Her Majesty Queen Máxima of the Netherlands: Financial inclusion and education – issues for central banks

Speech by Her Majesty Queen Máxima of the Netherlands, United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA), at the All Governors' Meeting, Bank for International Settlements, Basel, 9 November 2015.

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Thank you Mr Caruana and Governor Weidmann for inviting me to participate in this important gathering at the Bank for International Settlements (BIS), and for your kind welcome.

Esteemed governors, ladies and gentlemen, I am pleased to be back at the BIS and to speak about the opportunities and challenges of advancing financial inclusion with central bank leaders from around the world.

I was last here in October of 2014 to participate in the third highly productive engagement with the financial standard-setting bodies around financial inclusion. Their commitment to promoting financial inclusion has never been higher, and their many actions have been documented in a draft paper that will be presented to the upcoming G20 summit in Antalya, Turkey. This is the second white paper from the G20's Global Partnership for Financial Inclusion, for which I am pleased to serve as Honorary Patron.

It has been produced in collaboration with the standard-setting bodies and it takes stock of the evolving financial inclusion landscape; it documents their individual interests, activities and cooperation in the area of financial inclusion; and sets out priorities for further work.

What do I mean by the term "financial inclusion"? Financial inclusion is about providing affordable, responsible and sustainable access – which ensures usage-to formally and professionally regulated and supervised financial services to those who are excluded.

In the past few years it has become increasingly clear that providing individuals and small businesses with financial services has a powerful role in fostering equitable growth and furthering vital development goals such as poverty reduction, gender equality, and food security. This was clearly recognized by 193 UN member states when they adopted the new 2030 Sustainable Development Agenda in New York in September.

We have also seen an increasing recognition of the positive connection between financial inclusion and financial stability.

A World Bank Global Financial Development Report background paper noted that financial inclusion can enhance stability through direct and indirect channels[1] (2014). More recent evidence outlined in an IMF staff note – which I have asked to be shared with you today – shows that greater financial inclusion contributes to financial stability in countries with strong supervision. This is noteworthy because it does provide us with a fresh perspective on the long-held view that the risk of financial instability increases when access to financial services is expanded.

Since 2011, 700 million adults have gained more access to an account at a financial institution or through a mobile device, according to the 2014 Global Findex report. While this 20% improvement in access in 3 years represents significant progress, there are still 2 billion unbanked adults – primarily among women, those living in the developing world, and the poorest 40% of households.

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[1] Directly, if more people use bank deposits, banks could have a more solid funding base especially in periods of stress: a 10% increase in access to deposits can reduce the likelihood of withdrawal rate of deposits during periods of stress by 20% or more.

The current business models of mainstream financial institutions are generally not geared to offering the kind of small-scale savings, payments, lending and insurance services that are tailored for these excluded households and still profitable for providers.

But this is beginning to change at a rapid pace, driven by digital and other technological innovations. Individuals in the most remote and poorest regions of the world are becoming increasingly connected thanks to basic mobile phones. And it won't be long before smartphones become available to larger numbers of people, even those of very low income, bringing with them the power of the Internet along with other capabilities hard to imagine even just a few years ago.

These and other digital technologies are being used more and more to deliver financial services to people who have been excluded. For example, in many African countries the percentage of adults who have a mobile money account is already very significant: 58% in Kenya, 32% in Tanzania, and 35% in Uganda[2].

These impressive numbers don't tell the whole story. Mobile money helps local economies and spurs economic growth, for example by allowing for faster, cheaper and safer domestic remittances, which are an important economic contribution to rapidly urbanizing developing countries.

The digitization of retail financial services also enables a broader range of services to be delivered at far lower cost. Mobile payment histories can be used for data-driven credit underwriting for self-employed entrepreneurs, small businesses or individuals who lack traditional collateral. And low-cost, mobile retail payment systems can also enable small-ticket crop insurance or the micro-leasing of, say, residential off-grid solar energy units. These would not be economically viable with the traditional transaction cost structure of a cash-based business model.

These developments and other nascent technologically based but largely unregulated financial innovations – such as fin-tech or crypto currencies – could have a significant impact on both the financial system and the wider economy, subjects of great interest to central banks, regulators, and policy makers.

They could affect the ability of the payments infrastructure to accommodate large numbers of small transactions as well as the emergence of new payment network operators. They could introduce new competitive dynamics with implications for the efficiency of payment services, and both opportunities and challenges in pursuing interoperability. And, of course, new technologies have implications, positive and negative, for financial stability.

Rapid changes clearly point to the need for good banking supervision, regulation and other measures such as close market monitoring. That will help ensure financial stability as well as progress on financial inclusion, as successfully demonstrated by many countries whose central banks are represented here today.

However we have recently witnessed some setbacks in the quest for greater financial inclusion. The Financial Action Task Force and the standard-setting bodies housed here at the BIS have called for banks to engage in careful risk assessments. But, as many of you are already aware, some banks are engaging in what they call "de-risking" – simply ceasing to engage in lines of business that are seen as potentially high risk relative to their profitability.

The term "de-risking" is problematic because, by cutting off certain clients and thereby increasing financial exclusion, de-risking can actually increase the risk of money-laundering and terrorist financing, as FATF has acknowledged. The problem is of particular concern because of its potential impact on cross-border remittances from migrants to family members – sums that in many countries dwarf official aid flows. De-risking, if not addressed in a

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2 Number of accounts at a formal FI in these countries: Kenya 55%, Tanzania 19%, Uganda 27%.

nuanced fashion, could also negatively impact the ability of small firms to obtain export finance, or other entities to carry out development activities.

The right balance calls for a proportionate, risk-based approach advocated in the standards and guidance of the bodies housed here at the BIS.

It is also important to recognize that the potential new customers for these fast-evolving financial services are, by definition, inexperienced with these tools. While the poor need to be financially savvy to manage uneven and unpredictable income and expenses, this doesn't necessarily translate into the capability to make informed decisions about the full array of financial products.

Many are illiterate or innumerate, giving rise to significant consumer protection challenges especially in emerging but also in advanced economies.

Again, central banks and other financial regulators and policy makers, have very critical roles to play to ensure that sound market practices are accompanied by robust consumer protection and financial education. It is vital that we encourage responsible financial inclusion.

Furthermore, to understand these fast moving developments and adopt the right policies to address financial exclusion, we need more and better data. In this regard the influence of central banks–alongside a growing number of other bodies such as telecommunications authorities – is vital for highlighting existing data and encouraging the collection of new indicators to keep us ahead of unfolding developments.

Financial innovations are evolving before our eyes, and we are being challenged to keep up with them and to manage them properly.

But with the balanced approach their impact on the world's financially excluded could be tremendously positive.

I look forward to discussing these and other issues highlighted in the note that the BIS staff has kindly produced for our meeting today.

I hope to hear a lot today from the many leaders around this table, who have made great strides in financial inclusion. Thank you.