UNCTAD Multi-year Expert Meeting on

TRADE, SERVICES AND DEVELOPMENT

Enhancing productive capacity through services

Geneva, 1–2 May 2019

Digital services and sustainable finance

by

Mr. Kern Alexander
Chair for Law and Finance and Professor of Banking Regulation
University of Zurich
Switzerland

UNITED NATIONS
UNCTAD

Digital Services and Sustainable Finance

Professor Kern Alexander

University of Zurich

Multi-Year Expert Meeting on Trade, Services and Development

2 May 2019 – Palais des Nations, Geneva

" Universal access to financial services is within reach — thanks to new technologies, transformative business models and ambitious reforms... As early as 2020, such instruments as e-money accounts, along with debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now excluded."

Jim Yong Kim

Former World Bank President

Transition towards a sustainable financial system

- Low growth and instability across the international economy in the aftermath of the financial crisis
- Context: Growing inequality and impact of climate change
- The financial system has a key role to play in the shift towards a low-carbon, more resource-efficient and sustainable economy.
- 2 major global initiatives introduced a paradigm shift in 2016:
  - 2030 Agenda for Sustainable Development – 17 Sustainable Development Goals (SDGs)
  - Paris Agreement on climate change
- These commitments require a reset of the global financial system to ensure that private capital is redeployed to finance the investment gap of US $2.5 trillion a year in developing countries alone (UNCTAD), and EUR 180 billion in the EU by 2030 (EC)

Definitions

FinTech

"technologically enabled financial innovation that gives rise to new business models, applications, processes and products. These could have a material effect on financial markets and institutions and the provision of financial services."

Financial Stability Board (2019)

Digital Finance

"the impact that the Internet and related digital technologies have on the financial sector"

World Bank – World Development Report (2016)

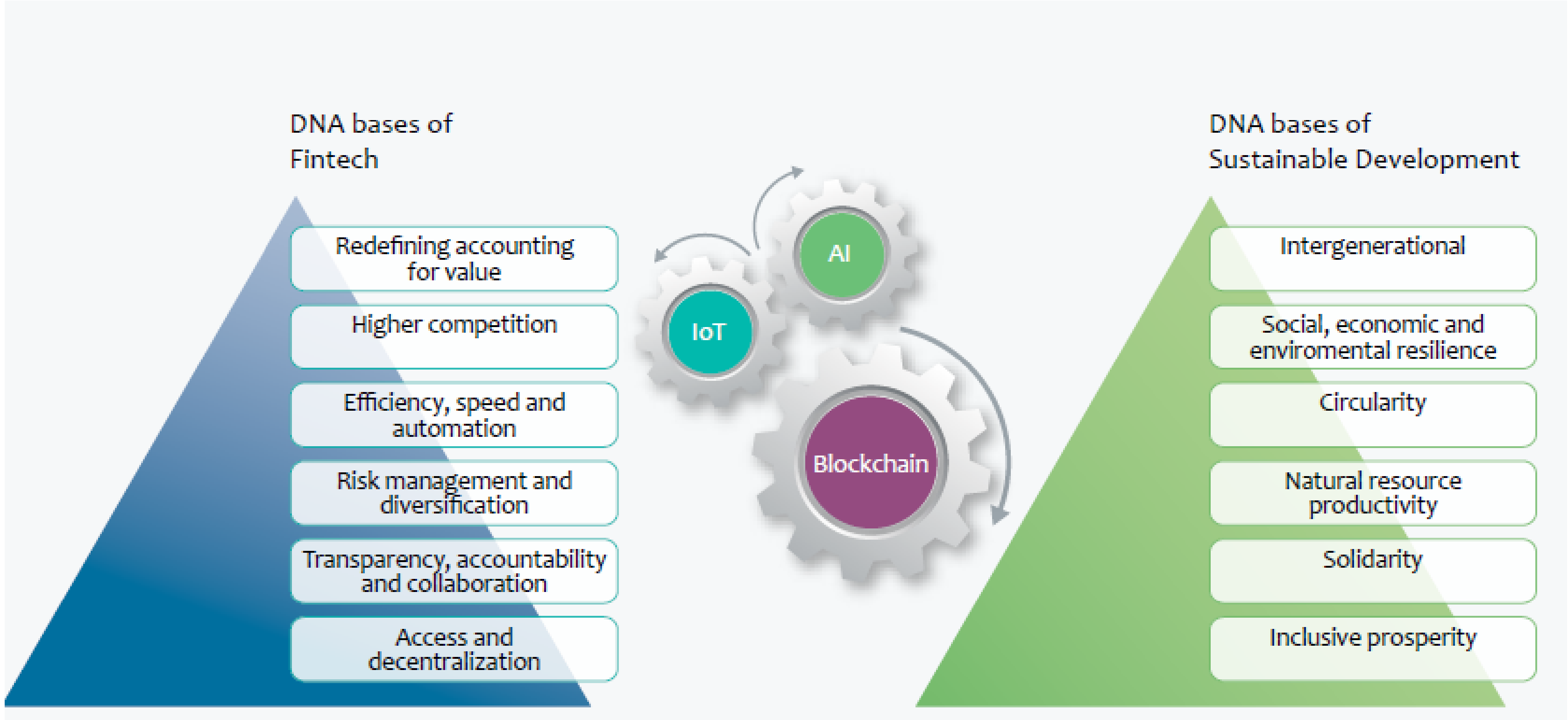
Financial inclusion through digitalization

What is the connection between FinTech and Sustainable Development?

- Three types of costs in the economy (Coase, The Nature of the Firm', 1937):
  - information costs
  - coordination costs
  - contracting costs

  → firm vs market tradeoff (a firm would expand until the cost of performing transaction inside the firm exceeds the cost of performing the transaction outside the firm)
- FinTech reduces massively these costs, facilitating the emergence of a third institutional form, the two-sided digital platform

FinTech and Sustainable Development



From UNEP, FinTech and Sustainable Development, 2016

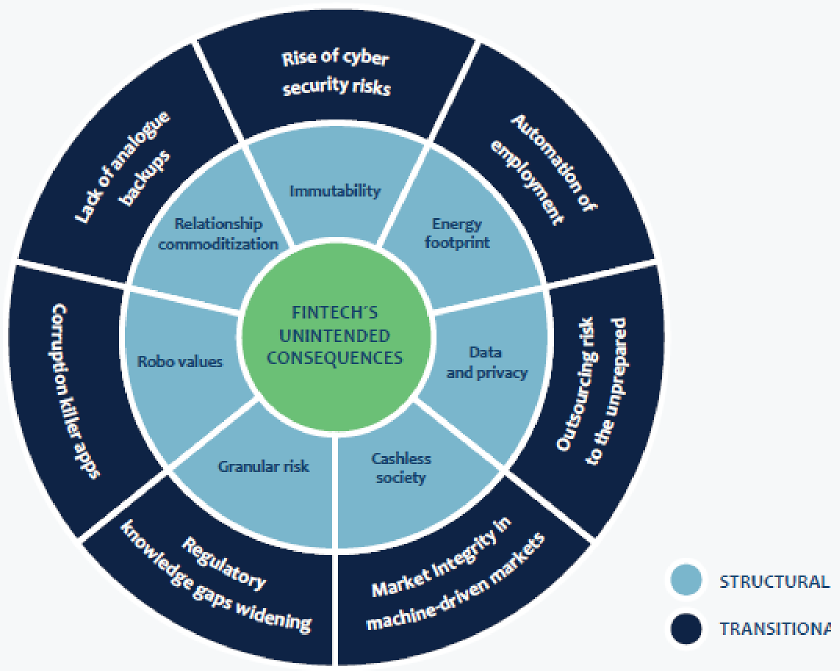
Financial inclusion through digitalization

- Digital ecosystems can become powerful drivers of inclusive growth by facilitating economic and social integration
- Achieving inclusive growth is essential for the SDGs
- Critical question: How to turn technological innovation into inclusive growth?
- Policy interventions are necessary to make sure that new technologies create equal opportunities for all

FinTech's unintended consequences

FinTech has multiple unintended economic, social and environmental consequences, which raise policy questions about appropriate regulation and supervision

FIGURE 16: FINTECH'S UNINTENDED CONSEQUENCES



Source: UNEP, Fintech and Sustainable Development (2016)

FinTech for underserved populations

– According to the 2017 World Bank Global Findex Study, an estimated 1.7 billion adults lack access to a transaction account and are excluded from the formal financial system.

– 2/3 of “unbanked” individuals, (approximatively 1.1 billion) have mobile phones, which can enable them to gain access to financial products and services.

Source: https://medium.com/@brianferdinand/how-fintech-helps-transform-developing-countries-5122a3acacaf

Financial inclusion: international initiatives

- 2010 **G20 Global Partnership for Financial Inclusion**: main implementing mechanism supplemented by the Alliance for Financial Inclusion, the Consultative Group to Assist the Poor and the International Finance Corporation
- 2011 **Alliance for Financial Inclusion** of policy-makers and regulators from 90 developing countries (funded through the Gates Foundation)
- 2011 **Maya Declaration** (signed by the above): a shared commitment to ‘reach the world’s 2.5 billion unbanked’ and put in place national FI strategies in partnership with private sector actors
- 2012 **Better than Cash Alliance**: partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth (UN-based)

Financial Inclusion: International Initiatives

- 2016, **Basel Committee on Banking Supervision**, Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion
- 2016 **G20 High-Level Principles for Digital Financial Inclusion**
- 2017-2020 **Financial Inclusion Global Initiative** (FIGI) by the World Bank, Committee on Payments and Market Infrastructure (CPMI), and the International Telecommunications Union (ITU) funded through the Gates Foundation

Financial inclusion through digitalization: some examples

1. Peer-to-Peer lending platforms: the Chinese example
2. Digital cash transfer services: M-Pesa in Kenya and India
3. Blockchain
4. Crowdfunding

Peer-to-Peer lending platforms

- Software and mobile phone applications that match borrowers with lenders without a traditional intermediary
- Advantage: access to capital for SME and consumers
- Pooling capital from many sources → risk of default is spread out and decentralised
- Effects: competitive pressure on large banks; improvement of overall economic efficiency
- Intervention by China Banking Regulatory Commission in 2015:

  stricter licensing and capital requirements

Digital cash transfer services

- M-PESA in Kenya, founded in 2007 facilitated digital cash transfer: a Fintech response to an unmet market need
- The technology used the existing telecom network

  → low start-up capital requirements and no need to invest in or build out infrastructure
- Regulatory intervention by the Central Bank of Kenya in 2009:

  digital payment services are not recognized as banking services
- Other examples: AliPay and WeChat Pay in China. Twint in Switzerland only since 2017

General policy recommendations

- **Balance** innovation and risk to achieve financial inclusion
- **Coordination** on a global level
- Involve the **central banks** (access to data and information; access to currency; access to payment infrastructure; access to information)
- Establishing effective **partnerships** between the public and private sectors
- **Encourage investment** in digital technologies that advance sustainable finance