



Summary

G20 Conference

“Digitising finance, financial inclusion and financial literacy”

Wiesbaden, Germany, 25-26 January 2017

Opportunities and risks of digital finance

On 25 and 26 January 2017, the German G20 presidency gathered together G20 finance and central bank deputies, politicians and representatives of international organisations, academia and the financial industry to discuss cutting-edge issues surrounding the topics of digitising finance, financial inclusion and financial literacy.

Digital innovations have emerged as a potentially transformative force in the financial system. Benefits might include efficiency improvements by reducing costs and facilitating competition. Fintechs – used as a broad term to cover providers of technically enabled innovations and new digital technologies for the financial services industry – have the potential to contribute positively to consumer welfare, innovation and economic development. Identifying and mitigating potential risks to financial stability and finding the right balance with the potential benefits of digital finance are key challenges. Risks should not shift into less regulated parts of the financial sector and create or exacerbate incentive problems or change transmission channels as a result of new forms of credit intermediation chains.

Digital technologies could be one of the key drivers of financial inclusion. Digitisation increases access to financial services and thereby benefits end-users. Un-informed access, however, can lead to instability if risk awareness, regulation and supervision do not keep pace. Thus, promoting financial literacy is a crucial element of effective financial inclusion.

Furthermore, growing reliance on digital infrastructure and interconnected networks in the financial services sector increases the importance of cyber security. Resilience against cyber-attacks can be a decisive factor in the overall resilience of the financial system and the broader economy.

Participants discussed the importance of conducting a solid stocktaking as a vital first step in analysing and monitoring fintechs. Data availability, though limited at this stage, seemed to be an important element of stocktaking and a precondition for policy evaluation. Participants learned about proactive and emerging approaches to developing sound fintech ecosystems, fostering digital financial inclusion and improving financial literacy. They exchanged views on how to manage cyber risks and how to avoid a regulatory race to the bottom in a rapidly evolving and increasingly digitised financial world. In this respect, developing a common understanding of the financial stability issues associated with the regulatory treatment of fintechs was identified as a valuable contribution to ensuring a stable financial system and should be addressed by G20 members.

Four parallel workshops and dialogues offered participants the chance to debate and discuss issues of the digital financial world.

Developments in the financial landscape and regulatory challenges

The first workshop raised the question of whether digital finance triggers disruptive developments in the financial landscape and whether this can raise concerns about financial stability. Participants considered common elements of fintechs, such as improved access to as well as greater efficiency and convenience of financial services, and their impact on decentralisation and disintermediation. Participants concluded that central bankers, supervisors, and regulators should carefully monitor this changing financial environment in order to contain the risks and reap the benefits of digital innovation.

In a closely related second workshop, participants acknowledged that there are overarching regulatory challenges, even though fintechs can be very heterogeneous in nature and increasingly disintegrated along the value chain. However, looking at fintechs through different lenses, such as their implications for financial stability, consumer protection or competition policy, yields different priorities and trade-offs. Participants discussed whether and how to adjust regulation in order to strike a balance between enabling innovations and managing potential risks. Last but not least, participants exchanged views on the appropriate level of international convergence or harmonisation to avoid regulatory arbitrage.

Digital financial inclusion and financial literacy

A third workshop dealt with the opening-up of opportunities and the cushioning of hazards that digital financial inclusion entails. The topic builds on the High Level Principles

endorsed under the Chinese G20 presidency. Experts presented emerging approaches to digital financial inclusion in China and Kenya. Participants learned how to use an online community platform to foster the exchange of views and experiences between central bankers, supervisors and regulators. Participants concluded that peer exchange across G20 and non-G20 countries on implementing digital financial inclusion can play an important role in expanding access to financial services to under-served and under-banked communities.

A fourth workshop on financial literacy called attention to the growing importance of financial literacy in a digital financial world. Many financial services (such as consumer credit) are increasingly offered via digital means. Hence, they have become more widely and easily accessible to vast segments of the population. At the same time, the currently prevailing low-interest-rate environment makes borrowing even more appealing and provides incentives to invest in and save via more complex, potentially more risky financial products. Against this background, the workshop highlighted the importance of end-users having sufficient financial skills and competencies to cope with the growing challenges and make informed financial decisions. Furthermore, the workshop illustrated the opportunities that digitisation can offer in the sense of developing tools to enhance financial literacy. It also emphasised the significance of adequate data in assessing the effectiveness and impact of financial literacy programmes and called upon policymakers to support the development of adequate financial literacy skills.

Focus on selected financial innovations and technologies

The three dialogues on “Crowdfunding & peer-to-peer lending”, “Distributed ledger technology” and “Digitalisation in payments” took an in-depth look at selected financial innovations and technologies that seem to have strong transformative potential.

Crowdfunding broadens the universe of finance and contributes to efficiency gains by reducing costs and fostering competition. At the same time, digital financial innovations may offer new ways of managing credit risk, as platforms are experimenting with new forms of data gathering (eg Big Data).

Risks include online aspects of the industry, such as the risk of platform closure or even failure. Depending on the business model, there are also risks associated with originate-to-distribute aspects or with mispricing of credit risk, as crowdfunding platforms have not yet gone through a full credit cycle.

Distributed ledger technologies (DLT) use cryptographic keys and networks to exchange electronic value without the need for intermediaries. In contrast to the traditional transfer of value in financial services, which often requires a central intermediary, DLT relies on the consensus of the network of processors for a transfer to take place. It provides irrefutable proof of an asset's existence and maintains an audit trail that tracks the ownership of the asset being transferred.

Payment services are an important part of the overall package of financial services. The ability to make and receive non-cash payments is crucial to participation in increasingly digitalised financial systems. Moreover, payment services may not only facilitate access to other financial services but can, in many cases, be critical to the efficient provision of those services. With the growing usage and enhanced technologies of smartphones and other mobile devices, digital payments could play an increased role in financial inclusion.

Cyber security

In the fourth dialogue, “Cyber security”, participants discussed cyber threats to the financial sector and protection measures. Cyber-attacks have the potential to disturb or disrupt financial services. In extreme cases, they may even endanger financial stability. Adequate safeguarding measures or procedures to contain risks of cyber-attacks need to be further developed and applied so as not to jeopardise the potential benefits of digitising finance.

Next steps

The German G20 presidency expresses its gratitude to all participants for their valuable input to this conference. The conference offered a platform of debate, and the discussions will be relevant in ensuring that further work on the issues discussed is underpinned by sound expert advice. International cooperation among jurisdictions, international organisations as well as standard-setting bodies will be essential. The findings of the conference will feed into further debates in subsequent meetings in the G20 finance track.