Digital Finance

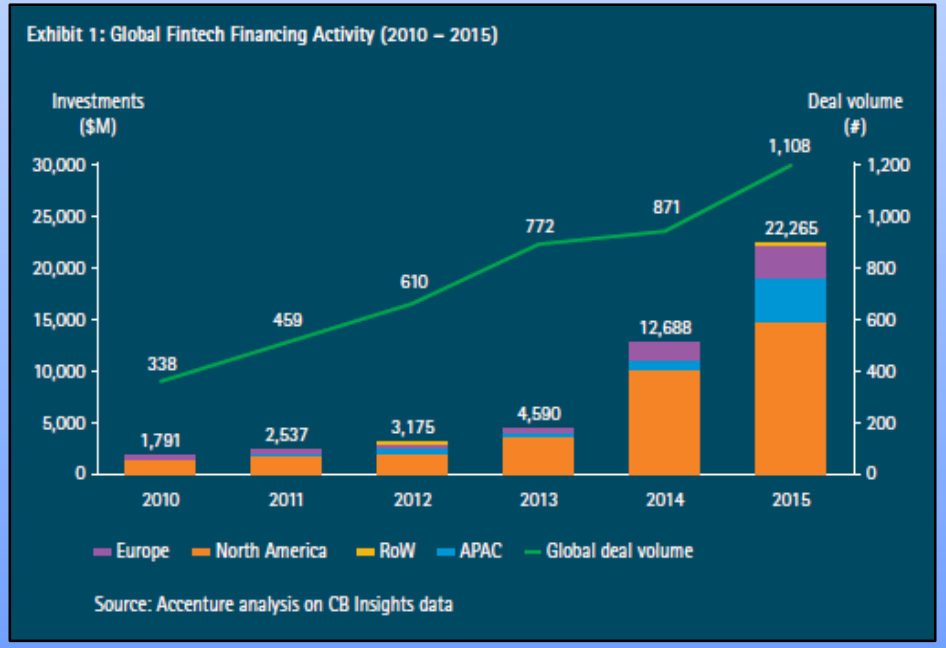
Financial Technology

Lecture 13

FinTech enabling Financial Inclusion

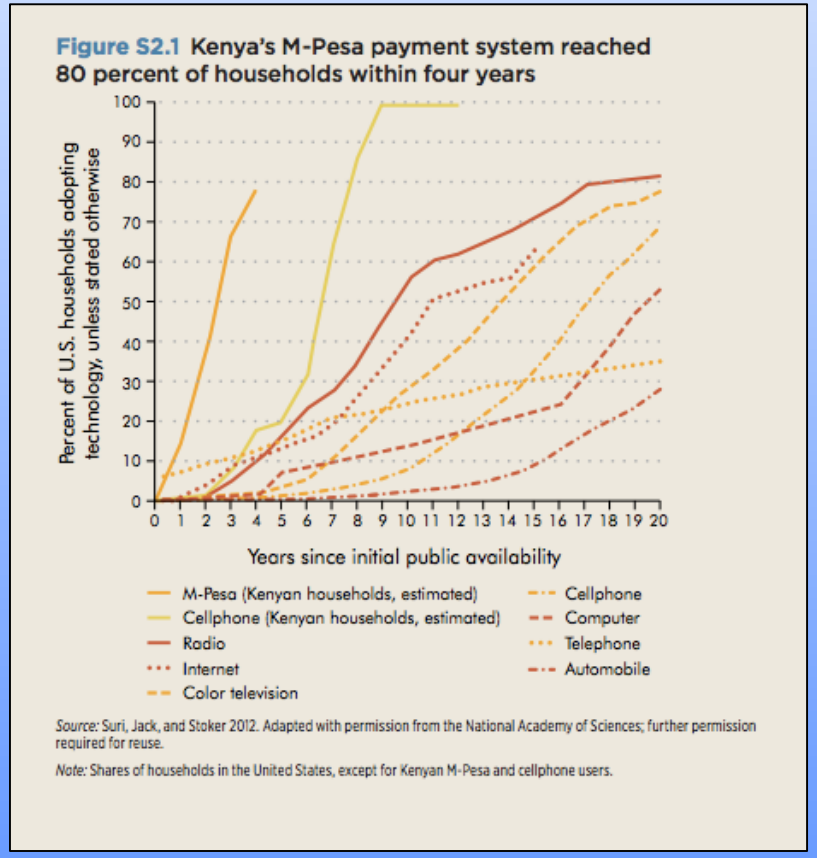
Digital technologies have spread rapidly in much of the world, yet, there is potential to boost digital dividends.

Global investments in Fintech ventures grew by 75% reaching $22.3bn in 2015 ($12.7bn in 2014)



Source: Accenture

M-Pesa reached 80% of households in Kenya within 4 years



Source: WDR 2016

Digital Innovation across different areas of the financial sector

Payment services and market infrastructures	Leveraging transaction data and other sources of data for credit appraisals	Deposits, Lending and Capital Raising	Investment Management
• E-money and mobile money products • Application program interfaces allowing overlay of services on existing products • Use of distributed ledger technologies for new ways of structuring market infrastructures	• Transaction data from e-commerce and payment platforms like **Alibaba** and **Paypal** • Mobile phone usage data • Social Network related data	• Crowd-sourcing ideas and funding them through crowd-funding • Peer 2 peer lending • Internet-only banks	• Automated processing and dissemination of investment advice

Potential to significantly enhance efficiencies, reduce costs and expand access to financial services

Digital technologies – Opportunities

Offer a powerful solution for expanding access and usage to financial services, and improve their quality, appropriateness and impact

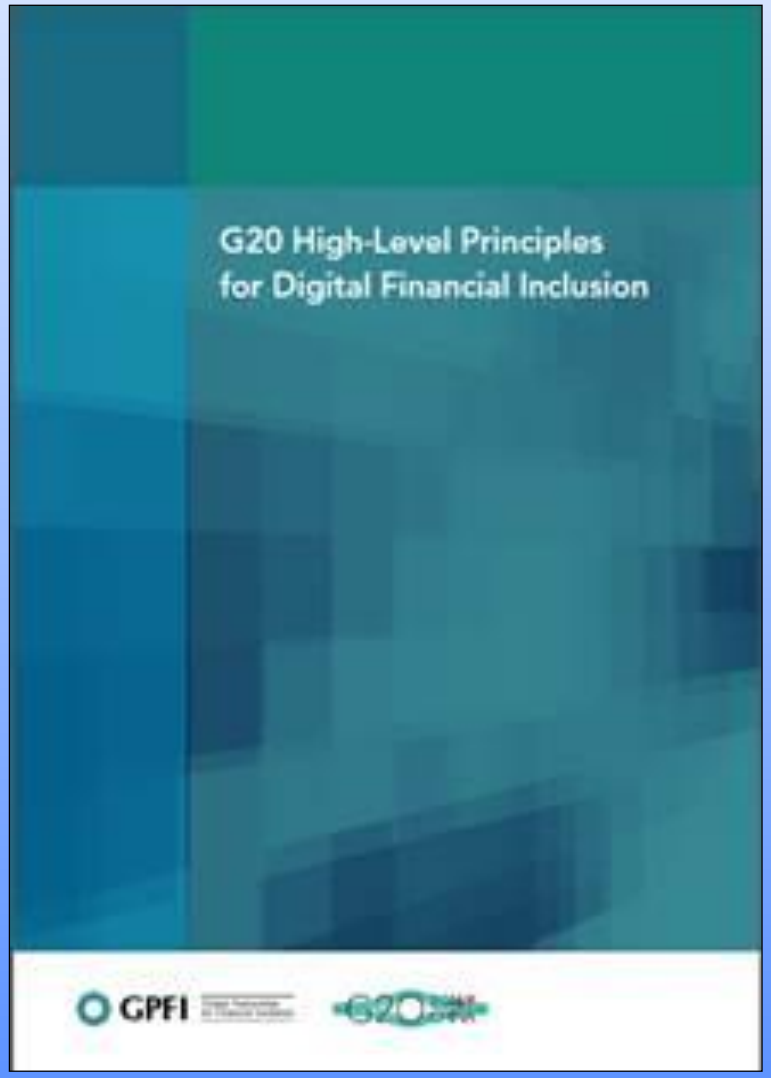
New Players leverage electronic data in innovative ways to create better**, more customized, and more accessible** digital financial inclusion

The spread of mobile technologies, mobile network coverage, and mobile based financial services in developing countries represent a **game-changer** in global financial inclusion efforts

Governments play a critical role in creating the enabling conditions for financial service providers while ensuring that risks are mitigated and consumers are properly protected

G20 New High Level Principles on Digital Financial Inclusion (HLPs)

The new 2016 Principles are intended to catalyze country-level actions by G20 governments to drive financial inclusion using digital technologies.



- **PRINCIPLE 1:**
  PROMOTE A DIGITAL APPROACH TO FINANCIAL INCLUSION
- **PRINCIPLE 2:**
  BALANCE INNOVATION AND RISK TO ACHIEVE DIGITAL FINANCIAL INCLUSION
- **PRINCIPLE 3:**
  PROVIDE AN ENABLING AND PROPORTIONATE LEGAL AND REGULATORY FRAMEWORK FOR DIGITAL FINANCIAL INCLUSION
- **PRINCIPLE 4:**
  EXPAND THE DIGITAL FINANCIAL SERVICES INFRASTRUCTURE ECOSYSTEM
- **PRINCIPLE 5:**
  ESTABLISH RESPONSIBLE DIGITAL FINANCIAL PRACTICES TO PROTECT CONSUMERS
- **PRINCIPLE 6:**
  STRENGTHEN DIGITAL AND FINANCIAL LITERACY AND AWARENESS
- **PRINCIPLE 7:**
  FACILITATE CUSTOMER IDENTIFICATION FOR DIGITAL FINANCIAL SERVICES
- **PRINCIPLE 8:**
  TRACK DIGITAL FINANCIAL INCLUSION PROGRESS

Developments in Digital Technology For Financial Inclusion

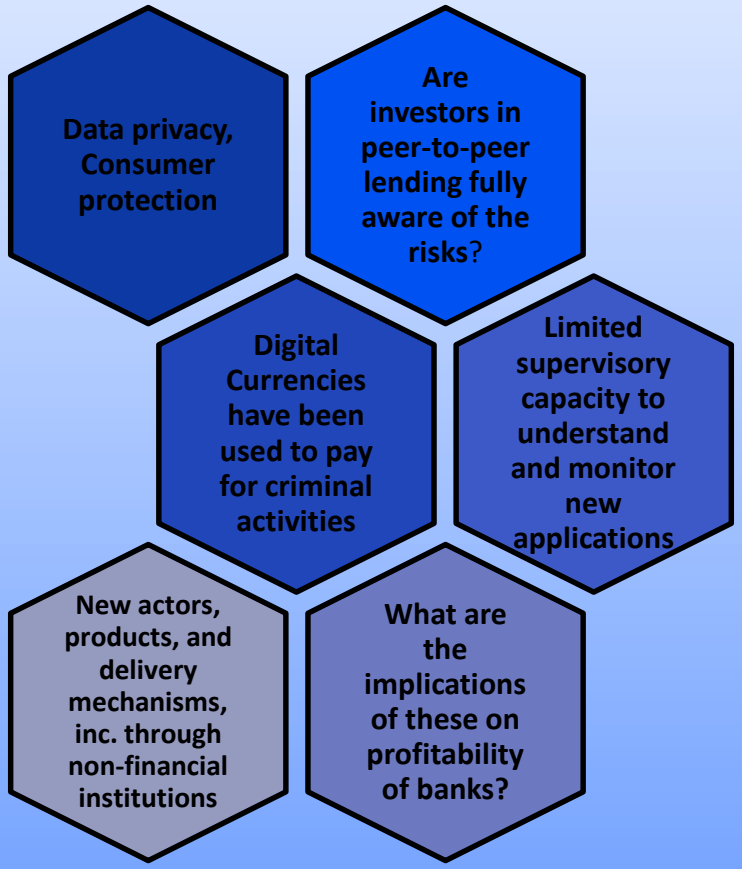
1.Disaggregation of the Value Chain: New players, including non-banks and non-MNOs (mobile network operators), increasingly offer financial products and services directly to customers

2.Opening of Platforms and Application Programming Interfaces (APIs): APIs enable new applications to be built on top of pre-existing products, thereby capitalizing on the product's existing customer base.

3. Use of Alternative Information: Digitally collected data, including e-commerce and mobile transaction histories, can complement or substitute traditional methods of client identification and credit risk assessment.

4. **Customization:** Better data collection and analytics inform more accurate customer segmentation and human-centered product design, such as clearer user interfaces or targeted alerts and notices to consumers.

FinTech also presents a number of challenges…



World Bank Group Engagement on FinTech includes:

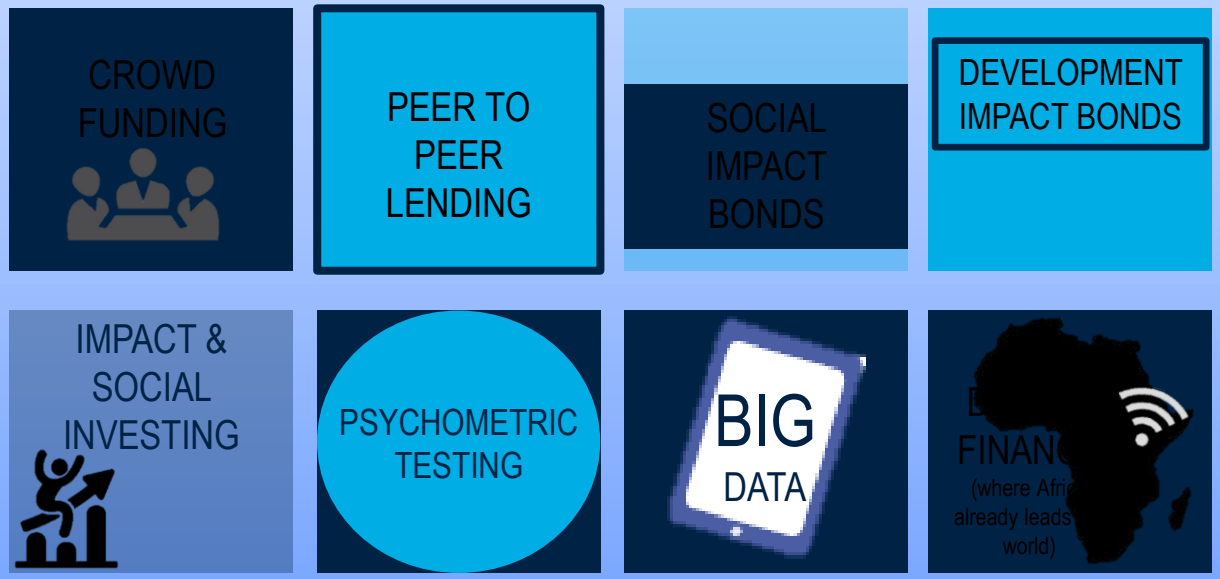
- The World Bank participates actively in SSB work streams relevant to Fintech:
  - **FSB FIN group [Financial Innovation]**
  - **CPMI [Retail Payments working group and Co-manager of a Retail Payments Forum, which interfaces with the private sector]**
  - **CPMI-IOSCO [Digital Innovations Working Group]**
  - **FATF [Guidance on AML/CFT considerations for Digital Currencies]**

- **New:** G20 High Level Principles for Digital Financial Inclusion (WB as co-chair)

- The WBG works with national authorities to put in place enabling frameworks for adoption of technology, market entry/level playing fields, and expansion of financial access – as technical, policy, or financing partner

- IFC: investments, risk-sharing, also dialogue with private sector players in this space e.g. through SME Finance Forum

And Now the Rise of finTECH - has Produced Other Innovative Forms of Financing to Meet the Needs of Start-Up SMEs



Traditional Banks find it difficult to meet the needs of Start UP and Innovative enterprises – the very firms which appear most likely to create the greatest number of jobs.
finTECH is filling this space.

For Example – CROWD FUNDING
Global Crowd Funding Volumes by Model

in USD billions

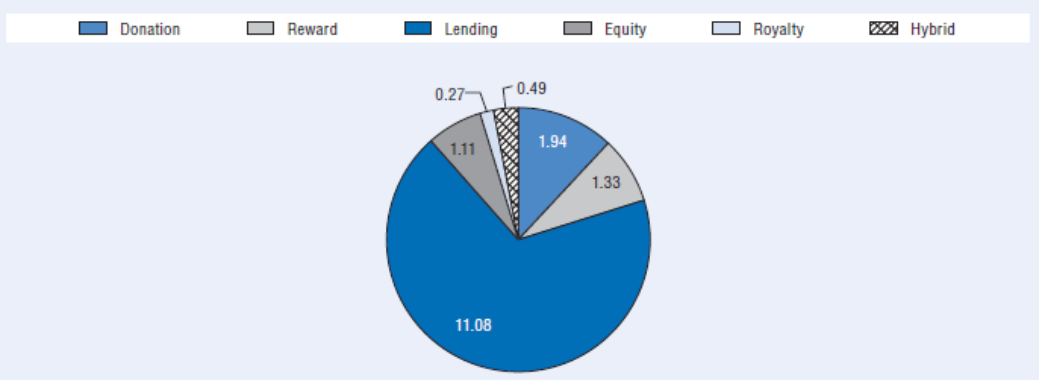


Table 1.15. **Crowdfunding volumes in North America, Asia and Europe, 2012-15**

		2012	2013	2014	2015 (expected)
North America	Expected growth (%)		139.8	145	82
	Crowdfunding volumes, USD billion	1.61	3.86	9.46	17.3
Asia	Expected growth (%)		2600	320	210
	Crowdfunding volumes, USD billion	0.03	0.81	3.4	10.5
Europe	Expected growth (%)		42.1	141	98.6
	Crowdfunding volumes, USD billion	0.95	1.35	3.26	6.48

Source: OECD, Financing SMEs and Entrepreneurs, 2016 – An OECD Scoreboard