<u>Media Briefing</u>

ITU Focus Group "Digital Financial Services"
Introducing ITU's Focus Group on Digital Financial Services for Financial Inclusion

Geneva, 16 September 2015 – Established under the auspices of the International Telecommunication Union, a specialized agency of the United Nations, the focus group is one of ITU's most significant initiatives on Digital Financial Services (DFS) and financial inclusion.

Launched officially in June 2014 it is the first time that experts from the telco and financial services sectors have come together to collaborate on making digital and mobile technology accessible and affordable for everyone. The group works particularly for populations in developing countries where the largest group of unbanked remains.

Chaired by Mr Sacha Polverini of the Bill & Melinda Gates Foundation's Financial Services for the Poor Programme, the group receives the support of over 60 organizations from 30 countries from around the world, across both the public and private sectors.

The Role of Digital Financial Services

Millions of people lifted themselves out of extreme poverty over the last two decades by adopting new farming technologies, gaining access to education, and finding new jobs and business opportunities. But in many cases, the same people fell back into poverty due to shocks they were unable to weather because of lack of resources or adequate financial tools.

What these families need is a foothold so they can make it out of poverty – and equally important – stay out. One way to achieve this objective is by increasing access to effective and affordable financial services. Having the right financial tools at critical times can determine whether a poor household is able to take advantage of opportunities to move out of poverty, or withstand a shock without being pushed deeper into it. Access to finance can, more generally, boost job creation, accelerate consumption, and increase investments in human capital.

For the 14.5 per cent of the world's population (7.3 billion) living on less than USD 1.25[1] per day, saving money is difficult. Credit and insurance are available only at very high rates, if at all. For companies in the formal financial services sectors, it is costly to serve poor people because they conduct most of their transactions in cash. Storing, transporting, and processing cash is expensive for banks, insurance companies, utility companies, and other institutions, which usually pass on those costs to customers who can ill afford them.

In recent years, information and communication technologies (ICT) have been increasingly instrumental to developing new and more affordable digital financial products that better respond to the needs of the unbanked and their specific circumstances. This is particularly true for poor people in rural and remote areas. Mobile money for example can be a critical driver of financial access. It reduces the costs associated with basic, low-value payment transactions and enables providers to deliver right-sized financial services that are affordable and near where poor people live and work. Furthermore, agent networks can serve as ubiquitous distribution channels for other financial services beyond payments, such as savings and credit. Scaling mobile money could be the springboard to the proliferation of vital digital financial services that benefit the lives of the poor.

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[1] http://data.worldbank.org/topic/poverty#tp_wdi

Not surprisingly, developing countries and emerging markets are actively embracing new technologies to transition to a more digitized financial economy, as this can increase transparency, enhance welfare, improve financial access, and promote government efficiency.[2]

However, despite the benefits brought by digital financial services and the efforts made to increasingly digitize cash transactions, there are still significant challenges to quickly and effectively leveraging ICT to meaningfully impact the poor. Uncertain business models, cultural resistance, unclear user cases, inconsistent and over-prescriptive rules and regulations, and a lack of trust in the system are just a few examples of issues that both public and private stakeholders continue to face.

Why was the focus group established?

The development of a DFS ecosystem strongly depends on the underlying regulatory framework and its ability to foster innovation and promote competition among providers. Regulation is a key factor. However, the DFS ecosystem, which in recent years has expanded considerably to include a variety of new, non-traditional players, has found it challenging to launch and scale services for the unbanked because many policy and regulatory environments are not genuinely enabling.

In addition, it has been observed by the focus group that at national level the conversation around DFS has not always been structured and consistent, particularly among the same government's departments.

The focus group aims to bridge the gap between the Telecommunications and Financial Services Regulators, and between the private and public sectors. It is the first time key stakeholders from the payment/DFS value chain have been brought together to discuss the issue of DFS for Financial Inclusion, and assess solutions that can fast track policy reform on a set of key issues.

What are its objectives?

The objectives of the group are twofold:

- To create a framework for a more structured and regular dialogue and collaboration between Telco and FS regulators who need to develop consistent policy and regulatory approaches to DFS
- To discuss some of the main policy and regulatory issues currently preventing the DFS from developing organically and reaching the poor

The focus group aims to build a vision for how digital financial systems can work best to serve everyone, regardless where you are.

The group will therefore develop a series of toolkits, principles and guidelines to help national policymakers and regulatory authorities to fast track policy reform and stimulate the offering and adoption of DFS. The group is expected to complete its work by the end of 2016. Its findings will help develop international recommendations in specific areas of DFS.

How is it structured?

The focus group has created four thematic working groups covering the following areas:

1. The DFS ecosystem
2. Technology, Innovation and Competition
3. Interoperability
4. Consumer Experience & Protection

Each working group is composed of a diverse group of stakeholders consisting of regulatory authorities, mobile network operators, payment service providers, platform providers and consumer protection organizations to ensure balance.

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[2] Under the 2011 Maya Declaration on Financial Inclusion, numerous countries have committed to introducing and promoting mobile financial services (www.afi-global.org). An increasing number of countries are also participating in the Better than Cash Alliance initiative (http://betterthancash.org) which aims to accelerate the shift to digital payments.

The focus group will meet this year in Kuala Lumpur, 30 September – 2 October 2015 and in Geneva, 15-17 December 2015.

The meetings are open to any interested party and who is willing to actively contribute to the work and are expected to bring together experts from both private and public sectors and from across the world, both developing and developed countries.

About the International Telecommunication Union (ITU)

ITU is the leading United Nations agency for information and communication technologies, driving innovation in ICTs together with 193 Member States and a membership of over 700 private sector entities and academic institutions. Established in 1865, ITU celebrates its 150th anniversary in 2015 as the intergovernmental body responsible for coordinating the shared global use of the radio spectrum, promoting international cooperation in assigning satellite orbits, improving communication infrastructure in the developing world, and establishing the worldwide standards that foster seamless interconnection of a vast range of communications systems. From broadband networks to cutting-edge wireless technologies, aeronautical and maritime navigation, radio astronomy, oceanographic and satellite-based earth monitoring as well as converging fixed-mobile phone, Internet and broadcasting technologies, ITU is committed to connecting the world. www.itu.int

The Focus Group Digital Financial Services was created by the Telecommunication Standardization Advisory Group (TSAG) at its meeting in June 2014 following a proposal submitted by Bill & Melinda Gates Foundation, which is a member of ITU's Standardization sector (ITU-T).

You can find more information on our website here. You can also find an interview with several members of the focus group here.

Please do not hesitate to contact us should you wish to know more.

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In depth: ITU and the focus group

ITU's Telecommunication Standardization Sector (ITU-T) comprises many Study Groups which assemble experts from around the world to develop international standards known as ITU-T Recommendations which act as defining elements in the global infrastructure of ICTs. There are over 4000 ITU-T Recommendations currently in force. They are voluntary technical standards in that their application becomes mandatory only if they are adopted as part of national law.

To augment the work of ITU-T Study Groups, ITU-T created Focus Groups as a flexible instrument to respond to immediate ICT standardization demands. Focus Groups are tasked with quickly laying the groundwork for subsequent standardization work in ITU-T Study Groups.

The ITU-T Focus Group on Digital Financial Services was established in Geneva in June 2014.

In depth: Objectives

The main objectives of the focus group on Digital Financial Services are to:

- Study and identify the technology trends in digital financial services over the coming years and how the role of various stakeholders in this ecosystem will evolve
- Understand where there are challenges and issues, where there is overlapping and gaps that need to be filled
- Identify best practices for a digital financial services toolkit for regulators
- Develop a roadmap for interoperable products, networks and services
- Establish liaisons and relationships with other organizations which could contribute to the standardization activities of digital financial services
- Identify successful use cases for implementation of secure digital financial services including developing countries with a particular focus on the benefits for women
- Work towards the creation of an enabling framework for digital financial services
- Ensure that consumer protection is a critical part of financial inclusion, particularly the use of fraud

In depth: Structure and Outcome

The focus group has been divided into four different working groups. Each of these is led by a diverse group of regulatory authorities, operators and consumer protection organizations and meets over the course of the year. Working group deliverables are shared with the broader group, which meets up to three times per year.

The next meeting will take place in Kuala Lumpur, 30 September – 2 October 2015, when the working groups will each review the progress of their deliverables and discuss contributions received from participants to advance their work. The meeting will also benefit from interventions of industry experts in the field, sharing their experience on the topics being studied by the working groups.

The following meeting will take place in Geneva from 15 to 17 December 2015. A Digital Financial Services and Financial Inclusion workshop is planned prior to this meeting to explore the key issues on digital financial services regulation, market access and requirements for consumer protection and interoperability.

The group is expected to complete its work and publish possible roadmaps, principles, guidelines and toolkit by end of 2016. This will then feed in to the work being carried out by ITU's Telecommunication Standardization Sector and guide future international work in the area of DFS.

Below is an overview of the four working groups, the tasks and areas of focus and their expected outcomes:

Working Group	Area of focus	Working Group Chairs	Expected Outcomes
DFS Ecosystem	This working group aims to identify and understand key elements of a digital financial services ecosystem that enable financial inclusion. In order to achieve this objective it will investigate how governments, regulators, telcos and banks cooperate on DFS, ensuring education and understanding of responsibilities and identifying obstacles both within and across markets. Its initial aims are to catalogue relevant global documents and case studies and begin the process of mapping out the digital financial services ecosystem and the role of the stakeholders. The working group is also planning a deeper analysis on the digitization of Government to people payment (G2P) and merchants' use of digital payment solutions.	Carol Coye Benson, Glenbrook Partners Yury Grin, Intervale Mina Mashayekhi, UNCTAD	• Analysis of the DFS ecosystem • Deeper analysis of G2P flows • Deeper analysis of merchant acquisition • Development of a standard MoU template for Telco and FS coordination
Interoperability	The Interoperability working group aims to study and analyse how interoperability could benefit financial inclusion. This includes the development of an interoperability toolkit taking into consideration interoperability challenges and best practices. The group's vision of interoperability is as follows: "Interoperability enables users worldwide to make electronic payment transactions with any other user in a convenient, affordable, fast, seamless and secure way via a single transaction account".	Thomas Lammer, World Bank Mark McCullagh, Learo Consulting Y. Houeyetongnon, ARCEP, Benin Ricardo Teixeira Leite Mourao , Central Bank of Brazil	• Descriptive paper analysing the relevant layers and building blocks of interoperability • Mapping of the existing environment based on the framework developed in the descriptive papers • Toolkit for interoperability

Technology, Innovation & Competition	The main goal is to analyse the emerging technologies and market dynamics related to digital financial services. The group is studying emerging technologies that would have an impact on the ecosystem, the costs and charging schemes for DFS, the security framework for DFS and the main technical barriers to competition and market access.	Leon Perlman, LethanConsulting Paul Makin, Chyp Consulting	• Report on the evolution of technologies in digital financial services • Report on competition issues in DFS • Technical requirements for secure DFS
Consumer Experience & Protection	This working group will develop guidelines and principles to mitigate the different risks for consumer protection and quality of service and experience related to digital financial services. Additionally it will study the consumer protection legal and policy framework in DFS markets and quality of services issues of mobile networks in developing countries which can affect the availability of DFS.	Jami Solli, Consumer International Sumit Jamuar, KYCTrust Adel Bedoui, Tunisie Telecom	• Technical guidelines on Quality of Service requirements for DFS • Best practices for consumer protection against fraud and other risks from five target countries: Peru, Nigeria, India, Bangladesh and Uganda • Recommendations for regulators and law and policy makers to help ensure the engagement of civil society and better protection of groups that defend consumers