

# Denis Beau: Financial inclusion in the digital age - how to make a difference?

Panel opening talk by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Singapore Fintech Festival 2019, Singapore, 13 November 2019.

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Good afternoon Ladies and Gentlemen,

I am very happy to be here with you today to introduce this session on financial inclusion and I would like to thank the MAS for offering me the opportunity to contribute to this conference.

**Inclusion is an essential topic for the financial sector, and more broadly for society** as a whole. It's essential because it's about making sure everyone can have access to financial services. Because without this access, there is no or only limited ways for people to take part in the formal economy, to build up capital, to buy goods and services, to develop an entrepreneurial project. **It is essential because it's not just about more growth for the financial sector or even for the economy as a whole, it's also about reducing inequalities and making sure that more fragile populations, households and businesses, are not left out of economic development.**

Of course, Fintechs have a huge role to play in financial inclusion. They can provide new solutions, but they also raise new challenges, with new players entering the financial world and new ways of looking at customer relationships. And they can also bring new risks: for instance, of leaving out those who are not at ease with digitalization, of creating unforeseen bias via automation of processes, or of leading to security issues for personal data that is not handled properly.

**So is the digital age a blessing or a curse for financial inclusion?** To help us answer that question, there was a very interesting session this morning in the plenary on "a macro view on financial inclusion". And this afternoon, you will have the opportunity to listen to a wide range of speakers, who will share their experience around many more topics: what is financial inclusion 2.0? Can blockchain play a role? what can regulators do? And where are we standing in developing economies where inclusion is the most needed, in particular in Africa?

To contribute to these forthcoming discussions, let me share with you the perspective of a central banker and a supervisor, whose institution has been entrusted by law to support financial inclusion. **I would like to highlight the different ways we currently support financial inclusion and how we intend to adapt them to the digital age and to improve them building on digital tools.**

## 1/ What BDF does to support inclusion by the financial sector

In the last decades, Banque de France has been entrusted with different tasks to support financial inclusion. Our contributions in that area are today quite diverse and is a major part of our mission to provide services to the public. This is not a traditional mission for a central bank: it is usually focused on monetary policy and financial stability. Yet, I believe that all these missions go hand in hand: whether we are working towards financial inclusion or price stability, the overarching goal is the same – supporting inclusive and sustainable economic growth.

On financial inclusion, **the role of Banque de France has always been to support the efforts of public authorities and of the private financial sector in helping widening access to financial services. And this support is provided to help meet 3 main objectives: improving fair access , preventing inequalities of treatment and improving financial**

## **literacy. Let me take a few examples.**

To help improve fair access, Banque de France is part of the **“right to an account” procedure** set up by French law. If a bank refuses to open a bank account to a client, he or she can make a request to us and we will designate a bank within 24 hours. This specific bank account will provide basic services free of charge. In 2018, 50,000 people made use of that right.

Reducing the usage cost of a bank account is also essential for financial inclusion. And “fragile” clients, for instance because of low resources or a bad credit history, are the most likely to pay fees because of issues with their accounts – 300 euros a year on average. This is why French law imposes on banks to provide a specific offer for these clients, comprising minimal services with reduced fees of 3 euros per month. To follow up on the implementation of this provision, an Observatory for Banking Inclusion was created in France. Chaired by the Governor of Banque de France, it brings together public authorities, NGOs and banks and has proved to be a very helpful forum.

A second example is the **“Mediator of Credit” function**. Led by an official of Banque de France, it is aimed at small businesses and it relies on the operational support of the local branches of Banque de France. Its objective is to help entrepreneurs who have been refused a loan by providing mediation with their banks and creditors to overcome these financing difficulties. 20,000 successful mediations have taken place since the creation of that function in 2008. This mediation function does not just provide financing: it also reduces the risk of bankruptcy for the companies which benefit from it.

Another contribution of Banque de France to improving access for fragile populations takes the form of **support to assisted microcredit activities**. Banque de France is a strong supporter of these activities through funding of a credit guarantee fund (5 million euros in 2018) and the development of a local network of correspondents.

To help prevent inequalities of treatment, Banque de France is involved in **preventing and addressing household over-indebtedness issues. People experiencing such issues can go to the local branch network of Banque de France all over the country**. Along with other stakeholders, we help them find solutions to their financial difficulties. In 2018, more than 180,000 such situations were examined.

Also, through our financial institutions supervisory arm, the ACPR, and in relation with the financial markets authority AMF, we make sure that banks and insurers have effective procedures in place to detect fragile clients and provide adequate solutions to them. This means for them proposing the specific banking offer I mentioned earlier to all those who might need it. But also ensuring that financial products are not sold to people who do not understand or cannot afford them – it can be a new consumer loan that would lead to over-indebtedness, or an insurance policy that clearly does not fit the clients’ needs.

**In an ageing world, we need to make sure that older customers are not taken advantage of by abusive or deceptive practices. This part of our market conduct role is increasingly important for us and other authorities internationally** – the 2019 Japan G20 Presidency has put it forward.

Finally, to help improve financial literacy, **Banque de France is the national coordinator** of the involved stakeholders in that area. This is of course especially important for those at risk of financial exclusion. In that role, we notably provide specific tools, resources and training for social workers who are in touch with these people. In 2018, Banque de France organized more than 800 training and information sessions, attended by over 16,000 social workers.

## **2/ How digitalization changes the way we approach financial inclusion**

The examples I have been mentioning from Banque de France experience give an illustration of what can a public authority like a central bank do to promote financial inclusion. But it is essential to also consider *how* this can be done. And here, **Fintechs and digitalization of the financial sector are creating new ways to bring about more inclusion**. Many examples of this “Financial inclusion 2.0” will be presented this afternoon and how specific technologies such as blockchain can play a role.

There are many areas where Fintechs can help bring more financial inclusion, but let me name a few:

- ♦ Improving access to financial services, for instance via mobile devices;
- ♦ Gathering more and better data, which allows for more tailored and better priced products;
- ♦ Driving down operation costs, and making relationships with fragile clients more profitable.

This also means major change for public authorities. Fintechs means dealing with new firms, new technologies, new ideas. To be reactive and engaged, many authorities have set up Fintech units, which is the case for ACPR in France. We work in close cooperation with our counterparts worldwide, and in particular with MAS, which is spearheading these developments.

### **As public authorities, we also encounter new risks and challenges related to financial inclusion in a digitalized world.**

For instance, when embedding artificial intelligence in financial solutions, the risk grows higher of a “black box”, where it is more and more difficult to trace and understand outcomes. Discrimination bias may occur and leave out customers, without even being detected as such. And big data never forgets: yet, financial inclusion means being sometimes able to overcome past conditions and give customers a “second chance”.

In addition, digitalization of our economies also brings about a risk of digital divide between those who are at ease in a digital world and those who don’t understand it or don’t have access to it. This is a major issue for financial inclusion. When a bank or an insurer prioritizes access to its services via digital devices, those who don’t use those devices can be left out and become “second-class” clients. We must not overlook this.

### **3/ Fintech and financial inclusion: moving forward**

Faced by the new ways, the new challenges and the new risks that Fintechs are bringing to financial inclusion, how do we, at the Banque de France, adapt to the digital age and leverage digital tools, to further improve our policies and actions in favour of financial inclusion? The first way is by developing our understanding and use of new technologies: in addition to our Fintech unit at ACPR which I’ve mentioned, **Banque de France has launched in June 2017 “Le Lab”**. Le Lab is a genuine Open Innovation laboratory: its goal is to bring new practices and technologies into our activities, and to that end experiment where necessary within short and flexible cycles. To do so, it works in close collaboration with innovative firms.

An example of this work is to use artificial intelligence to improve our scoring of businesses. Scoring is something that Banque de France has been doing for a very long time: its branch network all over France gives quotations of companies based on analysis of financial data but also on-site visits (more than 250.000 last year). These quotations are then provided to banks and other institutions, in order to facilitate access to financing and therefore financial inclusion for many SMEs.

This is why we are working, in collaboration with start-ups, on how to improve our data analysis and include learning algorithms in our scoring process. Of course, this is not easy – the integration in existing processes is complex, in particular the role of expert judgment. And **we are**

**also part of a larger experiment led by the French government called “*signaux faibles*” (low signals).** It aims at bringing together data from various French public authorities and developing AI analysis capacity to identify businesses showing signs of vulnerability, in order to better target public support towards them.

A second way is by revisiting some of our policies and adapting them. A good candidate could for instance be our policy to support fair access to payment instruments: Banque de France is committed to ensure the availability in our jurisdiction of a range of payment instruments suited the needs of all users. The development of electronic payments based on innovative technologies lays the foundation for a smoother and safer payment experience. But this should not exclude part of the population. **Up to now, a large part of financial inclusion has also been about making access to cash easier for those who don't have a credit or debit card, and ensuring the acceptance and availability of banknotes has therefore been an important dimension of our retail payment policy.** But changes in payment solutions supply and changes in payment habits in favour of electronic payments may make this policy more difficult and costly to maintain going forward.

One possibility often mentioned would be for the issuance of a central bank digital currency accessible to the general public. At this stage, in many developed economies and certainly in Europe, the business case for this kind of innovation does not appear to me such that it should be a short-term priority. The priority should rather be to facilitate cross-border payments. The case is for me more compelling for a central bank digital currency at the wholesale level, for use between financial intermediaries, given the potential for a quick and widespread tokenization of financial assets. **We, at the Banque de France, are therefore quite open for experimenting, together with the ECB and other central banks of the Eurosystem, in particular with regard to a wholesale Central Bank Digital Currency.**

Finally, a third area for change is our contribution to the prevention of inequalities of treatment. With the emergence of new forms of inequalities associated to the digital age, **there is a central role for supervisors to be further developed here.** I mentioned AI earlier and the risk of it becoming a “black box”. **It is therefore essential that AI algorithms remain explainable and with adequate governance – to justify why and how a financial decision has been taken, and make sure that no combination of variables will serve as a proxy for a model based on a discriminatory approach.** And this is what ACPR is currently doing by experimenting with voluntary financial firms on specific use cases of their AI algorithms.

**In terms of market conduct, we also need to make sure that our supervisory priorities are adequate to the challenges raised for all those who may be on the wrong side of the “digital divide”.** For example, I've mentioned our current focus on older customers. Seniors are of course more and more at ease with digital tools and this will be increasingly true as more generations are digital “natives”. But we need to make sure that digital solutions are crafted for clients who may have difficulties to read on a computer or mobile screen, or whose cognitive abilities could be declining. There is also a need to ensure sufficient protection against new fraudulent and deceptive strategies in the use of digital tools.

Let me conclude in stressing that making a difference for financial inclusion is about finding what works to help those who need it. **It means looking for innovative solutions while making sure nobody is left out.**

To achieve this, innovation and support from the financial sector and public authorities go hand in hand. As a central bank, this forces us to think and act “out of the box” and to explore new ways of doing things. For Fintechs, this means you can count on our support for ideas that work toward a more inclusive and sustainable financial world.

On that note, I am looking forward to these afternoon's discussions to help us find new solutions for financial inclusion, together, and I wish you all very fruitful discussions.

Thank you for your attention.