

Digital Financial Services and Financial Regulators

Asia-Pacific Digital Societies Policy Forum 2016

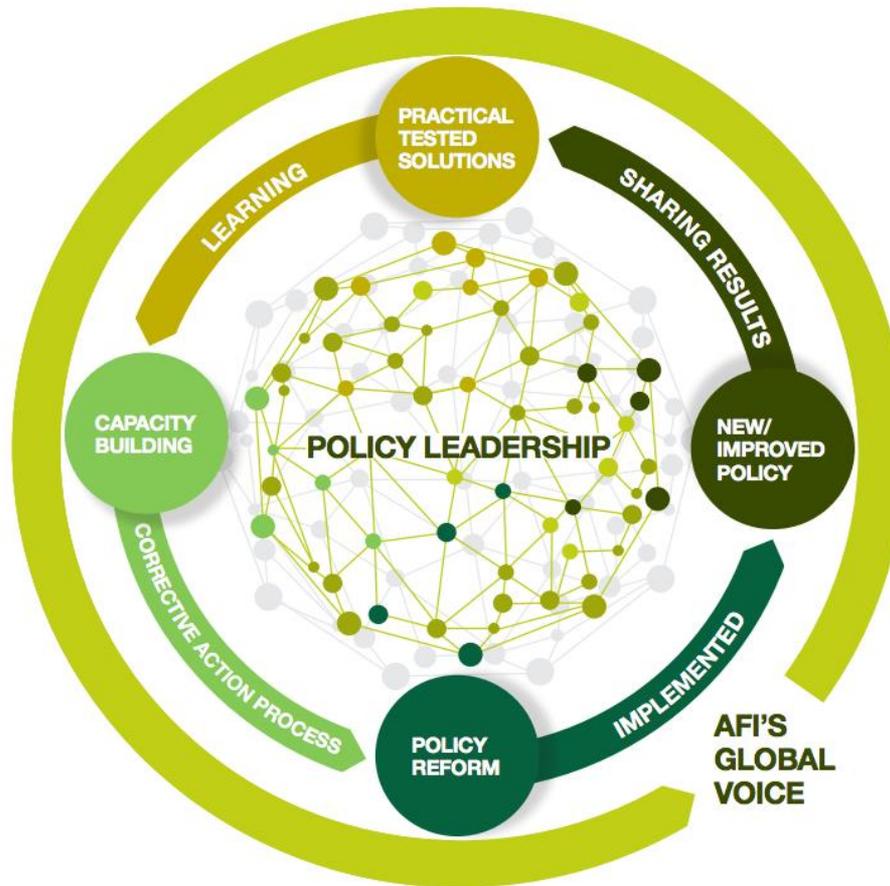
27-28 April 2016
BANGKOK

- 1. AFI Overview**
- 2. AFI DFSWG**
- 3. Mobile Financial Services Basic Terminology**
- 4. Supervision and Oversight of Mobile Financial Services**
- 5. Consumer Protection in Mobile Financial Services**
- 6. Mobile-Enabled Cross-Border Payments**

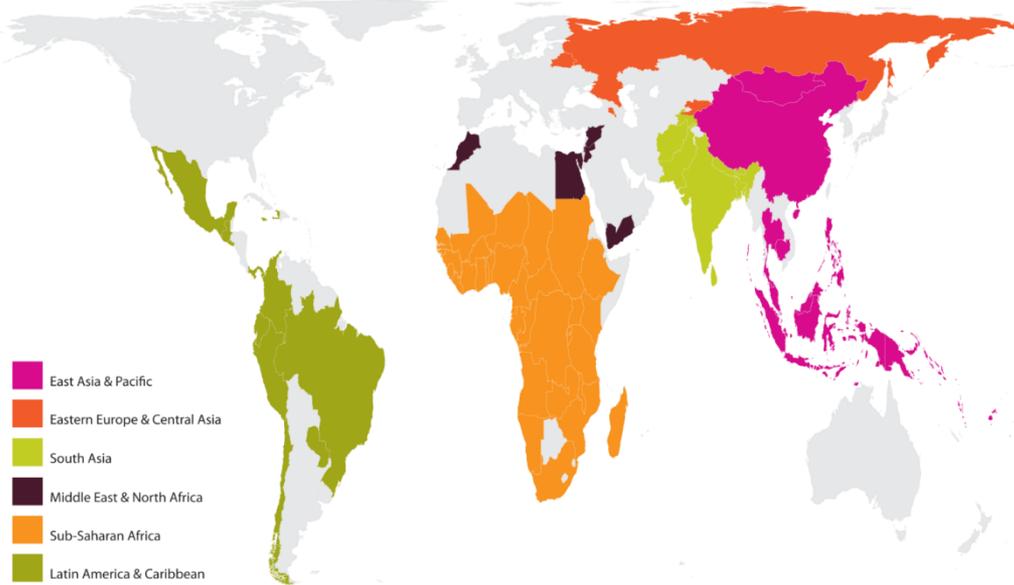
AFI Overview



AFI is a peer-to-peer learning network for policymakers seeking to enhance institutional capacity in financial inclusion



AFI Overview



- 118 Institutions
- 94 Countries
- Peer learning platform
- Shaping global discussions (G7, G20, SSBs)
- Global and regional approach
- Public Private Dialogue
- 6 Active Working Groups

The contribution of AFI member services to policy reforms



AFI Digital Financial Services Working Group

Chair:
Central Bank of the
Russian Federation
Co-Chairs:
Bank of Ghana
Da Afghanistan Bank



13th WG Meeting, MARCH 2016
Dilijan Armenia

Key Objectives

- Stimulate discussion and learning
- Exchange and promote regulatory practices
- Capture, track and share information
- Create enabling policy and regulatory environments
- Encourage cross-industry partnerships
- Conduct policy and statistical stocktaking



Develop
Knowledge
Products



Collect MFS
Indicators



Drive policy
changes and
conduct Peer
Reviews



Field Visits



Mobile Financial Services Basic Terminology (Guideline Note No. 1)



MFS Basic Terminology GN



Mobile Financial Services (MFS)

The use of a mobile phone to access financial services and execute financial transactions. This includes both transactional and non-transactional services, such as viewing financial information on a user's mobile phone. Mobile financial services include both mobile banking (m-banking) and mobile payments (m-payments).

Mobile banking (m-banking)

The use of a mobile phone to access banking services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone.

The term 'mobile banking' is often used to refer only to customers with bank accounts. Mobile banking is a type of electronic banking, or e-banking, which includes a broad array of electronic banking instruments and channels like the internet, POS terminals, and ATMs.

Electronic money (e-money)

A type of monetary value electronically recorded and generally understood to have the following attributes:

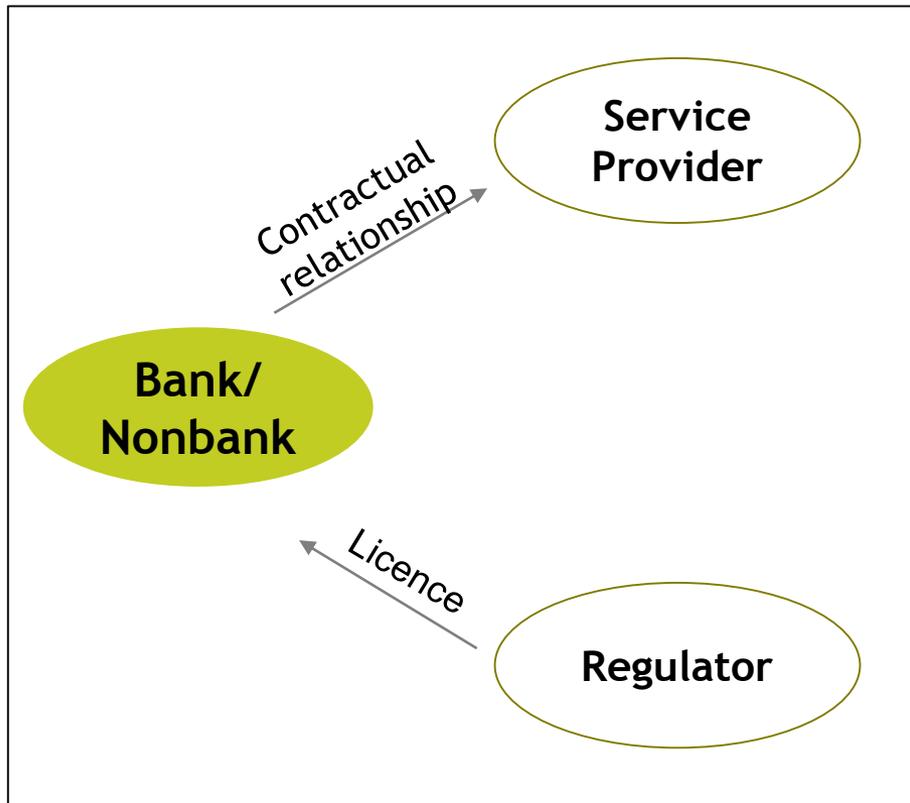
- i. **issued upon receipt of funds** in an amount no lesser in value than the value of the e-money issued;
- ii. **stored on an electronic device** (e.g. a chip, prepaid card, mobile phone, or computer system);
- iii. **accepted as a means of payment by parties other than the issuer; and**
- iv. **convertible into cash.**

MFS Basic Terminology GN

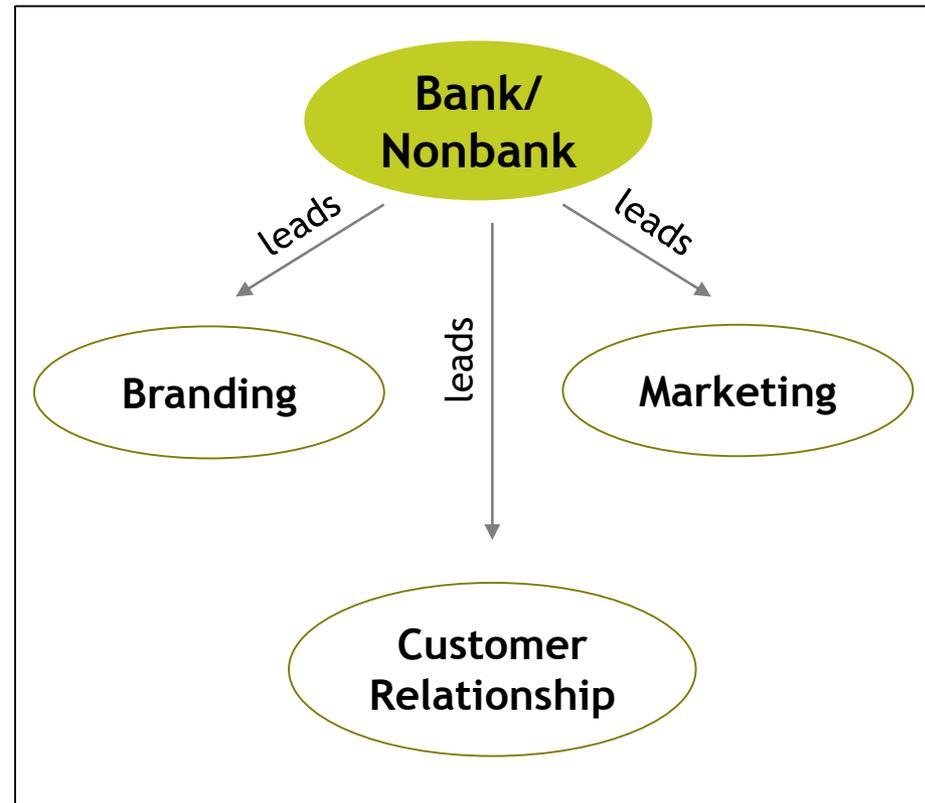


Distinguish between Bank/ Nonbank-based model and Bank/ Nonbank-led model

Bank/ Nonbank-based model



Bank/ Nonbank-led model



ii) Fund isolation

Measures aimed at isolating customer funds (i.e. funds received against equal value of e-money) from other funds that may be claimed by the issuer or the issuer's creditors.

Fund isolation, together with fund safeguarding, constitutes the primary means of protecting customer funds in a nonbank-based model.

iii) Fund safeguarding

Measures aimed at ensuring that funds are available to meet customer demand for cashing out electronic value. Such measures typically include: (i) restrictions on the use of such funds; (ii) requirements that such funds be placed in their entirety in bank accounts or government debt; and (iii) diversification of floats across several financial institutions.

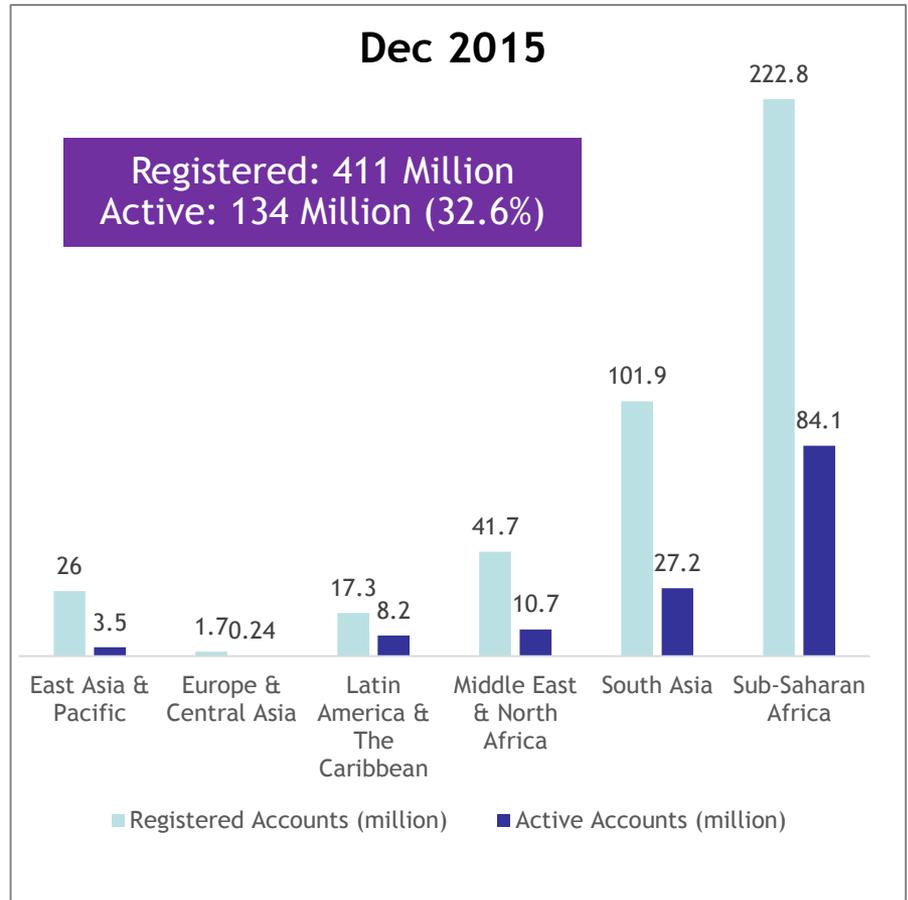
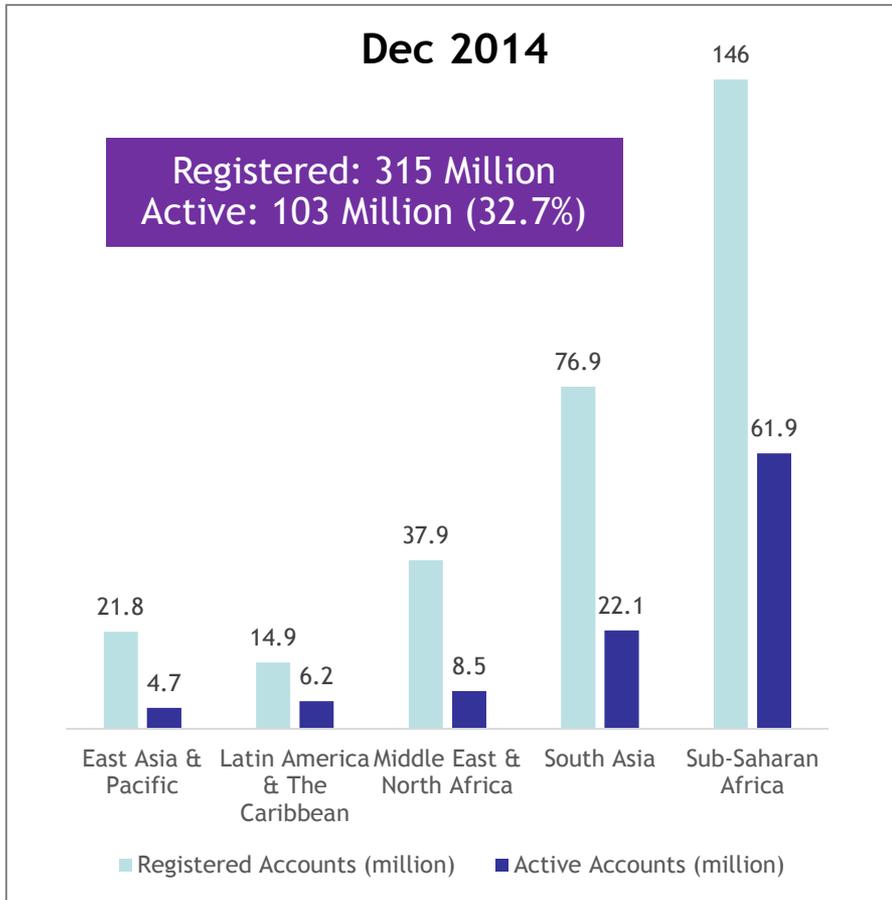
Supervision and Oversight of Mobile Financial Services (Guideline Note No. 12)



MFS Supervision and Oversight



Number of Registered & Active Accounts (million)

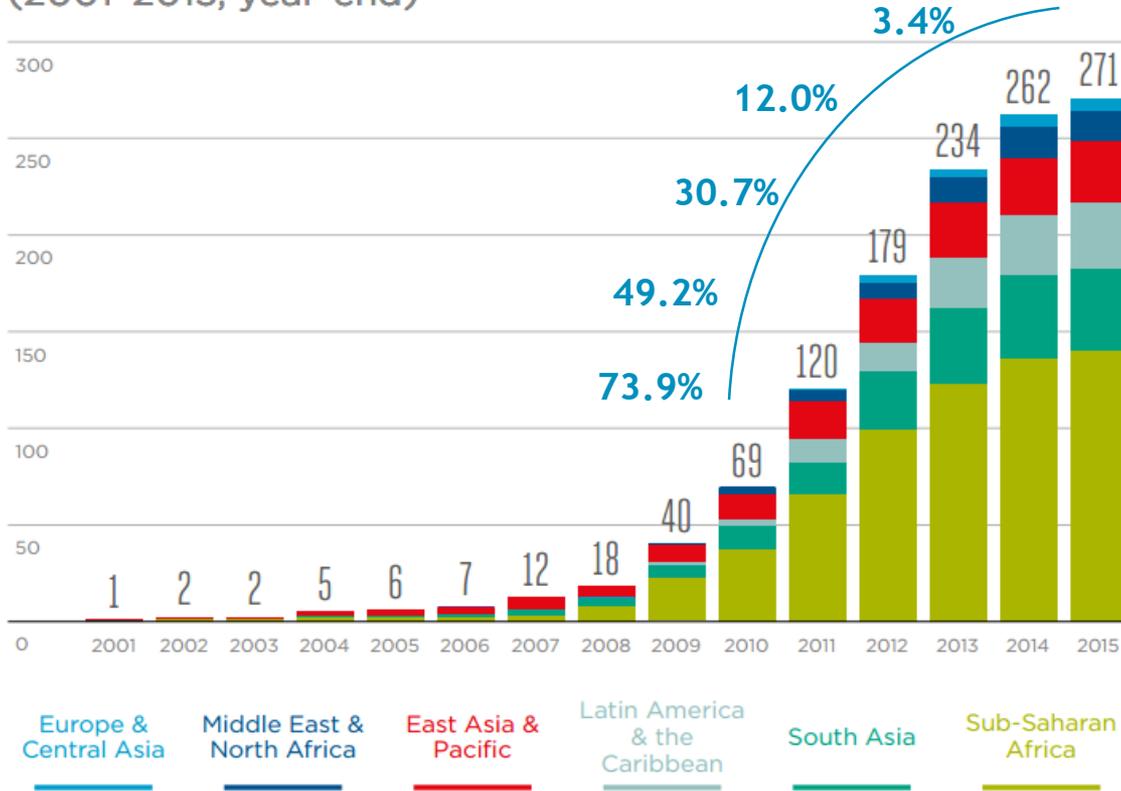


Source: GSMA 2014 & 2015 State of the Industry Report

MFS Supervision and Oversight



Number of live mobile money services by region
(2001–2015, year-end)



Source: GSMA 2015 State of the Industry Report Mobile Money

Traditional supervisory and oversight processes are being tested by the introduction of **new MFS products, distribution channels, institutions and corporate partnerships** as well as the rapid development and wider deployment of **both bank- and non-bank MFS models.**

MFS Supervision and Oversight



19 countries have more mobile money accounts than bank accounts in 2015

- Burundi
- Cameroon
- Chad
- Democratic Republic of the Congo
- Gabon
- Ghana
- Guinea
- Kenya
- Liberia
- Lesotho
- Madagascar
- Paraguay
- Rwanda
- Swaziland
- Tanzania
- Uganda
- Zambia
- Zimbabwe



Source: GSMA 2015 State of the Industry Report on Mobile Money

Risk-Based Regulatory Framework

- Regulatory requirements in both bank-led and non-bank-led MFS models should **balance** the objectives of financial inclusion, prudential supervision and consumer protection.
- A practical way to reach a common understanding of desired market outcomes is to develop **a nationally endorsed definition of MFS** that incorporates how it relates to a broader vision of increased financial inclusion.

Risk-Based Regulatory Framework



- MFS activities may vary by market, model and by type of partnership, however these activities must often relate to the following areas:

Remote account opening by agents for AML/CFT purposes

Real-time transaction monitoring, notification and confirmation

Payment instrument usage and issuance

Interoperability and interconnection of service providers

Safeguarding and isolation of customer funds

Customer redress and disclosure

Key Considerations for MFS Supervision and Oversight



Adding MFS to a monitoring framework previously focused on prudential rules and institutional conduct of business

Integrating supervision and oversight of MFS into existing ICT systems and administrative processes

Collecting and analyzing MFS data to measure progress toward financial inclusion goals

Consumer Protection in Mobile Financial Services (Guideline Note No. 13)



The Importance of Adequate & Complete Information



Inadequate/
inaccurate
information by
operators

Inaccurate
assumptions by
customers

Risk of customers
making errors in
registration &
transaction stage

- MFSPs shall ensure adequate & complete information about:
 - ✓ Terms and conditions
 - ✓ List of transactions that can be performed
 - ✓ Fees and rates for all types of transactions
 - ✓ Transaction limits
 - ✓ Available delivery channel options
 - ✓ Access to 24/7 customer service operators
- Information provided must use clear & understandable terms
- Adjustment towards customers' everyday language (i.e. minorities, indigenous groups)

New Technology as a Source of Risk



- Issues
 - Low security functionality of basic mobile phones does not assure end-to-end encryption
 - Customers' lack of technological literacy
 - Sharing of mobile phones

- Implications for Regulators
 - Regulations about MFSPs providing consumer education and information
 - Proactive role in financial education programs
 - Regulations about MFSPs adopting minimum standards in product design controls

Challenges with New Services & Service Providers



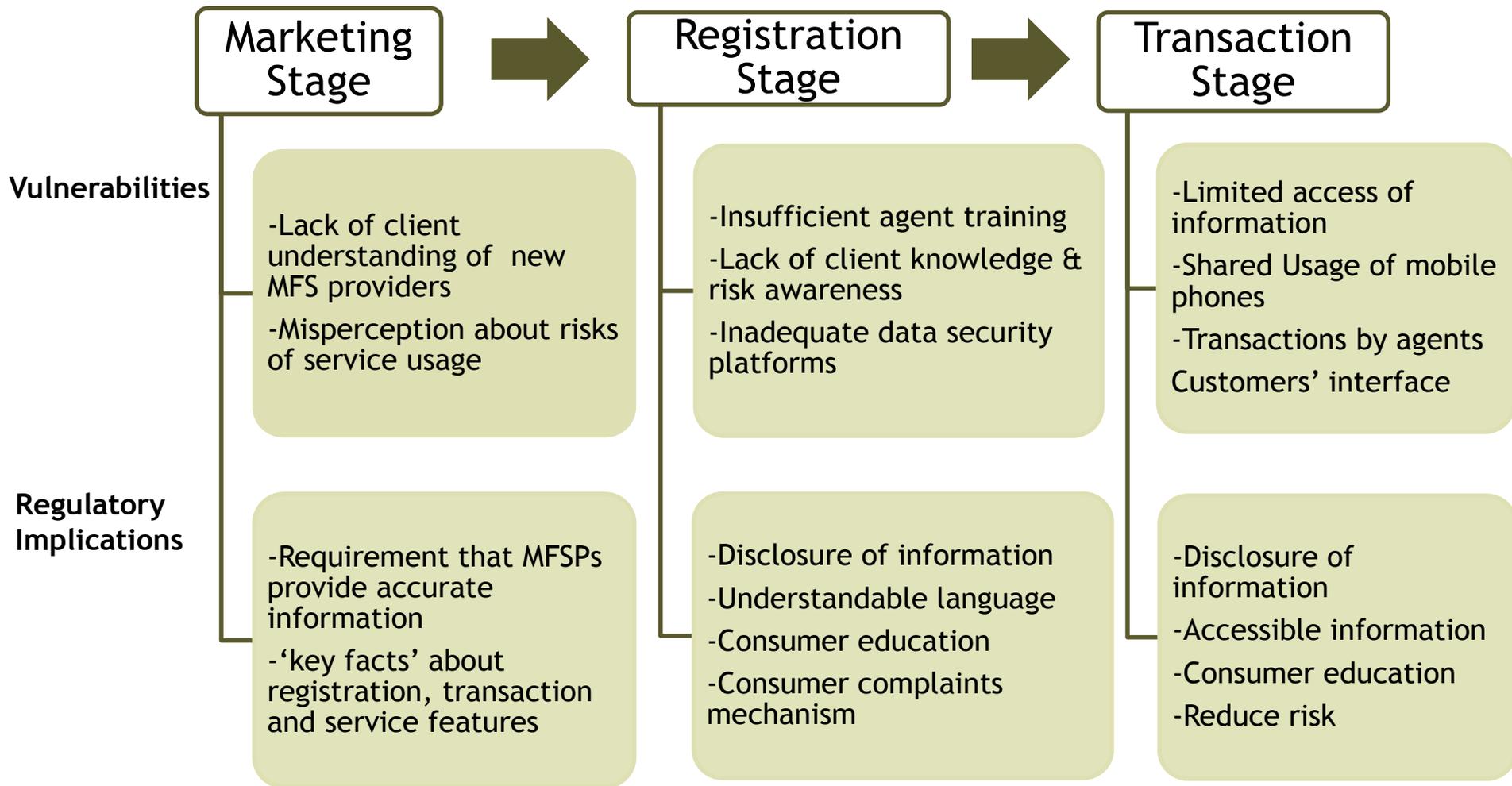
- Regulators should ensure that MFSPs are licensed, supervised and operate under an enforceable regulatory framework
 - ✓ MFSPs to follow **licensing procedure** with minimum capital requirements, sufficient management technical skills and regulatory compliance issues
 - ✓ MFSP have **effective internal controls** to mitigate fraud or any misuse or misappropriation of consumer funds
 - ✓ **Consumer funds** are segregated, invested in safe liquid assets, identified as assets of individual e-money account holders and protected in case of insolvency of the MFSP
 - ✓ MFSP to put in place mechanisms to **control operational risks**
 - ✓ Controlled & supervised **pilot projects**

Consumer Privacy Concerns with MFS



- Regulators should ensure that MFSPs have internal control mechanisms & standards for proper consumer protection practices:
 - ✓ Disclose to customers that **MFSPs and agents will uphold the confidentiality** of customers' information, data and transactions
 - ✓ State the **conditions under which data may be shared**
 - ✓ Disclose the **process for correcting** inaccurate information
 - ✓ Establish a mechanism for a **data retention** period
 - ✓ **Hotlines** to address consumer questions & complaints
 - ✓ **External consumer complaint service** (regulator or other agency)

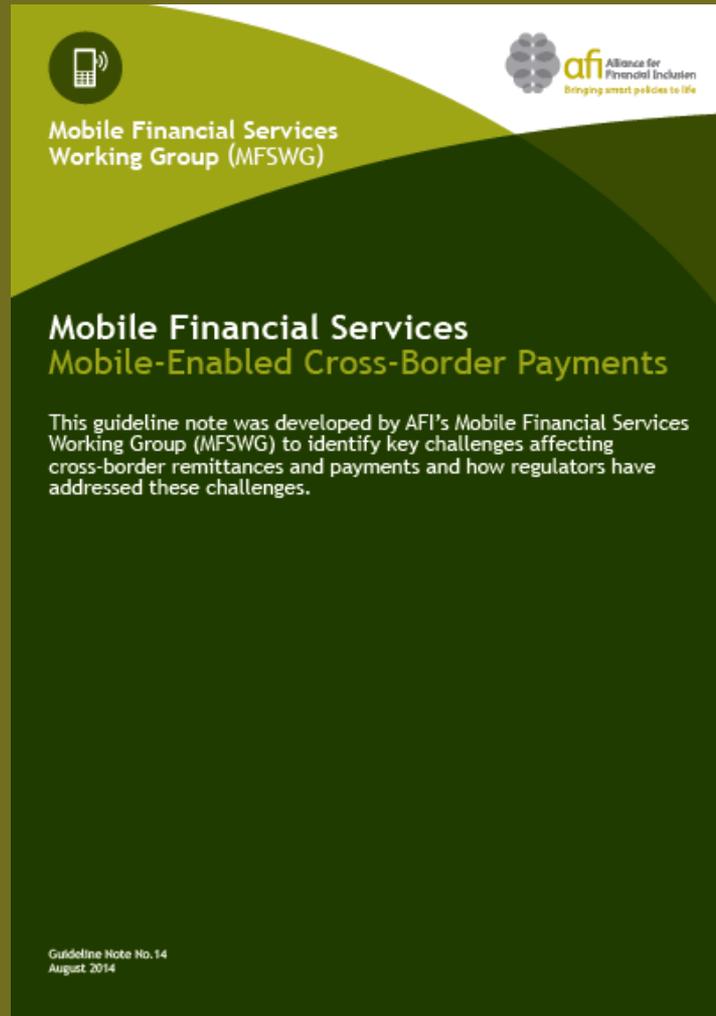
Mobile Financial Services & Consumer Protection



Responsibilities of the Regulator

- Regulatory framework for consumer protection with Risk Based Approach.
- MFSPs are all licensed to operate under clear rules to protect consumer funds from misappropriation, insolvency, fraud or operational risks.
- Level playing field that promotes competition.
- Standards for information disclosure.
- Simplified consumer protection rules for low-value transactions.
- Ensure MFSPs are responsible for their services.
- Clear data privacy & confidentiality rules.
- Channels for handling complaints (internal & external)
- Collection of relevant data (quantitative and qualitative) to assist regulator in fine-tuning consumer protection

Mobile-Enabled Cross-Border Payments (Guideline Note No. 14)



Key Regulatory Issues



Settlement Risk (m-money wallet providers in recipient countries face SR if sending/receiving RSP becomes insolvent).

- Regulators can require receiving MFSPs to open m-money wallet for the sending RSP.

Philippines

Bangko Sentral ng Pilipinas (BSP) requires sending RSPs to prefund a local m-money wallet

- open dollar- and Philippine peso-denominated bank accounts to facilitate prefunding of m-money wallets.

Rwanda & Tanzania

BNR and BoT require MFSPs to use prefunded accounts to cover all domestic m-money liabilities and incoming cross-border payments.



Key Regulatory Issues



Differences between international and domestic KYC requirements within a country.

- Regulators in countries with tiered Risk-Based KYC for domestic MFS can require MFSPs to limit cross-border payments to the levels permitted by the sender's/receiver's MFS account



Philippines

Same KYC requirements for international or domestic receipt of funds. MFSPs are required to obtain a license as a remittance agent and to screen recipients using lists from the US Office of Foreign Assets Control, UN Security Council and the BSP.

Tanzania

BoT gives flexibility with customer identification (i.e. National ID is not required, but less formal documents will not be accepted), but monitors MFSPs KYC procedures for cross-border services.

Differences in KYC requirements between sending and receiving countries

- Both Regulators in the sending and receiving countries will need to be satisfied with the level of KYC conducted in the other country.

Philippines & Malaysia

- BSP requires MFSPs to demonstrate that foreign RSPs sending cross-border payment are licensed to offer remittances in the sending country and regulated with respect to AML/CFT.
- BNM requires sending RSPs to identify all customers sending cross-border payments

Rwanda

- BNR requires MFSPs to ensure that partner MFSPs in other countries are properly identifying their clients.

Key Regulatory Issues



Liquidity Risk (MFSP agents may be unfamiliar with liquidity requirements for cross-border payments).

- Regulators can require MFSPs to demonstrate they are attending the liquidity requirements for cross-border payments with the development of sound policies, processes and systems.

Philippines

- MFSPs required to develop an agent accreditation process reviewed by BSP.
- BSP periodically evaluates MFSPs' accreditation processes by auditing certain agents (onsite supervision regime).



Thank you!

Bringing
smart
policies
to life

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