Check against delivery

Alliance for Financial Inclusion
Bringing smart policies to life

International Conference on the Linkages between Financial Inclusion and Financial Stability

Welcome Remarks by Alfred Hannig, Executive Director
Alliance for Financial Inclusion (AFI)

Bali, Indonesia, 30 November 2016

Deputy Governor Ronald Waas
Deputy Governors,
Assistant Governors,
Distinguished Guests,
Ladies and Gentlemen,

Let me begin with a warm welcome to you all. In this room today we have more than 80 participants from 27 countries, representing 26 member institutions. I would also like to welcome number of colleagues from OJK, IMF, FSB, the World Bank, The SEACEN Centre, University of New South Wales, Australia, Georgetown University, Microsave, and GIZ.

A special recognition should be given to Bank Indonesia, and Deputy Governor Ronald Waas for developing and creating this event. The idea to hold a conference on the issue of the interrelationship of financial inclusion and financial stability, was actually first raised during the Global Policy Forum in Maputo, Mozambique back in September 2015, and I know there has been a great deal of effort put into what we will be experiencing over the coming days. Bank Indonesia holds a special place in the heart of our network. It is one of six founding AFI members, and has been a major contributor to the success of our network. The 2010 Global Policy Forum took place here in Bali, BI is a member of the AFI Board, as well as the Gender and Women's Financial Inclusion Committee. And of course BI has been in leadership roles for several of the AFI Working Groups.

It is fitting therefore that in the first year of AFI's Independence, that we should be returning to Bali work with BI on another global conference of great relevance for AFI members and partners and stakeholders. The linkages between Financial Stability and Financial Inclusion.

To understand the nexus of Financial Stability and Financial Inclusion we need to go back in time. Back to when the AFI idea was still in its infancy. The end of 2007/beginning of 2008, is remembered in global economic terms as a time in which unhealthy financial inclusion ambitions had triggered a major financial crisis. In the aftermath of the crisis we all witnessed the tightening of global standards which in turn paved the way for the development of a new financial landscape. A landscape characterized by an unprecedented growth of non-bank financial institutions, and with them the emergence of new types of risks threatening financial stability.

AFI members, however, had always argued that the financial crisis was an opportunity, and not necessarily a threat, because financial inclusion policy- smart financial inclusion policy- had the potential to actually support financial stability. A goal which lies at the core of our members' mandate. This argument was based on three main points:

> First; That financial inclusion can be a powerful agent for strong and inclusive growth! Increasing macroeconomic evidence provided by IMF, World Bank and most recently the McKinsey Global Institute has shown that financial inclusion is a driver for economic growth and stability, and that financial *exclusion* constitutes severe risks for financial stability and can be harmful for financial integrity.
> Secondly; Resilience: Financial Inclusion can strengthen the domestic capital base, thereby reducing dependency on foreign capital flows, and lowering the risk of external shocks.
> And finally; Financial Consumer Protection: The effective protection of financial services users can enhance overall financial stability.

Recent research and literature indeed shows that the impact of financial inclusion on financial stability depend in part on the existing financial policy/regulatory framework. This in turn highlights the importance of adopting good practices in policy design.

A recent paper by the IMF presented interesting findings which help illustrate this point.

- They concluded that financial inclusion has a positive impact on economic growth up to a point.
- They found that financial stability risks increase when access to credit is expanded without proper supervision. However, this negative impact largely disappears if countries have high-quality supervisory regimes.
- And they discovered that, in contrast to credit expansion, other types financial services such as savings and insurance do not impact on financial stability adversely.

The IMF was not alone in these findings. A recent working paper from the World Bank also suggests that the nexus between financial inclusion and stability is most influenced by financial openness and the depth of credit information systems.

And closer to home, in our own 2015 and 2016 AFI Member Needs Assessment (MNA) Surveys, "Financial Stability" has been rated one of the top three thematic areas in which AFI should expand its peer learning services. This is not surprising given that majority of our members in this room are mandated to promote both financial inclusion and financial stability objectives. Understand the linkages is critical to their work.

It would appear then, that this conference could not have been more timely or more topical.

Over the next days we will address two practical questions:

(1) What are the relationships and linkages between financial inclusion and systemic financial stability? and
(2) What should financial policymakers/regulators do to leverage synergies or minimize the trade-off between the two objectives?

When considering these questions, we should keep in mind the existing momentums articulated in recent Resolutions which were agreed on by AFI members, SSBs, and other stakeholders. In particular, the *KL Resolution on Proportionality in Practice* from 2015 which calls for collaboration and dialogue among policymakers/regulators, SSBs, and financial institutions to advance the principle of proportionality that balances financial inclusion, stability, and integrity. And *The Moscow Resolution on Financial Inclusion and Shadow Banking* which calls for the need to monitor systemic risk from shadow banking activities whilst embracing their potentials to advance financial inclusion.

Let us also keep in mind how the deployment of new technology in the financial sector is forcing us to look afresh at the relationship between stability and inclusion. Increasingly P2P lenders, internet finance, crowd funding platforms and other non-bank players, initially mobile network operators, and now numerous FinTech start-ups as well, are playing critical roles in driving the innovation that is necessary to achieve what we all desire as a global good – namely access to quality financial services for all. It is natural that with new players and new technologies coming into play, regulators and standard setters need to properly understand the risks involved to consumers and to the stability of the financial system itself. There is a legitimate concern to avoid regulatory arbitrage opportunities that may arise from the disintermediation of financial services and a tougher regulatory and compliance environment for global banks.

Our agenda for this conference is broad and ambitious.

- The next session "**Linkages between Financial Inclusion and Financial Stability**" sets the stage for our discussions.
- "**Digital Financial Services & Financial Stability**" and the "**Innovative on SME financing: Benefits and risks to financial stability**" look at how digitization of financial services in payment, saving, and lending can bring opportunities but also risks to financial stability.
- "**Consumer empowerment & Financial stability**" will look at the goal of empowering and protecting consumers can complement financial stability objectives.
- "**Impact of De-risking on Financial Stability**" examines how the pursuit of the financial integrity objective can have unintended negative consequences on financial stability.
- "**Proportionate Approach for Global Financial Stability Standards**" will look at how countries apply proportionality in their policies/regulations to balance financial inclusion and financial stability risks, particularly in the context of Basel financial stability-related requirements.

- And in the session which I most look forward too, we will have a brainstorm to get your ideas on what AFI can do to advance peer learning on the topics of linkages financial inclusion and financial stability.

Ladies and gentlemen,

Today there still of billions of people who have been financially abandoned. They are forced to operate outside of the formal financial system through unregulated, and often costly informal financial services. This 'status quo' has quite rightly been recognized by global standard setters as itself constituting a risk too financial – and even wider economic and political – stability. So while the risks from new technologies must be managed, these same technologies and the entry of new players also creates a possibility to enhance financial stability by bringing people into the formal system and allowing their cash deposits to be invested for productive purposes, rather hidden in mattresses or gambled in unprotected savings schemes. Proportionate regulatory approaches which allow innovations to develop with appropriate oversight will no doubt play a key role in helping policymakers find the optimal balance.

In conclusion, we are in a position to avoid the kind of financial crisis which the world faced 9 years ago, when there was not enough understanding of the stability risks which can emerge from aggressive lending practices. We have learned our lessons, and we want to be able to keep the risks of financial inclusion in check from the outset through the use of regulatory and supervisory approaches which are proportionate to risk. We must be risk aware, and we cannot be risk averse.

So let us work towards finding that middle and balanced path. Remember that this is not a path we can travel alone. We should look to solutions that complement all stakeholders' efforts in this area. Potential collaboration could include a dialogue with FSB's working group on FinTech, the IMF and the World Bank, collaboration for research with universities, and jointly organized training for policymakers/regulators to promote proportionality in practice.

We welcome all of your ideas through the next days on how to further develop activities that can enhance the ability of global standard setters and AFI members in each jurisdiction to find the optimal balance between financial inclusion and financial stability.

Please enjoy the conference.