral characteristics, have emerged as the leading technology for providing neutral "identity data" used mostly for authentication purposes. They have been particularly beneficial for women, the poor and other marginalized groups that are often subject to discrimination and manipulation, because of the social and political constructs around their identities. As 'foundational' identification, biometrics lower barriers to entry and access for these disadvantaged groups by utilizing de-politicized personal information only.

In some countries, governments are linking biometrics and digital identification to social services, specifically aimed at helping women and the poor. Participants shared examples from India, where social safety net programs are linked directly to bank accounts, which required a digital ID to access. The Pakistani government takes this one step further by depositing welfare payments into the accounts of female heads of households as a means to ensure that funds are being used for appropriate social supports. The spillover effects of this initiative include more enrollment of unbanked Pakistani women and thus increased female agency and decision-making power over family matters.

The uniqueness afforded through DNA also provides a safeguard to security gaps in the digital space. Participants explored what a fully digital health system would look like, with many reacting positively to the revolutionary potential of biological technology and others fearing the outcomes of security breaches or data blackouts around personal information. One optimistic participant shared a vision of universal application of biometrics, specifically by leveraging midwives to catalyze the shift toward digital documenting of births.

Other participants zeroed in on the unknowns, particularly around data security. Assuming that governments will be leading the charge for national digital ID systems, like India has, attendees questioned, Who will have the key to data if the government changes or pushes back? One participant postulated that digital IDs could be disadvantageous in nations with dissonance between government and citizens. This participant argued that citizens should have the right to speak out against government, but when government holds the key to its citizens' information the potential for manipulation still remains. Discussants emphasized the need for safeguards that ensure balance between ease of using digital IDs and the access they afford, along with balancing between the private space and the private court, and between the right to be your own person and to manage your own information. Foreign diplomats actually presented the United States as an interesting case study when it comes to balancing citizen rights and identification. As a country where citizen and state rights triumph, a national ID system – albeit a digital one – is less important because citizens have the right to choose identification and what types. All IDs in the U.S. – whether local, state or federal – come with varying advantages and levels of access to particular services and opportunities. Examples discussed range from a state driver's license, which grant driving permission on national roadways, to federal passports allowing for international travel.

Most of the privacy concerns were shared among US Government and corporate-sector representatives, who hypothesized that a massive security breach would be the fastest way to undermine a national ID program. Interestingly, the diplomatic corps actually dismissed their privacy concerns, noting that while security is important people in countries like Africa and South Asia just want to have an identity. "Think of all we could do if we had an ID … We don't all feel like we count right now," stated one participant. By the end of this discussion, the consensus was that the opportunities afforded with a digital ID outweigh the privacy concerns, and entrepreneurs in the room proposed access as the challenge to focus on, not privacy.

As such, the conversation steered toward the need to carefully measure and monitor the effectiveness of digital IDs through impact evaluation. Participants suggested devising a common set of principles on identification in order to foster collective knowledge- and resource-sharing, to design systems for global interoperability, and to make smart investments. One of the financers in the room proposed the idea of fiscal savings invoices that could link the impact of digital IDs on addressing challenges such as ending child marriage, advancing financial inclusion, curbing forced displacement, and reducing costs of ID infrastructure, among other suggestions.

Beth Rhyne,
Managing Director, Center for Financial Inclusion, Accion

Matt Homer,
Senior Policy Advisor, USAID

India's Demonetization: The Economic Shock toward Digital

The timeliest conversation of the session was around India's demonetization, which was effective November 8, when India's Prime Minister Modi made a surprise announcement that 500-rupee banknote and 1,000-rupee banknote0 denomination banknotes – 85% of all the currency in circulation – would no longer be legal tender. Featured presenter Beth Rhyne explained how Modi originally sold the public on demonetization by framing it as a story about curbing corruption – going after bad guys running India's illicit market and financing terrorism. After the initial announcement, a new narrative emerged and began emphasizing the push toward a fully digital society. While there were previous efforts to digitize India's economy, many participants felt that demonetization was the "shock therapy" needed to catalyze and accelerate the shift.

While the long-term impacts are unknown, the outcomes of demonetization indicated a positive signal for the future of digital.

Interestingly, they withheld from qualifying this shock, which many financial inclusion experts have publicly criticized as "poorly executed … an unnecessary shock to India's financial system and the economy as a whole … a setback for Indian women's financial inclusion …" Participants who were on-the-ground during demonetization and/or closely following the immediate aftermath admired how despite the short-term inconveniences of chaotic banks, ATM incompatibilities and abandoned lorries on the streets, there was no political outcry. Some discussants presumed the majority of Indian citizens bought into the anti-corruption narrative while others suggested it forced a nationwide adoption of mobile platforms as means to access and move money.

Overall, the conversation revealed how important payments are for managing an economy – it is not the inconvenience factor as much as the actual breaking of the ability to make economic transactions. Participants acknowledged that while the long-term impacts are unknown, the outcomes of demonetization indicated a positive signal for the future of digital which, if sustained, could further advance inclusion overall and deepen trust in government. This could be especially monumental for the lower-income segments of India's population, which were hit hardest by the country's economic hit – a 1% drop in GDP (equivalent to $20 billion), increased housing and unemployment rates, and more diligent tax collections.

For poor merchants in particular, a fully digital payments system may compound pre-existing challenges and barriers to inclusion. Policymakers in the room reinforced the role of 'Know Your Customer' regulations, which require specific types of documentation to accept digital payments. Others addressed the disparities between those with access to large sums of cash who engage in 'white-collar' crime activities like money laundering and individuals who operate daily in illicit market trade, trying to fly below radar – but who could perhaps be more traceable and therefore more frequently penalized in the digital economy.

In further exploring the unknowns of demonetization, financial inclusion experts questioned the impact it could have – if any – on India's gender gap. According World Bank's Global Findex, financial account ownership in India increased from 35% to 53% between 2011 and 2014; meanwhile, the financial inclusion gender gap increased from 17% to 20%. Much of India's financial inclusion was driven by mobile technology but, rather than serving as a fast track to financial inclusion for everybody, the digital drive actually widened the divide between men and women. Discussants wondered whether demonetization would widen the gap further or create a ripple "shock" that prompts the government to pay specific attention to the economic needs of its female citizens. Despite having more questions than answers the implications of India's demonetization, attendees remained optimistic about the future of digital finance.

6 **SESSION 4: EAST AND SOUTHEAST ASIA**

Culture is Key to Changing Behaviors, Attitudes and Regulatory Environments in Digital Finance - *March 9, 2017*

Lee Satterfield, EVP and COO, Meridian International Center

The third regional session explored the role of regulations and technology, as well as behavioral biases and culture, in the digital drive for financial inclusion in East and Southeast Asia. Featured speaker Kyle Holloway, Financial Inclusion Program Manager at Innovations for Poverty Action, outlined strategies for fostering healthy financial behaviors, particularly as developing nations fold into the digital economy. Leading the second presentation was Dr. Jay Rosengard, Director of the Mossavar-Rahmani Center for Business and Government's Financial Sector Program at Harvard Kennedy School, who unpacked the emerging role of RegTech – the intersection of technology and regulations – in digital finance.

Trust in Finance

Participants discussed how foundational concerns, namely trust, precede behavioral biases around use of digital financial services. Representatives from policy and development organizations cited ethnographic research on varying levels of comfort among individuals who, for the first time, entrust their money and information to financial institutions. Oftentimes, cultural and social norms have a significant influence. In Pakistan, most women are not comfortable talking with male financial agents, primarily because of gender norms that give male heads of households the authority over accounts that women in their families may own. Moreover, skepticism around security of personal information also influences these women's experiences with finance. Many women give out their mobile phone numbers or addresses when making financial transactions and, as an unintended but cultural consequence, they might receive unsolicited calls or visits from the male agents. In this regard, culture can inhibit the trust needed to overcome barriers to women's financial inclusion.

While there are strategies to change the realities for women in Pakistan and help foster more trust in the finance sector, they are not universally applicable. One participant cited research about the effectiveness of female mobile money agents, who typically have higher sales and more transactions than their male counterparts. While this evidence alone is a compelling call for women to lead the mobile agent field, there is unfortunately reluctance among women in some cultures to even take up such a professional role – and the extra training and security protocol required are additional barriers.

Beyond these examples, participants noted that there is actually limited data on levels of trust in using financial technology. For this reason, many of the diplomats in the room offered examples of their respective countries' legal mandates to foster trust in digital finance and encourage greater economic inclusion. In some nations, government employees are required to have bank accounts to receive their wages. In other cases, governments have developed policies to curb financial corruption. One diplomat offered an example of the old 'five-six' lenders who used to be the only accessible means to borrow money in rural areas: people would go to these lenders asking to borrow five units of currency and owe six by the end of the day. As the government outlawed these informal lenders and instead allowed for bank branches to operate in rural areas, more people began managing their money through the banks. This example showed how building trust is the first step in changing perceptions of and interactions with formal financial institutions. The next step is expanding this trust through digital mediation. Another participant highlighted the Mexican government's mandate of all citizens using ATM cards to not only withdraw from their bank accounts but also transfer funds and receive subsidies. Twenty years since the policy, financial behaviors have normalized – demonstrating how repeated use of new tech-driven financial services can help build trust over time.

Building trust is the first step in changing perceptions of and interactions with formal financial institutions.

However, attitudes around government policies aimed at improving financial behavior typically vary across generations. Participants discussed how younger generations are more likely to adapt new technologies and explore their myriad applications, yet they do not want to be told what to do with their money. Governments that mandate a certain percentage of wages be directed toward a particular type of savings or withheld from a paycheck – even if the requirement has the consumer's financial health at interest – can risk backlash and eradication of trust in their efforts to advance digital economic inclusion.

Cultural Context is Key to Improving Financial Health

Going hand in hand with building trust is understanding cultural context when encouraging new behaviors and attitudes around financial management. In Indonesia, there is no penalty for making a late payment on loans or credit charges. Rather, on-time payments are rewarded with a bonus. As such, financial institutions in Indonesia are first meeting citizens where they are in terms of existing financial habits and subsequently encouraging a natural shift toward better financial behavior through an incentive structure. With each behavioral change occurring at the individual level, Indonesia may see a natural societal shift toward better financial practices.

HongXia Liu, Associate Vice Chancellor at New York University Shanghai and Meridian Trustee;
Schan Duff, Senior Fellow of the Financial Security Program at The Aspen Institute

Another core takeaway was that cultural context matters when designing products and strategies for financial inclusion. Representatives from the nonprofit sector addressed the importance of embedding digital tools and resources for financial inclusion into existing cultural practices so that healthier financial behaviors emerge naturally and are sustained within the social fabric. In some societies, for example, a digital savings pool that anyone from the community can contribute to may be more effective and more desired than each individual having his or her own bank account and mobile phone.

Participants also discussed the necessity of understanding cultural context in order to avoid patronization, particularly when introducing new financial technologies. Many participants from development organizations and the business community referenced how most financial software and tools are typically built by people from Western/developed countries for customers around the world. However, the unique needs and desires of customers in developing countries and/or underprivileged communities are often neglected or not fully explored. One example offered was how tech leaders from Facebook to WhatsApp have rolled out their services to mobile phone users who do not in fact want or see a utility for those services. In digitally connected but not digitally socialized cultures, most people use their phones to check football scores that they then discuss in-person with their family and neighbors – rather than through mobile chat applications. This conversation reiterated the importance of understanding the desired uses of digital tools before designing them under unchecked assumptions.

Attendees also explored the role of ethnographic entrepreneurship in financial inclusion. One discussant presented a domestic example to drive home this point: in rural Alabama, online banking is usually unsuccessful because people view the digitization of banking as a disruption to their social life. In fact, most rural Alabamans look forward to physically going to the bank and interacting with the local bank teller with whom they can exchange stories and catch up on their personal lives. On the flipside, another participant shared how some Asian banks have demonstrated ethnographic entrepreneurship by designing 'level-zero' accounts that allow typically disadvantaged people to build credit through alternative metrics, like mobile phone usage. The more financial institutions and FinTech entrepreneurs consider cultural context, the more relevant their services and products will be for, and thus more readily adopted by, the consumer.

Campaigning for Healthy Financial Behaviors

Given that cultural resistance and lack of trust in digital financial services still remain a challenge to advancing global economic inclusion, participants discussed the need for advocacy and public education campaigns alongside government policies. History has shown the effectiveness of such campaigns given that, time and again, people tend not to act in their own best interest – from not wearing helmets or seatbelts to texting while driving. Effective marketing campaigns that employ messaging like "click it or ticket" have helped to encourage healthy behaviors. As such, discussants presumed similar tactics could apply to digital finance.

> *The more financial institutions and FinTech entrepreneurs consider cultural context, the more relevant their services and products will be for, and thus more readily adopted by, the consumer.*

One participant emphasized the importance of cultivating healthy financial behaviors at a young age, offering the piggy bank as one such mechanism to assist. This participant explained how some schools in developing nations have launched campaigns that promote good financial behavior by encouraging young children to put one coin per day into a piggy bank, which demonstrates how little things add up over time.

Another call for education among the participants surfaced while discussing how new financial technology can be 'dangerous' if the end users lack understanding of its applications and potential benefits. In the digital era, there are limitless opportunities for cross-sector collaboration in mobilizing resources and data in order to illustrate the potential outcomes and benefits of digital financial saving and management. Public-private partnerships in an education capacity not only amplify the advocacy messaging around digital financial behaviors but they also demonstrate the very transparency needed to build and retain public trust in the shift toward a digital-first future.

Defining RegTech

Before diving into the role of RegTech in the digital economy, participants first unpacked the term. Many expressed how there is a tendency to think about RegTech as a way to modify regulations to allow new players into the industry, namely tech companies or finance start-ups. But RegTech is actually the distinct technology designed to help enforce regulations – just like FinTech is technology for financial

Mukti Setianto, Second Secretary, Embassy of Indonesia; Mohsin Chandna, Economic Minister, Embassy of Pakistan

institutions. While these new technologies have emerged as tools to help regulators avoid and manage risk, many unknowns still remain around how RegTech can also propel innovation in the digital economy.

Participants discussed how most innovators want a rule book on digital finance regulations while regulators want to understand all possible outcomes before designing regulations, for fear of creating regulatory loopholes. Historically, regulators have seen FinTech entrepreneurs as a source of risk. Leaders of financial inclusion programs illuminated the possibility to change that relationship with RegTech: If regulators view the FinTech entrepreneur as someone who can help them improve their job of supervision, and if FinTech entrepreneurs see the regulator as a potential customer, new public-private partnerships could forge that naturally change the digital finance regulatory environment.

One example offered to demonstrate this success involved the Central Bank of the Philippines, which recently identified a need for FinTech to address consumer protection issues and for securing data sharing internally among bankers. When it comes to instances of fraud, corruption and money laundering, regulators are now able to use technologies to address and settle these issues in real-time. RegTech is also helping regulators ensure that consumer protection laws are not only in place and but also enforced, which is particularly important given all the skepticism around data security in the future digital economy. Through RegTech, financial institutions and regulators are better able to manage safety while simultaneously encouraging healthy competition and innovation in the digital finance market.

Digging in the Regulatory Sandbox

Despite the progress, participants expressed how dialogue is still needed to sort through some of the confusion around who is actually responsible for the regulation of digital finance. Some nations have developed regulatory 'sandboxes,' which are often symbolic of the conversation space for regulators and industry players to determine which regulations should be relaxed in order to advance the digital economy.

Participants cited the importance of these conversations, particularly in scenarios where multiple groups have a stake in the regulatory process. In Kenya, the communications authority offers guidance to the Central Bank. In Tanzania, the regulatory sandbox has helped bring together different players who oftentimes use technology to disentangle overlapping and conflicting regulations. In Singapore – the Asian FinTech capital – the banking system is fairly homogenous but regulatory sandboxes are helping relax strict rules and encourage an openness toward innovation.

In more developed nations like the United Kingdom, sandboxes are focused almost exclusively on innovation because the digital finance sector is already advanced. Most Western and developed countries are thinking about the digital single market and block chain, not necessarily how to get more women to adopt mobile technologies for financial transactions. A participant from the UnitedStates Congress reiterated the importance of innovation in the regulatory space, using the US Government's outdated legislation as a prime example of how to easily run the risk of over-regulating in emerging fields like digital finance.

Through RegTech, financial institutions and regulators are better able to manage safety while simultaneously encouraging healthy competition and innovation in the digital finance market

While regulatory sandboxes are helping to start cross-sector conversations around how to advance global financial inclusion through digital means, participants expressed the need for more data collection and information sharing across these sectors in order to create more transparency and change perceptions of regulations. A prime example of this need was cited by one participants who shared how big banks in Mexico are heavily regulated and, as such, have created subsidiaries that operate as finance companies to avoid certain types of regulation. Taking advantage of loopholes in regulatory systems is neither a sustainable nor healthy way to operate in the digital economy. But with the emergence of regulatory sandboxes, big banks and regulators alike now have a 'safe space' to share data and perform controlled experiments aimed at rejuvenating the health of regulatory environments like Mexico's.

While most participants concluded that it is still too early to predict the influence of RegTech and 'sandboxes' in the future digital economy, they acknowledged that policy makers and central banks must continue working with private enterprises, nonprofits and grassroots communities to ensure that approaches to financial regulation are culturally relevant, country-specific and inclusive. Doing so will help strengthen trust and accountability in the global push toward the digital economy.

7 SESSION 5: LATIN AMERICA AND THE CARIBBEAN

Taking a Risk with Digital Finance: When Big Banks Leave Latin America & the Caribbean, Governments Leverage FinTech to Assist the Poor - *March 28, 2017*

Bonnie Glick, Senior Vice President, Meridian International Center

The final regional session focused on the benefits of digital financial services to governments in Latin America and the Caribbean. An emphasis was placed on poorer nations that have been negatively affected by stagnant financial flows due to perceived "risky" economic activity. Sonia Arenaza, Regional Lead for Latin America and the Caribbean of the United Nations-based Better Than Cash Alliance, presented on how governments could benefit from digitizing payments to citizens. Vijaya Ramachandran, a Senior Fellow of the Center for Global Development, set the tone for the rest of the conversation, which centered around the role of digital finance in helping migrant workers primarily from poor countries overcome barriers imposed by strict anti-money laundering and counter-terrorism rules, and to transfer money in more secure and transparent ways.

How Finance Flows

In today's increasingly globalized and digital economy, money flows in myriad ways. Among them, four financial flows are particularly important for advancing economic development and inclusion: trade, correspondent banking, humanitarian aid and remittances. The latter flow – remittances, or the money sent home by migrant workers in foreign countries – is of most concern to poorer nations that are fiscally dependent on large populations of their citizens working abroad.

Globally, remittances have overtaken any kind of foreign aid or financial assistance as being most critical to developing nations, according to Vijaya Ramanchadran. In fact, remittances flow into poor countries at 3 to 4 times the level of international aid. This is unsurprising given that global migration patterns over the past century have illuminated where the greatest financial opportunities lie. For countries in the Caribbean and Central America, which are fiscally dependent on remittances, these flows have a greater economic impact as more people continue to leave home for work elsewhere and send money back to loved ones.

Historically, migrant workers have used a number of means to send money back home. Formal financial channels like bank-to-bank transfers are the most secure means; however, a significant share of remittances flow through informal routes like Western Union or MoneyGram. Oftentimes people seek alternative methods because transfer fees are lower and/or the transaction is more convenient for either or both the sending and receiving parties. Globalization coupled with the rise of technology have helped to integrate domestic financial systems and allow for the emergence of new financial services in international markets. While governments have a harder time tracking remittances that flow through informal channels, public-private partnerships have facilitated in monitoring and reporting these financial movements – and though cash-based exchanges are almost entirely untraceable, they still have a significant economic impact.

Globalization coupled with the rise of technology have helped to integrate domestic financial systems and allow for the emergence of new financial services in international markets.

In recent years, migrants have taken less secure measures to send money home, such as filling suitcases full of cash to move through airports or public bus and railway systems. This is largely a result of the recent de-risking or "de-banking" phenomenon, in which global financial institutions are increasingly terminating or restricting business relationships with remittance companies and smaller local banks in certain regions of the world. After the September 11 terror attacks and the 2008 economic crisis, the international finance community cracked down on money laundering and terrorism by designing a set of policies to regulate and trigger risky financial activities. They also began imposing burdensome fines on financial institutions in compliance. Since then, the number of fines has continuously increased. In 2014, the fines imposed on U.S. banks in violation of anti-money laundering rules totaled to $15 billion. This alone sends a chilling signal worldwide that if suspected of engaging 'bad actors', financial institutions could expect to receive large fines and risk driving away business.

Unfortunately, few banks or governments can accurately identify "bad actors" of nefarious investments or bank transfers. This is largely because the regulations around "risky" financial activities are unclear. One participant shared how a $50 bank wire from Pakistan to the U.S. could trigger an investigation while a $10 million transfer from China could fly under the radar as "business as usual," simply because of the different risk levels and triggers associated with the two countries.

Michael Gale, Senior Program Manager, GlobalGiving; Patrick Malone, Program Officer of Mobile Solutions Technical Assistance and Research, FHI 360

What's more, global regulating bodies like the Financial Action Task Force (FATF) in Paris use public shame tactics to deter violation of anti-money laundering and counter-terrorism rules. Specifically, FATF has created a grey list and black list of countries not following rules properly. As a result, these "listed" nations find it nearly impossible to make financial transactions or conduct business with the rest of the world – and fear tarnishing their reputations in the meantime. As discussed among participants, the perception of unreliability was of chief concern to the diplomats. One drew parallels to the release of the Panama Papers, which stained public perception of the country and raised concern in the government and business community about Panama's economic stability and ability to compete in international markets.

How does this play into the global remittance sector? For countries on FATF's lists or on financial regulators' radars for having allegedly weak money laundering systems, remittance flows are stifled. In fact, many banks have pulled out of countries and regions entirely, refusing to do business with local banks or informal money transfer organizations in places where anti-money laundering and counter-terrorism rules are not strictly enforced. In 2011, U.S.-based Sunrise Community Bank closed all money transfer accounts doing business in Somalia. Several other banks followed suit and, by 2015, no one could send or receive remittances to the region, which was highly dependent on them as a primary source of income and aid. U.S. banks have also closed many correspondent bank accounts in Caribbean nations seen as lacking robust anti-money laundering rules. While de-risking is happening in pockets around the world, its effects are hitting the poorest regions the hardest.

The Great Finance Migration

In the Caribbean and Central America, smaller countries with limited financial markets are particularly vulnerable to de-risking practices. As it relates to remittances, one consequence of de-banking money transfer organizations in these developing nations is the spike in use of informal channels by migrant workers sending money home. The more informal the money transfer mechanism, the harder it is for governments to trace remittance flows. From a money laundering or terror finance perspective, this is exactly what official financial institutions and banks do not want.

Attendees explored some of the unintended consequences of de-banking in Latin American and the Caribbean. One diplomat referenced illicit drug trade in Central America to demonstrate how easy it is to move money outside formal financial institutions and still fly under the radar of regulatory bodies looking for exactly these types of risky behaviors. In support of this statement, another diplomat shared personal experience using the financial service Western Union to send money home; while Western Union charges a fee of around $8 USD, it does not require any security measures. For this reason in particular, informal platforms are used for money laundering and terror finance. At the same time, the low barriers to entry and convenience are also attractive to migrants who are undocumented and fear being 'found out' by formal financial systems.

At this juncture, participants examined the role of immigration policies in the economic inclusion of the poor. They discussed strategies to eliminate fear around, and lower barriers to, identification in order to increase undocumented workers' access to financial services that facilitate remittances flows, which ultimately increase opportunities for better employment, education and health.

Discussants also examined what-if scenarios, including when migrant workers are injured and cease working, or when they face deportation. As such, the conversation emphasized a need to accelerate financial literacy and planning among remittance recipients so the funds have greater economic value and returns. A diplomat from a Central American nation shared how remittance recipients oftentimes use the money for consumption or basic expenses like food and utility bills, and other times as a reason to stop working and instead live off the earnings of the family member working abroad. Discussants imagined a future economy in which banks accept remittances as equity for a loan or as collateral for further investment in the poor's own economic inclusion and mobility. At present, however, many policies and regulations ultimately handicap remittance recipients in poor, de-risked countries from utilizing these income streams to their full potential.

Another diplomat from Central America attributed the high cost of banking to the increasing shift toward informal finance – among foreign workers and everyday residents alike. In Colombia, banks charge monthly fees and, as a result, fewer and fewer people are using them. At the same time, people's trust in banks declines as these formal institutions are seen as a 'scheme'. Another diplomat explained how anti-money laundering reforms have made opening a bank account in many Latin American countries a tedious and undesirable process, often involving answering hundreds of questions and waiting an unreasonably long time for verification. Moreover, the strict rules around de-risking have placed more onus on all parties, including non-financial actors, involved with bank transactions to report suspicious financial activity. Even a car dealership is held accountable and could be penalized for circumventing legal mandates.

As public trust in formal financial institutions wanes, and more and more individuals and small businesses seek informal financial systems to skirt around strict rules, they take on risks themselves. They, however, see the risk as worth taking. From a security and regulatory perspective, the informal sector is less ideal but, at the end of the day, it affords poor populations a pathway to access financial systems. This illustrates the need to better understand how people use and access finance in order to reform the regulatory roadblocks to financial inclusion of the poor in de-risked countries.

Rebuilding Trust in the Formal Finance Sector

For governments and formal financial institutions to win back public trust, specifically in 'risky' and developing nations in the region, it is essential that they understand how their current and prospective customers use and access money. Discussants noted that traditional metrics like insurance, average monthly savings and credit scores are often not applicable to people in developing countries. As such, financial and government leaders can instead assess levels of access to and use of financial services by measuring whether people are better able to save, spend and borrow – without getting into demonstrably high debt. They also emphasized the importance of banks and governments surveying consumers to better understand their financial needs. Specifically mentioned how responsive people feel banks are to meeting their daily financial needs.

Participants reasoned that as governments and banks gain deeper, more nuanced understanding of consumers and their unique needs, they are better positioned to tailor everything from risk assessment to financial product offerings to specific customer types and groups. A focal point of the conversation was needing clearer definition and assessment of risk. For example, a tiered system of risk could help manage risk, rather than zero it out. Building on this concept, participants discussed assigning various transaction volumes to different levels of authentication; another idea was to separate institutions responsible for monitoring cash flows and remittances so these specific financial activities are monitored with discretion and specific nuances in mind. One diplomat shared how the lack of coordinated regulating of microfinances in Latin America and the Caribbean leaves gaps in ensuring that the unique needs of the beneficiaries are met – and measured.

Sonia Arenaza, Regional Lead for Latin America and the Caribbean, Better Than Cash Alliance

A better understanding of small business needs could also help address the financial inclusion gaps within the sector, particularly in areas facing significant de-banking. Participants explored how digital services and FinTech could help generate more consumer data to better meet their needs and thereby restore trust in formal finance systems. Ideas ranged from employing digital identification systems to the digitization of government payments and tax collection processes in order to generate more country-level data around GDP growth.

In her presentation, Sonia Arenaza further demonstrated these benefits to governments by focusing on digitized payments to the poor. In many developing countries, the poor operate in a cash economy – for many of the reasons previously mentioned, including lack of documentation to access financial services or trust in the existing structures. With cash comes inefficiencies, including difficulties with printing, transporting and leakages. Theft and bribery are also common issues associated with cash-based markets. By moving in a digital direction, governments create more efficiencies and security for their citizens' financial activities. Moreover, they gain trust and credibility when positioned as champions of innovation, particularly from an economic lens.

Digitizing government payments has emerged as a desirable approach to earning trust and mobilizing adoption of more formal – and digital – financial services among the poor. Payments are a daily activity that require no history or formal financial record. As such, governments are able to bring more people into the formal economy simply by transferring wages and social welfare payments through digital channels. This has an added benefit to domestic economic growth, given that government spending typically represents anywhere from 15-30% of a country's GDP. From a gender lens, women gain significant economic agency by receiving wages directly to an account that they own and manage, which is increasingly transformative for women in cultures where male heads of households traditionally have control over all financial matters.

The conversation also explored how digital finance could help curb much of the corruption and bribery that happens in light of government inefficiencies. In particularly, participants discussed examples of successful government roll-outs of digital financial initiatives. In Mexico, the government centralized wages through the Treasury and then distributed ATM cards for workers to access their earnings. While reluctant at first, workers kept using the bank cards to check their account balance and, when they saw that no money was missing, over time they increasingly built trust in the system, which further encouraged them to use their accounts for other services like credit. In centralizing and digitizing wages, the Mexican government now saves $1.3 billion annually.

The Columbia Coffee Growers Federation has demonstrated how digital payments can also benefit entire collectives of individuals. In shifting payments to coffee growers from cash to smart cards, the Federation has saved, over a period of seven years, a total of $15 million, which was 80 percent of the original expenses in making cash payments. The federation has therefore saved $3.75 million since going digital – and every dollar has benefited the coffee growers directly.

While participants agreed that digital is a best path forward to rebuilding trust in finance, they acknowledged that cross-sector participation and collaboration must be at the heart of the effort. They specifically addressed the need for public-private alignment so that regulations keep pace with innovation, especially when there are benefits to both government and the consumer. Multi-sector networks like the Better Than Cash Alliance can be particularly helpful in aligning government interests in generating more formal economic participation and the tech industry's push for FinTech. These financial inclusion consortiums can also serve as credible advocates for regulatory reform of anti-money laundering and counter-terrorism rules. Participants explored how diversity of stakeholders adds value and legitimacy to campaigns demonstrating how de-risking threatens progress achieved thus far on global financial inclusion.

Mannie T'Chawi,
Co-Founder of LayerCake

The Digital Opportunity for Business

As governance and finance become increasingly digitized, the opportunities for private-sector leadership in advancing economic inclusion will continue to open. Participants recognized that governments are always slower to adopt, so entrepreneurs and innovators have to be the drivers in the future digital economy. To catalyze this, some suggested identifying low-hanging fruit within existing conditions. One example shared was Panama's ratio of mobile phones to people, which is 2.5 to 1. Discussants hypothesized ways for banks, mobile app companies and FinTech leaders to take advantage of this reality. One suggestion was to target tech savvy youth of all socioeconomic levels to adopt digital financial services that have the added benefits of teaching them healthy financial behaviors.

> *Governments are always slower to adopt change, so entrepreneurs and innovators have to be the drivers in the future digital economy.*

Participants representing financial incubators and the wider business community shared examples of existing services such as Zoom and PaysaPay that are bridging the gap for individuals with limited access to formal financial services. As verified businesses, both Zoom and PaysaPay make payments to utility or telecom services on behalf of individuals. These innovations are particularly useful for those lacking documentation or for migrant workers trying to send remittances home to countries affected by tight de-risking rules. While alternatives to formal bank routes, these services nonetheless help the financially disadvantaged gain access and participate in the digital economy.

Thinking far into the future, some participants presented opportunities for blockchain to integrate with government policies around digital finance. The FinTech company BanQu is leveraging blockchain technology to create unique economic identifiers for the under-banked across geographies. Participants explored how this innovation could be helpful from regulatory reform perspective or for governments designing national digital identification systems. A majority of the discussants expressed needing a better understanding of blockchain before thinking about the integration and use of such technology in government.

While perspectives shared among participants reflected the very approach deemed essential to advancing a digital-first government and restoring trust in the formal financial sector, altruism hinges on its success. As one participant put it, digital finance is a double-edged sword that increases transparency – for better or worse, depending on the actors involved.

8 CONCLUSION

This compendium was released on April 20, 2017 at '*The Digital Opportunity: Reducing Global Poverty through Economic Innovation*,' which was the culminating event of *The Digital Finance Future* series. Meridian International Center gathered global influencers across foreign embassies, central banks and ministries as well as business, non-governmental organizations and media for an in-depth discussion on digital financial inclusion and international development. Through featured speakers and panels, we explored the role of technology in financial regulations, the customer experience with financial services, and the opportunity for U.S. leadership in advancing economic inclusion worldwide.

Following the convening, Meridian will organize a working group to determine next steps for further development of the insights and ideas illuminated in this compendium. *The Digital Finance Future* is part of our ongoing effort to advance global economic development and effective leadership for a more secure and prosperous world.

9 ACKNOWLEDGEMENTS

Meridian is a non-partisan, non-profit organization that has been advancing the United States' public and cultural diplomacy efforts since 1960. As a key partner of the U.S. Department of State, Meridian has had tens of thousands of international leaders participate in our exchange programs, broadening our impact as a center for global leadership. With a mission of strengthening international understanding through the exchange of ideas, people, and culture, Meridian ensures that issues of domestic and international importance are addressed through substantive dialogue and collaboration in a neutral setting. We achieve this through initiatives such as *The Digital Finance Future: Inclusive and Global Economic Growth* series, which is made possible by a grant from the Bill & Melinda Gates Foundation. For more information on Meridian and our work, please visit our website: www.meridian.org.

MERIDIAN BOARD OF TRUSTEES

MERIDIAN'S DIGITAL FINANCE FUTURE TEAM

Hon. Stuart W. Holliday, President and CEO
Lee Satterfield, Executive Vice President and COO
Frank Justice, Vice President of Convening
Amy Selco, Vice President of Development
Megan Devlin, Program Manager and Compendium Author
Maria Canellis, Director of Events
Aleksandr Misunin, Creative Director
Olivia Dorieux, Director of Donor Relations
Emma Finkelstein, Chief of Staff
Puru Trivedi, Associate Director for Corporate Relations
Jessica Blinn, Events and Meetings Specialist
Kacie Gauthier, Executive Assistant

BILL & MELINDA GATES FOUNDATION

Rosita Najmi, Program Officer, Financial Services for the Poor

PHOTOGRAPHERS

Zach Adams, Meridian International Center – cover, pages 7,10
Ralph Alswang – cover, pages 3-6
Stephen Bobb – cover, pages 14-17
Joyce N. Boghosian – pages 11-13

#digitalfinancefuture

FOLLOW US @meridianintl /meridianinternationalcenter @meridianintl

MERIDIAN INTERNATIONAL CENTER

www.meridian.org/digitalfinancefuture

BILL & MELINDA GATES foundation