The potential of digital payments to advance finance services is recognized across the APEC region. This paper outlines the development of digital payments, their impact on financial inclusion, and recommends policy approaches to expand it.

Across Asia Pacific, digital payments have become increasingly prevalent in recent years as a result of the rapid surge in the ownership of mobile devices which have created the possibility of mobile service delivery, including of financial services. Beyond the consumer banking applications developed by traditional financial institutions, a number of alternative channels have started to emerge and gain traction, enabling individuals who had previously been excluded from the financial ecosystem, in addition to underserved communities, to transact and gain access to new social and economic possibilities, as well as participate in e-commerce. While countries in APEC are at widely different stages of development, over time all countries have shown progress in expansion of financial inclusion.

As the payments market in APEC evolves, there is a gradual shift from traditional payment methods such as credit and debit cards, and cheques to newer mobile-enabled payment methods. Mobile payments can be conducted through text message, mobile browser, an application, contactless near field communication (NFC) or quick response (QR) codes. With smartphone users expected to grow to 2.5 billion by 2019, approximately 36% of the world’s population will be using a smartphone. Hence there is expected to be an exponential rise in the use of these payment channels. At the same time, the technologies behind emerging payment channels including m-wallets, P2P transfers, FAST payment systems, are becoming increasing sophisticated. These are serving to enhance convenience for consumers and merchants by speeding the checkout process and improving security and confidentiality by the adoption of tokenization and second factor authentication. These solutions are also creating greater payment system efficiency by decreasing the costs of operating and maintaining infrastructure needed for paper-based payments.

While the number of unique mobile subscribers in the Asia Pacific is forecast to increase from 2.7 to 3.2 billion by 2025, the latter figure is estimated to represent 73% of the region’s population which still points to a significant portion without access to mobile devices and mobile-money services.

One reason for this is low mobile broadband penetration which has direct consequences for financial access. It is correlated with account ownership, which is lowest in developing economies such as Vietnam, Peru and Philippines, having large unbanked populations. Low account ownership also impacts use of digital financial services, with digital payments usage lowest in countries with large unbanked populations, indicating heavy reliance on cash. Therefore, expanding financial inclusion remains a key priority for policy makers.

The potential for emerging payment channels to accelerate financial inclusion in APEC is striking. First and foremost, they broaden existing channels and create new mechanisms to reach the unbanked and/or underbanked, for instance by circumventing barriers that have excluded many from participation in financial inclusion. Such barriers include remoteness from physical bank branches and difficulties in meeting the Know-Your-Customer (KYC) requirements of traditional financial institutions; many lack adequate documentation for identity verification but since KYC

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procedures have traditionally been conducted in person, even those with the necessary documents to meet KYC requirements are still hindered from opening a bank account if they are unable to reach a physical bank branch.

These new players are not regulated in the same way as a bank might be and can therefore take a more flexible approach to KYC, for instance by adopting a more proportional or tiered framework designed to respond to the challenges facing the unbanked and underbanked. Such an approach was endorsed by FATF in 2017, which notes the need for tiered criteria to respond to the national context, including, among other factors, the profile of financially excluded groups. 

New and alternative payment channels therefore both broaden and create the means for financial services access, drive the creation of new business models to respond to demand for specific products, such as micro-insurance, while mobile delivery will play a significant role in overcoming financial exclusion.

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New technologies and channels are disrupting the digital payments market. This section examines their benefits to countries in terms of market growth as well as financial inclusion.

Digital payments lower costs for consumers and merchants. For consumers, online and mobile banking is considerably cheaper than traditional payments methods such as credit and debit cards, allowing them to transact locally in small amounts and better managing uneven incomes and expenses. For merchants, these methods also reduce costs, fraud and chargebacks. With high merchant fee for cards cutting into profits, there is increasing interest in exploring alternative payment channels.

New technologies and channels have altered the payments market, and reduced barriers to entry, along with transforming revenues and profits of all players. By offering targeted products and services in attractive and useful ways, new entrants have been able to intensify competition in the payments space and create virtuous cycles of supply and demand which did not previously exist.

Establishing shared digital infrastructure such as open banking APIs and data exchange solutions also serve to reduce barriers to entry for players, both large and small. For instance, Peru took advantage of high levels of mobile penetration by bringing together public sector, financial institutions, telecommunications companies, large payers and payees to create a partnership known as ‘Modelo Peru’, and launched an innovative payment service called ‘Bim’. As the first interoperable mobile money platform in Peru, Bim focuses on financial inclusion and allows members to issue affordable products, competing on design within an interoperable platform.

As the digital payments market grows, it will open up to new players, including small lenders and non-banking firms, increasing competition and innovation. This will accrue various benefits discussed below.

New, targeted product offerings for those with lower incomes, who may have been deemed too ‘uneconomical’ for larger financial institutions to pursue. These might include savings accounts, micro-loans and micro-insurance products. Examples include a mobile crowdfunding platform CROWDE which helps Indonesian farmers to grow their businesses through market access support, sourcing of equipment like tools, seeds, fertilizers and pesticides, and access to credit.

Non-bank finance innovations, such as CROWDE, are tapping into existing demand that cannot currently be met by the formal banking system. By enabling farmers to circumvent the obstacles to

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inclusion in the formal banking ecosystem, these types of innovations do not only benefit farmers’ businesses but may also help to build up a profile which could later be used in authenticating identity and then pave the way for integration into the main banking system.

**Broader participation of non-traditional and non-FSI players** leading to SMEs digitizing their sales, lowering costs and broadening their reach or enhanced economic empowerment of women and other marginalized groups. Increased participation of women may have a positive impact on human capital and growth in the economy. For instance, as women have more access to financial resources, they increase spending on nutrition, education and healthcare. In India it was found that reliable digital salary payments increased attendance rates of teachers to 90%, compared to 60-80% in other states. 6

The emergence of non-financial players is set to increase as developers create solutions to respond to demand. For instance, the ability of farmers to communicate and transact with buyers will impact market access and pave the way for scale and supply chain efficiencies without relying on a traditional bank to play the role of an intermediary. Mobile phones also compensate for poor infrastructure, such as slow postal services and bad roads in developing countries, allowing individuals to connect, including by carrying out transactions. This has a direct impact on economic growth: A World Bank study found that an extra ten phones per 100 people in a typical developing country boosts GDP growth by 0.8 percentage points.7

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Despite the unevenness of growth, there has been significant progress in payments development and financial inclusion across APEC. The following recommendations reference the potential role of APEC in accelerating digital payments and financial inclusion.

Policy and Coordination Mechanisms: With digital payments poised for growth, APEC countries will benefit from ensuring that initiatives are not undertaken in silos, but that a coordinated approach is applied, involving relevant government departments and agencies. This will give policy makers, as well as other stakeholders a broader picture of the goals of digital financial inclusion, as well as reveal challenges and gaps in cross-sectoral areas, better enabling governments to handle them. This will in turn inform public policies that address, for example, the requirements of regulatory framework, critical infrastructure and interoperable platforms.

Track progress through measurement and evaluation: APEC countries should give strong priority to developing comprehensive data measurement and evaluation systems. This may track performance of the payment providers, type and level of usage, whether and what user needs are being met as well as their impact. This evaluation can assist in making timely adjustments to programs and feed into relevant policy reforms as well.

Develop an enabling and proportionate regulatory environment for digital financial inclusion: APEC could encourage member countries to establish an enabling environment that promotes financial inclusion. This will involve a legal and regulatory framework that promotes consumer and data protection, financial literacy and user awareness – with the aim of minimizing risks and safeguarding the interests of all stakeholders in the market. For an inclusive digital payments ecosystem, incorporating proportionality will aim to integrate the concept of tiered approach to AML/CFT for lower-risk users.


Although APEC countries are expected to vary widely in their regulatory approaches depending on their current market state and priorities towards financial inclusion, some degree of harmonisation will be helpful in establishing interoperable payment systems across different regions.

Establish a commitment to responsible digital financial practices to protect consumers and data: Policy makers and regulators in APEC must establish comprehensive approaches to consumer and data protection, for instance cybersecurity threats and AML/CFT considerations. These efforts will involve developing the capacity of public sector agencies and other stakeholders to develop and implement such initiatives for financial products and services, new and emerging technologies, with emphasis on ‘uneconomic’ groups. Such approaches will be useful in minimizing risk and enhancing trust of digital payments users, the benefits of which shall accrue to payment providers who are dependent on scalability of services to get return on investments.

Digital IDs and consumer identification for Digital Financial Services (DFS): Robust, inclusive and secure digital ID systems are key building blocks for a digital payments ecosystem and essential for governments, financial services, as well as other sectors of the economy to increase efficiency, enhance effectiveness and promote innovation. APEC could urge member economies to develop digital ID and customer identity systems as a means of registering populations, facilitating access to DFS and widening the scope of digital and financial inclusion.

Digital ID could also be a shared goal for APEC economies to work together on harmonising regulatory frameworks or systems. This may produce benefits for all member countries, for example hassle-free travel, convenience for consumers and merchants and enhanced trust in the system.