Section IV

A GEOGRAPHIC PERSPECTIVE

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Asia and the Pacific

Tremendous Progress, but Hundreds of Millions Yet to Serve

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According to the Findex global database, access to formal financial services in developing countries rose to 63 percent of adults in 2017, from a base of 41.8 percent in 2011.[1] Formal providers, as defined by this analysis, include banks, microfinance institutions, mobile money providers, and other regulated financial services providers.

These results are encouraging and reflect significant efforts under way in several countries. Financial inclusion is a means to an end—an enabler for people and small businesses to manage their financial lives by optimizing income and expenses to smooth risk and investments. In doing so, people are able to participate in economic development, reduce poverty levels, and build wealth, all of which contribute to the global sustainable development goals. People without access to formal savings accounts or mobile money accounts rely on cash, which can be unsafe and requires more logistics and often higher costs to make or receive payments, receive income and benefits, and pay bills. Savings accounts and access to short-term loans can also help mitigate financial shocks such as illness or death in the family or loss of wages, as well as help households plan for anticipated large expenses such as school fees and peak business cycles around significant holidays.

Six developing countries, of which five are in Asia, have achieved financial access levels above 80 percent: Mongolia, Malaysia, the People's Republic of China (PRC), India, Kenya, and Thailand. Yet access to finance remains uneven across countries and regions, ranging from 71 percent in East Asia and the Pacific to 42 percent in sub-Saharan Africa.

Financial Inclusion in Asia and the Pacific

Over the past decade, Asia and the Pacific has experienced some of the fastest growth levels globally, yet financial inclusion is highly uneven across the region. The Asia and Pacific countries vary greatly in population size, per capita GDP and economic growth prospects, land size and resources, culture, and size and complexity of their financial sectors. Progress toward financial inclusion will reflect these country-specific contexts.

In East Asia, 71 percent of adults hold a formal account, an increase from 55 percent in 2011.[2] As table 12-1 shows, the countries with the highest levels of financial access are Singapore, Mongolia, Malaysia, Thailand, and the PRC. Access is below 35 percent in Cambodia, Vietnam, and the Philippines. Unfortunately, Findex compiles fewer data for Pacific Island countries, where access varies widely from relatively higher levels in Fiji to medium levels in Papua New Guinea (PNG) and lower levels in other countries.

In South Asia, 70 percent of adults hold a formal account, more than double the level of 32 percent in 2011. The highest levels of inclusion are in India, Sri Lanka, and Bangladesh; the lowest level is in Afghanistan. India led tremendousthe progress in account holding, growing from 35 percent to 80 percent from 2011 to 2017 largely as a result of government campaigns to encourage biometric identification and account openings. l

Priority Focus for Inclusion Efforts

In developing countries, a gender gap remains: 9 percent more men than women had access to an account in 2017, the same as in 2011. The gender gap is even higher in Pakistan, Afghanistan, Morocco, the West Bank and Gaza, Jordan, Chad, Algeria, Nigeria, and the Central African Republic. Further, of the 1.7 billion adults without access globally, 56 percent are women.[3]

Adding a gender lens helps improve the picture for access to finance in Asia and the Pacific; the gender gap is larger in South Asia:

- In East Asia and the Pacific, 73 percent of men and 68 percent of women hold an account. The highest gender gap is noted in the PRC (8 percent difference), while the figures for Cambodia, Indonesia, Myanmar, and Vietnam reflect equal access for men and for women.

- In South Asia, 73 percent of men and 64 percent of women hold an account. Yet dramatic differences are seen in Afghanistan (16 percent difference), Bangladesh (29 percent), and Pakistan (28 percent). Of note, India's gender gap decreased significantly, from 20 percent in 2014 to 6 percent in 2017.

Half of the unbanked globally are concentrated in the lower 40 percent of income levels in their countries. Data on access and usage is challenging to disaggregate consistently across rural and urban clients, although data at a country level often flags lower access in rural areas.

Similar patterns exist in Asia, where lower-income households have less access to financial services, especially in East Asia and the Pacific:

- In East Asia and the Pacific, the income gap is 19 percent: 78 percent of adults in the richest 60 percent of households hold accounts, and just 59 percent adults in the poorest 40 percent of households.[4] An income gap is most evident in Cambodia, the PRC, Indonesia, Lao PDR, Myanmar, the Philippines, and Vietnam.

- In South Asia, the income gap is 6 percent, where 72 percent of adults in the richest 60 percent and 66 percent of adults in the poorest 40 percent of households hold accounts. Income gaps are highest in Bangladesh, Nepal, and Pakistan.

Looking globally at results by age group, younger adults aged fifteen to twenty-four have 13 percent less access to formal accounts than adults twenty-five and older. This may change over time, as younger adults increase their use of digital finance options and likely expand their income flows.

Access vs. Usage

Across Asia and the Pacific, some countries are closer to achieving one goal of basic financial access, but many are still far from achieving true financial inclusion. For those with access to formal services with a financial institution, actual use of the services lags behind. Approximately 25 percent of financial institution accounts in developing economies were inactive over the previous year; the highest inactivity was in India (39 percent), Sri Lanka (26 percent), Malaysia (17 percent), Thailand (16 percent), Indonesia (15 percent), and Nepal (14 percent).

TABLE 12-1. Financial Inclusion: Selected Indicators for the Asia-Pacific Region, 2011–17 (percent)

	Account (age 15+)	*Account, male (age 15+)*	*Account, female (age 15+)*	*Account, young adults (ages 15–24)*	*Account, older adults (ages 25+)*	*Account, rural (age 15+)*	*Financial institution account (age 15+)*	*Used the internet to pay bills or to buy something online in the past year (age 15+)*	*Saved for old age (age 15+)*
2011 World	51	55	47	37	54	44	51		
2014 World	62	66	58	47	66	58	61	17	24
2017 World	69	72	65	56	72	66	67	29	21
2011 East Asia & Pacific (excluding high income)	55	58	52	50	56	50	55		
2014 East Asia & Pacific (excluding high income)	69	71	67	61	71	67	69	16	37
2017 East Asia & Pacific (excluding high income)	71	73	68	67	71	69	70	39	23
2011 East Asia & Pacific	60	62	58	54	61	53	60		
2014 East Asia & Pacific	72	74	70	63	74	69	72	19	37
2017 East Asia & Pacific	74	76	71	69	75	71	73	41	26
2011 Hong Kong SAR, China	89	88	89	80	91	80	89		
2014 Hong Kong SAR, China	96	96	96	89	97	90	96	36	39
2017 Hong Kong SAR, China	95	96	95	88	96	94	95	53	37
2011 Singapore	98	98	98	95	99		98		
2014 Singapore	96	97	96	93	97		96	28	50

Debit card ownership (age 15+)	*Borrowed from a financial institution (age 15+)*	*Borrowed from a financial institution or used a credit card (age 15+)*	*Has a national identity card (age 15+)*	*Credit card ownership (age 15+)*	*Deposit in the past year (with a financial institution account, age 15+)*	*No deposit and no withdrawal from a financial institution account in the past year (age 15+)*	*Made or received digital payments in the past year (age 15+)*	*Mobile money account (age 15+)*
31	9			15				
41	11	22		18	78	9	41	2
48	11	23		18	69	14	52	4
35	9			7				
43	11	20		13	83	8	39	0
57	11	21	97	16	69	12	58	1
35	9			13				
47	11	23		18	84	7	44	
60	11	26		22	73	11	62	
76	8			58				
70	8	60		64	86	7	81	
83	9	62		65	90	4	85	
29	10			37				
89	14	38		35	86	7	87	6

(*continued*)

TABLE 12-1. (continued)

	Account (age 15+)	*Account, male (age 15+)*	*Account, female (age 15+)*	*Account, young adults (ages 15–24)*	*Account, older adults (ages 25+)*	*Account, rural (age 15+)*	*Financial institution account (age 15+)*	*Used the internet to pay bills or to buy something online in the past year (age 15+)*	*Saved for old age (age 15+)*
2017 Singapore	98	100	96	98	98	100	98	57	51
2011 China	64	68	60	65	63	58	64		
2014 China	79	81	76	74	80	77	79	20	39
2017 China	80	84	76	87	79	78	80	49	22
2011 Indonesia	20	20	19	13	22	16	20		
2014 Indonesia	36	35	37	35	36	29	36	5	27
2017 Indonesia	49	46	51	47	49	47	48	11	27
2011 Cambodia	4	4	4	5	3	2	4		
2014 Cambodia	22	24	20	26	21	20	13	1	29
2017 Cambodia	22	22	22	20	23	19	18	4	20
2011 Lao PDR	27	27	26	23	28	20	27		
2017 Lao PDR	29	26	32	24	32	22	29	7	27
2014 Myanmar	23	29	17	13	26	21	23	0	16
2017 Myanmar	26	26	26	11	31	25	26	4	13
2011 Mongolia	78	73	82	73	80	77	78		
2014 Mongolia	92	90	93	93	91	91	92	7	8
2017 Mongolia	93	91	95	84	96	94	93	17	9
2011 Malaysia	66	69	63	57	70	52	66		
2014 Malaysia	81	83	78	76	82	74	81	19	54
2017 Malaysia	85	88	82	84	86	81	85	39	42
2011 Philippines	27	19	34	18	30	20	27		
2014 Philippines	31	24	38	19	36	29	28	4	25
2017 Philippines	34	30	39	24	39	27	32	10	26
2011 Thailand	73	73	73	59	75	70	73		
2014 Thailand	78	81	75	71	80	77	78	4	59
2017 Thailand	82	84	80	73	83	81	81	19	45
2011 Vietnam	21	24	19	23	21	17	21		
2014 Vietnam	31	30	32	37	29	26	31	9	23
2017 Vietnam	31	31	30	34	30	25	30	21	18
2011 South Asia	32	40	24	24	35	31	32		

Debit card ownership (age 15+)	Borrowed from a financial institution (age 15+)	Borrowed from a financial institution or used a credit card (age 15+)	Has a national identity card (age 15+)	Credit card ownership (age 15+)	Deposit in the past year (with a financial institution account, age 15+)	No deposit and no withdrawal from a financial institution account in the past year (age 15+)	Made or received digital payments in the past year (age 15+)	Mobile money account (age 15+)
92	16	47	95	49	90	4	90	10
41	7			8				
48	9	21		16	84	8	44	
67	9	23	99	21	71	12	68	
11	9			0				
26	13	14		2	80	5	22	0
31	17	18	90	2	52	15	35	3
3	19			0				
5	28	28		3	38	5	18	13
7	27	27	89	1	43	5	16	6
6	18			3				
13	9	9	41	1	60	9	13	
2	16	16		0	54	4	4	0
5	19	19	89	0	42	10	8	1
61	25			2				
66	36	36		1	70	11	63	5
76	29	30	96	3	87	8	85	22
23	11			12				
41	20	31		20	73	13	58	3
74	12	23	94	21	69	17	70	11
13	11			3				
20	12	13		3	67	7	20	4
21	10	11		2	76	5	25	5
43	19			5				
55	15	18		6	90	4	33	1
60	15	20	99	10	68	16	62	8
15	16			1				
27	18	20		2	72	6	18	0
27	21	22	94	4	67	6	23	3
7	9			2				

(*continued*)

TABLE 12-1. (continued)

	Account (age 15+)	*Account, male (age 15+)*	*Account, female (age 15+)*	*Account, young adults (ages 15–24)*	*Account, older adults (ages 25+)*	*Account, rural (age 15+)*	*Financial institution account (age 15+)*	*Used the internet to pay bills or to buy something online in the past year (age 15+)*	*Saved for old age (age 15+)*
2014 South Asia	47	55	38	37	50	46	46	1	9
2017 South Asia	70	75	64	60	73	69	68	5	11
2011 Afghanistan	9	15	3	6	11	6	9		
2014 Afghanistan	10	16	4	7	12	9	10	1	11
2017 Afghanistan	15	23	7	10	18	15	15	1	7
2011 Bangladesh	32	37	26	20	37	30	32		
2014 Bangladesh	31	35	26	21	35	30	29	0	6
2017 Bangladesh	50	65	36	41	54	50	41	4	9
2011 India	35	44	26	27	38	33	35		
2014 India	53	63	43	43	57	52	53	1	10
2017 India	80	83	77	71	83	79	80	4	11
2011 Sri Lanka	69	70	67	69	68	68	69		
2014 Sri Lanka	83	82	83	85	82	83	83	2	14
2017 Sri Lanka	74	74	73	77	73	73	74	6	19
2011 Nepal	25	30	21	24	27	22	25		
2014 Nepal	34	37	31	25	37	31	34	0	9
2017 Nepal	45	50	42	39	48	43	45	2	12
2011 Pakistan	10	17	3	8	11	7	10		
2014 Pakistan	13	21	5	13	13	13	9	2	5
2017 Pakistan	21	35	7	15	25	19	18	8	15

Source: Asli Demirgüç-Kunt and others, *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution* (Washington: World Bank, 2018).

Findex data for developing countries in East Asia and the Pacific include: Cambodia; the People's Republic of China; Indonesia; Lao People's Democratic Republic; Malaysia; Mongolia; Myanmar; the Philippines; Thailand; and Vietnam. Pacific Island countries are not currently covered. Several East Asian high-income countries are included; see Findex site for specifics. Findex data for South Asia include: Afghanistan; Bangladesh; Bhutan; India; Nepal; Pakistan; and Sri Lanka. Bhutan and the Maldives are not covered.

Debit card ownership (age 15+)	Borrowed from a financial institution (age 15+)	Borrowed from a financial institution or used a credit card (age 15+)	Has a national identity card (age 15+)	Credit card ownership (age 15+)	Deposit in the past year (with a financial institution account, age 15+)	No deposit and no withdrawal from a financial institution account in the past year (age 15+)	Made or received digital payments in the past year (age 15+)	Mobile money account (age 15+)
18	6	9		3	50	18	17	3
27	7	8	93	3	43	32	28	4
5	7			1				
2	4	4		1			6	0
3	3	4	71	1	66	5	11	1
2	23			1				
5	10	10		0	60	9	7	3
6	9	9	83	0	51	13	34	21
8	8			2				
22	6	9		4	48	22	19	2
33	7	8	97	3	42	39	29	2
10	18			4				
25	18	20		4	52	26	21	0
32	15	17	92	5	52	26	47	2
4	11			1				
7	12	12		0	72	7	9	0
9	13	14		1	55	14	16	
3	2			1				
3	2	2		0			8	6
8	2	3	79	1	56	3	18	7

If people are not using their accounts, is this a sign that the services offered are not yet well adapted to client preferences? For example, accounts may offer only basic short-term loans, rudimentary savings facilities, rigid loan terms, or complex money transfers. Adults holding deposits in a financial institution ranged from 69 percent in East Asia and the Pacific to 43 percent in South Asia. Saving for old age—through long-term savings and pensions—was low (23 percent) in East Asia and the Pacific and even lower (11 percent) in South Asia. The level of adults borrowing from a financial institution or using a credit card is also low: 21 percent in East Asia and the Pacific and just 8 percent in South Asia; in both regions family and friends are the most common source of loans. Making or receiving digital payments is becoming more common across Asia: 58 percent of adults in East Asia and the Pacific and 28 percent in South Asia have at least one digital transaction.

"Too Much" Usage?

With higher levels of financial inclusion, a new concern has been emerging in some countries where competition for clients is intense and access to credit is quick and easy. Concerns are rising about household debt levels globally,[5] since credit bubbles have triggered some of the world's most significant financial sector crises over the ages.[6]

Perceived levels of household debt in Andhra Pradesh in India triggered a massive microfinance crisis in October 2010. This crisis echoed around the world and led to significant reforms across India in policy and regulation, responsible finance measures, market composition, consumer protection efforts, and international and domestic investment in the sector.[7]

Elsewhere in Asia and the Pacific, concerns about overindebtedness have been rising. Over the past decade, Cambodia has experienced rapid institutional growth, and there is more competition to attract new clients in Phnom Penh and other areas of the country.[8] Learning from the crisis in India, key institutions, investors, policymakers, and the credit bureau in Cambodia are developing lender guidelines and seeking independent verification of institutional behavior and levels of client indebtedness.

In markets across Asia and the Pacific, intense competition for clients can lead to easy credit terms. For example, levels of household overindebtedness are high in some Pacific Island countries, including Papua New Guinea.[9] Building on a recent country diagnostic, the PNG central bank is working with financial services providers to develop consumer protection guidelines. Likewise, concerns are rising for the Kathmandu valley in Nepal, greater Colombo and the postconflict northern areas of Sri Lanka, Assam state in India, Dhaka and secondary cities in Bangladesh, as well as the greater urban areas of Jakarta, Bangkok, Singapore, and Kuala Lumpur.[10] Overheated competition and levels of household and small business debt should be monitored closely across the Asia and Pacific region (and globally).

Hundreds of Millions Still Unbanked

Despite broadly encouraging results, progress is not inevitable. Sixteen countries globally experienced a decline in access to finance between 2014 and 2017.[11] In Asia, over the same period, Sri Lanka experienced a decrease in account holding from 83 to 74 percent of adults, while levels of access remained flat in Cambodia, the People's Republic of China, and Vietnam.

Even after tremendous effort and the resulting greater visibility for financial inclusion, 1.7 billion people globally still lack access to formal services. The majority of the world's excluded adults live in Asia and the Pacific; they are concentrated in six countries: the PRC (224 million people), India (190 million), Pakistan (99 million), Indonesia (92 million), Bangladesh (58 million), and Vietnam (46 million).

Key Actors Expanding Financial Inclusion across Asia and the Pacific

Asia is home to some of the oldest and best-known institutions in the history of financial inclusion—Bank Rakyat Indonesia (BRI), BRAC and the Grameen Bank in Bangladesh, and SEWA in India. Over the past forty years, diverse institutions in Asia and Pacific region have expanded access to financial services, including microfinance institutions, commercial banks, financial co-operatives, state-owned banks and inclusion programs, rural banks, and digital finance institutions.

Established Financial Services Providers

Across the vast region of Asia and the Pacific, each country offers a unique combination of established institutions that promote access to finance.[12] For more than 120 years, some of the earliest institutions across Asia and the Pacific were created for the purpose of expanding access to finance to both urban and rural low-income people. Today hundreds of institutions across the region have expanded their clientele after developing an understanding of the market opportunity provided by retail banking for households and micro, small, and medium-sized enterprises (MSMEs). This positive development reflects the good work of many dedicated institutions that have demonstrated how to expand useful and meaningful access to clients.

Asian institutions of all types helped spark the global movement for financial inclusion beginning in the 1970s. Well-known pioneers include BRI in Indonesia; BRAC, Grameen Bank, and ASA in Bangladesh; Self-Employed Women's Association, National Bank for Agriculture and Rural Development, SIDBI, BASIX, and dozens others in India, Acleda Bank and Amret in Cambodia; Funding for the Poor Cooperative and Chinese Foundation for Poverty Alleviation in the People's Republic of China; XAC Bank and Khan Bank in Mongolia; Nirdhan in Nepal; Tameer (now Telenor) Microfinance Bank in Pakistan; CARD Bank in the Philippines; Government Savings Bank and BAAC in Thailand; Capital Aid for Employment of the Poor in Vietnam; Bank Rakyat in Malaysia; SANASA in Sri Lanka, and others. Across Asia and the Pacific, two countries merit special mention for fostering the broadest diversity of financial services providers and most significant leaps in financial inclusion—the People's Republic of China and India. The experiences of both countries are covered more extensively in separate chapters of this book.[13]

Microfinance institutions (MFIs) may be purpose-built to provide financial services to low-income people, but they are not alone in pursuing this mission. Depending on the specific financial regulatory framework of each country, MFIs have emerged as nongovernmental organizations (NGOs), associations, nonbanks, specialized and commercial banks, and in other legal forms. The early wave of countries where MFIs launched in the 1970s include Bangladesh, India, Nepal, and the Philippines. During the 1990s and 2000s MFIs achieved significant scale and number in Cambodia, Indonesia, Mongolia, Pakistan, and Sri Lanka. A third wave MFIs has grown up in Afghanistan, Myanmar, Bhutan, Laos, Papua New Guinea, Timor Leste, and Vietnam. Thousands of MFIs offer financial services across rural and urban areas in Asia and the Pacific, with varying levels of success, institutional size, client outreach, and long-term viability. Some of the most successful MFIs have transformed into special purpose banks and even universal banks.

Several special-purpose banks were created or have evolved into Asian examples of development finance institutions focusing on low-income people and mass retail banking:

- Established in 1895, Bank Rakyat Indonesia is the oldest bank in the country, with hundreds of thousands of village-level access points. BRI went through several name changes, institutional forms, and ownership changes over the past 120 years. It was nationalized in 1945 as the first government-owned bank and undertook a partial public offering of 30 percent of its shares in 2003.

- In Thailand, the Government Savings Bank was established in 1913 and continues to be a leading player in expanding financial services nationwide.

- The State Bank of India, founded in 1806 as the Bank of Calcutta, is one of the largest government-owned banks in the country with a ubiquitous branch network and large outreach, with clients at all income levels. Two government-run development finance institutions have played fundamental roles in access to finance across the country: the National Bank for Agriculture and Rural Development (NABARD) was launched by the government in 1981 as the focal point for rural credit and development; and the Small Industries Development Bank of India (SIDBI) was created in 1990 to promote lending to and the development of MSMEs.

- In the People's Republic of China, the government established the Agricultural Bank of China in 1951 to specialize in rural lending, and it has evolved over the years to become one of the four largest banks in the country (and the world).

- In Vietnam, the government launched the Vietnam Bank for the Poor in 1995. It was later combined with the Vietnam Bank for Agriculture and Rural Development and transformed into the Vietnam Bank for Social Policies (VBSP) in 2002. As a fully owned government institution, VBSP offers financial services in priority areas for national development.

- In Malaysia, three development finance institutions play a key role: Bank Simpanan Nasional (BSN), Agrobank, and Bank Rakyat. Together, these institutions represent approximately 33 percent of deposit accounts in the country and 23 percent of branch offices.[14]

Financial co-operatives, also known as savings and credit co-operatives or mutuals, provide meaningful financial services to many rural and urban communities across the region. In Asia, some of the first financial co-operatives were launched in India (in the 1890s), Indonesia (late 1890s and again in the 1940s), Sri Lanka (early 1900s), the Philippines (early 1900s), Thailand (1910s and 1940s), and the People's

Republic of China (1960s). SANASA in Sri Lanka is often cited as an example of a successful financial co-operative. Starting in the early 1900s, financial co-operatives were created across Sri Lanka, and over time SANASA emerged as the federation of co-operatives, which then transformed into a bank in the 1990s that has flourished across the island. In Vietnam in the 1990s, the People's Credit Funds, a form of financial co-operative, were introduced in rural areas, followed shortly by the Central Credit Fund, which later became the Co-operative Bank of Vietnam. In the People's Republic of China, the rural credit co-operatives (RCCs) and later urban credit co-operatives were launched in the 1960s. The number of RCCs grew massively across the country, reaching 40,000 in the early 2000s, when RCC federations (RCCFs) were created at the provincial level, and more successful RCCFs were transformed into RCC banks. In Thailand, the financial co-operative movement is interwoven with the Bank for Agriculture and Agricultural Co-operatives (BAAC), a government-owned bank launched in the mid-1960s with a focus on rural development. It continues to play a significant role.

Rural banks have thrived as another institutional model in some countries of the region. In Indonesia, rural or village banks started in the early 1900s and evolved into the legal form of Bank Perkreditan Rakyat (BPR). Today there are over 1,800 BPRs of varying size, quality and, financial soundness across thousands of Indonesian islands.[15] In the Philippines, the first rural banks were introduced in the 1950s; over 400 are currently active, some of which have become important players in their local areas. In India, rural banks were first created in the 1970s, and over fifty are currently active.

Last and perhaps the largest actors, postal financial services play a critical role for low-income people and a broad range of households globally. Postal financial services may be offered by a postal bank or within a post office network. Services typically include savings accounts, money orders, life insurance, and remittance services; some also offer provident funds (government-run pension funds), bill payment, checking accounts, mutual funds, foreign exchange services, and other financial services, depending on the country. Notably, postal banks are not usually licensed to offer credit services.

Across Asia and the Pacific, postal financial services are ubiquitous, although their outreach, profitability, and independence from the post office vary. Postal financial services can be found in Afghanistan, Bangladesh, the PRC, India, Indonesia, Japan, Lao People's Democratic Republic (PDR), Malaysia, the Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, the Philippines, Singapore, the Solomon Islands, Thailand, Timor Leste, Tonga, Tuvalu, and Vietnam.[16] Some of the largest postal banks in Asia are in China, Japan, and India:

- Although this chapter is about emerging markets in Asia and the Pacific, Japan deserves special mention here, given the size of Japan Postal Bank. Japan Post initiated mail service in 1871 and postal savings services in 1875. In 2007, Japan Post created a separate legal entity, the Post Bank. Most communities throughout the country have access to banking services through the network of more than 23,000 post offices and 200-plus bank branch offices.[17] Similar to European governments at the time, the Japanese government decided in 2012 to partially privatize Japan Post Bank, including creating three legal entities—a parent company, a bank, and an insurer. The initial IPO of the three entities in November 2015 was followed by a second share offering in September 2017, although the Finance Ministry retains majority control of all three entities.[18] Japan Post Bank's assets place it among the world's top fifteen largest banks.[19]

- In the People's Republic of China, the first modern post office was launched in the 1870s and began offering postal savings services thereafter. The post office was reorganized in 1949. It reintroduced postal savings services in 1986, and in 2007 China Post formally created the China Postal Savings Bank. The bank completed a successful partial IPO in September 2016; it was the world's largest IPO in the period 2014–16.[20] Currently the Postal Savings Bank manages an extensive national network of over 45,000 offices for remittances, of which 37,000 offer savings services.[21] An estimated 40 percent of adults (490 million people) hold a savings account with the Postal Savings Bank.[22]

- After its founding in the early 1800s, India Post began offering postal savings services in 1882 and postal life insurance in 1884.[23] Over the past 130 years, India Post has become one of the oldest and largest banking networks in the country, especially in rural areas. Its deposit base is among the world's largest in terms of volume and number of customers through its network of 155,000 post offices.[24] India Post launched a payments bank in late 2018, one of seven authorized in the country.

New Actors: Digital Finance Institutions

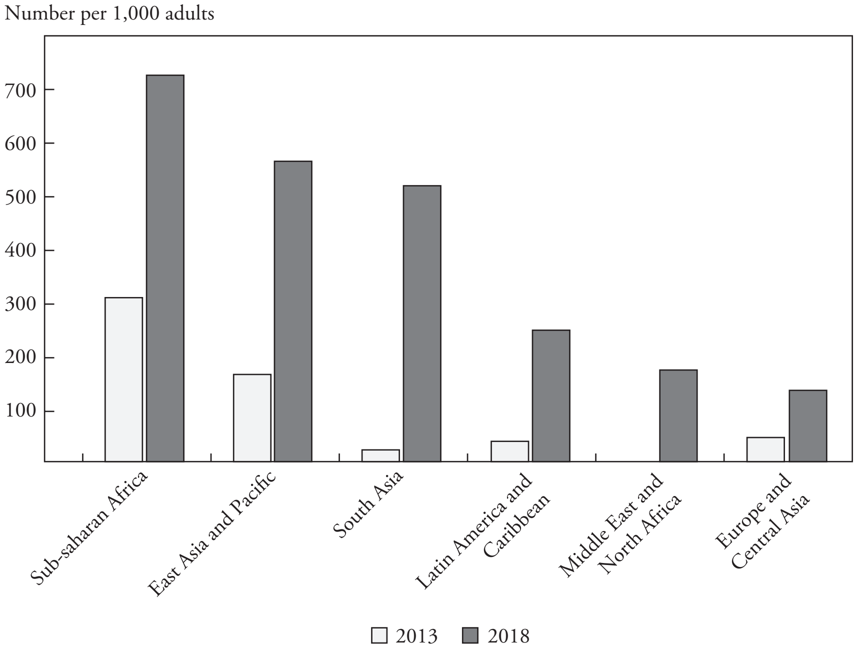
According to the Global Findex Surveys, reasons people cite for not having an account include having too little money to an account, the cost of opening or maintaining an account, distance to a financial institution, lack of necessary documentation, lack of trust in financial service providers, or another family member has an account that they share.[25] But digital finance can make services more convenient for clients in ways that directly address the concerns of many potential clients. For example, clients with a digital account may not even need to visit a physical bank branch location. Applying to open an account is normally easy and fast. Payments can be made in small (micro) transactions tailored to client needs, often at very low cost (or free). Accounts have a low (or no) minimum balance. Finally, clients can open and manage their own personal account through a phone, which frees them from sharing an account with another family member.

For financial services providers, digital finance can fuel economies of scale that reduce costs and enable them to pursue a broader range of clients. Once a digital channel is established, branch outreach no longer drives an institution's growth.[26] Reducing the need for a physical presence lowers costs and operating risks significantly, and consequently, banks and other financial services providers are carefully analyzing the footprint of their branches, automated teller machines (ATMs), and banking agents. Other potential benefits of digital finance include lower costs of conducting customer due diligence; opportunities for electronic "know-your-customer" (KYC) verification; and algorithms to screen potential clients for specific services. Digital platforms can reduce operating costs—perhaps up to 80–90 percent for some financial services, and these efficiencies can be passed to clients through lower- cost services.[27]

Using GSMA data from their most recent state-of-the-industry report of December 2018, mobile financial services continue to grow rapidly. There are over 866 million accounts in ninety countries, representing an annual increase, and over US$1.3 billion in transactions are processed every day.[28] Across Asia, the share of adults making or receiving digital payments is highest in East Asia and the Pacific and especially in Mongolia (85 percent), Malaysia (70 percent), People's Republic of China (68 percent), and Thailand (62 percent). It is lower, though growing, in South Asia: Bangladesh (34 percent), India (29 percent), and Nepal (47 percent). In the Pacific, although comparable Findex data are not readily available, digital payments and remittances are a lifeline given the distances between islands (even within the same country) and high levels of remittances from Australia, New Zealand, and elsewhere.[29]

Mobile phone ownership and usage have enabled much of the shift to digital finance. Currently 5.1 billion people hold a mobile phone account, representing 67 percent of the world's population. Over the past four years, 1 billion people have joined the ranks of mobile phone subscribers. By 2025, another 710 million people globally are projected to have mobile phone accounts, with half of the growth likely to come from Asia.[30] As with financial accounts, there is a gender gap. Men are approximately 10 percent more likely than women to own a mobile phone and 23 percent more likely to use mobile internet services.[31]

FIGURE 12.1. Banking on Mobile Phones



Source: IMF, Financial Access Survey, September 2019.

Global data released in September 2019 from the International Monetary Fund (IMF) support these trends. Figure 12-1 shows the growth in the number of mobile banking accounts across South Asia, East Asia and the Pacific, and Africa from 2013 to 2018.[32]

Physical availability of branches, ATMs, banking correspondents or agents, and other types of service points all help encourage greater access to and usage of financial services. Availability of ATMs across Asia varies greatly, from just 1.6 ATMs per 100,000 adults in Afghanistan to 22.6 in India, 54.4 in Indonesia, 97.1 in China mainland, and 115.2 in Thailand as of September 2019. Unfortunately, reliable comparable data on coverage of banking correspondents or agents and combined coverage of branches of all banks, MFIs, credit unions, and credit co-operatives is spotty globally and in Asia. However, available data on commercial bank branches per 100,000 adults as of September 2019 for Asia suggests a low of 1.5 branches in Papua New Guinea, 8.9 branches in mainland China, and a high of 14.5 branches in India.[33]

E-commerce is another factor driving usage of digital payments. Thirty-nine percent of adults in East Asia and the Pacific use the internet to pay bills or make a purchase online. The People's Republic of China leads in East Asia with 49 percent of adults making an internet transaction, but just 4 percent in Cambodia and Myanmar. In comparison, only 5 percent of adults in South Asia reported making an internet transaction in 2017, ranging from 8 percent of adults in Pakistan to 1 percent in Afghanistan. E-commerce will only increase across Asia over the coming decade, largely through mobile devices.

Digital Finance and Fintech Institutions

Across Asia and the Pacific, new digital finance actors have emerged over the past decade. Initially focusing on e-wallet solutions, an explosion of fintech firms across the region are expanding the market for payments, remittances, borrowing, insurance, investments, loan comparisons, credit scoring, crowdsourced and other fundraising, and other related services.

The Philippines: While Kenya is often rightly cited for innovation in digital finance, two of the earliest mobile payment providers globally and the first in Asia were SmartMoney and GCash launched by the two leading national telecommunications firms (telcos) in the Philippines in the mid-2000s. An early leader in promoting digital finance, the Bangko Sentral ng Pilipinas (BSP) developed good foundations through enabling laws and regulations. Yet despite their early launches, transactions have been largely linked to mobile phone usage (for example account top-ups), with less uptake and usage for digital payments.[34] Smart Money launched PayMaya, a card-based payments option in 2016. In early 2017, GCash partnered with Ant Financial, which infused new growth into the payments market. Global payments platform PayPal is also active in the Philippines. Virtual banks include CIMB Bank of Malaysia and ING Bank of the Netherlands, and a new license was approved for Tonik Digital Bank of Singapore in December 2019.[35] Overall, more than seventy digital finance players are active in payments, remittances, and alternative credit. Digital finance usage remained modest until starting to grow in 2018–19;[36] the BSP is targeting 30 percent of total transactions to be e-payments by the end of 2020. The BSP's creation of QR code standards for payments and a new e-government payment facility in late 2019 should promote greater uptake of digital finance.

Bangladesh: BKash, a subsidiary of BRAC Bank Limited, launched in 2011 and has grown rapidly. BKash's early success attracted others to the market; eighteen banks offer digital finance, with 76 million active accounts and US$4.17 billion in monthly transactions as of September 2019.[37] Over 950,000 banking correspondents or agents serve clients across the country, and the number of registered clients and the volume and value of transactions have grown rapidly.

Cambodia: Wing in Cambodia launched in 2009 as one of the early digital finance players in East Asia and in 2019 announced a new link with MoneyGram to send and receive remittances through the Wing app or branch offices.[38] More than a dozen other fintech firms have established operations in Cambodia since 2014 offering payments, insurance, invoicing, and alternative financial services.

People's Republic of China: Mobile payments and digital finance have rapidly transformed the financial sector. More than 580 million people made a mobile payment in 2018, an increase of more than 10 percent from 2017.[39] In addition, multiple digital finance platforms operate across the country focusing on different client groups and services, including retail services, supply chain finance, trade finance, and others), and several reportedly use blockchain. Given their dominance and growth in China and now internationally, the financial services efforts of Alibaba and TenCent Holdings are described below. However, a multitude of other digital financial service providers are active across China.

Alibaba started as an e-commerce site in 1999; it later added payment services through Alipay in 2009, which was then spun off as a separate financial services company called Ant Financial in 2014. As of March 2019, Ant Financial provided payment services to an estimated 558 million people across the country.[40] Ant Financial has grown tremendously to include related services through Jiebei, a consumer loan company; Huabei, a virtual credit card company; MY Bank, an online bank; Xiang Hu Bao, a mutual health plan; ZOLOZ, an identity verification service; Sesame Credit (also known as Zhima Credit), a credit rating firm; Yu'e Bao, a money market fund, as well as other subsidiaries using blockchain technology, wealth management, and insurance.[41] The mutual health plan Xiang Hu Bao provides basic medical coverage to over 50 million people, of which 47 percent are migrant workers and 31 percent are from rural areas.[42] After four years of operation, MY Bank had lent over US$290 billion to more than 16 million MSMEs, using online credit scoring to assess potential borrowers in seconds.[43] Over the past five years, Ant Financial began expanding across Asia through joint ventures and investments, including Paytm in India, BKash in Bangladesh, Telenor Microfinance Bank in Pakistan, Elang Mahkota Teknologi (Emtek) in Indonesia, Touch n Go with CIMB Bank in Malaysia, Mynt/GCash in the Philippines, HelloPay with Lazada based in Singapore,[44] Ascend Money in Thailand, and KakaoPay in South Korea. Beyond Asia, Ant Financial has co-invested with Ingenico based in France and active across Europe, Bluecode in Austria, ePassi and Pivo in Finland, Vipps in Norway, Momo in Spain, Pagaqui in Portugal,[45] StoneCo Ltd. in Brazil, and WorldFirst currency exchange in the United Kingdom.

The second fintech behemoth in the PRC, TenCent Holdings Limited created in 1998, launched WeChat in 2011 as an instant messaging platform and gradually expanded to other payment services, including money transfers and e-commerce through WeChat Pay starting in 2013.[46] In 2015, TenCent launched WeBank—an online bank that offers rapid loan decisions using online credit scoring similar to MY Bank. TenCent's vast network includes a range of other companies in the country, including gaming services, e-sports, video and sports streaming, music services, ticket purchases, and other subsidiaries. TenCent is rapidly expanding internationally in e-commerce (with FlipKart in India, for example), gaming services, health care, and multiple other sectors.

Statistics on client outreach are difficult to find; taken together, however, Ant Financial and TenCent represent a massively dominant share (perhaps as much as 94 percent) of the national payments market.[47] Given the ubiquitous nature of digital finance, the People's Bank of China (PBOC), the central bank, has also announced plans to enhance supervision of digital finance and strengthen measures for risk governance of fintechs.[48]

In yet another innovation, the PBOC is reportedly close to introducing a cryptocurrency using blockchain and other technologies.[49] As a step in that direction, in October 2019 the Chinese legislature approved a new law on cryptography, including regulating its use, promoting the development of cryptography, and ensuring information security.[50] Further, the Blockchain-based Service Network was launched in October 2019 as a consortium of the State Information Center, China UnionPay, and China Mobile.[51]

Hong Kong, Special Administrative Region of the People's Republic of China: Hong Kong is a regional banking hub for Asia with a history of innovation in financial services. Residents enjoy access to a plethora of payment cards, broad coverage of ATMs and bank branches, a modern payments system, numerous mobile banking apps, and new fintechs offering retail and wholesale services. In February 2018, the Hong Kong Monetary Authority (HKMA) issued a draft for consultation of the Guideline on Authorization of Virtual Banks, and the revised guidelines were issued in May 2018.[52] After receiving thirty-three applications, the HKMA approved eight virtual bank licenses between March and May 2019, including a range of consortiums between banks, e-commerce leaders, fintechs, and others.[53] Well-known names in the successful bidding consortiums include Ant Financial, Ping An, Ten-

Cent, Bank of China, Industrial and Commercial Bank of China, Standard Chartered Bank, and Xiaomi. With this policy opening, HKMA set the trend for virtual or digital banks in East Asia. Once the banks become fully operational, their test will be to become profitable, given the constraints and requirements of the virtual bank license. In addition, the HKMA developed the "Faster Payment System" mobile phone application that facilitates free money transfers between bank accounts, with over half the city's population reportedly using this application.[54]

India: Eko and Fino were two of the first banking correspondent networks launched in the late 2000s as third-party agents to help mobilize payments and other services outside bank branches. Others include Paytm, RazorPay, PayUMoney, Instamojo, ItzCash, Novopay, and Citrus. In 2015, the Reserve Bank of India accepted expressions of interest in a new regulatory category of payments bank with a limited operational mandate. With forty-one applicants, the RBI approved provisional licenses for eleven proposed payments banks. Some of the banks did not pursue the licenses, however, and other payments banks were subsequently closed. As of January 2020, six payments banks were operational in India: Airtel, Fino, India Post, Jio, NDSL, and Paytm Payments Bank Limited.[55] Given challenges with the business model and profitability of payments banks, in December 2019 the RBI announced criteria that would allow payments banks to be eligible to convert to small finance banks after five years of operation.[56]

The National Payments Corporation of India (NPCI) was launched in 2009 by the Indian Banks' Association (IBA) and the Reserve Bank of India as an umbrella organization for banks operating retail payments and settlement systems in India. Initially, ten banks invested in NPCI, and the number increased to fifty-six in 2016.[57] The NPCI manages several payments platforms and initiatives, of which the Unified Payment Interface (UPI) is one of the most important as a national enabler of digital finance. UPI was launched publicly in August 2016 as a mobile phone application that gives clients access to their bank accounts and offers several instant payment and banking features. Accounts are protected with two-factor authentication, and each client account has a virtual address, which prevents third-party access to personal account information. UPI enables a range of payment types, including peer to peer, merchant, utility bill, and donations, either in real time or at a future scheduled time. The UPI system is neutral and works with a range of banking applications available from financial services providers in India.[58]

Similarly, fintech innovation is bubbling in India. According to one estimate, there may be over 2,000 fintechs active, triple the number that existed in 2015.[59] Indian fintechs are attracting significant equity from global and domestic investors; several major Indian cities have been listed among the top 100 fintech hub cities globally.[60] Over the past decade dozens of fintechs were initially established as banking correspondents to work with licensed banks and other financial service providers. More recent examples of fintechs include MobiKwick, NeoGrowth, Policy Bazaar, PhonePe, Ziploan, MyLoanCare, Shubh Loans, PayU, Kissht, epayLater, Lending Kart, Faircent, and epiFi. Many of the payment fintechs also offer online and mobile access to loans, often serving as originators for other licensed credit providers.[61] Other fintechs such as ZestMoney, Kaleidofin, Niyo Solutions, Open, Pay Zello, instaDApp, and 0.5Bn FinHealth partner with banks to offer insurance, wealth management, foreign exchange, and other services to households and small businesses.[62] Peer-to-peer lending platforms are emerging as licensed nonbank financial companies (NBFCs), offering a new model for borrowers and investment options for households. One of the older, established platforms is RupeeCircle, and others include LendBox, Lenden Club, OML, India Money Mart, Faircent, and I2I Funding. As of September 2019, several fintechs, including MoneyTap, CredAble and PayMe India, were granted NBFC licenses to offer lending on their own books.[63]

Global players such as Google Pay are also becoming active in India, and Amazon Pay launched in 2019. The messaging platform WhatsApp has developed a beta payments product with about 1 million users, and in August 2019 it applied for RBI approval as a payments service. WhatsApp could rapidly become a significant player, given its 400 million users across India.[64] The RBI allowed WhatsApp to test payment services starting in February 2018 with 1 million users, although full approval was delayed given concerns about their noncompliance with requirement to host relevant data in India.[65] RBI subsequently granted approval in early February 2020, and the NPCI has given WhatsApp permission to use its digital platform in a phased manner for up to 10 million users in the first phase.[66]

Indonesia: Telkomsel Cash (T-Cash) is one of the oldest digital money services, as an e-wallet linked with the country's largest mobile phone operator. Dozens of mobile wallets and payment applications have been launched, and multiple banks offer their own applications. In 2015, Go-Jek ride hailing service created the digital wallet GoPay, which has become the most widely used digital wallet in Indonesia; it has plans to expand its payment services.[67] Dana is a more recent e-wallet which has grown quickly in popularity. Go-Jek and GoPay also operate in Vietnam, Thailand, and Singapore. Launched in 2017, the fintech Ovo grew rapidly in number of clients and volume of e-transactions through 2019.[68] The central bank has licensed more than 30 e-wallet services, with the top five being GoPay, Ovo, Dana, LinkAja, and Jenius.[69] In response, many banks are expanding their digital finance operations. As just one example, in February 2019, BRI launched a new mobile app, Pinang, for digital loans, building on its national network of branches and ubiquitous brand name across Indonesia.[70] Multiple fintechs are emerging in Indonesia, such as BantuSaku, which launched in January 2020 in beta version after receiving its license in October 2019[71] and CredoLab, which received its license in January 2020.[72]

At the national level, Bank Indonesia released its Indonesia payment systems blueprint for 2025 in November 2019,[73] which embraces digital finance, fintechs, and links with existing financial services providers while advocating for consumer protection and continued integrity and stability of the financial sector. Given this policy approach, more digital finance innovations may emerge in Indonesia in the near future.

Malaysia: Several banks offer mobile applications, and regional digital finance players are also becoming active in the country. In early 2018, the mobile network operator Axiata launched the mobile wallet Boost, which has become the most widely used in the country.[74] In late December 2019, Bank Negara Malaysia (BNM) announced plans to issue up to five digital banking licenses by the end of 2020 and shared a draft of the licensing framework for consultation.[75]

Myanmar: Digital finance and financial inclusion are growing, where about a dozen mobile wallets and payments providers operate. The market leader with over 17 million subscribers,[76] Wave Money launched in 2016 in a joint venture with Telenor, FMI, and Yoma Bank. By 2019 it had grown over 240 percent from its 2018 base of 7 million clients; it had conducted US$4.3 billion in transactions and served 89 percent of the country as of the end of 2019. Another well-known service is M-Pitesan, launched by Ooredoo, a national mobile network operator. At a meso-infrastructure level, the Myanmar Payment Union is working with Singapore's Network for Electronic Transfers to promote point-of-sale payments.[77]

Pacific Island countries: Across the Pacific, digital payments have been piloted by several banks; Bank South Pacific shows the most traction and staying power. Headquartered in Papua New Guinea and active in six countries across the Pacific, BSP launched payments about six years ago. Payments and remittances are especially critical for Pacific Island countries, given their interlinkages with other countries in the Pacific and globally. For example, remittances represent 20 percent of GDP in Tonga, 14 percent in the Marshall Islands, and 10 percent in Kiribati (as of 2017).[78]

Pakistan: The mobile network operator Telenor invested 51 percent in Tameer Microfinance Bank in 2008 and renamed it Telenor Microfinance Bank. Telenor eventually acquired 100 percent ownership in March 2016. Starting in 2009, the bank began offering mobile money services under the EasyPaisa brand. Other firms have emerged, especially since 2015, including Habib Bank and Monet, Keenu, Jazz Cash, SimSim, and Inov8Limted.

Singapore: The government of Singapore designed its Smart Nation Initiative to include a focus on digital payments. Singapore is also the headquarters for many regional banks, financial services providers, and other regional corporations with operations in Asia and the Pacific; there have also been many fintech startups over the past decade. Digital wallets have been popular in Singapore for years; international payment applications such as Apple Pay, Samsung Pay, and Google Pay are widely used. Grab ride hailing service, originally based in Malaysia and now headquartered in Singapore, offers GrabPay as a digital wallet. In December 2019, Grab and Mastercard launched the GrabPay payment card.[79] Grab's ubiquitous presence in several other Southeast Asian countries has allowed GrabPay services to expand beyond Singapore.[80] In 2019, OCBC Bank announced a new payment service, PayNow, in collaboration with the UK-based Rapyd.[81] In May 2019, Singapore- and San Francisco-based online gaming firm Razer announced a partnership with Visa to extend Razer Pay across Southeast Asia.[82]

In a widely anticipated move, in June 2019 the Monetary Authority of Singapore (MAS) announced two newly designed digital bank licenses—a digital full bank (DFB) license and a digital wholesale bank (DWB) license. The DFB would be allowed to take deposits and provide banking services for retail and nonretail customer segments, while the DWB would be allowed to serve nonretail and SME customer segments. Other digital banks are possible under the MAS internet banking framework already in effect. In August 2019, applicants were invited to submit proposals through the end of December 2019, and MAS intends to approve up to two DFB licenses and three DWB licenses by mid-2020.[83] MAS reported that twenty-one groups submitted applications by the deadline.[84] The consortiums of bidders include well-known fintechs, telecommunications, and e-commerce players such as Grab, Singtel, Razer, Ant Financial, Hande Group, EZ-Link, ByteDance, the Singapore Business Federation, and others.[85]

Thailand: Mobile wallet firms have grown over the past five years. The largest are LINE, Mobiamo, and PromptPay, as well as global payment apps such as PayPal. Launched in early 2017, PromptPay was developed jointly by the Bank of Thailand

and the Thai Bankers' Association. In 2019, the United Overseas Bank from Singapore launched TMRW as a mobile-only bank. In December 2019, Siam Commercial Bank announced that its payment service SCB Easy, which already serves more than 10 million clients, would add cross-border payments in conjunction with fintech firm Ripple. Kasikorn Bank rolled out digital banking starting with a payments application and plans to add mobile lending jointly with Line Corporation in 2020.[86]

Vietnam: Despite considerable interest and potential, digital finance usage in Vietnam is still in early stages. When fintech startups began to appear in the early 2010s, BankPlus was one of the first, launched by the mobile network operator Viettel. More than thirty payment providers are licensed, including VinaPay, Vimo, Momo, ZaloPay, ViettelPay, VNPT Pay, and V-FPT.[87] Other regional players such as GrabPay are also active. More than 150 fintechs had launched as of November 2019, and financial transactions using mobile devices grew over 100 percent in volume and over 150 percent in value over the previous year.[88] In 2019, the government signaled its approval for mobile money implementation, which will be led by the minister of information and communications, the State Bank of Vietnam, and telecommunications companies.[89]

Potential Areas of Concern in Digital Finance

While digital finance offers tremendous opportunities, there are also significant areas of potential concern, including a large digital divide, fraud and abuse, and the impact on financial sector and competition and market structure. High current levels and projected future growth in mobile phone ownership may well be an enabler for financial access. About 66 percent of the 1.7 billion unbanked adults already have a mobile phone. However, low-income people, women, older people, and other socioeconomic groups may not have the latest smart phones or regular access to the internet, or they may prefer interacting in person with a bank agent. Those who are illiterate or do not read an official language of the country will also struggle to use the written interface of phone and internet applications. Rural areas often suffer from less mobile phone coverage, lower and more seasonal income, and fewer bank branches, banking agents, and ATMs. What will happen to people without the basic tools that power digital finance? Low-income people, women, older people, and rural households may be left behind in a growing digital divide.

The convenience of digital finance triggers other concerns as well. Quick and easy services make it easier for clients to take risks and borrow,[90] and to overextend themselves financially.[91] Further, reports on fraud through digital finance began shortly after the first deployments over ten years ago in countries such as the Democratic Republic of Congo and Kenya.[92] As the number of people using digital finance grows, so do reports of clients losing money through fraud or error.

Kenya serves as a fascinating pilot country for digital finance given its early efforts in the 2000s to create one of the world's most competitive financial services markets. Yet some of Kenya's lessons are sobering. Thirteen percent of the adult population had defaulted on at least one small digital credit loan of less than US$10 as of May 2018, triggering long-term implications for their credit ratings.[93]

Person-to-person lending in the PRC offers another reason for concern. From 2008 through 2015, over 10,000 person-to-person lending operations proliferated across the country, many of which perpetrated fraud and consumer abuse. By introducing new regulations, the People's Bank of China, the central bank, reduced the number of authorized online lenders to 3,500 in 2015 to fewer than 100 in 2017.

When digital finance first emerged globally in the mid-2000s, much of the discussion centered on competition between mobile network operators, fintech firms, and traditional financial services providers such as banks and MFIs. The reality has been more complex, mixing collaboration and competition and many new entrants. New combinations of online services and physical locations are emerging. Market structures are evolving rapidly, and global competition is growing, especially across Asia.

Digital finance follows different paths in different contexts. For example, in the three pioneering countries of Kenya, the PRC, and India, distinct payment models have emerged. In Kenya, mobile network operators dominate the market, and regulations allow them to offer mobile money accounts that are not linked to a bank account. In the People's Republic of China, third-party firms such as Ant Financial and TenPay dominate the market; transactions are enabled within their mobile applications and linked to a bank account. In India, the UPI national payment platform serves as a neutral, independent mobile application that links bank accounts for instant payment and banking features; financial services providers must compete for clients based on other services and fees.

Greater competition and diversity among financial services providers can lead to a more efficient and resilient financial system. However, competition also makes it more difficult for banks and other financial services providers to profit in many countries. What about the established institutions—including MFIs, specialized banks, financial co-operatives, rural banks, nonbank financial institutions, postal banks, and others—that historically focused on expanding financial inclusion? Many are partnering with larger banks, mobile money operators, fintech startups, and other actors in order to gain access to broader digital platforms and services. In Pakistan, Pakistan Microfinance Network has announced a venture with Telenor Microfinance Bank to create a digital services platform for its network of MFIs to expand services to clients.[94] Other MFIs are merging and consolidating—with notable and numerous examples in the Philippines and India. MFIs bring decades of history and experience, having earned the trust of their clients and demonstrated their ability to reach low-income clients with financial services. But the reality is that established institutions are also struggling to evolve in several countries. For example, in one of the more dynamic markets globally, MFIs in Kenya are grappling with rising competition from a much broader range of financial services providers.[95] Similar challenges face established institutions in Asia, especially where digital finance is growing rapidly, such as India, Bangladesh, Myanmar, the People's Republic of China, Thailand, and Malaysia.

Institutions struggling for survival may engage in greater risk taking—with new products, greater leverage of their balance sheet, or riskier collaborations than they may have considered in the past. Outsourcing to specialized firms can tap deep experience in small or complex niches, such as leasing, agricultural insurance, housing, or digital marketing that are challenging to master.[96] Examples include outsourcing to manage agent networks, manage payment card processing, maintain ATM networks, secure information databases, and the like. Outsourcing presents its own challenges and regulatory risks. Further, terms of collaboration can shift quickly, as new competitors emerge every month, and former collaborators can even become fierce competitors.

Financial stability may also be affected by the emerging involvement of global technology platforms, concentration of markets, and greater outsourcing and dependencies on third-party firms. Large technology platforms may eventually lead to less competition, if they are able to achieve dominant market position. For example, in the People's Republic of China, Ant Financial and TenPay, the two largest digital finance providers, represent 94 percent of the market.[97]

A Vision for True Financial Inclusion in Asia

In Asia and the Pacific, and globally, the goal of broad financial access is much closer than it was ten years ago. Although 1.7 billion people still lack a formal account, the large gap is narrowing, and governments and the private sector have built some successful models. Yet we are still far from achieving the vision of true financial inclusion.

Financial inclusion means clients are using a relevant range of financial services to manage their household income and expenses to achieve their savings, investment, and risk mitigation goals. The services should be well designed, affordable, convenient, and delivered in a responsible way that ensures client protection. Across Asia and the Pacific, several key steps are emerging as critical to achieving true financial inclusion:

Ensure a Basic Foundation of Unique Identification and Appropriate KYC Regulation

Globally, over 1 billion people have no legal proof of identification.[98] Without such identification, people are denied access to financial services as well as a range of other rights, including the ability to vote, access the labor market, secure government benefits, and health care. Identification must be unique, accurate, secure, and free of discrimination. India is a global leader in unique biometric identification, enrolling almost all adults in just seven years and 1.23 billion people (adults and children) as of February 2019.[99] Several other Asian countries have also achieved high levels of identification coverage, including the People's Republic of China, Singapore, Sri Lanka, Malaysia, Thailand, and Mongolia. Other governments across Asia and the Pacific have started national identification campaigns—including Indonesia and the Philippines. These investments in national identification, including e-KYC capabilities, will help lay the foundation for greater financial inclusion and other important services from government agencies and others.

National identification is necessary but not sufficient for financial access. Central banks and governments also need to find the right balance on identification required to open bank accounts and make transactions. The so-called know-your-customer regulations link to global efforts on anti-money-laundering (AML) and combatting the financing of terrorism (CFT), which are important aspects of global security. Well-intentioned policies to strengthen KYC may have the unexpected consequence of creating barriers to financial services. Proportional measures can be tailored to a county's specific context and risks.[100]

Encourage Banks to Offer Basic Accounts

Globally, countries as diverse as South Africa, the UK, India, Malaysia, Australia, and several U.S. states have successfully encouraged banks to offer basic bank accounts. Basic accounts are usually limited in the type of services permitted, such as deposits, withdrawals, and perhaps money transfers or limited life insurance for the account holder. Likewise, basic accounts usually restrict the amount of money that can be held in the account and the value and number of individual transactions each month. As a trade-off for these restrictions, the KYC requirements for basic accounts can be less onerous and include alternative forms of identification.

- In October 2004, South Africa became one of the first emerging markets to launch a national campaign for "Mzansi" basic bank accounts as part of the broader Financial Sector Charter promoting financial inclusion. The percentage of adults with an account increased significantly, from 46 to 63 percent between 2004 and 2008.[101]

- To ensure that all households have access, the government of India launched the Pradhan Mantri Jan-Dhan Yogana (PMJDY) campaign in August 2014 to provide first-time bank accounts. Managed by the Ministry of Finance, PMJDY mobilized banks to provide an interest-bearing deposit account with no minimum balance, a debit card, access to digital payments, basic life insurance, a small overdraft facility of approximately US$70, and access to insurance and pension facilities.[102] As of February 2019, PMJDY reported over 340 million new accounts opened, the majority by public sector banks.[103] Further, in every state across the country, 99 to 100 percent of all households hold at least one bank account.[104]

- In Malaysia, the central bank, Bank Negara Malaysia, requires all banks in the country to offer basic savings accounts or basic current (checking) accounts to individuals and small businesses. These accounts allow for six free over-the-counter visits per month, eight free ATM withdrawals, two internet transactions at RM0.5 (approximately US$0.12) each, free deposits of checks and cash through kiosks, free account inquiries and fund transfers within the same banking institution, and free bill payments.[105]

- In Nepal in April 2019, the central bank, Nepal Rastra Bank (NRB), announced plans for a zero-balance account to be available through most financial institutions in the country. As part of the initiative, NRB will simplify paperwork required to open an account for depositors whose transactions do not exceed NR100,000 (approximately US$878) per year.[106]

While basic accounts have been successful in bringing access to more people, usage sometimes trails. For example, six years after the first Mzansi accounts were opened in South Africa, approximately 42 percent of accounts were dormant, although banks were still opening the accounts for new customers.[107] In India, three years after the first PMJDY accounts were opened, 48 percent of adults with an account were not using it.[108] As is discussed in Chapter 13 on the Indian experience, account dormancy is declining based on more recent 2019 figures.

Accounts are important but do not ensure use or true financial inclusion. If services are affordable, convenient, secure, and well designed, clients may be more inclined to open accounts and use them. Financial services providers will need to be innovative and agile as they build deeper relationships with their clients.

Build Trust through Quality Services

Since the 1970s, the microfinance movement has elevated the importance of customer convenience—bringing banking agents to household doorsteps, market stalls, and village centers—so clients could easily make a savings deposit or pay their loan installment. This focus on customer service scrambled the prevailing business models, where formerly clients waited in long queues in banking halls, if they even mustered the courage to enter a commercial bank, where they were often not well received or could not meet minimum account requirements.

Earning client trust through reliable quality services is essential. In Asia and the Pacific, many established financial institutions serving low-income clients have succeeded by offering quality services. Digital finance is largely a virtual service, which can exacerbate the challenges of building a client's initial trust. Keeping the client's trust is even more difficult if she faces any service issues and struggles to have them resolved. Troubling reports across the globe include errors sending money to the wrong person; agents overcharging clients; thin coverage of service points, especially in rural areas; service points (agents or ATMs) not functioning or out of cash; and criminal deception and fraud by company insiders, agents, or strangers.[109]

Increasingly, financial service providers are increasingly refining the quality of their products and services in an effort to win clients.[110] They need to be creative, combining digital and physical service points, to build strong and deep relationships with their clients. Greater use of technology is inevitable, though it has mixed implications for building trust. The enormous amount of data available about clients and their transactions enables providers to customize their services based on a client's specific profile. Online applications and mobile applications help clients open accounts and apply for services. Automated call centers may enable clients to resolve questions at any time of the day or night. Algorithms fuel rapid online loan approval. Yet these same technologies will affect, and possibly disintermediate, the relationship between a branch officer and client, which may reduce the client's overall satisfaction.

Institutions that focus on the customer experience and building deep client relationships will be more likely to succeed in a competitive market. Making the interaction online or in a branch office convenient is the minimum starting point, and each transaction should be seamless and frictionless. Marketing of services requires transparency in pricing and care to sell services that are appropriate to the client's circumstances. Clients need effective and immediate recourse to raise questions and seek solutions to problems that may arise with their account or specific transaction. To achieve this culture of service, institutions will need to invest in training their staff to support the company's values and ethics of service, and to follow new procedures.

Delivering services in a mindful and responsible manner is easier if it is the norm in the country's financial market. Across Asia and the Pacific, several industry associations have developed codes of conduct for responsible finance, including in Bangladesh, Cambodia, India, Indonesia, Nepal, Papua New Guinea, Sri Lanka, and Vietnam. These laudable efforts will hopefully expand to more countries.

Increase Consumer Protection

Institutional culture for responsible finance and voluntary industry codes of conduct are a useful starting point. However, policy and regulation are necessary to ensure a basic level of consumer protection by all financial services providers. Several countries across Asia and the Pacific have developed consumer protection measures, including requiring transparency of fees and conditions for service, promoting ease of use and availability of service points, establishing toll-free help lines and ombudsmen to help report, track, and resolve complaints, guarding against abusive loan collection and sales practices, and ensuring privacy and protection of client data.

To promote consumer protection, the Responsible Finance Forum and the Smart Campaign, both created in 2009, offer guidelines and case studies for governments, central banks, and financial services providers. Since 2011, the Organization for Economic Cooperation and Development (OECD) has promoted responsible finance and consumer protection at the intergovernmental level. As part of the Smart Campaign, the Fintech Community of Practice finalized standards for digital credit in June 2019. .[111]

Ensure the Security of Accounts and Personal Data

Data security is a vital component of consumer protection. Unless accounts and personal data are secure, clients are vulnerable to identity theft and financial losses. The responsibility lies with financial service providers—whether established players or new digital finance institutions—to ensure robust security and systems to minimize the risk of fraud on the accounts and services they offer. At a minimum, people should have access to their own data and a convenient, secure method to correct their information. Further, financial services providers should be required to protect accounts against fraud and ensure data privacy and security, and be penalized severely for data breaches.

Governments are increasingly legislating data privacy laws, and careful enforcement is also necessary. The General Data Protection Regulation adopted by the European Union in May 2018 is a milestone in data protection for consumers that imposes significant penalties if businesses do not comply. Some countries in Asia and the Pacific have started grappling with data privacy, but much more is needed in this emerging and critical area.

Build the Foundation of a Financial Infrastructure

To ensure a well-functioning financial sector, two types of basic financial infrastructure are increasingly vital: interoperable payment networks and credit reporting systems. Several central banks in Asia and the Pacific have established national payment strategies, although few have built interoperable payment networks. Interoperable means that payments can be made regardless of institutional type—across the broad range of financial services providers and mobile money providers; by various types of users, including consumers, businesses, and government agencies; and across markets, both nationally and internationally.

The European Union's Revised Payment System Directive is a good model of an interoperable approach that could be adapted to specific country contexts in Asia and the Pacific. India's Unified Payment Interface is an example. as discussed earlier in the section on digital finance.

Credit reporting systems are equally vital for a country's financial infrastructure. Credit reporting systems include the institutions, laws and regulations, procedures, and technology platforms that enable the gathering and reporting of information, including the credit histories of people and businesses. Credit reporting helps financial institutions and their regulators and supervisors to monitor the safety and soundness of the financial sector and reduce systemic risk. Credit reporting helps both individuals and businesses by establishing people's credit history and reducing risk for loan providers, thereby expanding access to finance.[112]

Credit registries are databases typically managed by the public sector, often the central bank or specialized banking supervisor, to gather and monitor information on loans made to borrowers (both individuals and businesses) by each of the lending institutions in its jurisdiction. Credit bureaus are agencies that gather information on individuals and businesses related to their creditworthiness and then sell this information to lenders and other entities for their internal decisions on extending loans.

In Asia and the Pacific, credit registries and credit bureaus are widely prevalent. Many countries benefit from one, while a few countries have both a registry and a bureau (or multiple bureaus). The following counties have either a registry or a bureau: Afghanistan, Bhutan, Cambodia, People's Republic of China, India, Indonesia, Japan, Korea, Lao PDR, Malaysia, the Maldives, Nepal, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka, Thailand, Timor Leste, Tonga, Vanuatu, and Vietnam. Data quality and coverage vary greatly across the region. In the region, the credit registry in the People's Republic of China has the highest coverage at 98 percent of adults. For credit bureaus using data as of May 2018, Japan and Korea have achieved 100 percent coverage of adults, followed by Malaysia (86 percent), Singapore (60 percent), Thailand (60 percent), and India (56 percent).[113]

Over the past decade across the region, several credit bureaus and registries have been working to incorporate data from MFIs and other financial services providers beyond the core commercial banks in their countries. Likewise, some central banks and credit bureaus are starting to expand their sources of data to include alternative data such as payments to utilities, tax authorities, landlords, mobile phone providers, and stores that offer goods and services on credit. The use of alternative data could help low-income clients establish stronger credit history by expanding data coverage to include these more common types of transactions made by a broader range of the population. Finally, given regional transactions and businesses across Asia and the Pacific, establishing standards and laws for regional credit reporting systems will be increasingly important.

Consumer protection measures discussed earlier should also include credit registries and credit bureaus. Individuals and businesses should be able to request their own credit report, verify the data, and if necessary, dispute and correct their data. Registries and bureaus should ensure timely responses to requests for this information from individuals and businesses and also protect the data to prevent fraud and identity theft.

Encourage Transactions

Incentives for households, governments, and businesses to use accounts for transactions, rather than cash and checks, will help encourage transactions and usage of formal accounts through established financial services providers and new digital players. As e-commerce expands across Asia and the Pacific, digital payments will likely rise in parallel—as has been seen in the People's Republic of China with Alibaba and its affiliates. Likewise, person-to-person payments, which were the initial impetus for the Kenyan digital finance market, WeChat in the People's Republic of China, and the UPI interface in India, can fuel significant growth in transactions. Finally, government-to-person (G2P) payments can help encourage the use of accounts. G2P payments include cash transfers (wages, pensions, and unemployment assistance), subsidy transfers (for example, for food, fuel, and fertilizers), and benefit transfers (for example, child welfare programs, education grants, and unemployment benefits).[114] Digitizing G2P payments can be challenging,[115] but where feasible, G2P payments can massively increase the volume and number of transactions through accounts.

Transactions through accounts are usually more convenient and beneficial for consumers, businesses, governments, and financial services providers. However, governments, businesses, and financial services providers need to move at a pace that is acceptable to consumers. Backlash movements have sparked in countries where consumers feel pressured to forsake cash and make transactions only through accounts or digital platforms. In Uruguay, consumers responded with frustration to rapid changes in digital transactions,[116] and similar concerns have been voiced in the United States,[117] the United Kingdom,[118] India,[119] the Philippines,[120] and elsewhere. Until the digital divide is bridged, with broad financial inclusion across income levels, ethnicity, geography, and gender, cash transactions will be necessary to avoid excluding vast numbers of people from the formal economy. Indeed, for this very reason, some jurisdictions are already requiring shops and service providers to continue accepting cash.[121]

Encourage a Competitive and Inclusive Financial Sector

Banks and MFIs are sometimes considered slow movers, especially in comparison with agile new fintech players. As noted earlier, digital finance is triggering significant changes to the structure of financial markets. Collaboration, outsourcing, and joint ventures are expanding, and the emergence of specialized third-party firms adds complexity to the financial sector. Financial regulators and supervisors have a vital role in encouraging fair competition, proportionate and risk-based regulation, effective supervision, and consumer protection. These measures should be adopted by all financial services providers regardless of their institutional type.

Digital finance and other modern financial operations enable more rapid change across the financial sector. Surprises can shift the market situation overnight. For example, India's demonetization in November 2016 led to market confusion by removing approximately 86 percent of all currency from circulation, placing limits on withdrawals from accounts, and leading to considerable economic disruption for households and small businesses.[122] Shifts in KYC rules have triggered change and confusion in many countries—sometimes halting access to accounts or enabling more people to open accounts by allowing electronic verification of identity or a broader range of identification papers. In January 2019, the People's Bank of China revised regulations on deposit of customer funds by third-party payment operators, which must now be held at the PBOC.[123] The balance of customer funds held by third-party firms reached US$183 billion in November 2018. This regulatory change will remove the interest earned on these funds that payment providers such as Ant Financial and TenPay had been receiving, thereby reducing their overall profitability. Given the potential for rapid, significant changes and increasingly inter-connected financial systems, greater caution and international cooperation are needed by regulators and policymakers to mitigate negative impacts of change on market structure and operations.

New licensing options for digital finance providers and other fintechs are emerging to encourage more competition and innovation. Banking regulators in Hong Kong, Taiwan, and Singapore are issuing virtual banking licenses,[124] which will open opportunities for the larger players such as Ant Financial/Alipay, TenCent, LINE, Rakuten, Telenor, and other internet and telecom firms and banks to operate at a new level. Hong Kong made the first move, approving eight virtual bank licenses starting in April 2019. In July 2019, Taiwan followed with three virtual bank licenses but no plans to expand the list.[125] The Monetary Authority of Singapore announced plans to issue up to five virtual banking licenses.[126] If the virtual banks are limited in their operations—for example, by restrictions on lending and deposit taking—their business model may struggle to turn a profit and expand. In India, a similar experience with narrow payments banks years has yielded meaningful lessons but exposed obstacles to their operational viability. In response, the RBI has announced that payments banks may be eligible to transform into small finance banks that are able to lend and offer other services, albeit not full banking services.

Increasingly, governments and central banks are promoting an inclusive financial sector. In Asia and the Pacific, multiple countries have promoted financial inclusion through campaigns, national strategies, and policies, including Bangladesh, Bhutan, Cambodia, the People's Republic of China, Fiji, India, Indonesia, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. The Global Microscope survey provides an independent assessment of government and policy support for financial inclusion, stability, and integrity. It reports that, among the top twenty-five performing countries, India and the Philippines are tied for fourth globally, followed by Indonesia (seventh), China (thirteenth), Thailand (sixteenth), and Pakistan (twenty-first).[127]

In Conclusion: A Choice

The speed of change in financial services markets is accelerating across the globe. The more complex and dynamic financial ecosystem presents both a challenge and an opportunity. Financial services are offered by an ever-expanding network of firms outsourcing to third-party firms for key aspects of the transaction chain. The ecosystem includes financial services providers, mobile network operators, networks of banking agents, technology platforms, policymakers, regulators and supervisors, financial inclusion advocates, consumer goods retail stores, employers who pay salaries into bank accounts, buyers and sellers across agriculture value chains, schools, utility companies, government agencies making payments, and investors.

The new market realities make it a challenge to coordinate any strategic effort among such a diverse group of institutions. Yet the diversity of actors also presents an opportunity to identify strategic leaders who understand the true market potential of offering financial services that people want to use, in a secure, convenient, affordable, transparent, and responsible approach.

In this flurry of disruption, can we maintain a focus on the more vulnerable—women, low-income people, and rural populations—where advocates for financial inclusion started in the 1970s?

We face a choice. Will financial services be customer focused and responsible in the delivery of services that improve household well-being across genders, geographic locations, and income levels? Or will people face a tsunami of overindebtedness and massive data fraud powered by soulless algorithms? Careful, responsible product design and market conduct can help ensure that people are not left behind, or even worse, harmed by reckless financial services. Hopefully we, as financial inclusion advocates, we can contribute to a positive global impact and improve people's lives with meaningful, high-quality financial services.

Notes

1. This chapter was completed in January 2020, and market changes after that date are not included in the analysis. Unless noted, all figures for financial inclusion in this chapter are based on the most recent Global Findex data for 2017, published in April 2018, and relate to the data for developing countries, as defined by Findex. Adults are defined as people over fifteen years of age. Asli Demirgüç-Kunt and others, *The Global Findex*

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