Minister Schäuble, Minister Müller, Governor Weidman, ministers, excellencies, ladies and gentlemen, I am honored to join you today for this discussion on digital finance, financial inclusion and financial literacy.

I would very much like to start by thanking Germany for its leadership on the financial inclusion agenda over the years, and to Bundesbank for organizing this important gathering on behalf of the German G20 Presidency.

As the UN Secretary-General's Special Advocate for Inclusive Finance for Development, and also as the honorary patron of the G20’s Global Partnership for Financial Inclusion, I have long advocated for financial inclusion and I have witnessed the rise of its support both globally and in-country. Together with many partners we have made important contributions to this progress through valuable guidance such as the SME Finance Action Plan and the High-Level Principles on Digital Financial Inclusion.

Thanks to our collaborative efforts and to strong country commitments, financial inclusion has advanced dramatically around the world. Between 2011 and 2014, 700 million adults gained access to a financial account, a 20 percent increase.

However, two billion people are still excluded from the financial system—more than 40 percent of the world's adults. These people live primarily in developing countries and in rural areas. They account for 70 percent of global poverty. Women, too, remain under-represented in the financial system with a 9 percent gender gap in developing countries. And for SMEs, while they account for more than 90 percent of global enterprises and they provide close to 50 percent of all formal jobs in developing economies, still approximately 40 percent of formal SMEs do not have access to the financial services they need to grow, succeed, and employ more people.

It is important to point out that financial exclusion is a universal issue. Within the EU, 58 million people do not have a basic bank account. In the US, 7 percent of households are unbanked—that is about 16 million adults.

Although the challenge of financial inclusion is significant, we have a powerful set of tools to drive progress. Among the most promising is digital finance. Generally speaking, digital finance consists of financial services provided through technology such as mobile phones, cards and the internet. It allows us to sharply lower costs of financial services for low-income populations and to reach geographically isolated communities in a way that was unthinkable.

In addition to widely known mobile money services like M-Pesa in Kenya, there are many more digital innovations that can promote financial inclusion, including those coming from the vast array of fintech companies. Some of the most significant involve digital data. Biometric forms of identification based on digital data are being used to authenticate account openings for low-income people who don't have traditional IDs, like in India and Pakistan.

Digital data is also used to establish the credit-worthiness of customers who would not otherwise qualify for loans due to a lack of traditional collateral or a financial history. In China, Ant Financial has blazed an impressive path using 'big data' to serve more than 4 million SME borrowers in recent years.

But there are other opportunities as well. Governments that have digitized social welfare and other payments have reduced transaction expenses and undercut the cost of corruption. Mexico has saved more than US$ 1.2 billion by digitizing the delivery of its wages, pensions and social welfare.

And then, of course, there is crowdfunding, P2P lending, back office services and more that warrant...
consideration.

With all these different technology-based innovations, new risks inevitably arise that policy makers, regulators and providers must seriously consider. Let me highlight three areas that need heightened attention.

The first risk relates to customers’ capacity to understand digital financial services. Digital services have dramatically changed the way people conduct their financial affairs. These new tools demand a whole new set of competencies that may be out of reach for customers who are inexperienced with banking, they don’t know computers, phones, or the internet.

These customers in developing countries are at risk for over-indebtedness, especially if information on fees and terms is difficult to understand. In Kenya, for instance, seven out of twenty digital credit services have annualized percentage rates (APRs) higher than 100 percent. There is also evidence that people are borrowing from multiple providers. This, of course, imposes instability risks.

The second risk relates to the misuse of customer data. Some financial service providers may not store private data safely or they may share it unscrupulously. Stolen personal data can be used for identity fraud or other criminal purposes.

Data can also be misused when providers make business decisions based on algorithms that reinforce existing disparities by discriminating, intentionally or not, against groups such as women or poor people. There are several examples of such misuse in the insurance business already. This of course leads more to exclusion than inclusion.

The third risk relates to financial crime conducted on digital platforms. One recent example is Ezubao, which advertised itself as a peer-to-peer lender matching investors with potential borrowers over the internet. This major Ponzi scheme cheated more than 900,000 small investors with a total of USD$7.6 billion.

These risks represent a threat to the financial system. They could significantly undermine longer-term confidence in digital finance and in turn lead to lower usage. And usage is already a huge challenge given that more than two-thirds of the 411 million mobile financial service accounts are today inactive.

So how can we harness the power of technology and digital finance to drive financial inclusion in a safe and responsible way?

First of all, we must take a customer-centric approach that puts client needs and wants at the center of our work, and we must involve clients actively in what we do. Financial service providers, standard setters, regulators and policy makers must understand customer needs and risks. Hard-to-reach segments such as women, smallholder farmers, and SMEs can benefit in particular from digital financial products that are tailored to their own needs. Taking a customer-centric approach could help address some of the risks I mentioned earlier, and can be expected to greatly improve the usage of digital finance, one of our most important goals.

Second, we need to better prepare and empower customers—particularly low-income people who are already living on the edge and may not be digitally literate. We can leverage technology to increase people’s financial skills by, for example, designing online programs or developing apps or voice messages that can help poor people manage their money.

Third, we need to put laws and regulations in place that will provide a safe and enabling environment for digital financial inclusion. These laws and regulations need to be balanced. They need to promote competition among different kinds of providers, foster innovation and protect clients while sustaining stability and integrity. When it comes to protecting customers, regulations need to ensure full transparency, fair treatment and good recourse mechanisms.

Technology has a huge potential to help in this respect. I encourage you to support advances in regtech, to create a technologically advanced regulatory system. Opening up a dialog between regulators and fintech
companies, for example with sandboxes and innovation hubs, is also essential. And it is very important to continue building the capacity of regulators and supervisors, who are the guardians of a healthy and responsible financial system.

And finally, this great opportunity of digital finance can only work if a set of public goods is put in place. Key examples of necessary public goods include connectivity, a biometric ID, digital ID, cybersecurity, digital inclusion, digital and financial literacy, and policies that support interoperability and a level playing field. Both the public and private sector can play a role in the provision of such public goods.

Ladies and gentlemen, at this point I’d like to turn to you and ask—what does the G20 need to accelerate usage of digital financial services? How can we ensure a more rapid implementation of action plans, guidelines, and the digital finance principles developed by GPFI? Shall we consider systematic coaching from successful countries?

We’ve done very well, but not well enough for the 2 billion people who remain excluded and the ones that are do not use them to their advantage. All of us here are committed to the agenda. It is time to make all the difference and make it a reality. I very much look forward to working with you as we enter this vital new phase of our work. Thank you.