The role of the financial sector in addressing global urbanisation and poverty

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* The banking sector has the opportunity to play a key enabling role in bringing the low-income families and communities into the financial mainstream and allowing them to participate fully in the global economy. This is not just wishful thinking. The combination of three dominant megatrends - globalisation, urbanisation and digitisation - provides a major incentive for banks to mobilise their resources, know-how and connectivity to address the issue of financial inclusion. Put simply, this is where much of the growth in transaction flows, savings and other financial services can and must come over the course of this century.

* At Citi, we actively recognise this alignment of interests, and as a company, our mission is to promote economic progress in communities around the world wherever we do business. We have been leading the way in the development of new technologies and services to accelerate the provision of safe and convenient financial services with the potential for mass application. I will highlight some of those later and the challenges that remain before financial inclusion becomes a reality for all.

* There is, however, a fourth key driver that must also be recognised by financial institutions if they are to play this enabling role successfully. The multinational corporations, banks included, today find themselves among the dominant institutions in society. As such, much is expected of them. The financial crisis demonstrated the lack of sustainability in the old ways of doing things and many of the negative headlines around banks today are driven by crisis-era behaviour.

* At Citi, ethics is a top priority and we believe – and instill in our employees – that acting ethically at all times is not only our license to do business, it is the foundation of everything we do.

* Regulators are also focused on ethics and – while it is challenging to try and to drive ethical behaviour through regulation – unethical behaviour can be made prohibitively expensive.

* That is to express the issue in a negative manner. But there is no doubt that potential partners and big customers only want to do business with reputable peers. More than 1,200 of the world's largest investors have signed up to the United Nations' principles for responsible investment. Analysis last year showed that responsible businesses outperformed the stock market average in seven of the previous eleven years.

* Creating a purpose; having a vision; setting an example - if enough banks and other businesses espouse the idea that long-term success depends on their social footprint, more will follow. As Unilever's Paul Polman has put it: 'There are big financial rewards for aligning core purpose and vision with the delivery of positive societal and environmental outcomes.'

*Above all, as big corporations we have the leverage, the reach, the scale to make a difference. As Michael Porter of Harvard Business School put it: 'When a well-run business applies its vast resources, expertise and management talent to problems that it understands and in which it has a stake, it can have a greater impact than any other institution or philanthropic organisation'.

* Let me turn to what I think are the three key areas where banks can make a difference by promoting financial inclusion - and where Citi in particular is applying its resources.

Microfinance

* The first of these is microfinance.   I would like to outline how we at Citi approach this issue - and why we consider it so important.

* We believe microfinance has a big role to play in low-income communities with a low density of banking infrastructure and where the poorest sections have no access to formal credit. The delivery of small loans on normal commercial terms to both urban and rural borrowers for business purposes can have a disproportionately large impact on wealth creation.

* One example: the New York Times reported that a woman in Malawi who set up a doughnut business on a tiny loan of just a few dollars is now making daily profits of the same, or greater, amount. Microfinance is often a game-changer for families and local communities.

* We have been active in supporting microfinance institutions for many years. Citi Microfinance works with our businesses in more than 40 countries - providing support not only for microfinance institutions but many other corporate and government institutions. As part of a partnership with the US Overseas Private Investment Corporation - known as 'OPIC' - we have together invested $365 million to fund 40 microfinance institutions in 22 countries. We have reached close to one million borrowers.

In another partnership we are supporting more than 5,000 new micro-enterprises in Ecuador. With OPIC we made a $10 million joint loan last year to help the Bank of Georgia grow its microfinance portfolio. We are working with Danone, the French dairy products group, together with a number of development agencies, to deliver microloans to small milk producers. In Mexico we are working with Pepsico to provide financing to low-income farmers. The arrangement involves 3,500 microloans supported by efficient collection and financial education.

* Microfinance has encountered challenges. Some lenders – and there are examples in India and Mexico - over-expanded and became over-commercialised. Borrowers became over-indebted. Lenders can lose sight of their social goals. In an analysis of the microfinance market in December 2012, two German academics called for improved regulation and client protection, the establishment of credit bureaus and stronger information networks. Microfinance rates are still high by the side of OECD comparators. Microfinance institutions do not necessarily meet the need for savings, remittances or insurance - which would deepen financial inclusion.

* Nevertheless, there is a need for more, not less microcredit to deepen financial inclusion. In low-income countries, private sector credit as a share of GDP - a broad measure of financial depth - is today around 40 per cent. Up until the financial crisis, that ratio had been growing fast - doubling over a decade. Part of that growth was down to the explosion in microcredit, which grew from around $4 billion in 2001 to $38 billion by 2009. But even at 40 per cent of GDP, private sector credit in these low-income countries is just one quarter of the level in OECD countries. Microcredit needs the support of more global, regional and national banks, governments and NGOs.

Mobile money

* The single biggest tool in combating financial exclusion is the mobile phone - and with it the broadening acceptance of digital money. Of course, digital money has been in existence for years. Citi, where I have spent the majority of my career, moves more than $3 trillion in business and institutional financial flows on an average day - nearly all of it electronically. Nonetheless, 85 per cent of global consumer transactions are still cash-based.

* Many developing countries, when building their telecommunications networks, leapfrogged landlines and went straight to mobile. Mobile adoption is extremely widespread. While only around 2 billion of the world's population have a bank account, more than 3 billion have a mobile phone. In some economies where banking is poorly developed, people are moving straight to mobile payments - skipping plastic and branch banking altogether.

* Impact evidence **.... from Digital Pathway (Gates Foundation)**: A study of more than 2,000 households in Kenya found that M-PESA user were able to absorb shocks such as illness, job loss or harvest failure without any reduction in household consumption. The researchers also found that, following a shock, households with access to M-PESA received funds from larger networks of senders and from senders located further away. Digital payments appear to strengthen and expand informal insurance network among poor households.

* The GSM Association of mobile operators has been tracking the progress of the mobile money industry for some years. Its 2013 survey found 219 services in 84 countries, the majority of those services are in sub-Saharan Africa. In June 2013, there were more than 60 million active mobile money accounts globally. More than a dozen services had genuine scale at one million-plus active users. Interestingly, the GSMA found that nine markets already had more mobile money accounts than bank accounts.

*The projected benefits are enormous. We estimate that a 10 percent increase in digital money usage would bring an additional 220 million people into the banking system. There are big gains for governments, too. A study conducted by Citi and Imperial College London found that a 10 per cent increase in the adoption of digital money would move $1 trillion of black economy transactions into the formal economy. That would result in a $100 billion rise in global tax revenues.

* There are certainly big gains from digitising government disbursements. McKinsey conducted a study of India's government-to-person payment system. It estimated that connecting every Indian household to a digital payment system and automating government payment flows could save the Indian government up to $22 billion a year, equal to 8 per cent of the total flows between the government and its citizens.

* At Citi, we are very involved when it comes to digital. One example: in Mexico, in tandem with the telecoms company America Movil, we created a mobile payments system called Transfer to reach the unbanked. The government is now using the product to distribute disbursements and Oxxo, the country's largest department store, has joined the system to allow people to cash in, cash out and shop.

* In Kenya, we are providing mobile banking solutions to PATH, a non-profit organisation that is working to deliver health services for those with HIV/AIDS and TB. Payments from PATH to its health

workers in the community are now distributed electronically via Citi through the M-PESA network, enabling the NGO to reach that last mile more efficiently and at lower cost.

* The mobile money revolution is likely to be a multi-stage process. Efficient money transfer is merely stage one. The next stage is to add savings, credit and insurance services - and in the process, deepening financial inclusion. It is to be hoped that mobile money operators will see the benefits of opening up their platforms to third-party providers in these areas. Certainly, the service providers are emerging: according to the GSMA there were 123 mobile insurance, credit and savings services live at the end of 2013, of which 27 had been launched that year. The pace of deployment in each market will largely depend on the rate at which mobile money transfer systems reach critical mass.

Digitising the supply chain

* More and more major corporations are making a commitment to ethical and sustainable sourcing - a widely used term is 'impact sourcing'. Others are exploring new ways of building out their distribution channels to ensure the participation of urban and rural poor.

* As these corporations expand their reach, they need novel ways of paying or receiving money from communities that are largely unbanked. At Citi, we are working with numerous multinationals to help them reach that last mile through our mobile money solutions.

*Let me give you just one example. Some time back we partnered with Coca-Cola in South Korea, where four out of every five of their cash-based merchants have since moved to our mobile solution. Two years ago, we then launched a new electronic payment solution in the Dominican Republic using the technology we had pioneered in South Korea.

* This makes it possible for small grocery stores and other small businesses to replace cash payments to their suppliers with mobile transactions. In collaboration with a local mobile payment administrator and local microfinance institution, our service allows small businesses that are 'un-banked' to open an account and perform more secure and convenient business transactions. We now have 1.2 million active customers, 50 per cent of whom are new to banking. This has proved an enormous boost to both the businesses involved and their local economies.

* Similarly, in a number of markets where agriculture is a critical livelihood, Citi, together with the Citi Foundation, is doing research and working with clients, NGOs and other stakeholders that source agricultural products to improve access to finance for local farmers.

* The benefits of shifting from cash to electronic payments - with all the efficiency, cost savings and transparency they bring - are now widely understood. Citi is a founder member of a global effort called 'Better than Cash Alliance' that promotes the digitisation of payments globally. In partnership with the United Nations, we've worked with NGOs and governments from Peru to the Philippines to reduce corruption, increase financial transparency and improve electronic payment systems.

The bottom line of 'good'

* In each of these three areas - microfinance, mobile money, and supply chain management - Citi is actively engaging with some of the neediest communities. But this is not philanthropy, it is good business and an investment in our communities. To take one example: the market for sustainable

trade finance for farmers and the small enterprises that support them is estimated to be worth many billions. Our involvement in this area is also a differentiator with clients ... and it keeps us ahead of the curve in supply chain finance. It is good business.

* The crisis and its aftermath revealed the changes needed to the banking industry . Fortunately, capitalism has shown it has an almost unlimited ability to reinvent itself, and big business - and banks in particular - are increasingly coming to realise that social purpose and making money need not be in friction with one another.

* There is a virtuous circle here. Responsible business brings its own P&L. You could call this the 'bottom line of good'. As Polman puts it: 'The notion of competitive advantage through sustainable development is a novel one but a powerful one.' In other words, how you make your profits is as important as the profits you make.

* Banks have a key role in advancing inclusion but they will only make a difference if they commit to engage at scale. That requires a new mindset. The key to that new mindset is a leadership that can look beyond short-term horizons; one that looks to the long view that makes profitability sustainable and appreciates that we can only create economic value in a way that also creates value for society.

* We are a member of Business in the Community, a UK organisation that is committed to spreading the message of responsible business. Ken Costa, a former investment banker, put across the message in simple terms at a recent event: 'Businesses cannot work, banks cannot lend, economies cannot function and societies cannot flourish with mutual trust, honesty and integrity. These values need to be sewn into the very fabric of the business rather than to serve as a detachable badge to be worn only when customers or regulators are watching.'

* I am fortunate that I work for an organisation that shares my beliefs, and for that I feel blessed. I would like to think that, like Unilever, like Coca-Cola, like Pepsico and others, social engagement has been sewn into our core business - and is not something we parade as a detachable badge for our corporate social responsibility report once a year. It is not viewed as something remote from our daily activity.

* Every bank of scale has the capacity to make a discernible impact on financial inclusion. And because we can, we must. To do that effectively, we need governments, NGOs and other elements of civil society to work with us as partners - permitting more rapid scale-up. But, as the examples I have quoted today demonstrate, it is possible to reach large numbers of the unbanked in a short space of time if banks use their ingenuity, their technology, their financial resources and their links with other big institutions in a focused manner. We have started the job, now we must finish it.