THE DUISENBERG LECTURE: HOW CAN WE FURTHER UNLEASH THE POWERS OF FINANCIAL INCLUSION?

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Your excellencies, ladies and gentlemen,

It is a pleasure to be with you today in this lecture dedicated to Wim Duisenberg, somebody who has meant so much to my country's finances but also to that of Europe. I am also very honored to be invited by a great partner, the Rabobank. I say partner because not only have they helped me with my work in different countries but also because they are working on making financial inclusion a reality in many places. I really would like to thank you very much!

Ladies and gentlemen, I think we all agree that financial services are the lifeblood of any economy. Access to, but more importantly, usage of financial services increases economic opportunities and helps reduce vulnerabilities. Households and businesses have a chance to save, invest and protect themselves against risks. This is crucial to the economic empowerment of individuals, families and communities.

The macro-economic gains of wider access to financial services are substantial as well. According to a new McKinsey report, widespread use of digital finance could add up to $3.7 trillion to the collective GDP of emerging economies within the next 10 years. This figure is based on the reduction of costs and leakages of subsidies and on the increases in savings that are transformed into more credit to SMEs, of course which result in more jobs.

Now considering all of these reasons, it may not come as a surprise that financial inclusion is seen as a key enabler to reach many of the Sustainable Development Goals. There are strong links between financial inclusion and human development, such as ending poverty, improving food security, achieving gender equality and expanding education and health care.

In India, a government effort to open banks in rural areas helped cut rural poverty by 14 percent. In Nepal, spending on school-related expenses increased by 20 percent in households that opened free banks accounts. And these are just two examples. I could flood you with a lot more.

Another important aspect of financial inclusion is that it spreads well beyond developing countries. It is universally relevant, as exclusion remains a huge social and economic concern for developed countries as well. In the European Union, 58 million people do not have a basic bank account. In the United States of America, 28 percent of the population, or about 88 million people, are either unbanked or underbanked. This leaves them extremely vulnerable, not prepared for risks and unable to take advantages of opportunities that present in life.

Now the main question is: how we can further unleash the powers of financial inclusion? There are three main priority areas that I emphasize at the moment through my UNSGSA work:

1. Promoting powerful policies;
2. Giving priority to the hard-to-reach segments of society;
3. Ensuring that financial inclusion is customer-centric.

First, we need powerful public policies for the market to work. This means policies in the form of laws and regulations that will take away existing obstacles to access and give enough incentive to the private sector to act! But also policies that encourage products that people will actually use, and in a way that they promote competition, foster innovation and protect clients. And this, of course, keeping the stability, integrity and sustainability of the financial sector as a whole.

Fostering innovation here is key. Today digital solutions allow us to provide poor people with financial services at much lower cost, helping us to reach scale and even reach the farthest of clients. With the rapid spread of smartphones and use of data, new products, approaches and players have demonstrated to hold great promise. Something I witnessed in Pakistan, Bangladesh, the Philippines, Nigeria, China, Myanmar and many other countries I visited.

In Myanmar, for example, bank penetration is extremely low. And for millions of people in rural areas, performing financial transactions is practically impossible. But by using mobile services, this could be addressed. This year, Myanmar's government adopted regulations that allow non-banks, including mobile operators, to offer financial services. Telenor's Wave Money recently got its mobile financial service license. This innovation will help the country to leapfrog, probably avoiding the process of bank branch opening we have witnessed in our lifetime and to go digitally directly. We should not be surprised if in ten years the people of Myanmar are banked without even having seen or visited a bank in their lives!

As part of unleashing digital finance, allowing the agent model to work sustainably is essential. During my recent visits to Mexico and Indonesia, I was struck by the need for policies promoting a comprehensive agent network, both countries having way fewer agents than they would need according to their population. Without a country-wide distribution network of agents where people can cash in and cash out, digital financial services will not fulfill its potential. Of course, but I was also very happy to see that both countries have recently launched national financial inclusion strategies, which can play a catalytic role in enhancing partnership between all stakeholders, addressing obstacles and paving the road to increased access.

When speaking about DFS [digital financial services], we shouldn't forget that these new fintech players offer great opportunities but also new challenges. So it is very important that we continue the dialogue started by regulators in the UK, the Netherlands, India, or even the Standard Setting Bodies in order to quantify and minimize these new risks.

A second priority area is the need to focus on the hard-to-reach segments of society: SMEs, smallholder farmers, the rural and women.

We know that SMEs account for about 50 percent of total employment and 33 percent of GDP in emerging economies. However, their opportunity for growth is lacking due to inequities in the credit and financing markets. There is no magic recipe for improving SME financing. An important ingredient, however, is developing the capacity of providers in dealing with the SME sector. Building stronger credit reporting can also lead to positive results as well as developing secured transaction registries that will allow SMEs to provide moveable collateral as the basis for more lending.

Fintech can also be of great help by offering funding solutions that are efficient and effective even in very smaller loans. Some of them are coming from the e-commerce side, others from payment services or some of them coming from back office services. With all the data emerging, fintech tools will lower underwriting costs, help to better assess risks and channel more funds into growing enterprises. But this is just beginning to unfold. It is good to remember that, today, from all SME finance happening digitally, 90 percent is happening in three countries—US, UK and China—and 70 percent of that is happening in China alone.

Now, let me turn to the farmers. More than 80 percent of the world's food supply is generated by 500 million smallholder farmers. These are not only agricultural producers but also families with diverse financial needs. They need savings and loans that will allow them to hold onto their harvest until market prices increase. They need insurance to protect not only their harvests but also to cover for health expenses. To these farmers, even a simple intervention can help tremendously. When farmers in Malawi had their earnings directly deposited into a new bank account, they spent 13 percent more money on input, which resulted in increased the value of their crop output by 21 percent.

In many countries farmers face constraints in obtaining credit due to lack of capital, collateral or credit history as well as erratic cash flows. Value chain financing can alleviate some of these constraints by leveraging the relationships between actors in the value chain. Therefore reducing risks, costs and improving financial opportunities, giving access to finance, knowledge and collaboration. However, we should not forget the importance of aggregation and collaboration for these farmers. Cooperatives and associations hold a key in making much of this possible.

Last but not least, women! We know women deliver the highest return for social and development investment and still, today, we see a persistent 9 percent gender gap in financial inclusion in the developing world. And here again, the universality of the problem manifests itself! Globally, there is a $300 billion credit gap for women-owned SMEs, with 80 percent of women-owned SMEs worldwide stating being unserved or underserved.

During my country visits, I meet many women who work extremely hard and often tell me about the hurdles they have to face. In Pakistan, for example, most women have no access to financial services due to cultural norms and lack of connectivity, resulting in only 3 percent of women having a bank account. What does that mean for future generations, I wonder?

Here I would like to emphasize again the importance that digital financial services have for women. They can give women greater opportunities to work from their home or local villages; they can get out of villages, which is very important for women; they are affordable; they provide privacy; and they give them control over their personal finances. And that is sometimes the first step to empowerment!

My third area of priority is ensuring financial inclusion is customer-centric.

As featured in recent GSMA and other reports, millions of people open mobile or traditional accounts but do not use them—they are completely dormant. Usage remains the most difficult piece of the puzzle. "One size fits all" does not work. All players, including financial service providers, policymakers, and regulators, need to understand customers' actual needs. Not the tools, but the people themselves—consumers, entrepreneurs and investors—should be at the center of our attention.

For example, BTPN, an Indonesian Bank, developed a digital savings account for low-income segments, using human-centered design methodology. Customers can set targets for their saving level based on their aspirations. This product resulted in high level of usage by customers, currently with 350,000 active customers in just a few months.

In Pakistan I met with women who manage their own accounts, but instead of a PIN, some very difficult for illiterate women, they can use fingerprint identification to withdraw money. This and other examples show us that even the smallest details can make a big change in adoption.

Finally, the last thing we want is people getting harmed by financial services. Earning the trust of new consumers is crucial and this requires the commitment of financial systems to prevent abuses. For that we need to design financial education programs and consumer protection policies that can ensure that financial services are well understood and truly improve customers' lives.

Ladies and gentlemen, the Sustainable Development Agenda is strongly marked by a broad recognition of the importance of financial inclusion. But to be able to reach the remaining 2 billion people who are unbanked and who are now invisible to economic progress, we will have to work hard and we will have work together. We need to learn from each other and we need to build partnerships. In the end, it does not matter who does it—the banks, the mobile companies, NGOs—as long as we all help by offering opportunities to people in a responsible, affordable and sustainable way.

Thank you so much.