FINTECH, FINANCIAL INCLUSION AND SUSTAINABLE INVESTMENT

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ADA Chair in Financial Law (inclusive finance)

The presentation is based on two papers written by Douglas Arner, Ross Buckley and Dirk Zetzsche:
Topic

- FinTech & Sustainable Investments as buzzwords
- Financial Inclusion and Sustainable Investment real-world needs
- Investment flows into digitalization of finance and SI↑
- Is there a link? Where is the link?
- How can we further sustainable investments?
Agenda

A. Topic

B. Definitions

C. FT4FI as necessary intermediate step for SI

D. Towards a Framework for Digital Financial Transformation

E. Conclusions & Take Aways
B. Definitions

- **FinTech**
- **Financial Inclusion**: ensuring access to financial services
- **Sustainable Investments**: investment that furthers the SDGs
C. FT4FI as precondition for reaching the SDGs

- Neither FinTech nor financial inclusion mentioned explicitly in the SDGs; but lots of initiatives (AFI, UN, Worldbank etc.)

- Theses:
  - (1) Financial Inclusion & SDGs two sides of same coin
  - (2) Financial Inclusions depends on FinTech
  - (3) FT a precondition of any successful SDG strategy
FT4FI as precondition for reaching the SDGs

1. SDGs preconditioned on Financial Inclusion
   - Risk management: theft => higher consumption; solution: bank-like storage & transport
   - Health risks - long education of little value; insurance secures long-term productivity, justifies education
   - Promoting prosperity while balancing risks (UNSDGs) = FI
FT4FI as precondition for reaching the SDGs

- (2) Financial Inclusion depends on FinTech

FinTech → Financial Inclusion
Infrastructure  
Banks  
Start-ups  
TechFin

Developed World  
Developing World

1.0  
2.0  
3.0  
4.0

1866 - 1967  
1968 - 2007  
2007  
2008 - Present

Telegraph  
Telephone  
ATM  
E-Banking

P2P  
Credit Scoring

Identity  
Big Data  
AI  
IoT  
Decentralized
Mobile vs Banking Penetration

Within developing parts of Asia, mobile phone ownership is more widespread than bank account registration:

**China**
Population: 1.35bn
Formally Banked: 63%
Mobile Phone: 89%

**India**
Population: 1.25bn
Formally Banked: 35%
Mobile Phone: 71%

**Malaysia**
Population: 29.7m
Formally Banked: 66%
Mobile Phone: 131%

**South Korea**
Population: 50.2m
Formally Banked: 93%
Mobile Phone: 111%

**Japan**
Population: 127.3m
Formally Banked: 96%
Mobile Phone: 115%

**Vietnam**
Population: 89.7m
Formally Banked: 21%
Mobile Phone: 131%

**Australia**
Population: 23.1m
Formally Banked: 99%
Mobile Phone: 107%

**New Zealand**
Population: 4.47m
Formally Banked: 99%
Mobile Phone: 106%
FT4FI as precondition for reaching the SDGs

- (3) FT is a precondition of any successful SDG strategy
<table>
<thead>
<tr>
<th>No.</th>
<th>Goals</th>
<th>Impact</th>
<th>How FT4FI can further goal</th>
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<tbody>
<tr>
<td>1</td>
<td>No poverty</td>
<td>I</td>
<td>Allow for online financing, including credit and crowdfunding; create new income opportunities through online markets and payments; reduce impact of disasters</td>
</tr>
<tr>
<td>2</td>
<td>Zero hunger</td>
<td>I</td>
<td>Enhance financial stability; stabilize cash-flows through saving and lending</td>
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<td>3</td>
<td>Good health and well-being</td>
<td>I</td>
<td>Provide health insurance and financial stability</td>
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<td></td>
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<td></td>
<td>Enhancing government income and reducing leakages to increase financing available for health</td>
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<tr>
<td>4</td>
<td>Quality education</td>
<td>I</td>
<td>Enable financial planning and saving for school fees; Enhancing government income and reducing leakages to increase financing available for education</td>
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<tr>
<td>5</td>
<td>Gender equality</td>
<td>D</td>
<td>Strengthening female entrepreneurship and financial control</td>
</tr>
<tr>
<td>6-7</td>
<td>Water, sanitation, energy</td>
<td>I</td>
<td>Financing development and maintenance of infrastructure; further education of local sustainability expertise</td>
</tr>
<tr>
<td>8</td>
<td>Decent work and economic growth</td>
<td>D</td>
<td>Enable online financing, credit and crowdfunding; new (online) income and business opportunities</td>
</tr>
<tr>
<td>9</td>
<td>Industry, Innovation and Infrastructure</td>
<td>D</td>
<td>Provide financing for development and maintenance of infrastructure</td>
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<td></td>
<td></td>
<td></td>
<td>Enhancing government income and reducing leakages to increase financing available for infrastructure and R&amp;D</td>
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<tr>
<td>10</td>
<td>Reduced inequalities</td>
<td>D</td>
<td>Enable funding of education and savings which provide the best opportunity for greater participation</td>
</tr>
<tr>
<td>16</td>
<td>Peace, justice and strong institutions</td>
<td>I</td>
<td>Robust economic development strengthens peace and civil institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Enhancing government income and reducing leakages to improve governance, institutions and public trust</td>
</tr>
<tr>
<td>17</td>
<td>Partnerships</td>
<td>D</td>
<td>FT allows for engagement of private actors, multiplying assistance of public or state-supported actors</td>
</tr>
</tbody>
</table>
FT4FI as precondition for reaching the SDGs

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How to move forward?
FinTech for Financial Inclusion – A Report to the Alliance for Financial Inclusion -

Designing a Framework for Digital Financial Transformation

Douglas W. Arner
Ross P. Buckley
Dirk A. Zetzsche

FT4FI (report to AFI)
www.ssrn.com/abstract=3245287

04 SEPTEMBER 2018
D. Designing a framework for (inclusive) digital financial transformation

- Objectives: financial inclusion, growth, financial stability, market integrity
- **Pillar I**: Empowering Access **Digital ID** / eKYC / simplified account opening
- **Pillar II**: **Enabling use**: Digital payments infrastructure and open electronic payments systems
- **Pillar III**: **Scaling use** – digitisation of government payments and provision of services
- **Pillar IV**: **Expanding the quality and range of services**: Designing financial systems and structures
D. Designing a framework for (inclusive) digital financial transformation

- Objectives: financial inclusion, growth, financial stability, market integrity
- **Pillar I:** Empowering Access **Digital ID** / eKYC / simplified account opening
  - Examples do exist for official ID systems (Adhaar etc.)
  - Business ID ≠ Official ID
  - Remanufacture Official ID from Business ID!

Digital ID/KYC Utilities
www.ssrn.com/abstract=3224115
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  - Reduce entry costs
  - Important: remittances
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  - Examples: state subsidies, health services
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- **Pillar III**: Scaling use – Digitisation of government payments and provision of services
- **Pillar IV**: Expanding the quality and range of services: Designing financial systems and structures
  - From payment to credit to insurance to wealth management
E. Take Aways

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(2) Financial Inclusion depends on FinTech
(3) FT a precondition of any successful SDG strategy