# ITU Regional Economic and Financial Forum of Telecomunications/ICTS for Arab Region

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# Session 3:
# Mobile banking and financial inclusion

# Agenda

- What is Financial Inclusion?
- What is Mobile Banking?
- What is the potential of Mobile Banking for Financial Inclusion?
- Regulatory issues
- Conclusions

# What is Financial Inclusion?

**ACCESS**

- Availability of formal regulated financial services;
- Physical proximity;
- Affordability

**USAGE**

- Actual usage of financial services and products;
- Regularity; Frequency;
- Duration of time used

**QUALITY**

- Products are well tailored to client needs
- Appropriate segmentation to all income levels

Source: Alliance for Financial Inclusion (2011).

# What is Mobile Banking?

**Mobile Banking**

- Mobile banking is a broad term, which includes services providing information to consumers, in addition to making payments. This includes features such as allowing consumers to check their account balance, to pay bills and to see the latest activity on their account.

**Existing Models**

- Bank-led, non-bank led, and partnerships between banks and non-bank entities
- The bank-led model is the most common in developed countries and serves mainly the citizens who already have a bank account (little relevance in terms of financial inclusion purposes)
- The non-bank led model (such as the world famous M-Pesa Kenyan case), where non-bank agents, such as mobile operators, are protagonists and banks play only a supporting role

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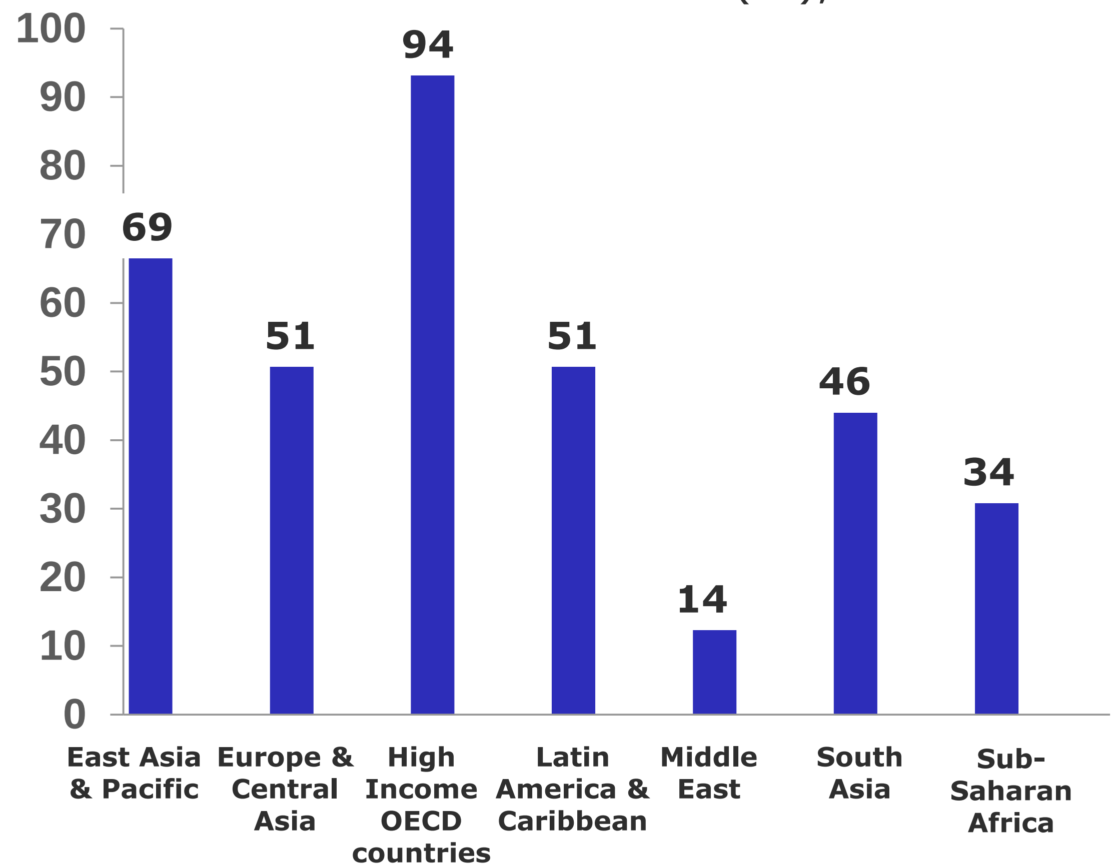
# In 2014 according to the World Bank 62 % of the world's adult population had a bank account

- However still a large untapped market: the number of people unbanked would amount to 2 billion adults
- The Middle East shows the lowest level of financial inclusion when measured by bank account penetration
- The most referred reason for not having a bank account is the lack of money but also associated costs with keeping an account and distance

Account penetration
Adults with an account (%),2014




Source: The Global Findex Database 2014 Measuring Financial Inclusion around the World

# Some might argue that the potential of Mobile Banking for expanding financial inclusion is limited

- Because a high percentage of unbanked adults refer lack of enough money to use an account as a reason for not having one some may argue that the potential is limited
- However existing data show that lower income people do make financial transactions, and research has shown that even the very poor save when they are provided with a savings mechanism This underlines the importance of providing basic low-cost accounts

**A long walk for some** 2

2011 or latest available

| | Bank branches* per 100,000 adults | Saved at bank in past year† | Credit-card ownership† |
|---|---|---|---|
| Brazil | 46.2 | 10.3 | 29.2 |
| United States | 35.4 | 50.4 | 61.9 |
| Japan | 34.0 | 51.3 | 64.4 |
| Turkey | 18.3 | 4.2 | 45.1 |
| India | 10.6 | 11.6 | 1.8 |
| Pakistan | 8.7 | 1.4 | 0.7 |
| Indonesia | 8.5 | 15.3 | 0.5 |
| Philippines | 8.1 | 14.7 | 3.2 |
| Nigeria | 6.4 | 23.6 | 0.8 |
| Kenya | 5.2 | 23.3 | 6.1 |

*Commercial †% of people aged 15+

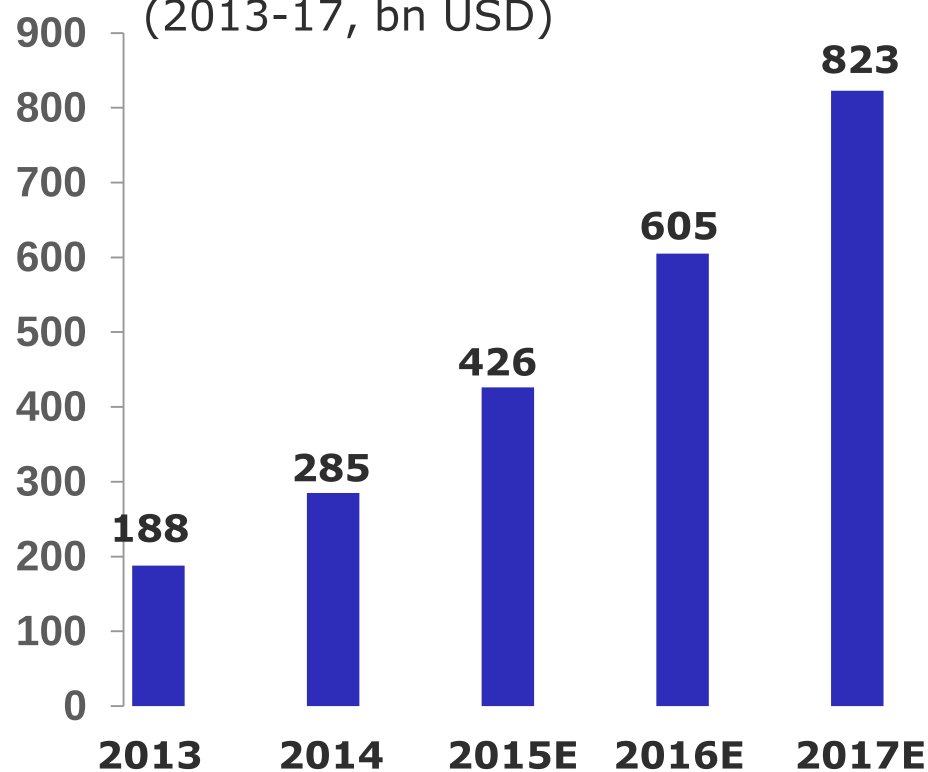
Sources: The Global Financial Inclusion (Global Findex) Database, World Bank; Standard Chartered Research

Source: The Economist, A phoneful of dollars, 15th November 2014

# Also because so far Mobile Banking has not seen a huge worldwide expansion

- Although mobile payment has taken off on a global scale, in 2014 only accounted for 7% of global electronic transactions
- However, growth rates were mainly driven by emerging markets. By the end of 2014, 259 initiatives were operating in emerging markets and 21 had reached more than 1 million subscribers
- More than half of the services were in sub-Saharan Africa.

Global m-payment value forecast (2013-17, bn USD)




Source: Arthur DLittle, Telecom & Media Viewpoint, Mobile Payment Is This the Turning Point

# What is the potential of Mobile Banking for Financial Inclusion?

- Moving from cash-based to digital payments has many potential benefits, for both senders and receivers: It can improve the efficiency of making payments by increasing the speed of payments and by lowering the cost of disbursing and receiving them
- It can improve the security of payments and thus reduce the incidence of crime associated with them: government payments is a case in point
- And it can increase the transparency of payments and thus reduce the likelihood of leakage between the sender and receiver
- Shifting to digital payments can also provide an important first entry point into the formal financial system, which can lead to significant increases in savings and the substitution of formal for informal saving

# Regulatory issues

- Regulators are concerned about the effect that the failure of a branchless banking scheme would have on customers, and the wider economy
- An issue that causes problems for many emerging branchless banking schemes is that of the know your customer (KYC) regulations, which require that every new customer’s identity be verified before they are able to use the service.
- A good practice in Europe has been to create a separate Regulatory Authority for Payment Systems
- Imposing the same regulatory burden to mobile banking operations as is nowadays imposed to banks can substantially decrease the enablement of financial inclusion

# Conclusions

- Financial inclusion has to be seen from a three dimensional perspective: usage, access and quality
- Mobile banking is particularly suited to drive financial inclusion
  - Digital payments overcome the costs and physical barriers that have diminished valuable financial inclusion efforts
  - Digital platforms offer the opportunity to rapidly scale up access to financial services using mobile phones, retail point and other broadly available access points,
  - An appropriate financial consumer protection framework is needed: consumer rights protection is an issue
  - Also seen as a powerful tool to promote women's economic empowerment and increasing women's economic participation
- Regulatory authorities on both sides have started collaboration but more is needed: lower barriers to entry or interoperability

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# Thank you