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# Implementing the PAFI Framework: What we've learned and where we're headed

Marc Hollanders

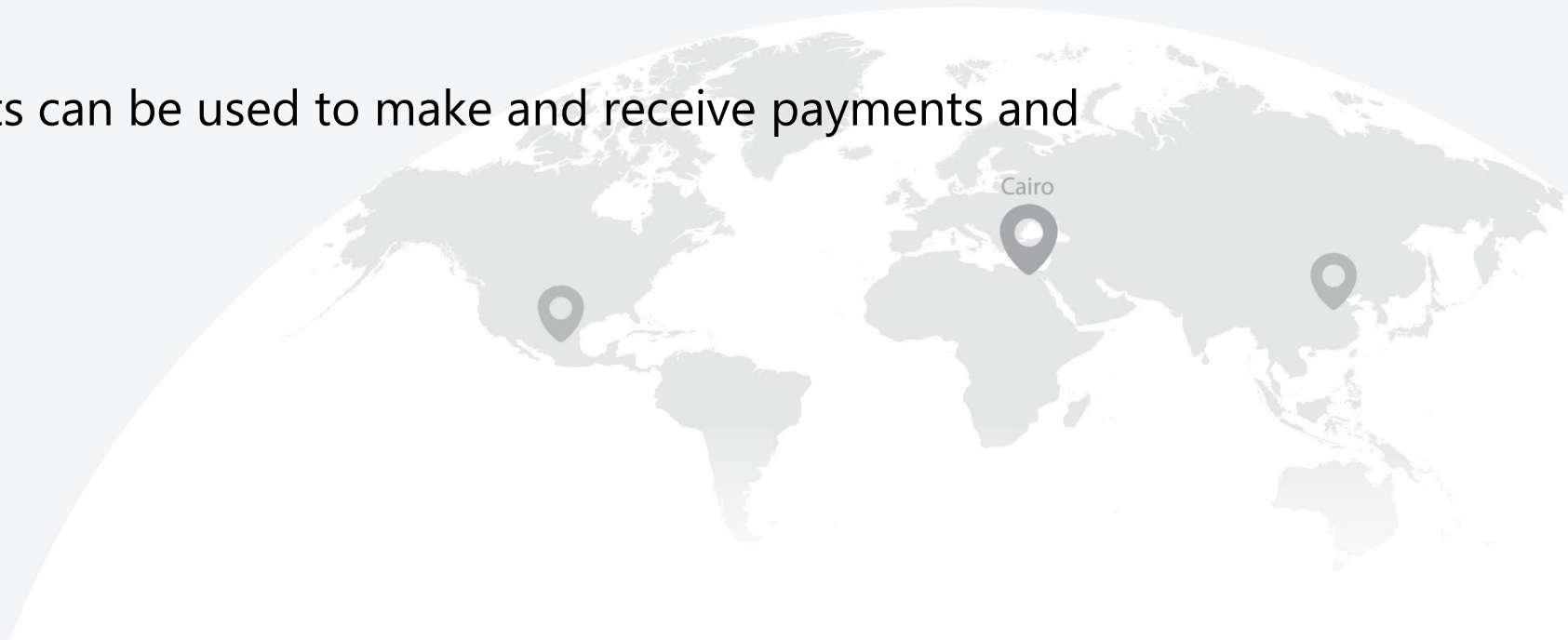
Committee for Payments and Market Infrastructure

Bank for International Settlements

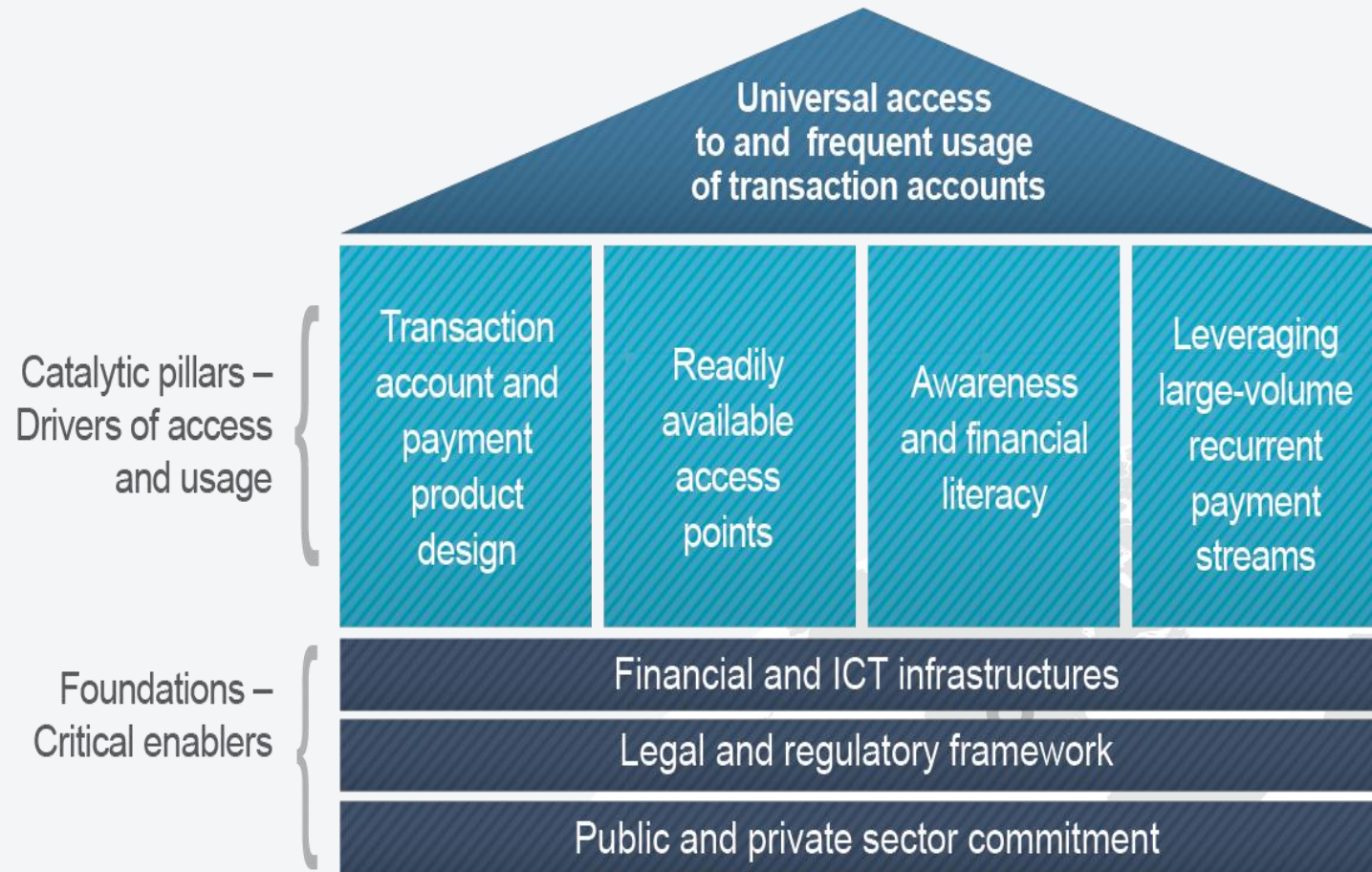
## Transaction accounts – cornerstone for providing electronic payment services



- Transaction accounts are defined as accounts held with banks or other authorised and/or regulated service providers (including non-banks) and can be “deposit transaction accounts” or “e-money accounts”
- Transaction accounts can be used to make and receive payments and to store value



# Interrelation of foundations, catalytic pillars and effective usage

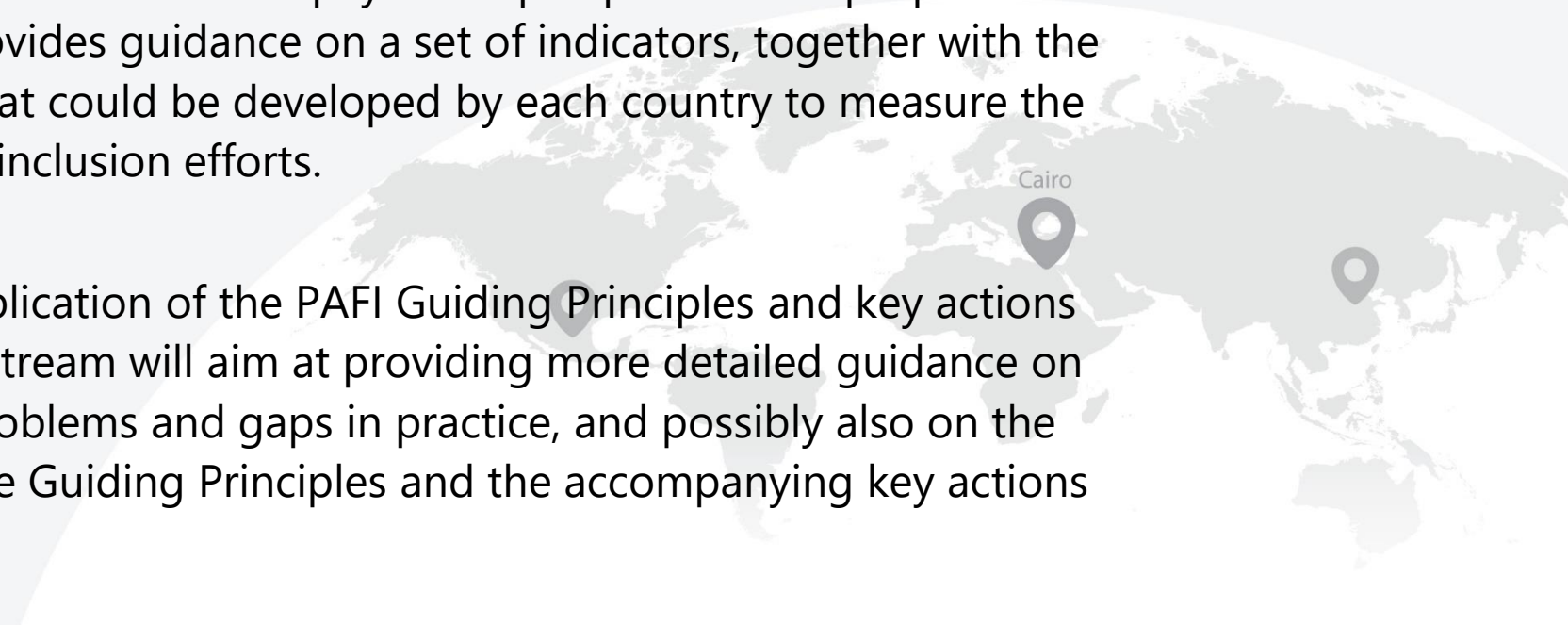






## The PAFI task force will focus on the following topics:

- Lessons learnt from applying PAFI: this will cover how PAFI is being applied, challenges in applying PAFI and the recent developments in payments that need a more detailed guidance from the Task Force, such as fintech issues. The task force will build on the CPMI reports that cover fintech developments and other aspects relevant to this workstream.
- Measuring financial inclusion efforts from a payments perspective: the purpose is to design a framework that provides guidance on a set of indicators, together with the underlying methodology, that could be developed by each country to measure the effectiveness of its financial inclusion efforts.
- A toolkit to facilitate the application of the PAFI Guiding Principles and key actions for consideration: this workstream will aim at providing more detailed guidance on how to approach specific problems and gaps in practice, and possibly also on the interpretation of some of the Guiding Principles and the accompanying key actions for consideration.





# Implementing the PAFI Framework: What we've learned and where we're headed

Harish Natarajan  
Lead Financial Sector Specialist  
World Bank Group

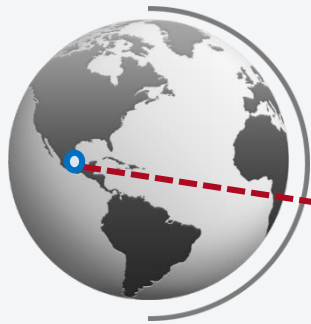




# Implementing the PAFI Framework: Mexico's Experience

Luis Leyva Martinez  
Director General of Regulatory Development  
Comisión Nacional Bancaria y de Valores, Mexico





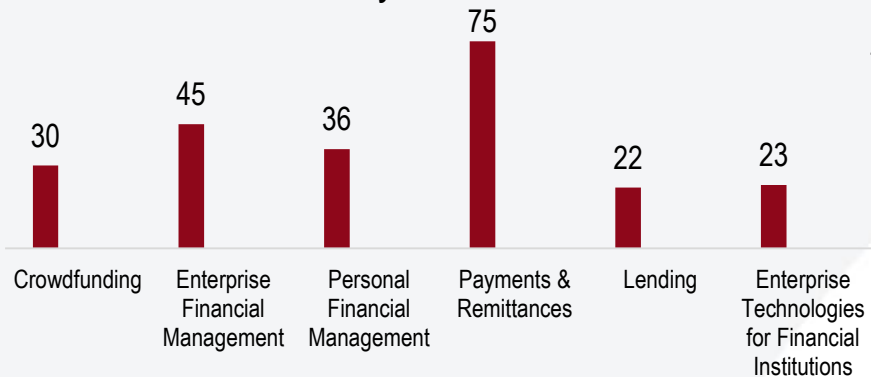
**Global-level statistics**

- **Number of firms:** over 8,800 in 2017.
- **Assets:** around \$870 USD bn. (1.16% of the global GDP).
- **Investments:** from \$17.8 USD bn. in 2014, to over \$38 USD bn. in 2016 (+113%).
- **Funding:** over \$105 USD bn.
- **Main Hubs:**

- USA : California and NY
- Mexico (N°1 in Latin America in 2017, 2<sup>nd</sup> in 2018)
- UK
- France
- China
- India

**Mexico is considered the FinTech 2<sup>nd</sup> Hub of Latin America**

**FinTech firms distribution by sector**



**Other relevant data:**

- **Maturity:** 31% in stages of *Growth & Expansion*, 47% are *Ready to Scale*, 22% in *Beta Versions Ready for Commercial Launch*.
- **Main Technology:** Big Data & Analytics (25%), Open Platforms & APIs (17%) y Mobile & Apps (15%).



- **Number of firms:** 334
- **85%** of firms is **5 years old** or less, and **54%** has less than **10 employees**.



# Overview of payments systems in Mexico

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## Key aspects

1

The use of cash has increased at high speed in the recent years.

2

The most efficient transactions, such as POS payments or transfers, has experienced significant growth.

3

The trend of using a debit card as a mean of payment is consolidating, rather than using it for cash withdrawals.

4

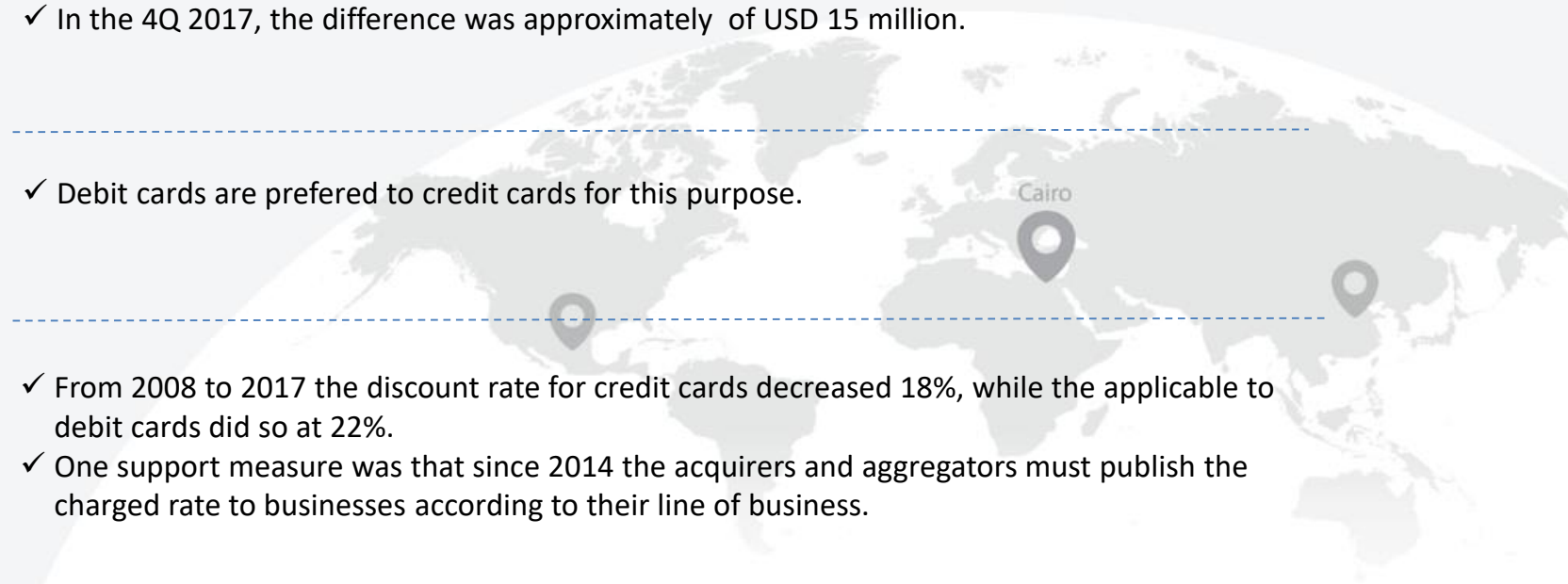
The use of cards to make payments in e-commerce has increased

5

The concentration in the acquirer-aggregator and issuer market has shrank, as well as the discount rates charged to the businesses.

## Data

- ✓ From 2010 to 2017, the coins/bills balance as a % of the GDP grew to 5%.
- ✓ The transfers did grow at a 2% rate, but decreased with respect to the GDP proportion.
- ✓ From 2010 to 2017, the number of POS payments has grown at a 15% rate, and transfers at 5%.
- ✓ By contrast, issued checks have decreased at an annual rate of 7%.
- ✓ Since 2Q 2012 there are more POS transactions than cash withdrawals in ATMs.
- ✓ In the 4Q 2017, the difference was approximately of USD 15 million.
- ✓ Debit cards are preferred to credit cards for this purpose.
- ✓ From 2008 to 2017 the discount rate for credit cards decreased 18%, while the applicable to debit cards did so at 22%.
- ✓ One support measure was that since 2014 the acquirers and aggregators must publish the charged rate to businesses according to their line of business.





## Key aspects

## Data

6

Mexico is behind in the use of POS

- ✓ There are 101 payments in POS per adult.
- ✓ By contrast, in Brazil and Turkey there are 317 and 394, respectively.

7

The Mexican migrants show more financial inclusion than their relatives

- ✓ It is estimated that 68% of migrants in the USA that send remittances have a bank account, as compared to 34% of the recipients.

8

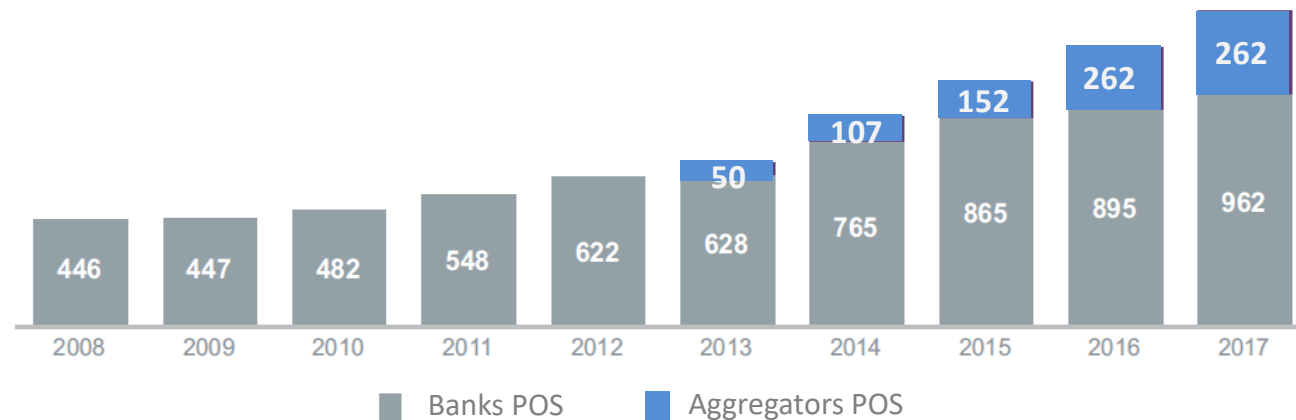
Most migrants perform the remittance and collection in cash.

- ✓ 86% of migrants send remittances in cash.

9

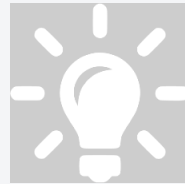
The aggregators have eased the expansion of POS to duplicate from 2013 to 2017

## Number of Points of Sale (thousands)





**Startup  
Launch**



**Highly scalable  
models**

**Increases the safety  
and quality of  
services**



**Promotes  
financial  
inclusion**

**More efficient and  
less costly processes**

**Reduction of  
systemic risks  
(TBTF)**

*... among others.*



**Money laundering & financing of terrorism.**

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**Financial and systemic risks.**

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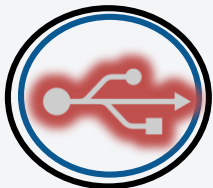
**Legal uncertainty.**

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**Lack of consumer protection.**

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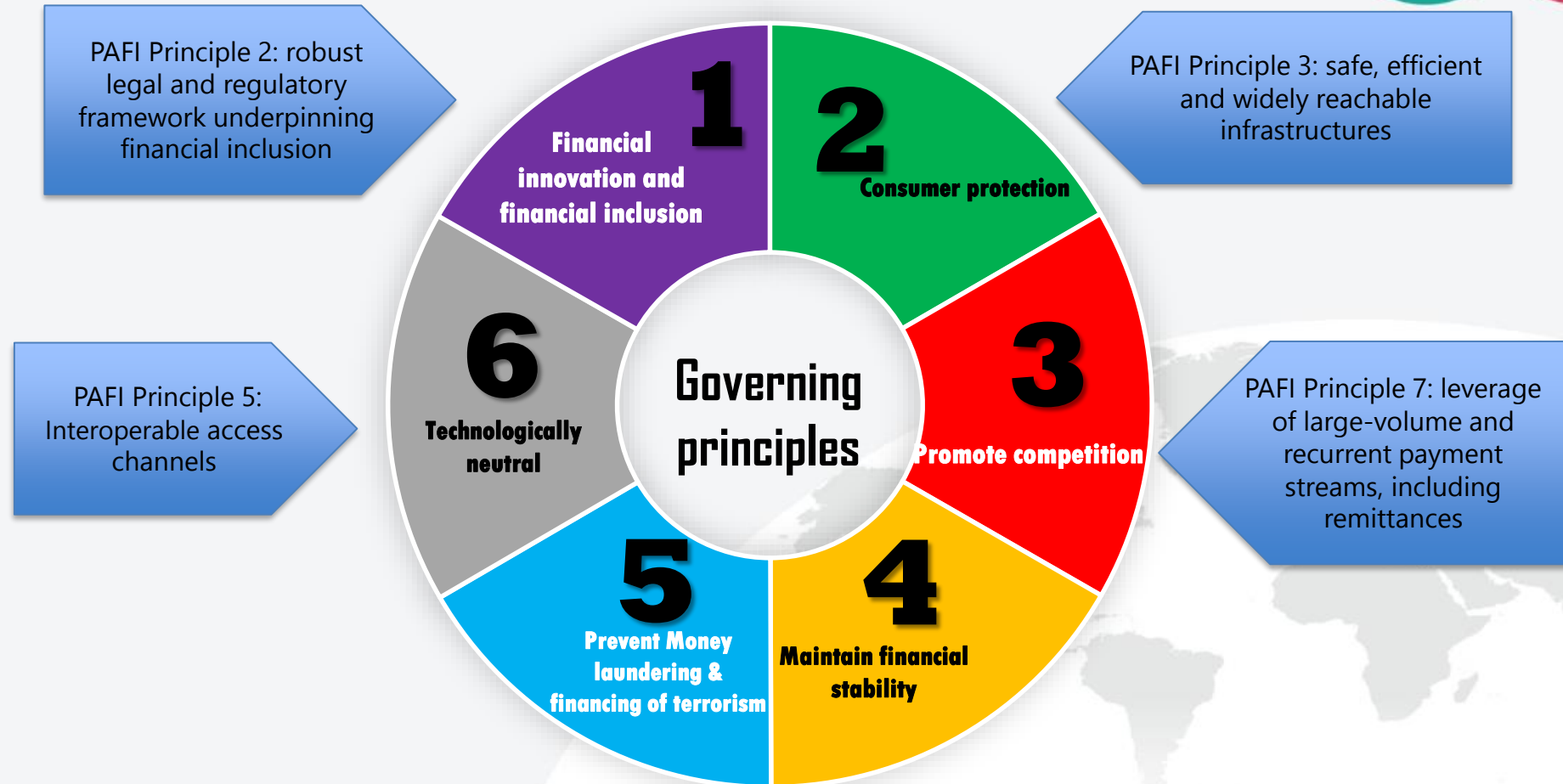
**Technological risks.**

**For instance: impersonation and identity theft, information privacy and platform or database integrity.**



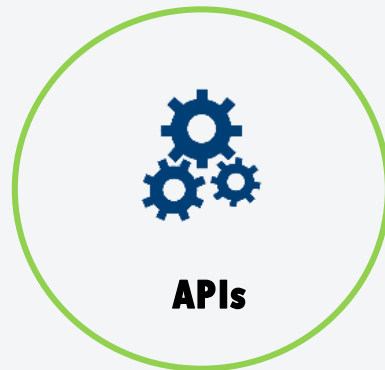
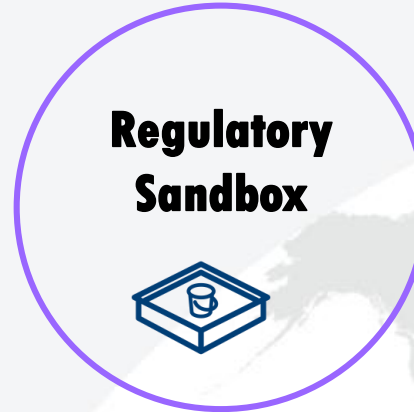
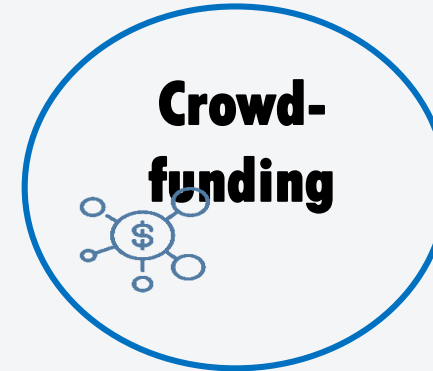
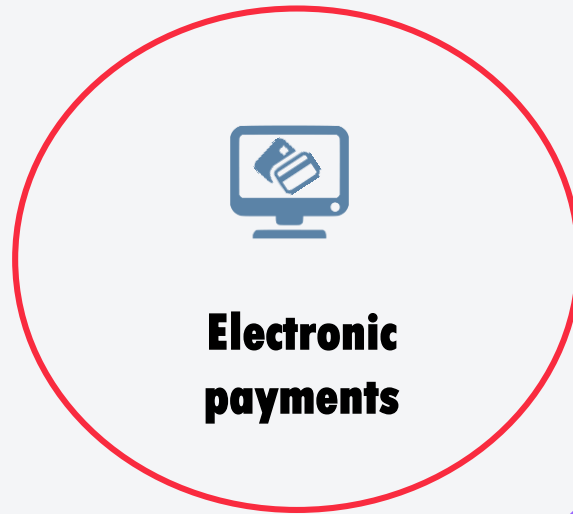
# Mexico's FinTech Law

Given the **risks** that RegTech & SupTech poses, as well as those of the FinTech sector, **Mexico's FinTech Law** was built on **6 governing principles** (to provide more flexibility), and **secondary regulation** which will be actively updated according to the **sector needs**.





# Figures under the Mexican FinTech Law

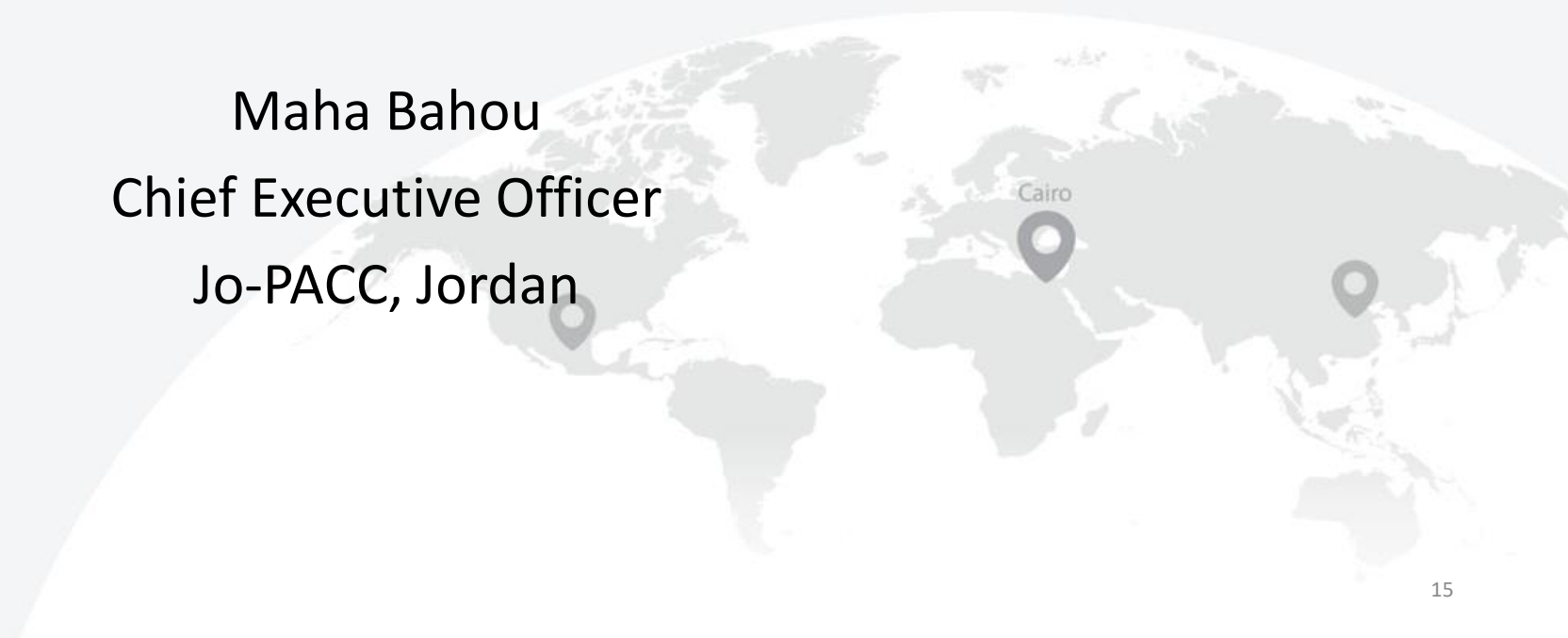


The FinTech Law considers the possibility by the authorities of establishing easier ways of complying with the Law: encourage the use of new technologies.



# Implementing the PAFI Framework: Jordan's Experience

Maha Bahou  
Chief Executive Officer  
Jo-PACC, Jordan



# JoMoPay Infrastructure & Functionality

## RTGS

Integration with the RTGS for sending the NCP and settlement in central bank money



RTGS



Unified API

## API

Integrating with banks and PSPs, and MFIs, along with others  
It ensures routing and clearing

Central Addressing Scheme (CAS)

## JoMoPay Core

Core components for payments processing (SCT, Bulk Payments, Returns, Fees, Reporting, Monitoring, Liquidity and Risk Management Functions)

Request to Pay will be developed



Core

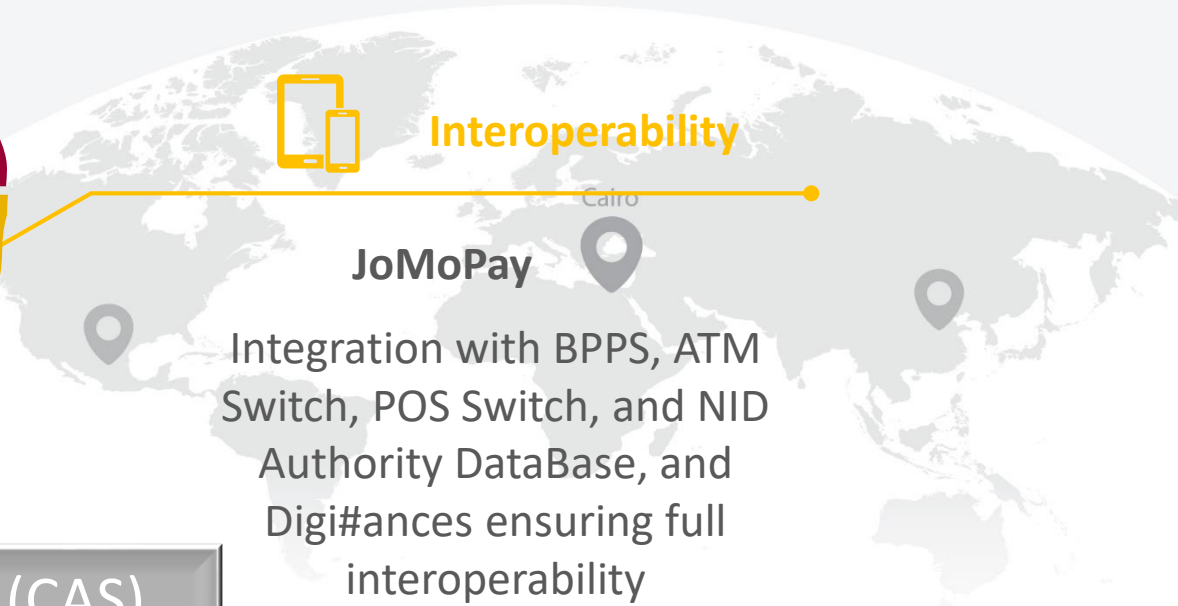
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Interoperability

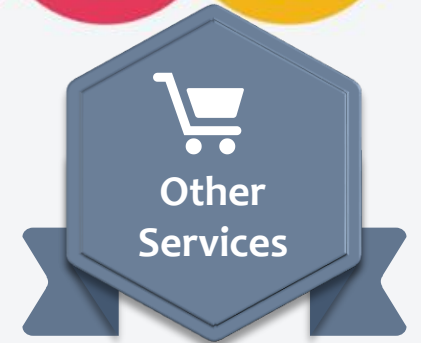
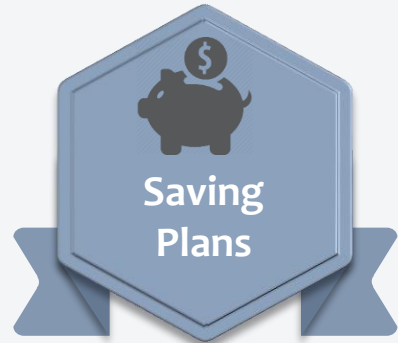
JoMoPay

Integration with BPPS, ATM Switch, POS Switch, and NID Authority DataBase, and Digi#ances ensuring full interoperability



# Payments for Financial Services

Digital Payments as door opener for financial services along with innovation and efficiency efforts across all market players



## Digital Onboarding using DLT and Digital Payments in Jordan

Reliable standards for consumers, regarding costs, security & liability as well as use of their personal data for Onboarding and Digital Payment products & services, are a prerequisite for digital financial inclusion and digital economy





# Existing Implementation reflecting PAFI & Level One

## Cash-Lite Governorate (Pilot Jerash)

Public Transportation: 85 coaster Vehicles inter-Jerash  
27 Vehicles connecting Jerash with other Governorates



### Merchants, Business, NGOS ....

- 106 POS
- Large number of Female Home Based Business mainly in dairy products & handicrafts
- NGOs with female development program in Jerash
- 2 Refugee Camps
- CBOs for Awareness & Literacy

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National Aid Fund



3571 eligible NAF Cash recipients in Jerash

Teachers Salaries

Education Sector: 88 private schools and KG in Jerash  
2 Universities



Car Parking

To support Jerash Festival.



Health Sector

One Public Hospital and 25 Medical Centers.







# Implementing the PAFI Framework: Vietnam's Experience

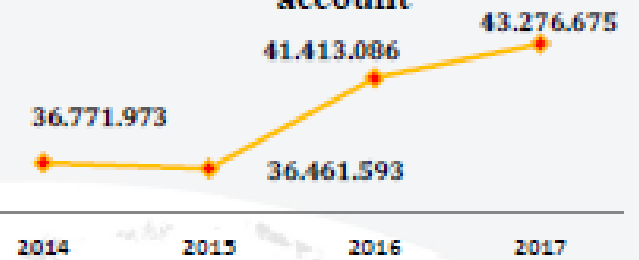
Nghiem Thanh Son  
Senior Deputy Director General – Payment Systems Dept.  
State Bank of Vietnam



# Overview of Financial Inclusion in Vietnam

- **Population:** nearly 95 mil. 65% of which living in rural areas
- **Internet Users:** 64 mil., 67% of population
- **Mobile phone penetration:** 74% of population with 3G/4G coverage of 95% country area.
- **Banking system:** **38** Joint Stock Commercial Banks; **27** Non-Bank Financial Institutions (Finance and Leasing Companies); **09** Foreign-Owned Banks; **49** Foreign Bank Branches; **01** Social Policy Bank; **1,182** People Credit's Funds and **04** Microfinance Companies.
- **Total branches and Transaction Offices (Access Points):** nearly **10,000** (equivalent to **13.7** access points/100,000 adults)
- **Number of Adults owning a bank account:** roughly **60%** (supply-side figure)
- **Number of ATMs:** **18,200** (**33.2** ATMs/100,000 adults)
- **Number of POS/EDC Terminals:** nearly **300,000**

Number of Adults owning bank account



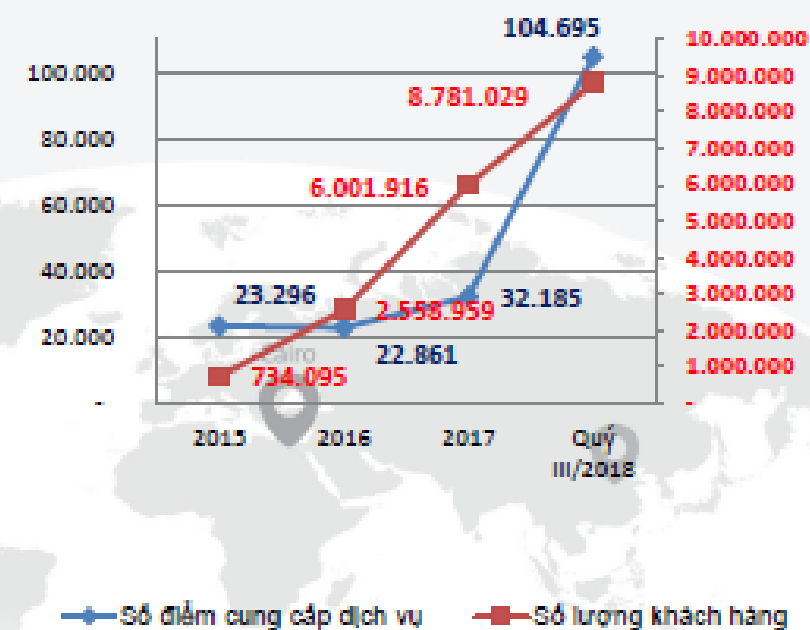
## Achievements

- Gaining strong commitment from both public and private sector to advance financial inclusion.
- Enabling Legal and Regulatory framework for diversified products/services, new business models, strengthened risk management and customer protection. Enhanced collaboration between banks and fintechs.
- Allowing 3 pilot agent banking schemes to increase the payment access points.
- Improving Financial and ICT Infrastructure for interoperability and security resilience, high level of reliability of RTGS and retail payments system.
- Broadened e-payments for public services, taxation, customs and utility payments.
- Improved customer's financial literacy

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**Banking Agents and Number of Customers  
(since 2015)**



## Measures to be taken

- Finalizing the National Financial Inclusion Strategy to be approved by the Prime Minister in June 2019.
- Regulatory Sandbox for Fintechs and Banks to be approved by the Government in 2019 for innovative products and services.
- Legal and Regulatory Framework to be improved for expanding banking agents and accelerating e-payments.
- Financial Infrastructure to be upgraded for real time payment transactions 24/7.
- Financial Education Programmes to be designed for students and general public via mass media.



Thank you!



# Implementing the PAFI Framework: Panel Discussion







# Annex

January 2019



# Secondary provisions for Financial Technology Institutions (FTIs)



On September 10<sup>th</sup>, the following provisions were issued in the Official Gazette:

1. Additional requirements for the application as an FTI



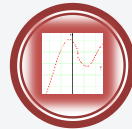
2. Minimum capital requirements.



3. FTI's cash inflows, as well as national and international funds transfers



4. Continuity plan for operational contingencies



5. Financing and investment limits for crowdfunding.



6. Mandates and commissions contracts by crowdfund clients



7. Information disclosure (risks, information about the project, etc).



8. Accounting and financial information.



9. Anti-money laundering and counter-terrorism financing



10. Applicant's selection criteria (publishing CF projects and risk assessment methodology)





The provisions that will be issued within a period of 9 and 12 months after the FinTech Law was issued are the following:

1. Conditions for the investment of Financial Institutions in the capital of FTIs



2. Information to investors regarding the applicant's payment performance (CF)



3. Corporate governance.



4. Policies for disclosure of risks and responsibilities (CF).



5. Cybersecurity and use of electronic devices



6. External auditors



7. Outsourcing



8. Information delivery to authorities



9. Regulatory Sandbox



10. Application programming interfaces (APIs).



11. Self-correcting programs



12. Requirements for information requests done by the authorities

