# INCLUSIVE FINTECH: OUR BEST OPPORTUNITY TO IMPROVE FINANCIAL LIVES

*13 Nov 2019*

**Speech of Her Majesty Queen Máxima of the Netherlands in her capacity as the Secretary-General's Special Advocate for Inclusive Finance for Development at the Singapore Fintech Festival 2019**

*Your Excellencies, Ladies and Gentlemen,*

It is wonderful to be back in Singapore for this ever-growing fintech festival.

Over the last decade as the UN's Special Advocate, I have witnessed the rapid improvement in financial inclusion. Today, almost 70% of all adults have a financial account—an increase of 1.2 billion adults in the last eight years.

Financial inclusion matters because of its power to improve people's lives. It is not an end in itself, rather, a means to create jobs, take part in an increasingly digital economy, hedge risk, improve development outcomes, empower women, and enhance the financial health of customers.

During my last UN visit to Dhaka this July, I met Izu Hassan. In 2016, Izu started to produce her grandmother's hair oil recipe to sell to neighbors and friends. It was an immediate hit.

However, to commercialize her homebased micro-business, she needed support. With the help of a local fintech, ShopUp, not only was she able to quickly access credit, based on her digital footprint, but ShopUp also supported Izu with back office and online administration.

Today, Izu has a booming business employing f people, and she has bought a house for her parents. I'm convinced that inclusive technology-led innovations, like ShopUp, present our best opportunity to tackle financial exclusion.

There are currently 1.7 billion adults still unbanked and many more do have access, but not to products that meet their needs, therefore they do not use them.

We have come a longer way since mobile phones were first used to leapfrog brick-and-mortar bank branches to rethink traditional business models for serving the poor. Kenya has been one of the global showcases of this.

Mobile money providers and the central bank drove the rapid increase in the number of banked adults from 42% in 2011 to 82% in 2017—a huge increase. They have succeeded in digitizing domestic remittances, broadening access to digital accounts, introducing proportionality to know-your-customer requirements, creating "test-and-learn" regulatory approaches, and building inclusive agents networks. This has resulted in real improvements in citizens' lives. A 2016 MIT study found that access to mobile money allowed 10% of the poorest households in Kenya to pull themselves out of poverty.

There are now 272 active mobile money deployments across 90 countries serving almost 900 million registered users, which is great. However, usage of these services is still very low. Two out of every three mobile money accounts are inactive or dormant, and the active use of savings and borrowing is stagnant. This basically says something about the quality of these products.

Now, fintech is beginning to show it can reverse these trends. New competitors are emerging with start-ups creating more tailored, faster, and cheaper products. And mobile money providers and banks are striking partnerships with innovators to better serve their users.

Yet, one big challenge is to have regulatory tools which can keep up with the fast pace of innovations and new risks.

These new risks include cyberattacks, privacy breaches, dominating super platforms, and discrimination that could be created by algorithms. In terms of exclusion due to algorithms, an American fintech uses customers' punctuation and spelling in their credit scoring models as a proxy for quality of education. Spelling mistakes is not necessarily an indication of someone's ability to pay their bills.

The latest news also highlight that algorithms can sometimes provide much lower limits on credit cards to women than men in the households even when they have better credit scores.

And last year in India, cyber hackers infected Cosmo Bank's server with malware and retrieved customers' personal information and stole $13.5 million.

Another big risk is that a rapid expansion of digital credit to the underserved can lead to indebtedness and further exclusion due to low credit scores. From the third of Kenyans that have recently used digital credit providers, about half of these have been late in repaying their loans. Subsequently more than 400,000 borrowers have been reported to the Kenyan credit reference bureau for late repayments on outstanding loans of less than $2.

Building these regulatory tools is especially challenging for countries who lack resources and the staff with the necessary skills to understand fintech's rapid development. Based on the early experiences of regulators, my Fintech Working Group has issued a report earlier this year together with Cambridge University with the support of MAS. This report contains early lessons learned on regulatory sandboxes, innovation offices, and regtech to help regulators, especially from developing and emerging markets.

Three key insights from the report:

First, regulatory sandboxes are not always the right tool to begin with. Less resource intensive innovation offices may be a better starting point. A recent assessment by the Kenyan Capital Markets Authority revealed that an innovation office was enough to resolve regulatory questions of most start-ups.

Second, some initiatives are more suited to the initial stages of regulatory innovation, while others can benefit from existing initiatives and infrastructure. MAS's experience with their innovation office gave them a good foundation to create their regulatory sandbox afterwards and then to go on to explore regtech solutions.

Third, facilitating inter-agency coordination and collaboration is crucial. Many innovative financial services cut across several regulators' mandates. Intra-agency coordination is often needed to make regulatory innovations effective. For example, to provide innovators with a single voice, the Dutch central bank and financial markets authority jointly run an innovation office.

While improving the regulatory environment is a crucial piece of the puzzle, it is the private sector which will develop customer-centric approaches and create products which improve users' actual financial health and not simply create access or usage.

Providers and investors can also create industry standards to make their practices more inclusive and safer. Fintech associations can lead by providing a collective voice to regulators on policy changes to encourage innovation. Large companies can also support the emergence of new solutions and start-ups, by establishing fintech hubs, accelerators, and anchoring industry sandboxes.

More broadly, if we want fintech to thrive, there are necessary policies and pieces of infrastructure that need to be there.

Some are critical for access, such as connectivity, physical infrastructure, and digital IDs. Others make markets work better for customers, such as fair competition and interoperable payment systems. And some to protect the financial system and users, such as data privacy, cyber security, consumer protection, and digital and financial literacy.

To deal with all of this, we need to share knowledge among different countries. We can learn from Mexico, which has established an interoperable payments system, or from Peru with its digital ID system. Organizations, such as the BIS, Gates Foundation, MAS, and the World Bank Group, can facilitate knowledge sharing on global public goods among central banks.

Finally, I call on each of you to consider the large impact that you can have on financial inclusion. You can co-create products, standards, regulatory tools, and public goods so that fintech can seize its potential to spur inclusion and improve people's lives. Remember that 1.7 billion adults lack access, but there are many more for whom we can improve financial health so that they can build their resilience. I wish you a lot of success in all your efforts.