TC Notes

Practical leadership & technical guidance from Toronto Centre

Advancing Women's Digital Financial Inclusion

JANUARY 2018

TORONTOCENTRE

Global Leadership in Financial Supervision

Global Affairs Canada Affaires mondiales Canada

Sida

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Contents

This document was prepared exclusively for use in association with programs offered by Toronto Centre. The information in this note has been summarized and is made available for learning purposes only. It should not be regarded as complete or accurate in every detail. No part of this document may be reproduced, disseminated, stored in a retrieval system, used in a spreadsheet, or transmitted in any form without the prior written permission of Toronto Centre.

Toronto Centre and Toronto Centre logo are trade-marks of Toronto Leadership Centre.
© Copyright Toronto Leadership Centre 2018. All rights reserved.

Introduction[1]

Women's inclusion in the usage of financial series is broadly recognized as a key driver of women's participation in the economy and of household well-being, leading to more robust economic growth and social development, as well as more diversified financial systems. The case for fostering the usage of financial services by women as a public policy imperative is recognized globally, with vocal proponents and attention given to this objective on platforms such as the IMF Managing Director's Global Policy Agenda.[2] The expansion of digital financial services[3] specifically is seen as a major opportunity for both women and men, but this opportunity is far from fully realized.

The 2014 Global Findex data[4] show that 47 percent of women worldwide had an account at a financial institution, with the figure at 37 percent in low-income countries. In comparison with men's usage of financial services, the most recent data show a persistent gender gap[5]: seven percent gap worldwide in accounts in financial institutions, 11 percent in low-income countries. With digital financial services expanding more rapidly in lower income countries than the global average, the 2014 Global Findex data show that 9 percent of women in lower income countries had a mobile phone account, as opposed to 2 percent globally. Although the usage of mobile accounts remained far lower than bank accounts in the 2014 data, it is an indication of the nascent promise of digital financial services for women, in developing countries in particular.

The compelling case, on both economic and social grounds, of increasing women's financial inclusion calls for a closer look at the potential of digital financial services to expand inclusion and what financial authorities, both regulators and supervisors, can do within their mandates to contribute substantively to this public policy goal. Financial authorities are key stakeholders in fostering the greater participation of women in access to, and usage of, financial services. They can give greater attention to enabling the expansion of opportunities to access new products via new delivery systems, while identifying and mitigating risks and ensuring financial consumer protection.

This note examines what financial authorities can do to foster women's digital financial inclusion, in the context of their mandates to ensure a sound and enabling regulatory and supervisory framework.

---

[1] This note was prepared by Kathryn Imboden on behalf of Toronto Centre. Kathryn is a Policy Advisor at CGAP, focusing on financial inclusion work with global standard setting bodies.

[2] https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/18/md-spring-global-policy-agenda-a-more-inclusive-and-resilient-global-economy

[3] Digital financial services refer to financial products and services provided and accessed through digital means, and can include payments and transfers, credit, deposits and other savings, insurance (including payment of insurance premiums and payout of insurance proceeds), and investments (such as in money market funds). Users can include unserved and underserved populations such as poor and rural households and micro and small enterprises. Providers can include a variety of financial institutions and nonfinancial institutions as well as third party partners, which may use innovative delivery channels to serve customers such as mobile phones and third-party agents for transacting and communicating with and between customers, non-traditional data for assessing creditworthiness, and new methods of verifying customer identity.

[4] The Global Findex database, the world's most comprehensive database on financial inclusion, provides in-depth data on how individuals save, borrow, make payments, and manage risks. It is based on interviews with about 150,000 adults in over 140 countries. See http://www.worldbank.org/en/programs/globalfindex

[5] "Gender gap" is defined as the difference in the percentage of usage of financial services by women and that by men, with usage usually generally expressed as having an account at a formal financial institution.

Objectives

Many financial authorities have some form of market development objectives as explicit or implicit elements of their legal mandates. Increasingly, digital technologies are being brought to bear, both by established players and new FinTech firms, in a manner that furthers market development, especially in terms of reaching previously unserved and underserved populations, which disproportionately include women.

Within a rapidly changing environment, financial authorities worldwide are working to ensure adequate frameworks to regulate, supervise and oversee digital financial services and delivery systems. In this context, this note seeks to help financial authorities address the specific issue of women's digital financial inclusion by furthering understanding of:

- The case for increasing women's digital financial inclusion and why a gender-differentiated approach is important;
- Specific gender-related opportunities and constraints relating to usage of digital financial services, and their significance;
- Concrete regulatory and supervisory responses designed to facilitate women's usage of digital financial services; and
- Important measures outside the realm of regulation and supervision.

Case for promoting women's financial inclusion

The value proposition of increasing women's financial inclusion is well documented, based on both macroeconomic and microeconomic arguments. Women's financial inclusion has been called a "potent formula" for creating economic and social benefits at both macro and micro levels that can be leveraged to change families and societies.[6]

On the macroeconomic front, access to and usage of financial services have been shown to be levers for women to increase their participation in the economy, leading to gains in GDP growth rates. Access to finance increases access to productive assets and increases productivity: financial intermediation is linked to stronger economic growth.[7] A Goldman Sachs Global Markets Institute study shows that closing the gender gap in credit access could improve developing country growth rates by 1.1%.[8]

IMF research offers considerable evidence that when women are able to develop their full labour market potential, there can be significant macroeconomic gains. Better opportunities for women to earn and control income contributes to broader economic development in emerging markets.[9] Closing the gap for small and medium-size enterprises (SMEs) is a particularly promising avenue to ensure economic growth and per capita income gains; it is estimated that globally over 70% of women-led SMEs are either financially unserved or underserved.

---

[6] Alliance for Financial Inclusion, *Policy Frameworks to Support Women's Financial Inclusion* (Kuala Lumpur: Alliance for Financial Inclusion, 2016), 3.
[7] Ibid, 7.
[8] Cited in Women's World Banking, *Women's Financial Inclusion: A Driver for Global Growth* (New York: Women's World Banking. 2016), 1.
[9] Katrin Elborgh-Woytek et al., *Women, Work, and the Economy: Macroeconomic Gains from Gender Equity*. IMF Staff Discussion Note 13/10 (Washington, DC: IMF, 2013).

Addressing gender issues in participation in the economy, including the usage of financial services, also addresses income inequality, which can lead to higher economic growth.[10] Working toward gender equity and increasing female economic participation are, in turn, associated with lower income inequality, higher growth, and more favourable development outcomes.[11]

The microeconomic argument for women's financial inclusion is equally solid. Women play multiple roles as economic actors and caretakers of their families. Women's financial inclusion allows women to save, invest, borrow, and ensure their lives and businesses. This leads to multiple benefits at the enterprise and household levels. Financial services are a core enabler for consumption smoothing, risk mitigation, self-employment, SME growth, asset accumulation, and wealth creation.[12] Women invest in their homes, the nutrition and health of their children and their communities; this leads to generational changes that can lead to long-term prosperity and security.[13]

Women's digital financial inclusion: opportunities and constraints

Developing an understanding of the opportunities and constraints faced by women in the uptake of financial services allows financial authorities to determine what they can do within their mandates to leverage the opportunities afforded by digital financial services to address the constraints. This section looks at constraints women face in the access to and usage of financial services overall, the promise of digital financial services to address constraints and expand opportunities, and, in turn, the particular constraints digital financial services introduce. These considerations set the stage for the recommendations for financial authorities framed in the following section.

Constraints to women's access to financial services

As clients or would-be clients, women may face a long list of constraints with regard both to access to and usage of financial services, including the following:

1. *Lack of financial capability and financial literacy* are considered by many to be the most serious constraints to women's financial inclusion. An OECD Survey shows that in many countries, women demonstrate less financial knowledge than men and are also less confident in their financial knowledge and skills.[14]

2. *Traditional ways of offering financial services that fail to meet the needs of, and accommodate the characteristics of, women clients*. Financial service providers are not attentive to gender differences in the demand for and usage of financial products and services and generally do not invest in developing a solid understanding of clients and potential clients. As a result, they do not adapt their products, services and delivery channels to accommodate women.

---

[10] See Christian Gonzales et al., *Catalyst for Change; Empowering Women and Tackling Income Inequality.* Staff Discussion Note 15/20 (Washington, DC: International Monetary Fund, 2015).
[11] Women's World Banking, *Women's Financial Inclusion: A Driver for Global Growth*, 4.
[12] CGAP. "Women and Financial Inclusion" webpage, 2017 (http://www.cgap.org/topics/women-and-financial-inclusion)
[13] In its gender policy, the World Bank Group sums up the straightforward, bottom line argument for women's financial inclusion: "No society can develop sustainably without transforming the distribution of opportunities, resources, and choices for males and females so that both have equal power to shape their own lives and contribute to their families, communities, and countries." World Bank Group, *Gender Equality, Poverty, Reduction, and Inclusive Growth: Gender Strategy,* (Washington, DC: World Bank Group, 2015), 11.
[14] OECD, *Financial Literacy and Inclusion: Results of OECD/INAFE Survey Across Countries and by Gender* (Paris: OECD, 2013).

3. *Lack of trust by women in formal financial institutions*, based in part on a lower understanding of the benefits of formal financial services and discomfort with accessing such institutions.

4. *Lack of assets to offer as collateral.* Women have difficulties in providing immoveable collateral, the traditional form of loan collateral, often due to existing land and property right regimes and cultural norms that discriminate against them. For example, limited rights to land ownership by rural women constrains their ability to provide collateral for loans, which in turn limits their ability to invest in agricultural inputs and equipment.

5. *Geographic distance from a financial institution* is more of a limitation for women than for men, as they have less mobility, given heavy workloads and the need to care for children on the home front, lack of means of transportation and cultural barriers to travelling alone.

6. *Lack of formal documentation of identification* means that women do not have the necessary documents to open an account or access other financial services. Traditional know-your-customer (KYC) rules require financial intermediaries to require identification and documentation that women usually do not have in greater proportion than men.

7. *Lack of gender disaggregated data* on women's financial needs and financial behaviour. Without gender-disaggregated data, managers in financial institutions may not be able to demonstrate the business case for serving low-income women, nor develop products attractive to them. Similarly, regulators and supervisors may not be in a position to judge the impact of gender on risk profiles nor be able to determine the extent to which the policy goal of expanded women's financial inclusion is attained. Where credit bureaus exist, gender-disaggregated data are usually not collected, and where they are, financial services providers do not always share gender-disaggregated information with each other. The existence of gender-disaggregated data is one opportunity to demonstrate performance in loan repayment.

8. *Legal and cultural limitations based on social norms* (arising from tradition, religion or cultural beliefs) mean that women have fewer assets controlled in their names, may not be financially independent from their spouses and/or from other family members, may not be in a position to transact in private, and may be restricted in terms of their ability to inherit assets, notably property. Cultural restrictions and family responsibilities may limit women's ability to travel to bank locations.

How digital financial services can contribute to overcoming constraints

Digital financial services have the potential to increase women's access to and usage of financial services. With adequate safeguards, digital financial services can break down cultural barriers, and address mobility constraints and privacy concerns.

A number of elements of digital financial services contribute to reduce constraints facing women in access and usage, especially the ability to engage in financial transactions without having to travel outside of their community, business, or home. Using mobile phones, there is increased opportunity to transfer money, pay bills, access savings and even obtain credit. Financial technology (FinTech) innovations[15] can

[15] "FinTech" is defined by the Financial Stability Board as "technology-enabled innovation in financial services that could results in new business models, applications, processes, or products with an associated material effect on the provision of financial services." (Financial Stability Board. *Financial Stability Implications from FinTech: Supervisory and Regulatory Issues that Merit Authorities' Attention.* Basel: Financial Stability Board. 27 June 2017.) An additional reference that provides a good overview on the importance and current state of FinTech

contribute to offering new financial products and services (banking, insurance, securities) and delivery systems as mobile phones and agent networks can meet women's preferences for convenience (addressing geographic distance constraints), reliability, security, and confidentiality (addressing cultural constraints).

In addition, digital financial service providers, at times in partnerships between traditional providers and non-financial institutions, have the potential to offer easy to use customer interfaces when adapted to client needs, deploy more sensitive marketing and communications channels to reach female clients, and harness the potential of FinTech by using alternative data to assess risk and even to replace standard collateral requirements with modern collateral requirements, such as moveable assets, thereby addressing the problem of the lack of traditional collateral.

The attributes of digital financial services contribute to addressing the constraints mentioned above: addressing the lack of formal identification by innovative digital identification (including biometric capabilities); addressing the lack of credit history through the use of data from utilities and trade creditors; replacing reliance on traditional immoveable collateral with moveable collateral; and substituting travel to distant bank branches with access to financial services via mobile phone. Likewise, the nature of innovative digital financial products and services are often of particular interest to women. These include targeted insurance products, pension schemes, leasing arrangements, agricultural finance, low-value equity investments, crowdfunding,[16] international remittances, government-to-person (G2P) payment options,[17] and conditional cash transfers.[18]

Constraints to women's usage of digital financial services

While digital financial inclusion shows great potential to overcome many constraints facing women in accessing and using financial services, at the same time woman face a series of specific constraints on the use of digital financial services themselves, including the following:

1. For women, financial capability and financial literacy issues may be more pronounced with regard to digital financial services than with regard to traditional financial services, given the technical nature of digital access (use of mobile phones to transact, use of Apps). Women may not be familiar with the use of digital technology beyond the use of mobile phones for making calls. (There is a learning curve on the parts of both women customers and financial service providers).

2. While digital financial services offer convenient customer interfaces, there is a learning curve that represents a challenge to women not accustomed to the usage of financial services.

---

developments is Denise Dias, *FinTech, RegTech and SupTech: What They Mean for Financial Supervision*, TC Note (Toronto: Toronto Centre, 2017).

[16] Crowdfunding is defined as "a mechanism of sourcing capital by soliciting to a pool of individuals or organizations through an on-line platform or mobile phone." (Ivo Jenik, Timothy Lyman, and Alessandro Nava. *Crowdfunding and Financial Inclusion*. CGAP Working Paper (Washington, DC, CGAP, 2017), 1.

[17] The term "government-to-person payments" covers cash payments related to social programs as well as wages, pensions and other payments.

[18] "Conditional cash transfers" refer to programs that transfer cash, generally to poor households, on the condition that those households make pre-specified investments in their children (health, nutrition, education).

3. Women are less likely to own a mobile phone.[19] This is due to cost, cultural norms and social constraints (prohibitions on the ownership of phones), and stringent registration policies for SIM cards and mobile money accounts.

4. Rural areas, where many unserved and underserved women live and work, may have poor or no mobile network coverage and may have only limited distribution (agent) channels.

5. Regulatory frameworks with regard to digital financial services are still in the process of catching up with innovation. The set of policies, regulations, and institutional infrastructure, as well as supervisory capacity, required for technology enabled financial services to flourish are not yet in place. The process of putting into place the necessary enablers while ensuring financial customer protection is still underway in most jurisdictions.

6. Challenges still exist in promoting proportionate treatment under anti-money laundering/countering the financing of terrorism (AML/CFT) regulations, through use of risk-based frameworks for customer due diligence that balance safety while imposing the least burden on the offer of digital financial services. Applying an overly cautious non-risk-based approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate consumers and businesses from the regulated financial system.[20]

Through the expansion of digital financial services, financial authorities can identify opportunities to be pursued and challenges to be addressed in promoting women's financial inclusion. The following section explores these opportunities and challenges.

How regulators and supervisors can foster women's digital financial inclusion

Financial authorities worldwide are increasingly facing the challenge of putting into place frameworks to ensure the safe expansion of digital financial services in the context of dramatic changes in the financial sector landscape. Laws, regulations, policies and supervisory practices have been shaped largely by (and have shaped) traditional/mainstream ways of doing business. New players, new business models, and new technology-driven products, services and delivery channels challenge regulators to determine when and how to introduce new regulatory frameworks, and how to introduce adjustments to existing frameworks.[21] This is an opening to contribute to advancing women's digital financial inclusion.

When tackling the challenges faced by the emergence and growth of digital financial services, financial authorities should consider adopting the promotion of women's financial inclusion as a specific policy objective alongside the other objectives in their mandates. Pursuing this objective should involve: i) gaining an understanding of the real-world constraints faced by women in the market for various types of financial services, including those arising from current regulations and supervisory practices); ii) investigating the potential for digital financial products, services and delivery mechanisms to mitigate those constraints, and iii) exploring the potential for regulatory and supervisory reforms that both reduce

[19] There is a gender gap in mobile phone ownership and usage, with women being 14% less likely to own a mobile phone. See GSMA. *Bridging the Gender Gap: Mobile Access and Usage in the Low- and Middle-Income Countries* (London: GSMA), 15.

[20] See FATF, *Anti-money Laundering and Terrorist Financing Measures and Financial Inclusion - With a Supplement on Customer Due Diligence* (Paris: FATF, 2017). (www.fatf-gafi.org/publications/financialinclusion/documents/financial-inclusion-cdd-2017.html)

[21] See Denise Dias, *FinTech, RegTech and SupTech: What They Mean for Financial Supervision*.

existing constraints and create a sound enabling environment for the provision of digital financial services by existing and new players.

This section explores seven areas of focus for advancing women's digital financial inclusion where concrete measures can enable financial authorities to contribute to this policy goal.

One: Collect gender-disaggregated data

Financial authorities, especially banking and insurance authorities, can collect gender-disaggregated data that will allow them to take stock of the current state of women's financial inclusion, and women's digital financial inclusion in particular, and to determine whether their policy objectives are being met. This would involve requiring reporting by regulated financial service providers (supply-side reporting) on gender-disaggregated usage of products and services. Beyond their own use of such data, financial authorities can build awareness of the value of this data for government authorities generally, and for financial service providers, who will be better able to understand their client base, including the financial performance of women clients. In this way, they can better determine the risk profiles of client segments and business lines. For example, this would enable financial authorities to understand whether there is gender differentiation in loan portfolio performance (i.e., with respect to the creditworthiness of women clients).

Requiring the collection of gender-disaggregated data allows financial institutions (and non-banking institutions offering digital financial services, such as e-money issuers) to ensure that they are targeting the right market. Such requirements by authorities contribute to the attainment of the policy goal of women's financial inclusion. Analysis of demand-side data (customer data, normally collected by surveys) can contribute to improved usage by women by offering a better understanding of what they need and want in terms of financial services and delivery channels. Beyond data collection, conducting on-the-ground research can build cases that show how to incentivize the uptake by women of digital financial services. Such cases provide concrete illustrations of the potential for digital financial inclusion and concrete evidence of the importance of an enabling policy and regulatory environment.

For governments, the collection of both demand-side and supply-side gender-disaggregated data could begin a virtuous circle: available information informs stronger, evidence-based policymaking and helps regulators evaluate the effectiveness of policies intended to promote women's digital financial inclusion, leading to more effective regulation, reinforcing the utility of gender-disaggregated financial data and the willingness to make it available.[22]

Two: Strengthen financial infrastructure

Several elements of financial infrastructure[23] are among the basic building blocks of women's digital financial inclusion. Attention to these building blocks will create a better basis for the expansion of the usage of digital financial services by women.

[22] Inez Murray, "Catalyzing Women's Financial Inclusion: The Role of Data," CGAP blog, 17 February 2016 (Washington, DC: CGAP, 2016) (http://www.cgap.org/blog/catalyzing-women%E2%80%99s-financial-inclusion-role-data)

[23] Financial infrastructure is defined here as the set of institutions that enable effective operation of financial intermediaries. This includes payment systems, credit information bureaus and collateral registries.

Payment systems. Retail payments infrastructure is a key foundation supporting digital financial services that are important for women.[24] Retail payment systems offer a number of avenues for governments to support women's digital financial inclusion. Particular emphasis can be given to the following measures:

(1) paying workers and distributing social benefits digitally rather than in cash (given evidence that transfers of government social benefits have a significant effect on a woman's ability to manage her finances);
(2) setting up digital payments for routine expenses like school fees and utilities bills (saving time and resources of women in particular);
(3) promoting formal savings (as women rely disproportionately on less formal methods); and
(4) encouraging wider use of mobile payments (lowering the cost of payments and money transfers).[25]

Interoperability. Especially during the early stages of the development of digital financial services, policy makers should focus attention on ensuring that interoperability between different payments schemes[26] is technically feasible, while insuring that they have both the necessary information and regulatory power to intervene if there is evidence that a dominant position is being exploited.[27] Interoperability across all digital financial services providers and schemes is the ultimate goal. Financial authorities must tread carefully in determining their role in fostering interoperability and can take various approaches, from non-intervention, to encouragement, to mandating. The right timing for, and the scope of, the authorities' action is still much debated.[28]

Credit reporting systems. Financial authorities can promote the establishment and use of credit reporting systems that capture relevant, accurate, and sufficient data (including information disaggregated by gender) and that respond to market and regulatory challenges and to lender and consumer demands for

---

[24] Leora Klapper, "5 Ways Digital Payments Can Bring Women into the Economy," CGAP Blog, January 19, 2016. (http://www.cgap.org/blog/5-ways-digital-payments-can-bring-women-economy)

[25] Although perhaps beyond the sphere of influence of financial authorities, another important element of promoting widely accessible effective retail payments (including access to mobile phones) is the expansion of a safe, efficient and widely accessible retail payments and ICT infrastructure that provides all users with convenient, reliable points of service for sending and receiving payments and conducting other digital financial services. The "last mile" is particularly important for women located in rural areas. Key necessary actions include ensuring the basic infrastructure (such as cell towers) is in place, expanding broadband network/data coverage into unserved areas, establishing open payments platforms that enable a broad range of providers to effectively bring new solutions to market, and leveraging the scale of mobile payments and collaboration with industry to explore FinTech solutions. See Principle 4 (Expand the Digital Financial Services Infrastructure Ecosystem) in *G20 High-Level Principles on Digital Financial Inclusion*.

[26] Interoperability can be defined as "a situation in which payment instruments belonging to a given scheme may be used in platforms developed by other schemes, including in different countries. In the context of retail payments, there could be multiple levels of interoperability—*system-wide*, *cross-system*, and *infrastructure-level*. A system that has only system-wide interoperability enables competition among the participants of that system. Cross-system interoperability enables competition between different payment systems. Infrastructure-level interoperability enables the same infrastructure to be used to support multiple payment mechanisms offered by different institutions". (Global Partnership for Financial Inclusion, *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape*, 58)

[27] Ibid., 58.

[28] International Telecommunications Union ITU-T Focus Group on Digital Financial Inclusion, *The Regulator's Perspective on the Right Timing for Inducing Interoperability* Geneva: ITU, 2017). See also Kate Lauer and Olga Tomilova, "Interoperability and Financial Inclusion: The Regulator's Role," CGAP blog (Washington, DC: CGAP, January 24, 2017).

improved services.[29] This should include gender-disaggregated data that can help document the creditworthiness of women borrowers.

Electronic collateral registries. Modern secured transactions laws and collateral registries can have an impact on women's financial inclusion. There are new possibilities of registering moveable collateral via electronic collateral registries, where borrowers can register collateral with secure credit facilities provided by lenders, including for moveable assets, an important step in solving the collateral constraints that women often face. The key challenges are modernizing secured transactions laws, establishing electronic collateral registries, and training financial and non-bank financial institutions in movable asset-based lending.

Three: Reform regulatory frameworks and supervisory practices

Financial authorities in many countries are working to put into place the necessary regulations and supervisory practices to ensure adequate frameworks for digital financial products, services and delivery channels. For example, developments in digital financial services, with their implications for the changes to the nature of risks and who bears them, present an additional challenge to the design and application of risk-based supervision, which inherently involves taking a proportionate approach to supervision. Addressing the financial exclusion of women also calls for the design of proportionate regulation.

<u>Understanding new and changing risks of digital financial services</u>
Digital financial products, services and their delivery channels, and the new customers served by digital provides, may alter the nature and the source of risks. Financial authorities need to take a close look at areas of risk associated with development of digital financial services:

- **Operational risk** arises from the involvement of new entities with different (sometimes lower) technical standards; new technology and new uses of technology (for example, giving rise to risks of loss of customer funds and fraud, technology/systems failures, difficulties in use of an interface leading to risk of mistaken transactions); risks related to use of agents and agent networks (including reputational risks, and the risk of inadequate agent selection, training and monitoring); risks related to account data storage and management; and data security and data privacy (including cyber risks related to the application of FinTech)
- **Credit risk,** the *risk* that a borrower may not repay a loan and that the lender may lose principal and/or interest associated with new products and services, use of alternative data for credit risk assessment, and targeting historically excluded or underserved customers.
- **Liquidity, clearing and settlement risk** may be affected by the entry of non-banks as participants in retail payments systems and the use of agents. Rather than the risk of a "run on the bank," there is a risk of a "run on the telco," or run on the agent."
- **Consumer protection risk** is of particular concern in the context of the offer and uptake of potentially complex products that are not adequately understood by customers. Risks include fraud (e.g., by new providers and by agents), lack of suitability of new digital products and services sold to low-income customers, poor disclosure, and insufficient means of recourse and complaint handling. Risks may be accentuated by the profile of excluded and underserved customers (limited experience with formal financial institutions and services, lower levels of education including possibly illiteracy and innumeracy, and general lack of financial capability).
- **Money laundering and terrorist financing risk** in the context of new non-bank providers and the use of agents. Money laundering and terrorist financing risks include the risk of financial *exclusion,* where transactions are forced outside formal channels by the inability or reluctance of

[29] See Principle 4 ("Expand the Digital Financial Services Infrastructure Ecosystem") in *G20 High-Level Principles on Digital Financial Inclusion.*

the authorities or financial institutions to apply simplified, proportionate, due diligence procedures in correspondence with the risks of the transactions.

Regulatory and supervisory responses

Financial authorities are well positioned to adjust the regulatory parameters that can affect the realization of women's financial inclusion as a policy goal.[30] A number of emerging regulatory enablers offer the promise to support the advancement of women's financial inclusion within sound regulatory frameworks, including (1) entry and licensing requirements; (2) a competitive market environment; (3) permissions for specific financial products and services; (4) allowing use of third-party agents; (5) risk-based, proportionate, regulation, including tiered customer due diligence; and (6) protection of small e-money deposits under trust account arrangements or deposit insurance schemes.[31]

Entry and licensing requirements. Financial authorities may play a gatekeeper role by specifying the type of institutions that can offer digital financial services and by granting authorization to new entrants. This may include a licensing window for providers of digital financial services (non-bank e-money issuers). In some cases, this may involve authorization of specific new products, services and/or delivery channels. Authorization criteria generally include requirements that each institution has in place the risk identification and management processes appropriate to the nature of the risks being undertaken. Less stringent criteria may be appropriate in the context of the goal of promoting financial inclusion. For example, some jurisdictions license non-bank e-money issuers without granting them permission to lend and without subjecting them to the full range of prudential rules.

The entry of FinTech-related providers and the innovations they bring to the market may give rise to particular challenges. The innovations may not conform entirely to existing regulations. One response involves allowing innovative new products, services, delivery channels and business models to be piloted without having to comply immediately with all regulatory requirements by establishing a regulatory "sandbox" that enables providers to start up and test new innovations in a controlled environment with the necessary oversight.[32]

The establishment of a sandbox with a gender dimension could provide lessons in innovative outreach to women, for example by ensuring that innovations targeting the financially excluded or underserved include a specific target for women, and tracking the results of those efforts. This could include collecting data on the needs and profiles of women clients, as well as measuring the impact of the innovations being tested on women's financial inclusion.[33]

Competition policy and regulation. Competition between banks and non-banks for new customers, including unserved and underserved women, is present in many markets and may result in lower fees and lending interest rates, efforts by banks to reduce operational costs in order to better compete, and the introduction of new products and services. Maintaining a competitive environment involves allowing new entrants, including FinTech firms, and ensuring a regulatory level playing field such that providers of

---

[30] See Stefan Staschen and Patrick Meagher, *Basic Regulatory Enablers for Digital Financial Services – Lessons from CGAP's Experience in ten Focus Countries* (Washington, DC: CGAP, forthcoming). Another core reference is Global Partnership for Financial Inclusion, *G20 High-Level Principles on Digital Financial Services* (Washington, DC: World Bank Group, 2016), Principle 3, "Provide and Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion".

[31] Additional issues including interoperability and financial consumer protection are treated in the following sections.

[32] See *Regulatory Sandboxes*, TC Note (Toronto: Toronto Centre, 2017).

[33] See Ivo Jenik and Kate Lauer, *Regulatory Sandboxes and Financial Inclusion*, Working Paper (Washington, DC: CGAP, 2017).

similar digital financial services have similar rights and responsibilities regardless of institutional type and technology used.

Products and services that can be offered. Given the myriad and rapidly evolving offer of innovative products, clear and consistent regulatory guidelines with regard to new products and delivery channels (including via partnership models) can accelerate product innovation. This entails understanding digital products and delivery systems of particular interest to women clients, assessing potential benefits and risks, and ensuring that institutions have in place the appropriate policies and procedures for new product development and launch.

Products and services of interest to women clients may include basic or low-fee accounts with simplified requirements (tiered document requirements to open small accounts, use of a digital financial ID system, limitations on how money can be accessed), digitization of social transfers and government payments (accounts into which government payments to citizens can be made through digital means, with women attentive to the use of such financial resources for family needs), the acceptance of digital payments for routine government services (such as utilities), the use of mobile money for international remittances sent to families, remittance-linked savings (so that remittances contribute to building savings), savings schemes for education, long-term contractual (micro) savings, and digital credit. There is scope for bundling to integrate a suite of savings, credit, and other valued added products and services for cross-selling and deeper financial inclusion.

Use of third-party agents as delivery channels. Allowing the use of agent networks can be a key contributor to increasing women's digital financial inclusion, notably when sensitivity to gender issues in agent transactions is promoted. Agent banking allows for the offer of financial services, especially cash-in and cash-out to/from e-money accounts and payments to other accounts at, for example, retail shops and post offices.[34] Agent banking regulations may potentially enable women who otherwise face cultural, distance and safety impediments to visit bank branches even in urban centers to transact via retail agents.[35]

Risk-based proportionate regulation/supervision. Prudential regulation needs to take into account the risks identified, applying a proportionate approach. Assessing risks accurately can facilitate women's digital financial inclusion. The application of proportionality in the definition of risk-mitigation measures calls for giving due consideration to alternative risk-mitigation measures that respond to the nature of the products, services, delivery channels and client characteristics. Examples including acceptance of alternative collateral to mitigate credit risk, including the use of moveable, unconventional collateral (jewellery, receivables, accumulated savings), and relying more on credit history than on collateral. Alternative credit scoring models offer yet another opportunity. Assessment by financial authorities of the benefits and desirability of the use of big data by financial intermediaries to assess credit risk (the use of a set of algorithms to determine credit worthiness based in part on mobile transactions, generated on digital platforms by and about consumers) is a step that can contribute to better oversight of credit risk.

In the context of addressing money laundering and terrorist financing risks, personal identification documentation requirements for women opening accounts or applying for credit can be an important impediment. Poor customers who make small transactions and maintain low balances should face fewer regulatory barriers. This can be implemented by using tiered CDD (differentiated CDD measures

[34] See Stefan Staschen and Patrick Meagher, *Basic Regulatory Enablers for Digital Financial Services – Lessons from CGAP's Experience in ten Focus Countries.*
[35] Rebecca Mann, "Banking on Change: Enabling Women's Access to Financial Services," CGAP blog (Washington. DC: CGAP, 29 October 2015).

according to the profile of the future customer).[36] Tiered CDD, whether for traditional financial services of for banks, makes it easier for women, for example, to register for mobile money accounts and to streamline the registration process.[37] Additional AML/CFT requirements include monitoring and reporting of transactions and the appropriate identification and registration of end-users by agents.[38]

Customer assets protection frameworks. The development of non-bank digital stored-value products raises the need to consider alternative solutions to the protection of customers assets, whether using a trust account approach or by extending the traditional deposit insurance scheme to e-money accounts. Setting up protection mechanisms would promote financial inclusion by instilling greater confidence on the part of clients.

Communication and collaboration. Many institutions fall within the jurisdiction of multiple financial authorities. Adopting effective regulatory enablers requires effective communication and collaboration among the relevant authorities. Coordination may be necessary among different government authorities (e.g., those responsible for financial sector policy, for regulation and supervision of financial institutions and for telecommunications companies), and between financial authorities of different countries.

Four: Enhancing market conduct and financial consumer protection regulation

Rapid scaling of digital financial inclusion products and the swiftly increasing numbers of new users call for new thinking on financial consumer protection and market conduct. Women's use of digital financial services requires specific enhancements to market conduct and consumer protection regimes. The market conduct frameworks and their implementation need to adapt to these rapid shifts in the risk environment. The evolution of risks challenges financial authorities to re-examine the key pillars of financial consumer protection – especially transparency and disclosure and the fair treatment of customers – due to the profiles of the "newly included" – women in particular – and the increasing use of digital channels as their main (or even exclusive) point of entry and means of transacting.[39] Financial authorities have a role in ensuring that all financial service providers adhere to market conduct rules and practice market discipline. The implementation of robust financial consumer protection regimes involves not only working with the financial sector but also with mobile network operators.

Gaps in legal and regulatory frameworks may mean inadequate financial consumer protection for women. Changes in legal and supervisory frameworks for financial consumer protection might include rethinking the very concept of disclosure in the digital context (given challenges of transparency and electronic disclosure with regard to digital financial services, where electronic disclosure may be less comprehensive, more difficult to read and harder to store), the adoption of more effective/robust measures to protect the public against unsafe or unsuitable financial services, and re-evaluating the systemic

---

[36] Tiered customer due diligence (CDD) allows clients to have access to a range of different account functionalities depending on the extent of identification/verification conducted by the financial institution.

[37] The Financial Action Task Force has issued three rounds of guidance on AML/CFT and Financial Inclusion. The latest guidance is *FATF Guidance: Anti-Money Laundering and Terrorist Financing and Financial Inclusion, with the Supplement on Customer Due Diligence* (Paris: FATF, October 2017).

[38] The establishment of national ID systems constitute a major advance in the context of digital financial services by providing for critically important documentation of identification. Mobile networks and technology may be used to improve the outreach and efficiency of national ID programs.

[39] Principle 5 of the *G20 High Level Principles for Digital Financial Inclusion* calls for establishing responsible digital financial practices to protect consumers and for establishing a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to digital financial inclusion. This Principle incorporates the importance of addressing the needs of vulnerable groups for protection and education.

importance of financial consumer protection as digital ecosystems expand to reach massive numbers of customers (notwithstanding small transaction sizes).

Specific aspects of financial consumer protection are of particular relevance for women accessing and using digital financial services: suitability requirements (appropriateness of products for particular consumer groups), personal data protection and banking (client) secrecy, transparency requirements, explicit requirements to act in the client's interest, prohibition of overselling, recourse mechanisms in case of fraud, and the establishment of an ombudsman function. Market conduct considerations cover market entry, market activities, and market exits of financial service providers through licensing, monitoring and other supervisory practices. In both cases, attention to risks with a particular impact on women is warranted in both financial consumer protection and market conduct regimes.

Inadequate data privacy can result in a variety of harms for anyone accessing digital financial services. Data protection and privacy issues, important for women, affect a range of regulated and non-regulated providers across sectors, these issues are likely within the purview of more than one authority. Relevant entities include data protection authorities, financial sector regulators, information and communication authorities and consumer protection agencies. There is a need to determine which entity has ultimate authority over which types of data protection issues.[40]

Five: Promote financial literacy programs

Increasing digital financial literacy is key to increasing usage of digital financial services.[41] Women often have less capability in the use of financial services, especially digital financial services. As such, financial education is a critically important element to expand women's digital financial inclusion. The goal is to increase overall levels of financial literacy starting from a young age. In many jurisdictions, financial education programs may not be in place, and where they are, they often do not yet incorporate trends in digital financial services.

Baseline surveys can be used to identify literary levels, setting the stage for developing financial literacy strategies and targeted programs, in particular toward women. Such programs (both inside and outside of schools) can serve women throughout their lives, meeting changing needs in relation to the need for financial services and the available offering of financial services. Financial authorities have a role in encouraging and sponsoring financial literary programs (for example, spearheading national strategies on financial education without actually delivering programs.)

Six: Support women's leadership

Research has shown a correlation between gender diversity on corporate boards of directors and better corporate performance.[42] Gender diversity on boards and senior executive positions of financial institutions can also contribute to financial inclusion, in part because women may well have a better understanding of the constraints facing women in using financial products, as well as the nature of product features that will be attractive to women and thus encourage usage. This knowledge can be essential for institutions to successfully tap into the female market in a commercially profitable and sustainable manner.

---

[40] Matthew Soursourian, "A Six-Ingredient Recipe for Data Protection," CGAP blog (Washington. DC: CGAP, 5 December 2017).

[41] OECD. *G20/OECD INFE Report: Ensuring financial education and consumer protection for all in the digital age* (Paris: OECD, 2017).

[42] Jennifer Reynolds, *The Business Case for Promoting Improved Gender Balance in Financial Institutions.* TC Note (Toronto: Toronto Centre, September 2017).

To promote women's financial inclusion, financial authorities can support greater representation of women on boards and in senior executive positions. They can do so by adopting quotas for female representation (currently mandated by nine countries[43]) or by requiring disclosures of the proportion of female representation and the extent and nature of financial institutions' policies and practices for increasing female representation. This may involve setting targets for the proportion of female representation, and requiring an explanation in the event of non-compliance ("comply or explain").

Seven: Address cultural and social norms

Cultural and societal norms that constrain women's financial inclusion (which may be imbedded in laws and regulations) can be deep rooted, at times seemingly intractable, and can affect myriad aspects of a women's life. They may affect deeply a woman's ability to access and use digital financial services.

While often not their direct responsibility, financial authorities nonetheless need to be aware of the cultural and societal issues that constrain women's financial inclusion. Awareness, as well as a commitment to effect changes, can at least take the broad form of contributing to relevant national dialogues. In some cases, the constraints might be directly addressed via regulatory or supervisory reforms (e.g., revising inflexible collateral requirements that have the effect of penalizing women). In other cases, the authorities can take the constraints into consideration when adopting new regulations, policies and procedures, working around such constraints wherever possible.

The need to strengthen women's legal rights[44] is a fundamental underlying issue, with respect to the ability to access and use financial services and otherwise, and encompasses such concerns as landownership, co-titling of land holdings and inheritance laws that discriminate against women, protection of assets and separation of assets between men and women (control over assets), and restrictions to conduct certain activities (such as borrowing). Working to ensure legal parity (for example, full ownership and control of assets on a par with men, including the right to inherit family assets) is viewed a priority.[45]

Conclusions

The importance of increasing women's financial inclusion is well understood, based on both macroeconomic and microeconomic grounds, as well as on social grounds. The compelling case for increasing women's financial inclusion calls for a closer look at what financial authorities, both regulators and supervisors, can do within their mandates to contribute substantively to this important public policy goal.

Great promise lies in the rapid increase in the uptake of digital financial services by women. A solid understanding and application of levers for expanding women's digital financial inclusion within the mandates of financial authorities can lead to the effective adjustment in policies, regulations, and supervisory practices, all within the context of sound regulatory practice.

---

[43] UN Secretary-General's High-Level Panel on Women's Economic Empowerment, *Leave No One Behind: Taking Action for Transformational Change on Women's Economic Empowerment* (New York: UN Secretary-General's High-Level Panel on Women's Economic Empowerment, 2017).
[44] An excellent resource on this topic is *"Women, Business and the Law,"* a World Bank Group project that collects data on gender inequality in the law. The dataset diagnoses legal barriers limiting women's full economic participation and encourages policymakers to reform discriminatory laws and regulations. See http://wbl.worldbank.org/.
[45] Women's World Banking, *Women's Financial Inclusion: A Driver for Global Growth*, 4.

Seven areas of focus by financial authorities for advancing women's digital financial services have been put forth in this note for consideration:

1. Collection of gender-disaggregated data that will allow financial authorities to take stock of the current state of women's financial inclusion, and women's digital financial inclusion in particular, and to determine whether their policy objectives are being met, building awareness of its value;

2. Attention to the elements of financial infrastructure, particularly retail payments, that create a better basis for the expansion of the usage of digital financial services by women;

3. Design of regulatory and supervisory frameworks to address digital financial services, ensuring they are proportionate to the inherent risks and do not serve to stymie women's financial inclusion;

4. Enhancements to market conduct and consumer protection regimes that take into account the specific circumstances of women accessing digital financial services;

5. Promotion of the importance of financial education as a critically important element to expand women's digital financial inclusion;

6. Supervisory oversight of board and senior management composition in financial institutions, to increase women's participation in the governance structures of licenced financial and non-financial institutions; and

7. Awareness of the relevance of cultural and societal issues that constrain women's financial inclusion, taking these constraints into consideration when revising or adopting new regulations and undertaking supervision.

The potential of digital financial services to increase women's access and usage of financial services and consequently increase women's economic participation, autonomy and empowerment is far from fully realized. Financial authorities have numerous opportunities to play an enabling role in the emergence and growth of digital financial services that will help meet the needs of underserved and unserved clients, especially women.

References

Alliance for Financial Inclusion. *Policy Frameworks to Support Women's Financial Inclusion.* Kuala Lumpur: Alliance for Financial Inclusion, 2016. (*https://www.afi-global.org/sites/default/files/.../2016-08/2016-02-womenfi.1_0.pdf*)

Dias, Denise. *FinTech, RegTech and SupTech: What They Mean for Financial Supervision*. TC Note. Toronto: Toronto Centre, 2017. (res.torontocentre.org/guidedocs/FinTech%20RegTech%20and%20SupTech%20-%20What%20They%20Mean%20for%20Financial%20Supervision.pdf)

Global Banking Alliance for Women. *The Value of Sex-Disaggregated Data*. New York: Global Banking Alliance for Women, 2015. (http://www.gbaforwomen.org/download/draft-report-measuring-womens-financial-inclusion/)

Staschen, Stefan, and Patrick Meagher. *Basic Regulatory Enablers for Digital Financial Services – Lessons from CGAP's Experience in Ten Focus Countries*, Washington, DC: CGAP, forthcoming.

Women's World Banking. *Women's Financial Inclusion: A Driver for Global Growth*. New York: Women's World Banking, 2016. (http://www.womensworldbanking.org/publications/womens-financial-inclusion-driver-global-growth/)

Additional Readings

Global Partnership for Financial Inclusion. *G20 High-Level Principles for Digital Financial Inclusion*. Washington, DC: World Bank Group, 2016. (https://www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion)

Global Partnership for Financial Inclusion, *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape*. Washington, DC: CGAP, 2016. (http://www.gpfi.org/publications/global-standard-setting-bodies-and-financial-inclusion-evolving-landscape)

International Finance Corporation. *Research and Literature Review of Challenges to Women Accessing Digital Financial Services.* Washington, DC: International Finance Corporation, 2016. (http://documents.worldbank.org/curated/en/293211501140944710/Research-and-literature-review-of-challenges-to-women-accessing-digital-financial-services)

International Telecommunications Union. ITU-T Focus Group on Digital Financial Services. *Regulation in the Digital Financial Services Ecosystem.* Geneva: ITU, 2016. (https://www.itu.int/dms_pub/itu-t/opb/tut/T-TUT-DFS-2017-PDF-E.pdf)

Lauer, Kate. "Introduction to Digital Financial Inclusion." Presentation. Supervisión de Servicios Digitales Inclusivos. Lima, Peru. June 5-9, 2017.

Miles, Katherine and Anke Green. "The Role of Insurance Regulation and Supervision in Promoting Inclusive Insurance for Women." *Mainstreaming Gender and Targeting Women in Inclusive Insurance: Perspectives and Emerging Lessons.* Eschborn: GIZ; Washington, DC: IFC; New York: Women's World Banking, 2017. (https://a2ii.org/sites/default/files/field/.../fullwomeninclusiveinsurancebmz_web.pdf)

Reynolds, Jennifer. *The Business Case for Promoting Improved Gender Balance in Financial Institutions.* TC Note. Toronto: Toronto Centre, September 2017.

(http://res.torontocentre.org/guidedocs/Gender%20Diversity%20on%20Boards%20Final.pdf; regulatory and supervisory capacity)

Toronto Centre. "FINTECH: A Game Changer for Financial Inclusion and Gender Equality." Executive Panel. 13 October 2017. Washington, DC. (https://vimeo.com/238767922)

UN Secretary-General's High-Level Panel on Women's Economic Empowerment. *Leave No One Behind: Taking Action for Transformational Change on Women's Economic Empowerment.* New York: UN Secretary-General's High-Level Panel on Women's Economic Empowerment, 2017. (http://hlp-wee.unwomen.org/en)