THE ROLE OF MOBILE FINANCIAL SERVICES IN ENHANCING FINANCIAL INCLUSION

ITU Regional Development Forum 2015 - Smartly Digital Asia-Pacific Digital Financial Inclusion

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Financial Services for the Poor
Bill & Melinda Gates Foundation
AGENDA

• BMGF Financial Services for the Poor Programme
• Digital Financial Services and Financial Inclusion
• The ITU Focus Group on Digital Financial Services
At the Bill & Melinda Gates Foundation, we believe that all lives have equal value.
Why does financial inclusion matter?

In a typical developing country, 10-30% of the poor transition into poverty and 10-40% out of poverty every few years.*

Why does digital matter for financial inclusion?

Key observations

- The economics of traditional transactions don’t work for providers or the poor.
- Economic barriers include customer acquisition, account maintenance costs, and variable returns.
- Market coordination failures produce fragmented networks that increase costs.
- Information asymmetries inhibit adoption and create risk, leading to inadequate products & dormancy.
- Regulatory & policy barriers increase the cost & uncertainty for serving the poor.
- Technology is necessary but not sufficient.

The economics and other barriers require a new, digital financial system that is inclusive & sustainable.

See “Fighting Poverty, Profitably” (2013) for our analysis of the economics of payment systems.
Driving solutions for financial inclusion with 3 objectives:

• Reduce the cost of financial transactions for the poor

• Improve poor people’s capacity to mitigate financial shocks and capture income-generating opportunities

• Generate economy-wide efficiencies by connecting large numbers of poor people to governments, businesses, donors and other counterparts
A PATHWAY TO DIGITAL FINANCIAL INCLUSION

1. Enabling Environment
   - Enabling regulations that support poor people to open accounts and providers to outsource distribution, and to protect users

2. Digital Remote Payments
   - Poor people adopt and use digital for P2P transfers.

3. Fuller Range of Digital Financial Services
   - Poor people adopt and use digital for savings, credit, purchases, and insurance services.

4. Digital Financial Ecosystem
   - Poor people conduct a majority of transactions digitally.

Basic Connectivity
- Critical mass of mobile coverage and penetration amongst rural poor

India
Nigeria
Indonesia
Pakistan
Uganda
Bangladesh
Kenya
Tanzania

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Indonesia
Pakistan
Uganda
Bangladesh
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Tanzania

Product R&D
Platform Development
Impact and Innovation Research & Measurement
Of the 261 live branchless banking services around the world, only 21 have reached more than one million active customers.
BUILDING A DFS ECOSYSTEM

- G20, FATF, SDG
- Interoperability
- Government 2 Person
- Merchants
- Level 1 Project

Business Models
- Provider
- Product design
- Pricing
- Platform

Policy Regulation
- National
- International
- Global
- Development Agenda

Agents
- Sign up
- Training
- Management
  (i.e. liquidity, branding, equipment, etc.)

Customers
- Acquisition
- Activation
- Product design
- Pricing
- Platforms

Mobile Money
- Biometric, Start Up

Government 2 Person
- ANA, Rural
- Smallholder Farmers
- Women

Level 1 Project

Merchants

Business Models

Policy Regulation

Agents

Customers

Mobile Money

Government 2 Person

Smallholder Farmers

Women

Level 1 Project
REGULATORY CHALLENGES

Fast moving environment

New players

New technologies

New products and services

New distribution models

Regulators struggle to keep abreast of market developments.....

...and fully assess the risk embedded in new products

risk of gold plating > higher compliance costs

Extremely vulnerable customers

...low level of financial education and IT skills

Lack of official ID systems
## MAIN REGULATORY BARRIERS

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<tr>
<th>Market access and competition</th>
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<tbody>
<tr>
<td>Mobile Money License</td>
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<tr>
<td>Access to Agent Network</td>
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<td>Access to Business Critical Technology</td>
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<table>
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<th>Customer acquisition and activation</th>
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<tr>
<td>Know Your Customer Rules and Requirements</td>
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<td>Lengthy Account Activation Processes</td>
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<th>Oversight and supervision</th>
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<th>Consumer trust and confidence</th>
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<td>Funds Safety</td>
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<td>Fraud</td>
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<td>Price Transparency</td>
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## SOLUTIONS

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<th>Specialised PS/DT Entities</th>
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<tr>
<td>Shared Agent Network</td>
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<td>Tiered KYC Systems</td>
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<td>Pass Through Deposit Insurance</td>
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Focus Group Digital Financial Services for Financial Inclusion
WHY THE ITU

The role of Mobile Networks Operators (MNOs) in the DFS Ecosystem – integration of upstream and downstream services - calls for increased collaboration between FS and Telco regulatory and supervisory authorities at both national and international level.

Focusing on the Convergence Between Finance and Digital
KEY INFORMATION ON THE FG DFS

- Forum for Discussion, not a Standard Setter
- Set up for 2 years
- Groups all key players of the DFS Ecosystem (Banks, Regulators, Consumer Organizations, International Organizations, MNOs, Platform Providers etc.)
  - 97 participants, 25 countries
  - 93 participants, 33 countries, 22 regulators

3rd Focus Group Meeting – Kuala Lumpur 30th September – 2nd October
KEY OBJECTIVES

• Promote dialogue and coordination between FS and Telco regulators
• Raise Telco regulators awareness of the role D/MFS play to promote FI
• Given the increasing participation of MNOs in the provision of DFS, there is a need to clarify roles and responsibilities between the FS and Telco regulators. Though Central Banks remain the leading regulator for payment systems, Telco regulators need to be involved in the discussion;
• Identify a series of key issues where the FG can consensually adopt principles, identify best practices, develop guidelines that can help emerging markets fast track policy reform.
ACTIVITIES OF THE FOCUS GROUP

- Establish liaisons and relationships with other organizations (i.e. WB, PAFI, AFI, GSMA, ITU-SGs) to avoid duplication of efforts and leverage expertise
- Identify and study best practices related to policies, regulatory frameworks, consumer and fraud protection systems, business models and ecosystems for digital financial services
- Refine vision of success
- Identify and monitor technology trends in digital financial services and how the role of various stakeholders in this ecosystem will evolve
- 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
FOUR WORKING GROUPS HAVE BEEN ESTABLISHED TO LEAD THE FOCUS GROUP’S EFFORTS

Main areas of work:
- Interoperability
- DFS Ecosystem
- Consumer Experience & Protection
- Technology, Innovation & Competition
THANK YOU

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