GSR-16
Thematic
Pre-Conference

Global Dialogue on Digital Financial Inclusion

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Meeting Report

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1 OVERVIEW

The Global Dialogue on Digital Financial Inclusion (GDDFI) is part of BDT's initiative to foster and strengthen collaborative regulation between ICT regulators and regulators from other sectors, focusing this year on the financial sector. GDDFI brought together telecom/ICT and financial regulators from around the world to establish a constructive global dialogue on topical issues of relevance to stakeholders from both sectors. The Global Dialogue provided participants with the opportunity to meet, share views and experiences, discuss synergies and regulatory overlap(s), strengthen cross-sectoral collaboration and identify new regulatory approaches fostering access to digital financial services for all through collaborative regulation. GDDFI complements at high political level the technical work done by the Focus Group on Digital Financial Services which will meet again in September this year.

2 OPENING REMARKS

GDDFI was opened by Mr Brahima Sanou, Director, Telecommunication Development Bureau (BDT), International Telecommunication Union; Mr Alfred Hannig, Executive Director, Alliance for Financial Inclusion; and Eng Ayman Hussein, Assistant Sub Governor Information Technology and Payment Systems, Central Bank of Egypt.

Mr Sanou opened the event by emphasizing that the Global Dialogue offered a unique opportunity to join forces across sectors and to create an enabling environment supportive of an inclusive ecosystem. This dialogue, he said, provides the foundation by which affordable financial services can be enhanced and consumers can be empowered to make the right choices. Today, more than two billion people remain outside of the formal financial system. Providing people with digital financial services (DFS) can make a difference to their lives.

Speakers further stressed the importance of understanding the steps that need to be taken to bridge the digital divide and achieve digital financial inclusion. In today's digital world, Information and Communication Technologies (ICT) are providing access to digital financial services and are contributing to achieving the Sustainable Development Goals. Participants noted, however, that electronic payments and electronic banking cannot be regulated in silos, either through ICT or financial regulation, and acknowledged that inclusive digital financial services requires a collaborative approach to regulation. In countries such as Kenya, Tanzania and Uruguay, ICT and financial regulators have already closely collaborated, and this has shown positive results, in particular, strong progress in digital financial services utilization. Participants also noted that the approach to financial inclusion should not just be about ensuring that financial services are accessible to all, but must also take other policy objectives into account. Maintaining financial stability, protecting consumers and promoting financial integrity were noted as key policy elements.

3 SESSION 1: DIGITAL FINANCIAL SERVICES: THE STATE OF PLAY

This session was moderated by Dr Amr Badawi, Board Member, National Telecommunications Regulatory Authority, Egypt. Panelists included Mr Ram Sewak Sharma, Chairman, Telecom Regulatory Authority of India; Mr Lila H. Mkila, Deputy Governor, Bank of Tanzania; Mr Khalid Elgibali, President for Middle East and North Africa, MasterCard; and Mr Thierry Millet, Senior Vice President for Orange Money, Mobile Payments and Contactless.

Dr Badawi noted the need for a balance between the telecom/ICT and financial sector so that digital financial inclusion can be achieved. Panelists mentioned that barriers to financial inclusion include both ICT related issues as well as financial sector related issues. On the financial side, participants identified issues such as lack of access to financial services, lack of identity in a sector where identification is key, the higher cost of traditional banking channels (e.g. bank branches and automated teller machines - ATM) as compared to branchless banking channels, the need for long-term development of a vast network of agents, the lack of credit history for low-income customers, and the lack of consistent and risk tiered approach to know your customer (KYC) processes / anti-money laundering (AML). Other issues raised included the need for a rigorous approach to compliance as well as the need for long-term commitment to financial inclusion (due to the variable pace of development of financial services in emerging markets). On the ICT/telecommunications side, affordable access and getting the next billions online is key. Panelists also highlighted the issues of security and data protection.

The panel acknowledged that Telecom/ICT and Financial Regulators are key enablers and partners for the achievement of digital financial inclusion. Regulation of both sectors contains significant areas of convergence and overlaps. Today, however, there is often a lack of effective communication between telecom and financial regulators. The development of this ecosystem requires regulators to engage in a dialogue with all stakeholders starting at the national level. Therefore, regulators are encouraged to collaborate with each other, and engage and communicate with the private sector and with digital platform providers. Regulators could apply a learn, observe, and test process to better understand the ecosystem before proposing new regulatory measures. A flexible enabling environment is also key.

Exploring key enablers for an inclusive digital ecosystem, speakers examined how collaboration between market players, regulators, and government representatives can contribute to promote public-private partnerships with an understanding that benefits will be achieved in the long term. Government support is essential in setting policies fostering the development of an inclusive digital financial ecosystem. Governments also have the power to drive digital financial inclusion by using these services as they are often the single largest payer and receiver of payments in a country. Governments, panelists suggested, may support digital financial services by conducting their transactions electronically using digital financial platforms, notably for the payment of salaries and benefits.

Panelists recognized that the digital financial industry is still young and its complexity will certainly increase. Consumers will demand new services beyond cash-in and cash-out (CICO) transactions setting. In addition, simplicity in terms of the user experience and user interface enables consumers to better understand and adopt these services. For consumers to make electronic payments with any other user in seamless ways, interoperability is also key. Speakers suggested however that interoperability should be left to the market.

4 SESSION 2: PROSPECTS AND CHALLENGES: SETTING IT RIGHT

Session 2 was moderated by Ms Carol Coye Benson, Managing Partner, Glenbrook Partners. Panelists included Dr Shahjahan Mahmood, Chairman, Bangladesh Regulatory Telecommunication Commission; Mr Ahmed A. Faragallah, Head of Payment Systems Department, Central Bank of Egypt; Dr Shahadat Khan, Chief Executive Officer, SureCash; Mr Tomas Lamanauskas, Director Public Policy, VimpelCom.

The moderator set the tone by stating that we are at the end of the first stage, and at the beginning of a second stage of the journey to extend digital financial services and help people reach financial health. Mr Rory Macmillan, Founding Partner, Macmillan Keck, and author of the discussion paper on Digital Financial Services, emphasized that there has been a tremendous increase in the number of mobile subscriptions. Nowadays, he said, more people have a mobile phone than a bank account. While this presents an opportunity, there is still a long way to go as cash is still dominant. The usage of mobile financial services is only starting.

He added that 94% of mobile money is still taking the form of person-to-person transfers and nearly 6% is bill payments. Financial, telecommunications and competition authorities need to understand the elements of the value chain, how these are currently structured and where they might be unbundled whether by commercial drivers or by regulation. He further stressed that the regulatory environment is crucial to enable or hinder the development of this ecosystem and highlighted some of the critical elements to be addressed, including fraud, AML, KYC, authentication, agent network, quality of connection, interoperability, and customer data protection.

Mobile money services are different in each country, panelists said. The development of the ecosystem relies on the ability of market players to develop products that respond to the needs of their respective customers. There are different types of customers with specific requirements and those need to be identified - like for example in some countries where neither the regulation nor the infrastructure were in place, but the citizens' willingness created demand. In others countries, panelists noted, providers are developing solutions based on their understanding of customers. Panelists also noted that using big data analytics may help to understand, diversify and tailor the products to the needs of the market and also noted that uptake of digital financial services also rely on citizens' readiness to use these services.

Mobile financial services may be provided by mobile network operators (MNOs), as well as by banks and other providers, mainly under an MNO or bank-led model. Panelists stressed that across the MNO value chain, telecoms providers can also conduct proper KYC processes and leverage from their existing customer and agent base. MNOs have a strong edge. Regulators have an important role to play as they can protect, promote and/or restrict the use of financial services.

In terms of over the counter transactions (OTC) and the development of the ecosystem, panelists offered that there are two elements to consider: use cases and incentives. This is important for telecommunication operators to bear in mind but also for financial sector regulators to address in their dialogue with telecommunication regulators since connectivity is key to financial service use.

Panelists also noted that customer identification is the first step to prevent fraud (e.g., biometric verification is a fundamental step to give identity to a person, other technologies are password technologies). Notwithstanding, a tradeoff will be required between investment in security and affordability of these financial systems and services. Adopting a risk based approach (similar to the KYC based approach) is key to determine when regulation is necessary.

The increasing use of smartphones will certainly affect the development of the market, reduce dependence on MNO, and place financial inclusion products under one umbrella. It will be transformative, but will take time. Smartphones are ubiquitous, so their impact will potentially be equally pervasive. Developments in IP based technologies allow for the creation of tailor-made applications for specific types of customers (potential applications are agriculture, retail payments, etc.). With smartphones, customers will have direct access to the service and will no longer rely completely on the MNO. This will help DFS providers to compete on value (today any competitor relies on USSD channels that are controlled on access and prices by MNOs).

5 SESSION 3: SHAPING COLLABORATIVE APPROACHES TO PROMOTE DIGITAL FINANCIAL SERVICES

This session was moderated by Dr Dražen Lučić, President of the Council, Croatia Regulatory Authority for Network Industries. Panelists included Dr Nagwa El Shenawi, Undersecretary for Information and Decision Support, Ministry of Communication and Information Technology, Egypt; Mr Sunil Sirisena, Director General, Telecommunications Regulatory Commission, Sri Lanka; Dr Moekti Prasetiani Soejachmoen, Institute Head, Mandiri Institute; Mr Tunmbi Idowu, Head of Compliance and Risk Control, Ericsson.

Digital financial inclusion has become a cornerstone in financial inclusion strategies and success largely depends on political support from governments. As such, there is also a need for collaboration across the sectors at the policy level. It is important to consider that, whether it is regulated or not, technology will continue developing quickly. We are transitioning from convergence in technology to convergence in regulation. However, the sector seems fragmented and governments and regulators have a crucial role to play.

Panelists noted that financial Inclusion will enhance social inclusion and help alleviate poverty. It can also empower consumers to make choices. Technology enables financial inclusion. The road to financial inclusion is gaining ground, but there are still roadblocks ahead (e.g., common understanding and definition of terms on digital financial inclusion, how to set targets to measure progress and determine who is financially included).

Panelists reiterated that ICT/telecom and financial regulators each have their own regulations. A trade-off between mandate and collaboration is necessary. Regulation that fosters a dialogue allows partnerships and innovation to thrive. Over regulation is not necessarily the best solution.

Panelists also raised the issue of the number of payments instruments in the economy – whether physical or digital- and their effect on inflation. They noted that every time a mobile wallet is created, potential inflation is also created, but more research in this area is needed to understand the effect. The need for global standards and international guidance was also acknowledged.

6 SESSION 4: THE WAY FORWARD – CLOSING

Session 4 was moderated by Dr Kemal Huseinovic, ITU-BDT Chief Department of Infrastructure Enabling Environment and E-Applications, who emphasized that regulation alone is not enough in addressing the digital financial divide. Connectivity, new business models, affordable and interoperable services delivered in a safe and secure manner are all needed. And to succeed, collaboration between both sectors is vital.

Panelists included Mr Alfred Hannig, Executive Director, Alliance for Financial Inclusion; Dr Sherif Hasham, Vice President, National Telecommunications Regulatory Authority, Egypt; Mr Sacha Polverini, Senior Programme Officer, Bill and Melinda Gates Foundation; Eng Ayman Hussein, Assistant Sub Governor Information Technology and Payment Systems, Central Bank of Egypt.

Dr Hasham presented the draft Collaborative Guiding Measures for Inclusive Digital Financial Services on behalf of H.E. Yasser ElKady, GSR-16 Chair, who coordinated the consultation and drafting of these measures. In his presentation, Mr Hasham emphasized that these measures will assist in developing an inclusive ecosystem, encourage interoperability, encourage Public Private Partnerships, enable access to infrastructure, protect consumers and enhance consumer experience, address the lack of identity, and promote a collaborative regulatory approach. The measures were adopted as the outcome of the event, and participants emphasized the need for further development of this partnership to include partners at GSR and beyond.

Participants welcomed this initial dialogue and called for future such events and initiatives, recognizing that they will be instrumental for future collaboration and to achieve innovative solutions so that the ICT/Telecommunication and financial sectors can achieve the aim of including the unbanked, as well as including new services to the banked society. The Alliance for Financial Inclusion announced the intention to seek an MoU with ITU to foster collaboration between the two organization for future events and initiatives. Participants also highlighted the need to recognize and build the foundation for a new value proposition based on trust, reliable networks and channels, transparency, while protecting data and the privacy of users.

Panelists noted that there is agreement on the need for collaboration, however, the question remains on when and how. Panelists also put forward that a broader range of regulators and authorities need to be involved. There is no easy solution for financial inclusion, and solutions need to be articulated in different instances and through different channels. The dialogue is a good foundation for further collaboration.

Panelists also commented that synergies can be leveraged between banks and digital financial service providers (non-banks) to extend services beyond person-to-person (p2p) payments.

Recognizing that an enabling regulatory environment is needed for innovative solutions and inclusive solutions to reach the poor, panelists reiterated that collaboration at the regulatory level across the sectors is critical. A collaborative regulatory approach will also ensure a level playing field. It will also enhance the value chain to ensure effective public private partnerships through a seamless dialogue between telcos, banks, regulators and the private sector. We need to put customers at the center panelists said. Interoperability is also key to the success of digital financial services.

Access to ICT infrastructure is a prerequisite to enable financially excluded people to benefit from digital financial services. Understanding consumers' needs to enhance their experience is another priority. Improving the use of data and big data analytics was further noted as well as effectively engaging with global standard setting bodies such as ITU.

Mr Sanou, ITU BDT Director, concluded that the discussions focused on empowering people and more specifically about empowering the most vulnerable people, those who are left behind. This dialogue, he said started a new momentum since it brought regulators from both sectors together to start a constructive dialogue. More comments and contributions will be considered and the aim is to build this network of collaboration for the future.

Annex: Collaborative Guiding Measures for Inclusive Digital Financial Services

The rapid penetration of mobile phones and the emergence of innovative technology-led business models aimed at providing access to formal financial services through mobile devices especially to underserved and unbanked people emphasizes the need of an enabling regulatory environment for inclusive digital financial services. The complexity of digital and mobile banking models that are expanding the financial services value chain creates an increased need for dialogue and collaboration between the financial sector and telecommunications/ICT sectors, particularly at public and institutional level.

We, the stakeholders participating in the 2016 GDDFI, recognize that targeted collaborative approaches can go a long way towards fostering access, availability, and up-take of robust, secure and affordable digital financial services. Therefore, we have identified the following policy, regulatory, and business collaborative guiding measures to move forward the digital financial inclusion agenda by building synergies at the national, regional and global levels.

1 Develop an inclusive ECOSYSTEM for Digital financial services

Telecom/ICT and financial services regulators need to collaborate to develop consistent and proportionate regulatory frameworks in order to develop a competitive and innovative digital financial ecosystem where different providers have the possibility to lever their unique assets and capabilities to serve the bottom of the pyramid. The ecosystem consists of users (consumers, businesses, government agencies and non-profit groups) who have needs for digital and interoperable financial products and services; the providers (banks, other licensed financial institutions, and non-banks) who supply those products and services through digital means; the financial, technical, and other infrastructures that make them possible; and the governmental policies, laws and regulations which enable them to be delivered in an accessible, affordable, and safe manner.

The DFS ecosystem aims to support all people and enterprises within a country, and should support national goals including financial inclusion, economic health, and the stability and integrity of the financial systems.

An important over-arching issue in the development of the DFS ecosystem is the need to invest in and manage two sides of the eco-system at once. Practically, this means both supporting initiatives to load electronic money into consumer transaction accounts - principally through bulk, or G2P payments and initiatives to enable consumers to spend this money in electronic form, principally through the enablement of merchant electronic payment acceptance.

2 Encourage INTEROPERABILITY

The possibility for 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 is likely to further promote financial inclusion while increasing efficiencies and competition in the marketplace.

Telecom/ICT and financial regulators and market players have a role in driving interoperability and also encourage shared access to digital platforms aimed at promoting financial inclusion. We encourage interoperability at different levels such platforms, access points, agents and customers.

3 Encourage public private PARTNERSHIPS

Collaboration and partnerships are critical due to the broadening of the value chain and the participation of an increasing number of actors in the digital financial ecosystem such as banks, telecom/ICT operators, agents, processors, aggregators and merchants. We call for collaborative approaches between the telecom/ICT and financial public and private actors. Public-private partnerships have the power to build synergies, foster collaboration, extend reach and enhance competition. Consequently, digital financial inclusion can expand, leverage on existing infrastructure, and lower barriers for new entrants.

4 Enable access to INFRASTRUCTURE

Financial services provided over ICT infrastructure, and in particular mobile networks, have the potential to reach in a faster and more cost effective way the underserved and unbanked, especially in rural areas. More importantly these networks can also support the provision of financial services beyond digital payments such as loans, savings, insurance that can help low income people stay/lift themselves out of poverty.

Given the importance of the ICT infrastructure, the public and private sectors need to ensure business critical technology is offered under fair terms and conditions and that to the ICT infrastructure provided is reliable, secure and of high quality to ensure a proper customer experience

5 Protect CONSUMERS and enhance consumer experience

We recognize that consumer trust is the foundation for the uptake and adoption of digital financial services. Policy makers and regulators need to ensure those services are provided in a responsible manner by putting consumers at the center of discussions and enhancing consumers experience. This may be done by adopting regulatory measures to: protect client data, provide recourse and redress mechanisms, mandate proper disclosure and transparency, require fair treatment of customers, fair cost of services, protection of customer funds, and agents.

6 Address lack of IDENTITY

We recognize that the lack of formal identity (ID) is one of the biggest barriers preventing low income people from accessing formal financial services. Governments can play a key role by determining how national (or industry specific) identity systems should be used by the digital financial services ecosystem and define how emerging biometric-based and other digital identity systems can be utilized to simplify and make more cost efficient the current "KYC" (know your customer) processes for providers

7 Promote a collaborative regulatory approach

We believe that regulatory intervention should happen only when necessary. A light touch approach should be preferred as it allows to define a framework within which the nascent DFS industry can grow organically. Given the role played by both the financial services and telecommunications/ICT regulators it is also important they develop tools and mechanisms to ensure proper communication, consultation and collaboration. Tools to strengthen a collaborative approach can include a memorandum of understanding (MoU) between regulatory and supervisory authorities, and the establishment of joint and multi-sectorial committees. This collaboration and cooperation will not only benefit end users but will also impact economic growth by enabling the unbanked to take part in the digital economy.

www.itu.int/GSR16

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