



Executive Summary of Asian Financial Development Report on Financial Inclusion

The term “Financial Inclusion” was first proposed by the United Nations in 2005 “International Year of Microcredit” and it has become an international consensus ever since. In the past decade, the G20 leaders’ summits have adopted a number of initiatives to promote the development of financial inclusion. Global and regional alliances have been established one after another, setting up a strong network to support the development of financial inclusion. As a vast region, Asia still has large rural and poor areas with a significant number of people in poverty. Besides, small and micro enterprises within the agriculture industry account for a large portion of the economy with strong demand for financial services. In recent years, the development of financial inclusion in Asia has reached or surpassed the average world level. However, there are still significant disparities of financial inclusion among countries in Asia. Economic and educational factors restrict the coverage of basic bank accounts. Savings rates vary significantly among nations, and the ability to access personal loans and MSMEs financing still need to be improved. Therefore, further developing financial inclusion so that all regions and groups in Asia can have better

access to financial products and services is conducive to effectively allocate financial resources and promote a balanced economic and social development, which is the necessary condition and the requisite path to promote a well-balanced and sustainable development in Asia. From the early Grameen microfinance model to the innovations of digital financial inclusion in Southeast Asian, Asia's attempts and efforts to advance financial inclusion are commendable.

This report reviews the developmental experiences of financial inclusion in Asian countries from the perspective of the financial inclusion ecosystem. An efficient financial inclusion ecosystem includes the entities of the financial inclusion industry and a series of environmental factors to support the survival and development of financial inclusion. The environmental factors include business environment and government efficiency, economic and financial environment, financial infrastructure, digital infrastructure, and financial literacy and consumer protection.

First of all, the roles of the business environment and government efficiency are reflected in institutional design, overall planning, organizational arrangement, and national coordination. Further developing financial inclusion relies on the government formulating strategies and policies that are conducive to the development of financial inclusion as well as their execution efficiency and governance capacity to ensure effective implementation of strategies and policies.

Secondly, the development of financial inclusion is closely connected with a country's economic and financial environment. A higher level of economic development represents a higher level of advancement, which provides a better condition for financial inclusion. At the same time, the more credit support given to the private sector, the more developed the financial industry is, thus more able to direct funds into the field of financial inclusion. A reasonable inflation rate is also beneficial to the stability of the financial system and also the healthy development of financial inclusion.

Moreover, financial infrastructure and digital infrastructure provide essential conditions for the comprehensive development of financial inclusion. Financial infrastructure includes credit registration system, payment system, mortgage guarantee system, among others. As an important financial infrastructure, the credit registration system is conducive to the integration and sharing of information, eliminating information asymmetry, promoting social trust constraints and incentives, reducing the borrowing costs of enterprises and individuals, and better serving the development of the real economy. The rapidly advancing digital technologies are gradually applied to every aspect of the financial industry. Digitalization is an inevitable path for the efficient realization of financial inclusion. The development of financial technology relies on the development of information and communication technology (ICT), which

is becoming an important determinant of the level of digital financial inclusion.

Finally, financial literacy and consumer protection provide underlying support and protection for financial inclusion to create positive effects. With the development of financial inclusion, the targeted users of financial inclusion will face a broader and more complex choice of products and services. The improvement of financial awareness and financial literacy will enable them to differentiate and choose the appropriate financial products to improve their financial health and well-being.

The five dimensions discussed above are a series of environmental factors that affect the development of financial inclusion. On top of these conditions, the ecological entities, i.e. all kinds of financial inclusion service providers, have been cultivating hard in the field of financial inclusion, taking a “consumer centric” view in product and service design, innovating on business and cooperation models, and achieving the dual goal of inclusive finance and inclusive development based on the premise of commercial sustainability.

"Financial Inclusion Ecosystem" is an analogical generalization or a metaphor of financial inclusion. On the one hand, the ecological entities of financial inclusion absorb sunshine and rainfall to grow in the financial inclusion environment; on the other hand, the ecological entities also

impose significant impacts on the financial inclusion environment as well. The financial inclusion environment, the ecological entities, and their interactions constitute a financial inclusion ecosystem with the unique development patterns and internal logic.

Based on the above, this report (Chapter One) attempts to compose a relatively comprehensive "Asian Index of Financial Inclusion Ecosystem (AIFIE)" to objectively evaluate the overall situation of the financial inclusion ecosystem of Asian sample countries. According to the overall index, high performers based on the index include Singapore, the Republic of Korea, the United Arab Emirates, Israel, Japan, Malaysia, China, Thailand, Bahrain, and Kazakhstan.

Chapter Two of the report aims to summarize the developmental experiences of financial inclusion in Asian countries from different components of the financial inclusion ecosystem. In the dimension of government backing and top-level design, the report summarizes the experiences from China's efforts in developing financial inclusion from the aspects of national strategy, monetary credit supply, fiscal and tax policies, governance framework and institutional capacity, India's National Strategy of Financial Inclusion, and Japan's efforts in providing financing support for the SMEs.

In the dimension of financial infrastructure, the report reviews Cambodia's tremendous achievements in constructing the credit

registration system, India's replacement of its old system with the UPI Digital Payment System, and China's promotion on movable assets-based financing through the movable assets guarantee system.

In terms of promoting financial inclusion development with digital technology, the report introduces China's leading experiences in digital payment, digital wealth management and insurance, and digital transformation of commercial banks, highlights Malaysia and AFIN's innovation breakthroughs in the digital finance, and presents how Saudi Arabia used the "Fintech Sandbox" to seek a balance between technological innovation and risk control.

In terms of business innovation by financial inclusion entities, the report analyzes how the products and services of Grameen's microcredit model were designed according to customers' characteristics and fundamental needs and how Malaysia's agent banking model broadens the coverage of financial services through the cooperation between financial institutions and non-financial institutions.

As for financial literacy and consumer protection, the report presents Mongolia and the Republic of Korea's efforts in promoting financial literacy, insurance awareness, and protection of the people, and the successful results from doing so.

Opportunities and challenges come hand-in-hand in the development of financial inclusion in Asia. With the advantages of having a large

population, grand region, and great potential for the economic development and massive demand for financial services, the developmental space for the financial service is tremendous. The rapid development of digital technology provides a new engine for financial inclusion and can help the traditional poor performers surpass other nations in digital financial inclusion. However, the task of poverty reduction in Asia is still challenging, significant disparities in the supply of various financial services are still apparent, technological innovations are creating digital gap and security issues, both the credit registration system and the evaluation standards for financial inclusion are still in need of improvements. Based on the opportunities and challenges, this report presents the following recommendations. First, improving the governing system of financial inclusion by formulating a holistic strategy, and encouraging cooperation between all stakeholders. Second, building solid infrastructure with quality and diversity and continuously improving the credit registration system, payment system, movable assets based financing system, and digital information and communication technology. Third, practicing around the consumer-centric business model, paying special attention to and fulfilling the real needs of the MSMEs and the disadvantaged groups. Fourth, building a healthy digital financial inclusion ecosystem, encouraging regulatory authorities to actively utilize the "regulatory sandbox" to seek a balance between technological innovation

and risk control, and focusing on the issues of digital security, digital gap, consumer protection, following “The G20 High-Level Principles for Digital Financial Inclusion”. Fifth, enhancing communication and cooperation in the Asian region, taking full advantage of the co-development and cooperation opportunity created by regional and global initiatives like the Belt and Road Initiative, and maximizing the roles of multilateral international institutions.