

Financial inclusion and the G20 agenda

Beatrice Timmermann*

Deutsche Bundesbank, Frankfurt am Main, Germany – beatrice.timmermann@bundesbank.de

Dr. Philipp Gmehling

Deutsche Bundesbank, Frankfurt am Main, Germany – philipp.gmehling@bundesbank.de

Disclaimer

This article represents the authors' personal opinions and does not necessarily reflect the views of the Deutsche Bundesbank or its staff.

Abstract

The following article provides a short overview on the general development of financial inclusion as a major part of the G20 agenda. Furthermore the agenda of the German G20 Presidency 2017 in advancing financial inclusion is described in more detail, highlighting how the specific workstreams may contribute to progress to the overarching priorities of the German Presidency.

Keywords: financial inclusion; digitisation of finance; G20.

1. Introduction

The G20 is a group comprised of the 20 most important industrial and emerging economies, serving as a central forum for international cooperation in economic and financial policies. It aims at strengthening and broader sharing the benefits of globalisation. With regard to these goals the term “financial inclusion” describes the pursuit of providing useful and affordable access to financial services to all individuals and businesses worldwide. As such, financial inclusion may contribute to economic growth and employment, may reduce inequality and could potentially increase financial stability.

Since the 2009 Pittsburgh Summit, financial inclusion plays a major role on the G20 agenda. The G20 Leaders recognised financial inclusion as one of the main pillars of the global development agenda at the G20 Summit in Seoul (2010) and endorsed a Financial Inclusion Action Plan (FIAP) and principles for innovative financial inclusion. Subsequent to the Seoul Summit, the G20 launched the Global Partnership for Financial Inclusion (GPFi) in December 2010. The GPFi is the main coordinating and implementing mechanism for the FIAP and serves as an inclusive platform for G20 countries, non-G20 countries and relevant stakeholders for peer learning, knowledge sharing, policy advocacy and coordination. In particular, the GPFi helps countries implementing the G20 principles for innovative financial inclusion and aims at strengthening data for measuring financial inclusion.

During previous G20 presidencies additional focus was put on digital financial inclusion, acknowledging that digitisation can be one of the most important factors for increasing inclusive finance by leveraging the opportunities provided by new technologies with regard to financial services. During the Chinese Presidency in 2016 the G20 approved the High Level Principles for Digital Financial Inclusion (HLP). The G20 member countries committed themselves to taking concrete actions to promote digital financial inclusion at their own country level, based on the specific circumstance of each country.

2. Financial Inclusion Priorities of the German G20 Presidency in 2017

The three pillars of the German G20 Presidency in 2017 are: building resilience; improving sustainability; and assuming responsibility. For the G20 finance track the following priorities have been defined: enhancing economic resilience; improving investment conditions: partnership with Africa; shaping digitalisation. Guided by these overriding goals, the focal areas on financial inclusion for the G20 during the German Presidency are:

- Review and Update of the Financial Inclusion Action Plan
- Implementation of the High Level Principles for Digital Financial Inclusion
- Leverage relevance of and increasing Financial Literacy
- Implementation of the G20 Action Plan on SME Financing
- Financial Inclusion of Vulnerable Groups: Forcibly Displaced Persons
- Further work on improving conditions for remittances

Review and Update of the Financial Inclusion Action Plan

In order to maintain relevance and to reflect the proceeding rapid digitalisation of financial services a review and update of the FIAP will be conducted in 2017. Therefore, amongst other goals, the review aims at addressing the opportunities and challenges for financial inclusion through advances in digitisation. Additionally, the objective of the review is to align the FIAP with other development goals such as the UN 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda.

Implementation of the High Level Principles for Digital Financial Inclusion

Especially in the financial sector, digitisation is advancing rapidly and thus enabling new innovative business models. Hence, under the priority “shaping digitalisation” for the German G20 Presidency the G20 will take key first steps in implementing the High-Level Principles for Digital Financial Inclusion adopted during the G20 Hangzhou Summit in 2016. This includes a peer exchange on emerging approaches to digital financial inclusion. Peer exchange may help to identify practices of different groups of users, types of services and technologies that may again vary according to specific countries’ circumstances.

A review requested from the World Bank Group on emerging practices at the country level that bring the HLPs to life, by illustrating the HLP actions through real life examples, could be used for other countries as a basis for better shaping their national implementation strategies. The report will show country examples as role models how to deal with legal and regulatory challenges, coordination among public and private sector entities and infrastructure issues. This approach takes into account that adjustment to country specific needs is key and the promotion of a global inclusion strategy would not serve the need of all countries.

Further member-driven activities, such as for example installing a digital platform for a continuous peer-exchange among countries’ authorities involved in enhancing digital financial inclusion (e.g., central banks, supervisory authorities, regulators), could also be conducive to promote implementation of the HLPs at the country level.

Leverage relevance of and increasing Financial Literacy

A prerequisite for successful and sustainable financial inclusion is that individuals have the ability to use financial services and are aware of the associated financial risks. In order to make sound financial decisions and ultimately achieve individual financial wellbeing a certain degree of financial literacy is

therefore required. Increased sophistication of financial markets and expansion in access to financial services – among else through digitisation – requires consumers and investors to keep pace and acquire additional skills and competencies.

Knowing what works in financial literacy helps to optimise implementation of effective financial education strategies. A survey on the level of financial literacy and financial inclusion on the basis of the OECD/International Network for Financial Education (INFE) toolkit is being conducted by G20 countries and will provide comparable information on financial knowledge, attitude and behaviour for participating countries. The survey results will be summarised in a report of the OECD/INFE which serves as a starting point to foster research on the impact and effectiveness of financial literacy programmes, underlining the significance of policy evaluation in general. To further intertwine policy guidance and research the OECD/INFE is working on establishing a global database of evaluated financial literacy initiatives.

A further OECD/INFE report on “ensuring financial education and financial consumer protection for all in the digital age” examines the demand-side opportunities and challenges resulting from the digitisation of finance. The report supports implementation of the HLPs for digital financial inclusion, in particular principles 5 and 6 on consumer protection and on financial education, by exploring how financial consumer protection and policy measures for financial education can support the development of inclusive digital finance. It also highlights concrete examples of the use of digital tools to deliver financial education and enhance overall financial decision-making.

Implementation of the G20 Action Plan on SME Financing

The G20 Action Plan on SME Financing was adopted during the Turkish Presidency in 2015. Under the German Presidency there will be a self-assessment by all G20 countries regarding the status of frame conditions for SME financing. This will be consolidated into a baseline report by mid 2017 by the Presidency, which then is to be updated every two years. Furthermore, the action plan highlights the need to further analyse the impact of innovative financing instruments for SMEs, which is done by a GPMI stock-tacking report on “Alternative Data Transforming SME Finance”. The report will highlight the digital opportunities of closing the financing gap for SMEs which is prevailing in many countries and thus limits their potential contribution to driving growth and employment. Moreover the action plan aims to close data gaps on SMEs.

In light of the limitations caused by the tremendous financing gap for SMEs, the GPMI also aims at conducting further research on how to foster participation of SMEs in sustainable global value chains through better access to financial services.

In addition to that, as part of a GPMI working topic on access to financing for rural SMEs, the GPMI SME Finance subgroup will look at the question on how resilience against Climate-Related Risks, in particular for rural SMEs, can be increased.

Financial Inclusion of Vulnerable Groups: Forcibly Displaced Persons

For forcibly displaced persons, access to affordable, secure and quickly usable financial services (financial inclusion) is often unavailable or inadequate in host countries; this is especially true for women. Therefore, the German Presidency aims to define fields of action on the basis of available surveys and to draft policy recommendations in consultation with non-G20 countries. Furthermore, a report by the Alliance for Financial Inclusion (AFI) will examine current regulatory practice including the role of the central bank or the financial regulator and other sectorial actors, and will consider related challenges and how these are being/could best be addressed.

Further work on improving conditions for remittances

Remittances are a key source of income for millions of households and businesses. The G20 commits to continue its efforts to reduce the costs for money transfers, thereby supporting the goals of the UN 2030 Agenda. Under the German Presidency the GPMI will continue its various efforts in regard to



remittances, including efforts to strengthen competition, making use of new digital technologies, improving transaction infrastructure or strengthening customer protection.

3. Conclusions

According to the Global Financial Inclusion Database by the World Bank there are still more than 2 billion people and about 300 million companies worldwide without any access to formal financial services. The priorities of the German G20 Presidency with regard to financial inclusion outlined here address concrete actions in order to further improve the degree of financial inclusion and foster inclusive growth.