



FIRST and The FinTech Agenda



Technology-enabled innovation is rapidly transforming global financial services. Financial technology (FinTech) can drive financial inclusion by broadening outreach, reducing costs, and enabling credit analysis of previously un-/under-banked customers. Expanded availability of responsibly designed and efficiently delivered financial services contributes to sustainable and inclusive growth and poverty reduction.

These innovations come from startups and technology companies outside the financial system, as well as from traditional financial service providers adopting new technologies. They carry many of the same risks as traditional financial instruments, along with new risks stemming from product and technology innovation and expansion of financial

activities to new types of providers and customer segments. The challenge for policymakers and regulators, therefore, is to balance innovation, entry, and competition against the potential risks (such as data privacy, consumer protection, limited supervisory capacity, money laundering, and terrorism financing) that can impact the stability and the integrity of the financial system.

Enhancing Payment Systems' Interoperability and Removing Legal and Regulatory Restrictions to Accelerate Financial Access in Indonesia

The rapid growth of retail payment transactions and remittance inflows into Indonesia posed challenges for the country's payment systems. The lack of interoperability across the payment system and an obsolete legal and regulatory framework were not conducive to promoting uptake of financial products and was costly and inefficient. Global Findex Survey data showed that the percentage of adults with a transaction account in Indonesia was just 20 percent, compared with the East Asia and Pacific regional average (developing countries only) of 55 percent in 2011.

In 2012, Bank Indonesia sought FIRST support to develop a suitable legal, regulatory, and oversight framework to enhance the efficiency of the payment systems and support implementation of the country's National Strategy for Financial Inclusion. FIRST supported Bank Indonesia to issue regulations on E-money, and to enable the National Payment Gateway (NPG). This has helped to increase security, united and streamlined transactions onto the NPG, and lowered costs while also opening the market to competition.

As a result, according to the 2017 Findex, the percentage of adults with an account increased to 49 percent.

The Financial Sector Reform and Strengthening Initiative (FIRST) 2.0 supports policymakers and regulators in low- and middle-income countries to harness FinTech to accelerate financial inclusion while addressing and mitigating these risks. FIRST 2.0 projects are consistent with guidance issued by international standard setting bodies.¹ Authorities from emerging markets are looking to FIRST 2.0 to help tailor their legal and regulatory strategies to their particular FinTech market circumstances, assisting them in capacity building and implementation.

FIRST has focused largely on payments, which in many markets has been the entry point for FinTech innovation. Specifically, FIRST has supported the development of payment system laws (see box at left), regulations for e-money, payments infrastructure, and innovative products.



FIRST, FinTech, and Beyond

More countries are now seeking to leverage FinTech beyond payments to deliver: new credit, savings, and insurance solutions; data analytics for marketing, product design, and risk management; and new shared infrastructure technologies, such as the cloud and blockchain. To support this wider range of innovation entering the financial system, authorities need to develop regulatory strategies; build capacity

to understand and supervise new technologies, products, and business models; and enable incumbents and new entrants to safely test products and services. Thus, FIRST 2.0 is broadening its FinTech offering to encompass technical assistance, diagnostics, and knowledge management in the following areas:

Globally, the development of financial regulation that is sound and supportive of innovation is a work in progress. FIRST 2.0 is working to ensure that FinTech becomes a force for responsible, inclusive finance at this critical inflection point in financial market development. FIRST 2.0 is especially active in developing countries, ensuring that FinTech will be facilitated and utilized to spur economic growth and boost shared prosperity.

FIRST FinTech Intervention Areas	Examples of FIRST Technical Assistance
Developing the legal, regulatory, and supervisory foundations for digital payments and finance	<ul style="list-style-type: none"> • Legal and regulatory framework diagnostics, development and implementation guidance • Regulator capacity building and institutional change programs • RegTech (regulatory technology) and SupTech (supervisory technology) solutions • Implementation of cybersecurity oversight frameworks • Payment system laws, regulations, and supervisory framework • Regulation for e-money • Regulatory sandbox design and implementation • Regulation for e-insurance • Framework for e-KYC (know your customer)
Strengthening the ecosystem for digital finance	<ul style="list-style-type: none"> • Online financing platforms where start-ups and young firms can interact with potential investors, angel investors, and financial institutions • Digital finance product development and product assessment • Support to authorities on leveraging technology for inclusive finance
Developing the payment infrastructure	<ul style="list-style-type: none"> • Advice on establishing payment systems' interoperability to allow cross-network acceptance of payments • Advice on the development of the National Switch or the National Payment Gateway, which would unite the processing of automatic teller machine (ATM), mobile, and Internet banking into one interface
Promoting digital payments and transactions	<ul style="list-style-type: none"> • Advice on digitizing government payments, e-money, and remittances
Diagnostic tools, strategy development, and knowledge sharing	<ul style="list-style-type: none"> • Digital finance landscape assessment tool • National payments systems strategy • Retail payments strategy • Government payments strategy

1. These include: (i) the International Monetary Fund and World Bank: Bali FinTech Agenda (November 2018); (ii) the Basel Committee on Banking Supervision: Implications of FinTech developments for banks and bank supervisors (February 2018); (iii) Financial Stability Board: Financial Stability Implications from FinTech- Supervisory and Regulatory Issues that Merit Authorities' Attention (June 2017); (iv) International Organization of Securities Commissions (IOSCO): Research Report on Financial Technologies (February 2017); (v) Committee on Payments and Market Infrastructures (CPMI) and IOSCO: Guidance on cyber resilience for financial market infrastructure (2016); and (vi) CPMI: Non-banks in retail payments (September 2014).

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