Financial inclusion: the role of the Basel Process

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Opening remarks at the First Annual GPFI Conference on Standard-Setting Bodies and Financial Inclusion: Promoting Financial Inclusion through Proportionate Standards and Guidance

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I am pleased to welcome participants to this unique event that brings international standard-setting bodies together with advanced as well as emerging and developing countries. We convene today in response to the call of the G20 Leaders, which is chaired by Mexico this year, for deeper discussions on the important topic of promoting financial inclusion.

Role of the BIS and the international standard-setting bodies

I am delighted, therefore, that the Financial Stability Institute is hosting this Conference here at the BIS, where groups of national experts are committed to making the financial sector safer and better able to support the economy.

The framework of accords on the financial sector sets out areas of financial activity where the development of internationally agreed standards of sound practice is desirable. The role of standard setting is assigned to an appropriate group of national experts. This enhances the credibility of the resulting standards, strengthens their acceptability in national jurisdictions and fosters convergence on best practice by a wide range of countries.

The Basel Committee on Banking Supervision provides an excellent illustration of how standards are implemented. Basel Committee recommendations have no legal force, but rather they are adopted by both member and non-member countries, through a process of consensus. This is a telling example of how cooperation, peer pressure and market forces can be applied to further the adoption of sound practice.

The BIS promotes international financial and monetary cooperation through meetings of central bank officials and supervisory authorities. We call this the “Basel Process”–a culture of cooperation among the committees and standard-setting bodies hosted by the BIS here in Basel. The Basel Process benefits from the synergies arising from the common location of nine international committees, as well as the flexible and open exchange of information. It also gains much from the BIS’s own economic research and banking expertise, and from the efficient dissemination of the committees’ work.

The BIS hosts the secretariats of four groups now engaged in the G20 initiative to promote financial inclusion through the Global Partnership for Financial Inclusion (or “GPFI”).

These four groups are:

- The Basel Committee on Banking Supervision;
- The Committee on Payment and Settlement Systems;
- The International Association of Deposit Insurers; and
- The International Association of Insurance Supervisors.

We are also very pleased to have with us today representatives of the Paris-based Financial Action Task Force, a fifth standard-setting body engaged in the G20's efforts to advance the cause of financial inclusion.

There is tremendous value in having these five standard-setting bodies in the same room today to share perspectives on the contributions that each can make to the delivery of high-quality financial services to entire populations around the world.

Regulation / growth and equity / financial inclusion

Why is the topic of financial inclusion relevant to standard-setting bodies? There are three main reasons:

1. Policymakers are focusing increasingly on the implications of regulation for equitable growth. We are becoming acutely aware that incorporating considerations of fairness into financial sector policy goes hand in hand with the promotion of stability. These themes were addressed at a conference just a year ago in Mumbai hosted by the Centre for Advanced Financial Research and Learning and the BIS. Towards the end of the day, you will hear from the Centre's esteemed director, Usha Thorat.
2. Implicit in this focus on equitable growth is an appreciation that financial *exclusion* carries risks and costs. These include: risks to financial integrity, given that the cash-based world of the financially excluded is not transparent; and risks of social, political, and therefore ultimately financial instability.
3. *Innovation* has become an increasingly important factor in the evolution of financial systems that support equitable growth. Indeed, without innovation, the cost barriers that prevent banks from serving so many poorer households and businesses around the world will never be broken. As observed in the GPFI white paper (*Global standard-setting bodies and financial inclusion for the poor: toward proportionate standards and guidance),* the types of innovation that promote financial inclusion can change the nature (and sometimes also the level) of risks. These changes result from a variety of factors, including the characteristics of financially excluded customers and those of the products, services, and providers capable of reaching them. The potential benefits of financial inclusion offset these changing risks.

Complementarity of policy objectives

The three main reasons detailed above explain why, quite appropriately, financial inclusion comes increasingly into the discussions about the evolution of the international financial system. What are the implications for policy coordination? What is the common ground between the agendas of the standard-setting bodies and the objective of financial inclusion? What are the challenges?

From the financial stability perspective, we have learned that there are inter-relationships between policy actions. Financial stability policies do not stand alone. This calls for an understanding of how policy objectives interact, and how agencies can best coordinate their actions. It is important to ensure that they act in a complementary way. Indeed the challenge may lie not in resolving policy conflicts – which I think tend to be exaggerated – but rather in weaving important new policy objectives into global considerations. Financial inclusion is one such policy objective.

An example of complementarity is the way in which regulation can be tailored to technology-driven innovations in financial services. If a proportionate approach is applied – in other words, one that calibrates regulation according to the risks posed to the financial system – then regulation will not get in the way of experimentation. However, the rules will be tightened if innovations should start to pose risks to financial stability. Today’s emphasis on proportionate standards and guidance is therefore thoroughly appropriate.

Thus, it is possible to embrace financial inclusion while respecting the core mandates of the standard-setting bodies.

National authorities are tackling the challenge of managing such complementarities at the country level. Their efforts will help to unleash the potential of financial inclusion while maintaining the stability of the financial system. The standard-setting bodies, in turn, have much to contribute in the form of guidance that will support these initiatives.

Today’s agenda raises questions about the potential common ground between financial inclusion and the core remits of the standard-setting bodies and about the cooperation frameworks that need to be established. The third Plenary Session is particularly relevant. Using as a case study South Africa, a country with much experience in promoting financial inclusion through policy interventions, this session considers the linkages among the policy objectives of financial inclusion, financial stability, financial integrity and financial consumer protection.

Wrap up

I am pleased that the BIS can offer a forum for discussions such as this, and I am proud to welcome you to Basel for this important gathering.

I commend the G20 Leaders and its Mexico chair, finance ministers and central bank Governors for taking up this important topic and for calling for the kind of engagement that today’s gathering represents.