

30 July 2019

Hon. Felipe Larraín Bascuñán

Chair, APEC Finance Ministers Meeting
Minister of Finance, Government of Chile
Teatinos 120, Santiago de Chile
Chile

Dear Dr. Larraín:

It is my great pleasure on behalf of the APEC Business Advisory Council (ABAC) to present to you our recommendations to APEC Finance Ministers this year.

Financial inclusion and regional financial integration are two of the most important challenges we believe that APEC needs to address. Both are critical for achieving sustained, balanced and inclusive growth in our region.

Creating the Digital and Policy Ecosystem for Financial Inclusion

The ongoing digital revolution offers us many opportunities to make our financial systems more inclusive. This has been demonstrated by successful cases of lenders using big data analytics and alternative data from various sources to provide credit to MSMEs while facilitating compliance with data regulations. Today's technologies and the exponential growth in the volume of data have the potential to enable financial service providers to reach the more than 550 million unbanked persons and over 70 million financially underserved MSMEs in APEC economies.

Achieving this goal requires both bottom-up and top-down approaches. A key bottom-up measure is enabling market players to innovate in response to customer needs. In most developing economies, however, the process of matching technology with financial service providers to develop new products typically take many months, require significant costs and have low success rates.

We encourage member economies to study the case of the ASEAN Financial Innovation Network, where industry, regulators and a multilateral institution collaborated to provide a curated and secure regional platform for traditional banks and fintech firms to discover needs and solutions and design, test and deploy new products faster and at much lower costs. ***We recommend that regulators, industry and multilateral institutions collaborate to develop, implement, link together and deepen participation in such public-private regional platforms for financial innovation across the region.***

To provide an enabling environment for these innovations to eventually succeed, the public and private sectors and relevant international institutions need to collaborate in undertaking several top-down measures.

- ***Data (including non-sensitive relevant public sector data) need to be widely collected and shared*** under frameworks that consumers can trust and financial service providers can use to meet the needs of MSMEs and those currently financially excluded or underserved. ***Member economies must engender trust in cross-border data flows among them by collaborating to develop inter-operable privacy regimes taking into account each economy's domestic laws, policies and priorities, and undertake capacity building measures to create a strong regional data security environment. Interested member economies are encouraged to collaborate with the private sector to promote wider participation of businesses and economies in the Cross-Border Privacy Rules (CBPR).***
- To facilitate digitalization of trade and supply chain finance and MSMEs' participation in global value chains, economies should undertake ***measures to ensure that legal and regulatory frameworks around digital documents used in trade are inter-operable*** across the region. To complement this, ***capacity building programs must be initiated to build a modern movables finance market*** focusing on market development, digitalization and cross-border inter-operability of secured transaction systems.
- To widen the reach of financial services, developing economies should undertake reforms and promote financial literacy to ***expand access of rural and low-income consumers and micro-enterprises to savings, insurance and pensions***. Opening of savings accounts can be promoted through digitization of G2P and P2G payments, promoting e-commerce in rural areas, enabling tiered KYC compliance and e-KYC to simplify account opening procedures, and support for product and channel innovations. Access to insurance can be improved by exposing regulators to international best practice in regional platforms for regulators and establishing mechanisms for inter-agency and public-private collaboration. Governments can promote access to pensions through educational programs, facilitating the use of digital KYC and robo-advisors, and promoting awareness among public sector stakeholders on the important role of pension funds in the economy.
- Interested developing economies should ***facilitate the accelerated development of alternative payment channels***. This would require introducing digital identities and interoperable consumer ID to promote digital financial services, promoting responsible digital financial practices to ensure consumer and data protection, establish coordinating policy agencies to oversee digital financial sector deployment, and establishing Common Digital Financial Services Indicators to measure and track progress.

These form together a mutually reinforcing set of initiatives that can significantly advance financial inclusion in our region. Regional public-private platforms for innovation can help traditional financial institutions and fintech firms create innovative financial products powered by digital technology. Improved availability and quality of data, policy reforms and greater collaboration among industry and regulators will create the enabling environment for financial service providers to provide a wider array of innovative services to a broader range of customers, including financially underserved disadvantaged groups. These measures will enable digital innovation to lower the costs of banking, insurance, pension and payment services and working capital, and make them more available to MSMEs and low-income individuals.

Accelerating Regional Financial Integration

Regional financial integration is critical to overcoming the challenges arising from our region's fragmented markets, including the lack of scale, depth and liquidity, high transaction costs and limited opportunities for domestic investors and borrowers, especially in developing economies. Integration can be accelerated by leveraging progress in other regional initiatives involving APEC member economies to deepen cross-border financial linkages and share best practices across the region. Private sector platforms, including the APFF, can provide the bridge to create synergies between APEC and these initiatives, particularly in regionally integrating markets for local currency bonds, fund management products and insurance-linked securities, as well as creating regionally inter-operable real-time payment channels.

- Developing economy regulators should collaborate with the private sector to ***address specific challenges to cross-border investment and issuance in local-currency corporate bond markets by institutional investors***, such as through more harmonized bond market standards, friendly tax frameworks and an internationally and widely accepted common bond issuance format. This collaboration should be integrated in regional regulators' meetings such as the ASEAN+3 Bond Market Forum and the Pacific Alliance, to accelerate progress, share experiences, align objectives and promote future inter-operability between Asian and Latin American markets.
- APEC economies should agree to ***promote inter-operability of funds passports*** in the region, starting with the Asia Region Funds Passport (which is now operational with Australia, Japan and Thailand having commenced receiving applications from domestic and foreign funds in February this year) and the Pacific Alliance funds passport, and identify the modality for achieving this goal.
- APEC Finance Ministers should work with multilateral organizations to ***catalyze the development of an Asia-Pacific catastrophe bond market***, through the issuance of cat bonds for developing Asian member economies starting in 2020, learning from the experience of the Pacific Alliance cat bond.
- Central banks and relevant public and private sector stakeholders should work together to ***establish a robust and regionally inter-operable real-time payments infrastructure*** based on international standards.

APEC can advance regional financial integration by building on what has already been accomplished to support further progress and creating linkages among member economies across the Pacific. Such linkages can be created and expanded through measures to facilitate cross-border investment and issuance in local currency bond markets in East and Southeast Asia and sharing the experience to encourage similar initiatives in the Pacific Alliance, the development of a cat bond market in Asia following the issuance of the Pacific Alliance cat bond, promoting inter-operability between ARFP and the Pacific Alliance funds passport, and development of inter-operable real-time payments infrastructure.

In addition to the preceding recommendations, we encourage the Ministers to continue advancing the implementation of the Cebu Action Plan and other FMP initiatives. Through the APFF, APFIF and APIP, we are providing public-private sector platforms to mobilize contributions to this effort from the private sector. ABAC is pleased to submit to Finance Ministers the 2019 Progress Report

of the APFF, APFIF and APIP. The Executive Summary of this Progress Report is appended to this Letter and the accompanying Report, while the full text can be downloaded through this link: https://www2.abaonline.org/assets/2019/AGFSCB_Reports/Complete_2019_Progress_Report_of_APFF_APFIF_and_APIP_Final_Version.pdf.

Finally, we would greatly appreciate endorsement by APEC Finance Ministers of the three documents we submitted last year, which have meanwhile been discussed by Finance and Central Bank Deputies and Senior Finance Officials and finalized this year: (a) *An APEC Roadmap for a New Financial Services Data Ecosystem*; (b) *A Strategy for the Digitalization of Trade and Supply Chain Finance*; and (c) *Essential Elements of an Effective Personal Insolvency Regime*.

Details of these recommendations are contained in the attached Report. We hope that they will provide meaningful ideas for action, and look forward to our upcoming dialogue with the Ministers this coming October.

Yours sincerely,



Richard von Appen
ABAC Chair 2019

ATTACHMENTS:

- *APEC Business Advisory Council 2019 Report to APEC Finance Ministers*
- *2019 Progress Report: Asia-Pacific Financial Forum*
 - *Asia-Pacific Financial Inclusion Forum*
 - *Asia-Pacific Infrastructure Partnership – Executive Summary*