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Chile Financial Sector Assessment Program (FSAP)

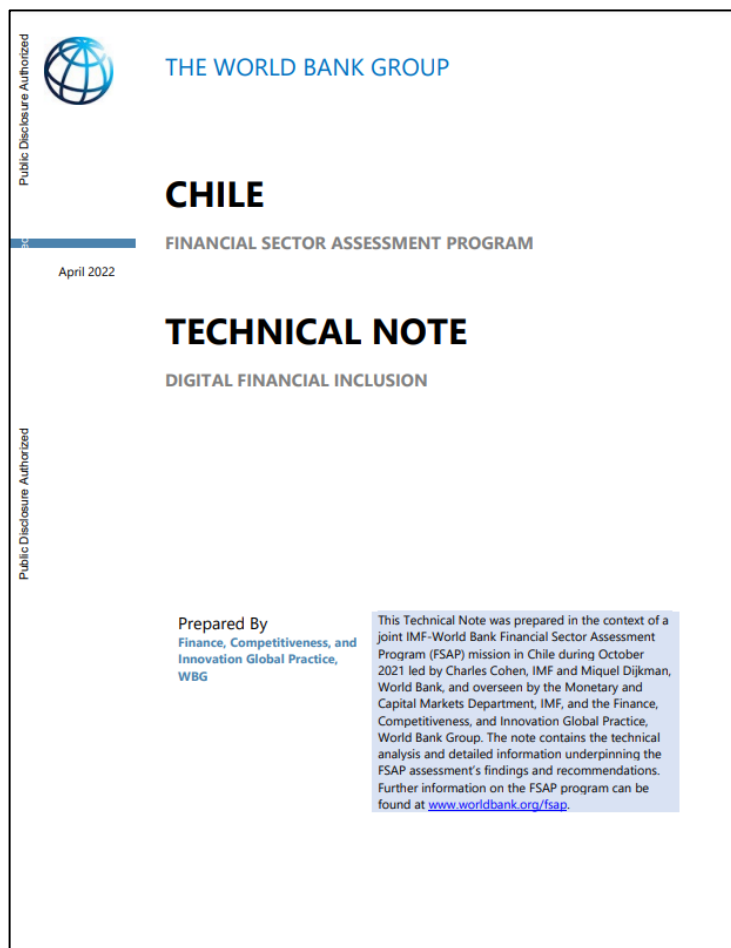
*Key findings and recommendations on digital
financial inclusion*

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Agenda

- **Current state of financial inclusion in Chile**
- **Opportunities to leverage digital financial services (DFS) to address remaining gaps**
- **Key components of enabling DFS ecosystems**
- **Areas where DFS ecosystem could be strengthened**
 - **Enabling regulatory environment for DFS**
 - **Fintech**
 - **Data privacy and protection and cybersecurity**
 - **Retail payments ecosystem**

Assessment of current state of financial inclusion and DFS ecosystem in Chile

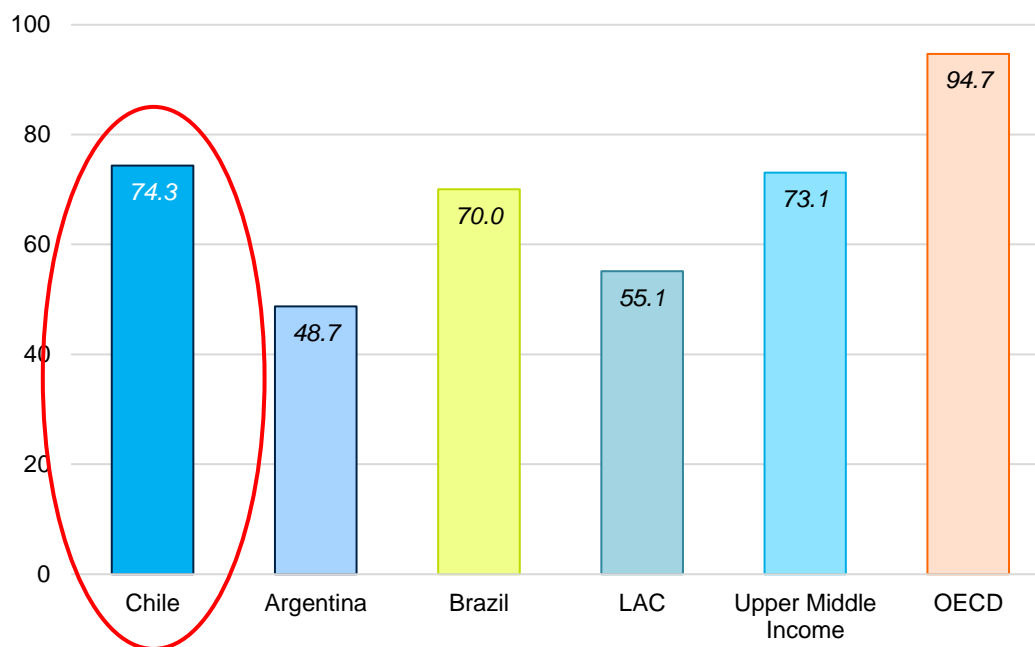


- Key findings and recommendations from Technical Note on Digital Financial Inclusion, part of 2022 Chile Financial Sector Assessment Program (FSAP)
- Available at <https://documents1.worldbank.org/curated/en/099440107152219110/pdf/P17202003745650ea0811e02f3df054d83c.pdf>

Chile has achieved good levels of financial inclusion across a number of key metrics

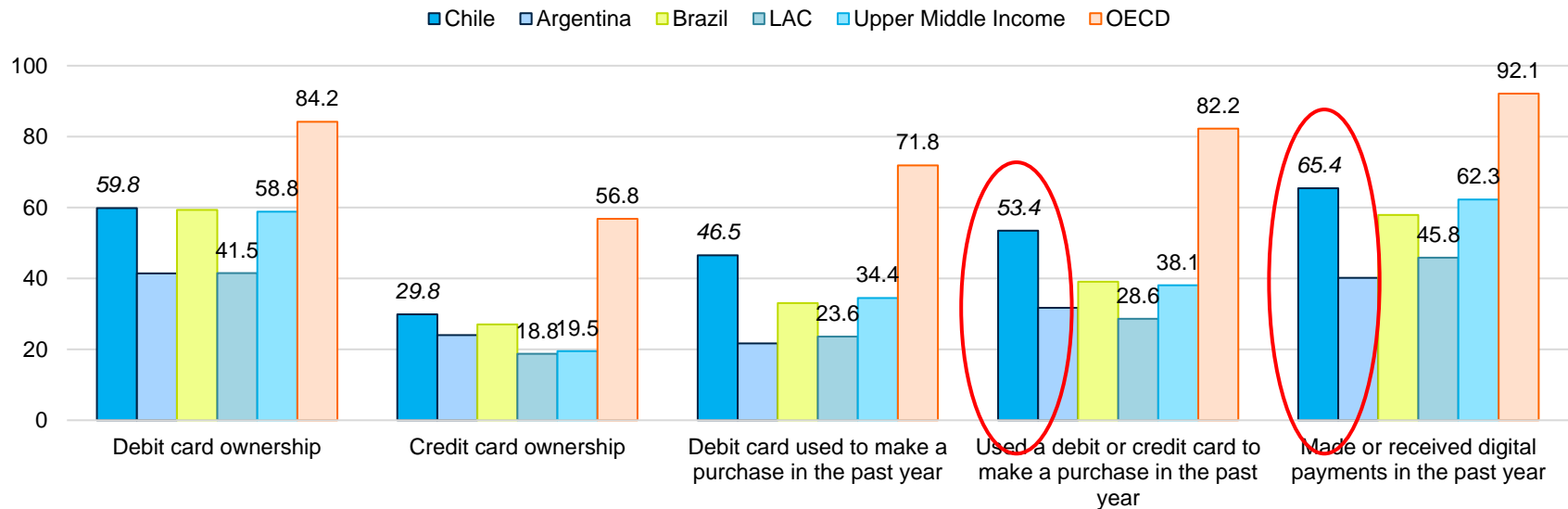
- Account ownership has increased significantly over past decade, from 42% in 2011 to 74% in 2017 (*WB Global Findex*)
- No substantial gaps by gender, level of wealth, age, or urban/rural
- Increase due in large part to Cuenta RUT and introduction of prepaid cards issued by both banks and non-banks
- On average, each adult in Chile has two cash management accounts

Account ownership



Usage of cards and digital payments has also increased significantly

Ownership and usage of digital payment instruments



- Usage of cards and digital payments on par with or above averages for upper middle income (UMI) countries and Latin America and the Caribbean (LAC)
- Debit transactions further increased during the pandemic, from 84M transactions in June 2020 to 177M in June 2021 (CMF)

Gaps remain in certain consumer segments, product offerings, and digital payments

- Consistent gaps exist across financial inclusion metrics for those outside labor force, less educated, and migrants
- Chile scored worse than peer countries in number of adults who cite financial services as being too expensive (54% of adults without an account) or a lack of trust in financial institutions (45% of adults without an account) as the reason for not having an account
- Gaps remain in usage of formal, non-contractual savings products, suggesting lack of availability of appropriate products such as microsavings
- While much access to consumption credit exists, there is limited access to productive microenterprise finance
- Reliance on cash persists, particularly among lower-income consumers, though on a downward trend overall
- Use of digital channels for financial transactions increasing but still lower than UMI average

DFS can be leveraged to help address remaining gaps in financial inclusion

- DFS can help to bridge remaining gaps between supply and demand for financial services in Chile
- DFS provides multiple benefits, including lower operational costs for financial service providers (FSPs); increased ease and speed of transactions; more tailored financial services; increased scalability to reach more consumers; and increased competition
- DFS can thereby help to improve accessibility and affordability of financial products and services for underserved consumers
- Already a noticeable shift by Chilean consumers to DFS during the pandemic, while FSPs are beginning to offer more innovative, digitally-oriented products

Robust DFS ecosystems require certain key enablers, some of which are missing in Chile

- Well-functioning, robust DFS ecosystems require a range of related elements be in place, which can be grouped into three categories:
 - 1) Conducive legal and regulatory frameworks** that foster innovative products, providers, and channels while mitigating risks
 - 2) Enabling financial and digital infrastructure**, including well-functioning and interoperable payments infrastructure, comprehensive credit infrastructure, widespread mobile penetration and digital connectivity
 - 3) Ancillary government support systems**, including digital ID, digitized government-to-person (G2P) payments, and automated access to digitized government data platforms
- Several of these elements already in place in Chile, such as extensive digital connectivity infrastructure, providing strong foundation to expand in mobile payments and mobile financial services
- However, other elements are either missing, in progress, or require strengthening

Enabling regulatory environment for DFS

Findings

- Digital onboarding
- E-signature and electronic documentation
- Agents

Recommendations

- Clearer guidance on digital onboarding, remote identification and authentication
- Clear guidelines on appropriate, risk-based use of digital ID
- Consider establish an unified digital ID solution
- Remove barriers to using e-signature and digital documents in financial transactions
- Clearer regulatory framework for use of agents, including by non-bank financial institutions (NBFIs), and permitted activities

Fintech

Findings

- Fintech market in Chile has experienced steady growth in recent years
- Has already introduced innovations in digital payments and alternative finance, including to micro, small, and medium enterprises (MSMEs) and underserved consumers
- However, legal and regulatory frameworks are lacking for fintech, creating legal uncertainty, obstacles to accessing financial infrastructure, and unlevel playing field

Recommendations

- Pass Fintech Bill to address lack of legal certainty for fintech companies
- Establish appropriate licensing/registration requirements and develop proportionate regulatory frameworks for fintech activities
- Establish Open Finance System to foster competition and innovation, particularly given known barriers posed by lack of customer information
- Develop more detailed regulatory framework to establish technical standards and mitigate risks
- Consider benefits of standardized, common application programming interface (API)

Data privacy and protection and cybersecurity

Findings

- New methods of data sharing, data portability, and data processing and analytics are core characteristics of DFS and bring numerous benefits to financial inclusion but also new and enhanced risks
- Enhanced data privacy and protection and cybersecurity frameworks are important complements to advancements in DFS and fintech
- Chile's data privacy law is considered to be quite weak and poorly enforced

Recommendations

- Prioritize passage of bill to enhance data privacy and protection framework
- Ensure bill adequately covers issues and risks that may arise from DFS and fintech, including strengthening informed consent, qualifications on legitimate use, algorithmic accountability, enhanced data security standards, etc.
- Establish data protection agency to oversee new framework
- Pass cybercrime bill to update and strengthen national legal framework for cybersecurity
- Update cybersecurity requirements for financial sector as needed

Retail payments ecosystem

Findings

- Chile's advanced national payments infrastructure and ongoing enhancements to retail payments ecosystem provide critical foundation for growth in DFS and fintech
- E.g. Rapid uptake of prepaid cards since introduction in 2016, new online payment solutions being offered by fintechs, recent transition to four-party card scheme and establishment of interchange fees
- Opportunities exist to further enhance retail payment ecosystem to expand accessibility and use cases for digital payments

Recommendations

- Further expand electronic payment acceptance infrastructure, particularly in remote areas and with smaller merchants
- Encourage interoperability, including with respect to QR codes
- Foster innovation in and expansion of electronic payments beyond cards
- Utilize a holistic, multi-dimensional approach to fully leverage retail payments ecosystem to advance digital financial inclusion and ensure coordination across range of stakeholders

Thank you!

**Questions?
Comments?**

Financial Inclusion and Consumer Protection (FICP) team
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