



Global Partnership
for Financial Inclusion

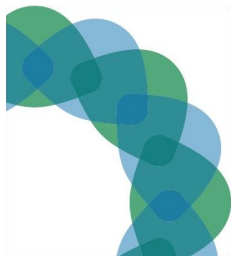


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Session 1: Digital financial inclusion – definition and concepts

*Implications for customers, regulators, supervisors,
and the standard-setting bodies (SSBs)*



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What Is Meant by “Digital Financial Inclusion”?

“Digital financial inclusion” refers to use of digital financial services to advance financial inclusion

This involves:

- Deployment of digital means to reach financially excluded and underserved populations
- With a range of formal financial services suited to their needs
- Delivered responsibly
- At cost affordable to customers and sustainable for providers



Components of digital financial inclusion (1 of 5)

Digital transactional platform:

Digital transactional platform enables customer to make or receive payments and transfers and to store value electronically through use of a device that transmits and receives transaction data and connects—directly or through the use of a digital communication channel—to bank or non-bank permitted to store electronic value



Components of digital financial inclusion (2 of 5)

Device:

Device used by customer can be something such as mobile phone that is means of transmitting data and information,

or

instrument such as payment card that connects to digital device such as point-of-sale (POS) terminal



Components of digital financial inclusion (3 of 5)

Retail agents:

Retail agents with digital device connected to communications infrastructure to transmit and receive transaction details convert customers' cash into electronically stored value ("cash-in") and transform customers' stored value back into cash ("cash-out")

Agents may play additional roles

In some countries, some roles of agent may be automated (e.g. ATM or automated cash acceptance terminal)



Components of digital financial inclusion (4 of 5)

Additional financial services via digital transactional platform:

Digital transactional platform may be leveraged by combinations of banks and non-banks to offer additional financial products and services to financially excluded and underserved

Existing examples:

- Credit
- Savings
- Insurance
- Securities
- Pensions?

Digital data (financial and non-financial) may be used to target customers and manage risk



Components of digital financial inclusion (5 of 5)

Functionality/product aspect:

- Can be used to make payments and transfers
- Can be used to store value electronically

Provider(s) aspect:

- Combination of bank and non-bank providers likely
- Many examples where 2 or more separate legal entities responsible for:
 - Holding customers' funds
 - Managing records of individual customer's account balances



How does digital financial inclusion affect the financially excluded and underserved? (1 of 3)

Digital transactional platforms offer the possibility of providing the financially excluded and underserved with access to formal financial services:

- Typically lower costs of digital transactional platforms—both to provider and customer—allow customers to transact locally in irregular, tiny amounts, helping them to manage their characteristically uneven income and expenses
- Payment, transfer, and value storage services embedded in platform itself, and data generated, enable additional financial services tailored to customers' needs and financial circumstances
- (Pay-as-you-go functionality can also make non-financial services accessible, e.g., energy and water – sometimes referred to as “digital finance plus”)



How does digital financial inclusion affect the financially excluded and underserved? (2 of 3)

- Reduces risks of loss, theft, and other financial crimes posed by cash-based transactions
- Reduces costs associated with transacting in cash and using informal providers
- Promotes economic empowerment by enabling asset accumulation (and, for women in particular, increasing their economic participation)



How does digital financial inclusion affect the financially excluded and underserved? (3 of 3)

- Digital financial inclusion also carries risks for some vulnerable financially excluded and underserved customers that benefit from the opportunities
- Agent-related risks figure among most distinctive compared with risks posed by conventional financial services
- Customer vulnerability
 - Lack of familiarity with products, services, and providers results in customer vulnerability to exploitation and abuse
 - Little or no literacy and limited numeracy may result in difficulty with payment transactions
 - Inexperienced customers are more likely to rely on someone else—even the agent—to supply and remember personal identity numbers (PINs)



Models of digital financial inclusion and their risk implications (1 of 2)

Models of digital financial inclusion emerging around the world:

- often introduce new market participants – many of them non-banks, e.g., mobile network operators (MNOs)
- often allocate roles and risks (both new and well known) in different ways as compared with traditional approaches to retail financial service delivery



Models of digital financial inclusion and their risk implications (2 of 2)

- Some risks common to most or all models
- Engagement of MNOs, whether as e-money issuers or as channel for bank or similar provider, presents potential risks that differ from approaches without MNOs
- Some risks are triggered by model of digital transactional platform
- Some risks relate to the provision of additional financial services beyond the payments, transfers, and value storage services offered by the digital transactional platform itself



Key regulatory and supervisory issues in digital financial inclusion:

Key regulatory issues:

- Agents
- Anti-money laundering and countering financing of terrorism (AML/CFT) rules
- Regulation of e-money
- Consumer protection
- Payment system regulation
- Competition

Supervisory practices – widely varying and model- and/or country-specific

Many issues fall within competence of multiple regulators and supervisors (including some non-financial bodies, e.g., telco regulator) – challenging for effective communication and collaboration



Discussion